

PEGASUS HOTELS OF CEYLON PLC

INTERIM REPORT FOR THE NINE MONTHS ENDED 31ST DECEMBER 2017

PEGASUS HOTELS OF CEYLON PLC

Review of performance for the Nine months ended 31st December 2017

During the period under review, the degree of competitiveness prevalent in the hospitality industry remained strong. Continuous supply of graded and non-graded rooms to the market seemed to be inadequately matched by the demand increases. This has created price competition and diminished margins across the industry exerting challenges on average daily rates and occupancy levels. This increasing growth in popularity of unregulated homestays is restricting the scope for profitability of the hotel industry. Furthermore, shortage of skilled labour under these industry conditions is another growing concern, which requires prompt attention.

However, even under such competitive circumstances, the group was able to conclude a successful financial period. Pegasus Reef hotel operated with its full room capacity of 140 rooms during the nine months under review in comparison to the corresponding nine months' period in 2016, where significant number of rooms were not available to accommodate the room refurbishment. Therefore, the room nights for the period under consideration indicate an increase of 75% over the corresponding period, which also strengthened the F&B revenue streams of the hotel for the period. The hotel achieved an average occupancy of 58% for the period. MICE and Banquet segments continued to be the star performers along with increased sales from the specialty restaurant - "The Fishery", all of which collectively contributed towards the positive performance of the hotel. Giritale Hotel also observed an average occupancy of 61% for the period under consideration, improving from occupancy of 59% witnessed in the comparable nine months, amidst competitive pricing and reduced margins.

Underpinned by the aforementioned reasons, group revenue for the nine months to 31st December 2017, reported a YoY increase of 37%, to reach Rs. 504.2 Mn in comparison to the corresponding nine months' reported revenue of Rs. 368.6 Mn.

For the nine months under review, Selling and Promotional expenses largely remained unchanged with a marginal YoY reduction of 2% from Rs. 16.6 Mn to Rs. 16.3 Mn. Administration expenses registered an increase of 15% over the comparable period to reach Rs. 135.2 Mn, mainly as a result of increased staff related expenditure incurred in order to recruit skilled staff to further upgrade our service levels. Post-refurbishment, depreciation charges of Pegasus Reef hotel also saw an increase of Rs. 1.4 Mn per month.

Factoring in the above reasons, the group recorded an operating profit of Rs. 53.7 Mn in the reviewed nine months, in comparison to an operating loss of 3.6 Mn recorded for the nine months ended 31st December 2016, primarily due to the afore stated impact from the refurbishment.

During the nine months under review, finance income reduced by 7% to reach Rs. 20.2 Mn, owing to reduced interest income from deposits, since deposits were utilized for the room refurbishment activities.

Consolidated Profit after tax for the period under consideration stood at Rs. 66 Mn, which is a 272% increase compared to Rs. 17.7 Mn reported in the previous corresponding period.

We expect challenging environment to intensify in the future. Thus, maintaining a high standard of service and facilities to our guests whilst executing an innovative and well-focused marketing strategy will be the key for our success. However, this may result in further increase in operational costs and depreciation in the future.

Carsons Management Services (Private) Limited Managers

09th February 2018
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			Nine months ended			31.03.2017 (Audited)
	31st December			31st December			
	2017	2016	Change %	2017	2016	Change %	
Revenue	180,324	142,810	26	504,206	368,550	37	543,200
Direct costs	(110,074)	(86,719)	27	(307,260)	(243,715)	26	(334,442)
Gross profit	70,250	56,091	25	196,946	124,835	58	208,758
Other income	2,387	2,355	1	8,251	6,230	32	8,633
Selling and promotional expenses	(6,662)	(8,124)	(18)	(16,265)	(16,624)	(2)	(23,912)
Administrative expenses	(49,209)	(40,648)	21	(135,247)	(118,053)	15	(157,496)
Other operating expenses	-	-	-	-	-	-	(19,261)
Profit / (loss) from operations	16,766	9,674	73	53,685	(3,612)	(1,586)	16,722
Finance income	7,618	5,903	29	20,202	21,770	(7)	27,315
Finance costs	(276)	-	-	(663)	-	-	(39)
Net finance income	7,342	5,903	24	19,539	21,770	(10)	27,276
Profit / (loss) before taxation	24,108	15,577	55	73,224	18,158	303	43,998
Income tax expenses	(724)	(486)	49	(4,179)	(1,127)	271	(1,112)
Deferred taxation	(943)	(1,129)	(16)	(3,047)	700	(535)	(1,343)
Profit for the period	22,441	13,962	61	65,998	17,731	272	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	22,441	13,962	61	65,998	17,731	272	647,165
Earnings per share (Rs.)	0.74	0.46		2.17	0.58		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			Nine months ended			31.03.2017 (Audited)
	31st December			31st December			
	2017	2016	Change %	2017	2016	Change %	
Revenue	155,615	119,552	30	430,955	295,029	46	442,612
Direct costs	(94,356)	(72,437)	30	(260,961)	(198,709)	31	(274,171)
Gross profit	61,259	47,115	30	169,994	96,320	76	168,441
Other income	1,720	1,657	4	6,062	4,211	44	5,593
Selling and promotional expenses	(5,428)	(7,244)	(25)	(13,172)	(14,404)	(9)	(20,364)
Administrative expenses	(41,847)	(33,788)	24	(113,074)	(97,142)	16	(127,915)
Other operating expenses	-	-	-	-	-	-	(19,261)
Profit / (loss) from operations	15,704	7,740	103	49,810	(11,015)	(552)	6,494
Finance income	6,742	5,408	25	18,552	20,990	(12)	25,792
Finance costs	-	-	-	-	-	-	(39)
Net finance income	6,742	5,408	25	18,552	20,990	(12)	25,753
Profit / (loss) before taxation	22,446	13,148	71	68,362	9,975	585	32,247
Income tax expenses	(437)	38	(1,250)	(3,092)	(215)	1,338	328
Deferred taxation	(851)	(1,045)	(19)	(3,065)	678	(552)	(1,428)
Profit / (loss) for the period	21,158	12,141	74	62,205	10,438	496	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	21,158	12,141	74	62,205	10,438	496	548,309
Earnings per share (Rs.)	0.70	0.40		2.05	0.34		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 31st December	Group			Company		
	2017	2016	31.03.2017 (Audited)	2017	2016	31.03.2017 (Audited)
ASSETS						
Non-current assets						
Property, plant and equipment	1,898,323	1,340,246	2,010,067	1,768,650	1,308,190	1,880,024
Intangible assets	115,287	115,287	115,287	-	-	-
Investment in subsidiary	-	-	-	110,223	110,223	110,223
Compensation receivable	165,466	148,360	152,396	165,466	148,360	152,396
Total non-current assets	2,179,076	1,603,893	2,277,750	2,044,339	1,566,773	2,142,643
Current assets						
Inventories	23,827	18,299	22,007	19,169	13,979	18,440
Fair value through profit or loss financial assets	11,367	-	-	11,367	-	-
Trade and other receivables	70,690	58,005	84,957	60,488	48,993	76,352
Short term deposits	112,314	-	-	51,573	-	-
Cash and cash equivalents	12,902	44,528	41,509	13,002	24,365	5,224
Total current assets	231,100	120,832	148,473	155,599	87,337	100,016
Total assets	2,410,176	1,724,725	2,426,223	2,199,938	1,654,110	2,242,659
EQUITY AND LIABILITIES						
Equity						
Stated capital	515,170	515,170	515,170	515,170	515,170	515,170
Capital reserves	1,173,615	675,099	1,279,471	1,086,065	675,099	1,191,921
Revenue reserves	456,383	380,519	405,581	402,740	334,682	355,731
Total equity	2,145,168	1,570,788	2,200,222	2,003,975	1,524,951	2,062,822
Non-current liabilities						
Deferred tax liability	70,026	38,815	66,979	56,591	37,361	53,526
Employee benefits	17,737	17,716	16,021	11,730	11,185	10,483
Loans and borrowings	30,550	-	6,550	-	-	-
Total non-current liabilities	118,313	56,531	89,550	68,321	48,546	64,009
Current liabilities						
Trade and other payables	143,304	95,606	135,110	124,817	79,827	115,622
Current tax liabilities	3,391	1,800	1,286	2,825	786	151
Bank overdraft	-	-	55	-	-	55
Total current liabilities	146,695	97,406	136,451	127,642	80,613	115,828
Total liabilities	265,008	153,937	226,001	195,963	129,159	179,837
Total equity and liabilities	2,410,176	1,724,725	2,426,223	2,199,938	1,654,110	2,242,659
Net assets per share (Rs.)	70.59	51.69	72.40	65.94	50.18	67.88

The Statement of Financial Position as at 31st December 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

09th February 2018
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	-	-	65,998	65,998
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	65,998	65,998
Adjustment on land acquisition	-	(105,856)	-	(105,856)
Dividends 2016/17	-	-	(15,196)	(15,196)
Balance as at 31st December 2017 (Unaudited)	515,170	1,173,615	456,383	2,145,168
Balance as at 01st April 2016	515,170	675,099	377,984	1,568,253
Profit for the period	-	-	17,731	17,731
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	17,731	17,731
Dividends 2015/16	-	-	(15,196)	(15,196)
Balance as at 31st December 2016 (Unaudited)	515,170	675,099	380,519	1,570,788
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	-	-	62,205	62,205
Other comprehensive income for the period	-	-	-	-
Total comprehensive expense for the period	-	-	62,205	62,205
Adjustment on land acquisition	-	(105,856)	-	(105,856)
Dividends 2016/17	-	-	(15,196)	(15,196)
Balance as at 31st December 2017 (Unaudited)	515,170	1,086,065	402,740	2,003,975
Balance as at 01st April 2016	515,170	675,099	339,440	1,529,709
Profit for the period	-	-	10,438	10,438
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	10,438	10,438
Dividends 2015/16	-	-	(15,196)	(15,196)
Balance as at 31st December 2016 (Unaudited)	515,170	675,099	334,682	1,524,951

Figures in brackets indicate deductions.

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

As at 31st December	Group			Company		
	2017	2016	31.03.2017 (Audited)	2017	2016	31.03.2017 (Audited)
Cash flows from operating activities						
Profit /(loss) before taxation	73,224	18,158	43,998	68,362	9,975	32,247
Adjustments for:						
Interest income on placements with banks and government securities	(5,765)	1,720	(3,673)	(3,344)	2,870	(1,830)
Net change in fair value of fair value through profit or loss financial assets	(1,367)	(11,808)	(7,662)	(1,367)	(11,808)	(7,662)
Dividend income	-	-	-	(771)	(370)	(370)
Unwinding of discount on compensation receivable	(13,070)	(11,682)	(15,718)	(13,070)	(11,682)	(15,718)
Interest expenses on bank borrowings	663	-	39	-	-	39
Depreciation on property, plant and equipment	47,317	31,870	45,318	43,960	28,719	41,233
(Profit)/ Loss on disposal of property, plant and equipment	(1,151)	189	19,261	(1,151)	189	19,261
Provision for employee benefits	3,207	3,941	3,758	2,159	2,839	2,616
Provision made for impairment of trade receivables	-	-	923	-	-	594
Profit before working capital changes	103,058	32,388	86,244	94,778	20,732	70,410
(Increase) / decrease in inventories	(1,820)	(2,140)	(5,848)	(729)	(1,259)	(5,720)
(Increase) / decrease in trade and other receivables	14,267	(3,020)	(30,895)	15,864	(2,159)	(30,112)
Increase / (decrease) in trade and other payables	8,066	1,504	41,130	9,067	1,785	37,702
Cash generated from operations	123,571	28,732	90,631	118,980	19,099	72,280
Employee benefits paid	(1,491)	(2,674)	(2,767)	(912)	(1,264)	(1,357)
Income tax paid	(2,074)	(3,590)	(4,088)	(418)	(2,004)	(2,097)
Net cash generated from operating activities	120,006	22,468	83,776	117,650	15,831	68,826
Cash flows from investing activities						
Purchase of property, plant and equipment	(42,017)	(186,171)	(261,024)	(39,030)	(182,670)	(258,017)
Proceeds from disposal of property, plant and equipment	1,738	-	2,835	1,738	-	2,763
(Investment in) /disposal of fair value through profit or loss financial assets	(10,000)	191,954	187,808	(10,000)	191,954	187,808
Investment in short term deposit	(112,314)	-	-	(51,573)	-	-
Interest received	5,765	(1,720)	3,673	3,344	(2,870)	1,830
Dividend received	-	-	-	771	370	370
Net cash used in investing activities	(156,828)	4,063	(66,708)	(94,750)	6,784	(65,246)
Cash flows from financing activities						
Dividend paid	(15,067)	(14,979)	(15,101)	(15,067)	(14,979)	(15,101)
Loans and borrowings obtained during the year	24,000	-	6,550	-	-	-
Interest paid on bank borrowings	(663)	-	(39)	-	-	(39)
Net cash used in financing activities	8,270	(14,979)	(8,590)	(15,067)	(14,979)	(15,140)
Net increase / (decrease) in cash and cash equivalents	(28,552)	11,552	8,478	7,833	7,636	(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	12,902	44,528	41,454	13,002	24,365	5,169
Statement of cash and cash equivalents						
Cash at bank and in hand	12,902	44,528	41,509	13,002	24,365	5,224
Bank overdraft	-	-	(55)	-	-	(55)
Cash equivalents for the purpose of statement of cash flows	12,902	44,528	41,454	13,002	24,365	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. Acquisition of land by the government of Sri Lanka

The Company filed a Motion in the Supreme Court to obtain an order for the divestiture of title of the 353.89 Perches of land, as allowed for by the Supreme Court in its original order made in November 2008. However at the hearing of this motion on 18.10.2016 Supreme Court decided that no further orders can be made by the Supreme Court. Subsequently on our inquiry from the Divisional Secretary we have been informed that the said 353.89 Perches of land will be also used for the fisheries harbour project and therefore no divestiture is possible.

Accordingly 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 26th October 2017. The final claim for the said 353.89 perches amounts to Rs.159mn taking into account the market value of the property, damage sustained by severance of the land from the hotel and the potential economic value lost for hotel expansion. However, as a matter of prudence the Company has accounted for the compensation receivable only at Rs.43,310/- in the financial statements based on the historical purchased cost. With this total compensation claim for the total land acquired of 1,605 perches will increase to Rs 722mn as of the reporting date.

Based on the above the carrying value of said land amounting to Rs. 105,900,000/- has been removed from the property, plant and equipment.

7. Stated capital

The stated capital of the Company as at 31st December 2017 was Rs. 515.17 mn consists of 30,391,538 fully paid Ordinary Shares.

8. Related party transactions

For the Nine months ended 31st December	Group		Company	
	2017	2016	2017	2016
Transactions with subsidiaries				
Dividends received	-	-	771	370
Transactions with affiliate companies				
Receiving of services	6,609	6,130	5,464	4,691

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

9. Twenty major shareholders as at 31st December 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	250,000	0.82
3 Mr. K.C. Vignarajah	182,816	0.60
4 Dee Investments (Pvt) Ltd	178,893	0.59
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	85,000	0.28
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 Mr. K.C. Jayawardene	55,099	0.18
13 Mrs. I. Gwyn	55,000	0.18
14 Mr. H.A.S. Madanayake	50,000	0.16
15 Code-Gen International Pvt Ltd	50,000	0.16
16 Mr. P. Somadasa	43,707	0.14
17 Mrs. C.A.D.S. Woodward	42,679	0.14
18 Mr. H. Tirathdas	41,222	0.14
19 Mrs. G.T. Daryanani	31,413	0.10
20 Acuity Partners (Pvt) Limited /Mr.N.K.Punchihewa	30,000	0.10

10. Public holding

The Company is in compliance with the Minimum Public Holding requirements for Companies listed on the Diri Savi Board as per Rule 7.13.1 (b) of the Listing Rules of Colombo Stock Exchange, under Option 2, i.e. Float-Adjusted Market Capitalization less than Rs. 1.0 Billion with 200 Public Shareholders and a Public Holding percentage of 10%.

The Company's Public Holding as at 31st December 2017

Market Capitalization of the Public Holding	Rs.85.18 Million
Number of public shareholders	2,823
Percentage of public holding	10.01%

11. Directors shareholding as at 31st December 2017

	No. of Shares as at 31.12.17
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)	-

INVESTOR INFORMATION

12. Share valuation

For the Three months ended 31st December 2017

Market value per share (Rs.)	28.00
Highest price per share for the period (Rs.)	29.50
Lowest price per share for the period (Rs.)	26.20

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)
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