

EDEN HOTEL LANKA PLC
[Company Registration No. PQ 199]
Registered Office: No.100/1, Sri Jayawardenepura Mawatha, Rajagiriya

CIRCULAR TO SHAREHOLDERS

THIS DOCUMENT IS OF VALUE – *If you are in doubt as to the action you should take, you should consult your stockbroker or other professional adviser immediately.*

Dear Shareholder/s,

1.0 RIGHTS ISSUE OF ORDINARY VOTING SHARES TO THE SHAREHOLDERS OF THE COMPANY TO RECTIFY A SERIOUS LOSS OF CAPITAL

- 1.1 We refer to the Announcement made by the Company on the Trading floor of the Colombo Stock Exchange (CSE) on 04th September 2020, and the subsequent Notice of Meeting, dated 2nd October 2020, forwarded to you, enclosed therewith a Report prepared by your Board in terms of section 220(2) of the Companies Act No.7 of 2007,

As explained in the said Announcement and the Report referred to above, the equity of the Company has eroded to less than 50% of its Stated Capital as per the interim financial statements **as of 30th June 2020** due to continuous losses made in previous years and insufficient returns from investments. A summary of the financials as referred to therein are reproduced below:-

Stated Capital	1,584,000,000
Capital Reserves	2,100,041,000
Revenue Reserves	(3,047,210,000)
Total Equity	636,831,000
Shareholders' Funds % of Stated Capital	40.20%

To rectify the Serious Loss of Capital of the Company by strengthening the equity through the infusion of Fresh Capital and use such Fresh Capital to part settle existing loans obtained from Browns Investments PLC and to fully settle loans obtain from Brown & Company PLC, LOLC Holdings PLC, and Browns Hotels & Resorts Ltd, amounting in total, to Rs. 4.2 Bn, as already stated in the aforesaid Report as morefully set out below, your Board on 04th September 2020, resolved, subject to the in principle approval of the Colombo Stock Exchange (CSE) and the approval of the shareholders at an Extraordinary General Meeting (EGM) of the Company, as required by Rule 5.2a of the Listing Rules of the CSE to provisionally allot Four Hundred And Twenty Two Million Four Hundred Thousand (422,400,000) Ordinary Voting Shares to all the Shareholders holding the existing One Hundred and Five Million Six Hundred Thousand (105,600,000) shares of the Company, by way of a Rights Issue, on the basis that every existing One (1) Ordinary Voting share held by the Shareholders in the Register of Shareholders, as at the 'Date of Entitlement', namely as at end of trading on 26th day of November, 2020, being the date of the proposed EGM, will be provisionally allotted Four (04) Shares, at a price of Rupees Ten (Rs.10/-) per share.

As referred to herein the funds raised are to be utilized to part settle the existing loans of the Company. Such settlement does not come under the scope of Section 185, with reference to a "major transaction".

The closing market price of a share on 30th June 2020 was Rupees Twelve and Sixty Cents (Rs.12/60) and the net asset value per share of the Company as at 30th June 2020 was Rupees Six and Cents Three (Rs.6.03) as disclosed in the latest, Interim Financial Statements of the Company. The Board is of the opinion that the issue of four (04) Shares in respect of one (01) existing share at Rupees Ten (Rs. 10/-) per share is fair and reasonable to the Company to and all its existing shareholders.

1.1.1 Benefits of the Rights Issue to existing shareholders

By the proposed rights issue, the Company's serious loss of Capitals would be addressed. It would also reduce the liabilities by part settling existing loans and ensure that the Company continues as a going concern.

1.1.2 Following are the Related Party Loans to be settled from the proceeds of the Rights Issue.

Institution	Type of loan	Date/s on which the loans were obtained	Purpose	Interest rate	Balance outstanding as at 30 th June 2020	Amount Proposed to be settled out of the Rights Issue Funds
					In Rs	In Rs
Brown & Company PLC	Short Term	May 2018	Working Capital Requirement	AWPLR + 4.5%	1,877,150,248	1,877,150,248
LOLC Holdings PLC	Short Term	May 2012	Working Capital Requirement	AWPLR + 4.5%	556,025,689	556,025,689
Browns Hotels & Resorts Limited	Short Term	Nov 2010	Working Capital Requirement	AWPLR + 4.5%	369,282,578	369,282,578
Browns Investments PLC	Short Term	April 2017	Working Capital Requirement	AWPLR + 4.5%	4,414,827,803	1,421,541,485

The settlement of Short-Term Loans mentioned in 1.1.1. above, being Related Party Loans were of recurrent nature in accordance with Section 9.1.2 of the CSE Listing Rules and obtained over a period commencing from the dates mentioned above. The Related Party Transactions Review Committee reviewed and approved the proposed settlement of the Short-Term Loans mentioned in 1.1.1 above in accordance with Section 9 of the CSE Listing Rules, at their meeting held on 4th September 2020, out of the proceeds of the Rights Issue, prior to the approval of the Board.

1.2 The shareholders who are allotted provisional Shares as aforesaid shall be given a right to request for additional Shares, and the right to renounce their Entitlement only to the Central Depository Systems (Pvt) Limited (CDS).

1.3 The Shares not subscribed for as at the last date of Acceptance specified in the Provisional Letter of Allotment will be deemed to have been declined and such declined Shares pooled together with rejected Letters of Acceptance and Registration due to them being invalid will be available for allotment at the same price to the existing shareholders applying for additional Shares at the discretion of the Board.

- 1.4 The new Shares so provisionally allotted shall, upon acceptance and due payment having been received by the Company, rank *pari passu* in all respects with the existing shares of the Company including the right to participate in any dividend declared, only after the final allotment which shall be after the last date of acceptance and payment.
- 1.5 The Related Party Transactions Review Committee (RPTRC) consists of Dr. J M Swaminathan (Chairman/Independent Non-Executive Director), Mr. Kapila Jayawardena (Member/Non-Executive Chairman) and Mrs. Kalsha Amarasinghe (Member/ Non-Executive Director)

Mr. J. M. Swaminathan is also Non Executive Director of Palm Garden Hotels PLC. Mr. Kapila Jayawardena, is also the Group Managing Director and Executive Director of LOLC Holdings PLC and also a Non-Executive Director of Brown & Company PLC. Mrs. Kalsha Amarasinghe is also a Non-Executive Director of Green Paradise (Pvt) Ltd, Palm Garden Hotels PLC and Brown and Company PLC and Executive Director of LOLC Holdings PLC.

Palm Garden Hotels PLC is the immediate Parent Company and Browns Hotels & Resorts Ltd is the ultimate Parent Company of Eden Hotel Lanka PLC.

None of the RPTRC members refrained from reviewing the above mentioned settlement of creditor balances to related parties as they do not have any material personal interest in the said settlement. Accordingly, rule 9.2.7 of the CSE Listing Rules would not be applicable.

1.6 Objectives of the Issue

To rectify the Serious Loss of Capital of the Company by strengthening the equity through the infusion of Fresh Capital and use such Fresh Capital to part settle existing loans obtained from Browns Investments PLC and fully settle loans obtained from Brown & Company PLC, LOLC Holdings PLC and Browns Hotels & Resorts Ltd

2. THE BORROWINGS OF THE COMPANY AS AT 30TH JUNE 2020.

- 2.1 We give below the total borrowings of the Company as at 30th June 2020, as follows:

- (i) Total due to Related Parties – Rs. -8,494,554,043
- (ii) Total due to other Parties – Rs. - NIL

2.2 Loans Payable Pre & Post Rights Issue

	Pre-rights Issue Borrowings (Rs) (As at 30 th June 2020)	Settlements from Rights issue Proceeds (Rs)	Post-rights Issue Borrowings (Rs)
Non-current Liabilities Interest Bearing Borrowings- after one year	538,200,000	NIL	538,200,000
Current Liabilities Interest Bearing Loans Payables to Related Parties	7,220,343,770	4,224,000,000	2,996,343,770

Interest Bearing Borrowings-due within one year	736,010,273	NIL	736,010,273
Total	8,494,554,043	4,224,000,000	4,270,554,043

The management is proposing to part settle its inter-company borrowings amounting to Rs.4,224,000,000/-. However, Currently there is no decision as to the settlement of the balance outstanding amount of Rs.4,270,554,043.00, also to inter companies.

The Board is confident that the funds raised will be utilized for the Objectives mentioned in 2.1 above, immediately upon allotment and consequently there is no risk in the Company not being able to utilize the said funds immediately.

- 2.3 The Company undertakes in all future Interim and/or Annual Financial Statements, to continue to disclose the progress of the utilization of proceeds from the date of raising funds, until the Rights Issue funds are fully utilized to achieve the Objectives stated in the Circular, in the format referred to below:

Continuous Disclosure regarding Status of Utilization of Funds raised via Rights Issue as at [Date] [Month] [Year]

Objective	Objective as per Circular	Amount allocated as per Circular in Rs.	Proposed Date of Utilization as per Circular	Amount allocated from proceeds in Rs. [A]	% of Total Proceeds	Amount Utilized in Rs. [B]	% of Utilize against allocation [B/A]	Clarification if not fully Utilized including where the funds are invested (eg. whether lent to related party/s etc)
1.								

Important Note:

In the event the proceeds of the Rights Issue are fully utilized in terms of the Objectives disclosed in the Circular to Shareholders, prior to the submission of the Company's next financial statements [i.e. Interim Financial Statements or Annual Report] the Company would disclose by way of a market announcement the fact that the proceeds of the Rights Issue are utilized in its entirety as per the above reporting format.

If there are any changes in circumstances which may occur and the proceeds are not utilized as proposed, the Company may utilize the funds appropriately subject to obtaining approval from shareholders.

If the Company does not utilize the funds for the stated Objectives mentioned in 1.1 or if any changes in the timelines and/or amounts allocated herein, a market announcement to this effect will be made prior to seeking approval from the Shareholders.

3.0 BENEFITS TO THE COMPANY BY RAISING ADDITIONAL CAPITAL

3.1 CAPITAL STRUCTURE

The current Stated Capital of the Company is Rupees One Billion Five Hundred and Eighty Four Million (Rs.1,584,000,000/-) represented by One Hundred and Five Million Six Hundred Thousand (105,600,000) Shares.

Upon the Rights issue being fully subscribed, the Stated Capital of the Company would increase from One Billion Five Hundred and Eighty Four Million (Rs.1,584,000,000/-) represented by One Hundred and Five Million Six Hundred Thousand (105,600,000) Shares to Rupees Five Billion Eight Hundred and Eight Million (Rs.5,808,000,000/-) represented by Five hundred and Twenty Eight million (528,000,000) shares and consequently of an increase of the Stated Capital by Rupees Four Billion Two Hundred and Twenty Four Million (Rs.4,224,000,000/-)

As at 30th June 2020, the Company's stated capital amounted to Rs 1,584,000,000 whereas the Total Equity amounted to Rs. 636,831,209/- which was less than 50% of the stated capital. By the proposed rights issue of 422,400,000 new ordinary voting shares at Rs 10.00 per share, the current stated capital would increase to Rs.5,808,000,000/- from Rs.1,584,000,000/-. As a result, the equity of the Company would also increase which would in turn resolve the Serious Loss of Capital.

The minimum Rights Issue proceeds required to be generated (based on 30th June 2020 published numbers) would amounting to Rs. 155,168,791 as detailed below :-

	(Rs.)	
Stated Capital as at 30 th June 2020	1,584,000,000	(A)
50% of Stated Capital	792,000,000	(B)
Equity as at 30 th June 2020	636,831,209	(C)
Minimum RI proceeds required	155,168,791	D = (B-C)

The Company's principal activity is carrying on the business of a hotelier. In addition, it has invested in several leisure properties in both Sri Lanka and Maldives. At present, the Company owns 3 hotels in Sri Lanka viz., Dickwella Resorts (Pvt) Limited, Green Paradise (Pvt) Limited and Sun and Fun Resorts Limited. The Company's foreign portfolio consists of Bodufaru Beach Resort (Pvt) Limited, Browns Ari Resort (Pvt) Limited, Browns Raa Resort (Pvt) Limited and Browns Kaafu N Resort (Pvt) Limited, based in the Maldives.

3.2 IMPACTS OF COVID-19

Eden Hotel Lanka PLC, Dickwella Resorts (Pvt) Limited, Green Paradise (Pvt) Limited and Sun and Fun Resorts Limited, are representing the leisure sector of the Eden Group. These hotels have temporarily suspended its commercial operations and are currently closed for guests. However, essential functions are carried out with a skeleton staff to maintain the hotels at required standard.

Europe, Russia, India, China, UK, Germany are the main market segments for these hotels. The management has considered short to medium term strategies for all the properties and is currently in the process of operating these properties as quarantine hotels which will support cashflows. The management is in constant dialog with Foreign Tour Operators (FTO's) and local Destination Management Companies (DMC's), to ascertain the current market conditions of the target market segments. Even though the industry is having a temporary drawback, those local and foreign tour operators are positive for the medium term with a possible opening of airports. Several Foreign Tour Operators are in discussion to finalize contracts for the upcoming winter season

4.0 MARKET PRICE OF SHARES

The high, low and closing prices of the Shares of the Company during the preceding three months are as follows:

Month	High (Rs.)	Low (Rs.)	Close (Rs.)	Volume of Ordinary Voting Shares traded	Volume of trades
July	14.00	11.40	12.10	72,933	117
August	13.30	12.00	13.00	85,227	64
September	12.90	10.00	12.00	157,516	224

The CSE was closed for trading from 16th March to 19th March 2020 and from 23rd March to 10th May 2020 due to the COVID-19 pandemic.

Closing Market price of the Company's Shares as of the date of printing the Circular, namely 16th October 2020, 2020, was Rs. 11.90

The Net Asset Value per Share of the Company was Rs.6.03 as per the published quarterly financial statement as at 30th June 2020.

5.0 DIVIDEND HISTORY FOR THE PREVIOUS FOUR (04) YEARS

Financial Year	2015/2016	2016/2017	2017/2018	2018/2019
Dividend Payment (Rs.)	NIL	NIL	NIL	NIL
No. of Shares	52,800,000	105,600,000	105,600,000	105,600,000
Dividend per share (Rs.)	NIL	NIL	NIL	NIL
Earnings per share (Rs.)	(1.43)	(2.60)	(4.83)	(8.23)
Dividend payout ratio (%)	NIL	NIL	NIL	NIL

6.0 CONTINGENT LIABILITIES

There has not been any material change in the nature of contingent liabilities as disclosed in the Company's Annual Report as at 31st March 2019.

7.0 UNDERWRITING ARRANGEMENTS

Palm Garden Hotel PLC (PGH) holding 46.21% and Browns Hotels & Resorts Limited holding 42.61% shares of the Company, have expressed their commitment to take up their rights entitlement in full and further PGH is committed to subscribe for the balance shares in issue in order to facilitate the Rights Issue to be fully subscribed. PGH will not charge any Underwriting Fee.

8.0 APPLICATION FOR RIGHTS AND PROVISIONAL ALLOTMENT

The Rights Shares will be provisionally allotted upon receiving the approval of the shareholders, as set out in the Notice of EGM.

The Provisional Letters of Allotment will be dispatched on 26th November, 2020.

Trading of the "Rights" shall commence on the Fourth (4th) Market Day from and excluding the date of dispatch of Letters of Provisional Allotment. Such trading shall continue throughout the period of **renunciation to the CDS (From 9th December, 2020 to 16th December, 2020).**

Application for additional Shares will be permitted. Additional Shares will be available for allotment only in respect of shares, not duly subscribed for, partly or fully, as at the last date of acceptance and payment specified in the Provisional Letter of Allotment and / or where the Letter of Acceptance and Registration is rejected by the Company as invalid. Such shares, shall be deemed to have been declined, and such declined shares and any unsubscribed shares remaining will be available for allotment at the same price to the existing shareholders applying for additional shares, at the discretion of the Board. The Shares arising from the Rights Issue would be directly deposited to the respective shareholder's CDS Accounts within twelve (12) market days from the last day of acceptance and payment namely 17th December 2020. Shareholders/Applicants who do not have a CDS Account are advised to open a CDS Account, prior to submitting the completed Form 'A' in order to facilitate the uploading of the Shares allotted to them.

Resident Shareholders are advised to provide their Bank Accounts details, in the columns provided for, in the Letter Acceptance, in order to update the Shareholder's Ledger and / or the information in the CDS, in order to facilitate the payment of future Dividends through SLIP TRANSFERS to their respective Bank Accounts, as required by the CDS.

Non-Resident Shareholders are advised to provide their IIA Accounts details, through which the Investment on the Rights Issue is made, in the columns provided for, in the Letter Acceptance, in order to update the Shareholder's Ledger and/or the information in the CDS, in order to facilitate the payment of future Dividends through SLIP TRANSFERS to their respective IIA Accounts, as required by the CDS.

Kindly also provide Email Addresses in the column provided in the Letter of Acceptance (if available).

9.0 ADDITIONAL INFORMATION

9.1 The Top 20 Shareholders as at 30th June 2020

EDEN HOTEL LANKA PLC			
TWENTY MAJOR SHAREHOLDERS AS AT 30 TH JUNE 2020			
	NAME	SHARES	%
1	PALM GARDEN HOTELS PLC	48,796,944	46.209
2	BROWNS HOTELS AND RESORTS LIMITED	44,996,229	42.610
3	EMPLOYEES TRUST FUND BOARD	1,581,943	1.498
4	MERCANTILE INVESTMENTS AND FINANCE PLC	1,049,600	0.994
5	BANK OF CEYLON NO. 1 ACCOUNT	775,550	0.734
6	CAPITAL TRUST HOLDINGS LTD	567,116	0.537
7	MR W.C.A. WIMALADHARMA	296,052	0.280
8	MRS B. WIMALADHARMA	275,000	0.260
9	MR M.I. RAJI	274,093	0.260
10	UNION INVESTMENTS PRIVATE LTD	250,000	0.237
11	PEOPLE'S LEASING & FINANCE PLC / DON AND DON HOLDINGS (PRIVATE) LIMITED	229,523	0.217
12	ASSETLINE LEASING COMPANY LTD/R.P. SUGATHADASA	142,900	0.135
13	MERCHANT BANK OF SRI LANKA & FINANCE PLC 01	127,743	0.121
14	MR S. ABISHEK	115,000	0.109
15	N. VAITILINGAM & COMPANY LTD	102,324	0.097
16	MR M.I. ABDUL HAMEED	101,200	0.096
17	C M HOLDINGS PLC	100,000	0.095
18	MR K.C. VIGNARAJAH	95,800	0.091
19	COMMERCIAL BANK OF CEYLON PLC/CAPITAL TRUST HOLDINGS LIMITED	94,372	0.089
20	MALSHIP CEYLON LTD	91,800	0.087

9.2 The Public Float as per the Interim Financial Statements for 30th June 2020, was 11.18% comprising of 5,110 shareholders. The Company being on the Diri Savi Board, the required Public Float is 10%. If in the event Palm Garden Hotel PLC who currently holds 46.209% of the shares, take up additional rights as per their underwriting commitment their shareholding percentage will increase and as a result may reduce the Public Float.

9.3 Shareholders' attention is drawn to the Audited Financial Statements for the year ended 31st March 2019 hosted on https://cdn.cse.lk/cmt/upload_report_file/1077_1566814466699.pdf and Interim Financial Statements as at 30th June 2020, which are hosted on https://cdn.cse.lk/cmt/upload_report_file/1077_1581678426663.pdf

10.0 GENERAL INSTRUCTIONS

10.1 As per the Directive of the Securities & Exchange Commission ('SEC') made under Circular No. 08/2010 dated November 22, 2010 and Circular No. 13/2010 issued by the CDS dated November 30, 2010 all Shares arising from the Rights Issue shall be directly uploaded to the CDS Accounts. Pursuant to a Direction issued by SEC pertaining to the de-materialization of listed securities, the Shareholders who hold shares in Scrip form (i.e. Share Certificates) as

per the Register maintained by the Secretaries to the Company **will not be issued Share Certificates in their favour.**

The Shares of Shareholders, who do not indicate a correct/accurate CDS Account Number in the documents provided, will not be uploaded on the date specified for upload by the Rules of the CSE. They will be registered in the share ledger maintained by the Company and **will not be issued Share Certificates.** Such Shareholder would not be able to trade in the Shares arising from the Rights Issue until, such time the same has been deposited with the CDS. **Therefore please ensure strict adherence to the Directive issued by the SEC.**

- 10.2 In the allotment of Shares, the Ordinary Voting shareholding of each shareholder, as appearing in the CDS and the Shareholders Register maintained by the Company will be aggregated, in so far as the National Identity Card Number of such shareholders are available with the Company for the identification purposes.

If there is a discrepancy between the CDS information given in the attached Form / Form 'A', Letter of Acceptance and Registration **and** the CDS Account Number maintained at the CDS, the number maintained at the CDS will be taken as correct.

- 10.3 If you do have a CDS Account and your existing Ordinary Voting Shares are not lodged in the said CDS Account / or you propose to open a CDS Account prior to 26th November, 2020 you are advised to lodge your Shares prior to such date.

Please note, when uploading new shares arising from the proposed Rights Issue to your CDS Account, such Shares would be lodged based on the Account details given by you to the Company in the Letter of Acceptance and Registration that would be dispatched to you, together with the Provisional Letter of Allotment. The said Form makes provision for you to indicate as to whether the Shares are to be lodged in the Trading balance/Locked balance (as applicable). If there is no indication, the shares will be lodged into the trading balance.

As stated above shareholders whose existing Ordinary Voting Shares are not lodged in the CDS, Certificates in respect of the Rights will not be issued. They are required to open a CDS Account and inform the Secretaries of their CDS Account details in order to upload their Shares arising from the Rights Issue. Direct uploads pertaining to written requests received from shareholders, to deposit such Shares, after the time for uploading of the Shares in terms of the Rules will be done on a weekly basis.

- 10.4 **Non Resident Shareholders** – Non Resident Shareholders are required to make payments for rights through their Inward Investment Account (IIA) (formerly known as Securities Investment Account [SIA]), If the payment is not made out of an IIA (or SIA), but out of an inward remittance or remittable funds, the approval of the Director, Department of Foreign Exchange, Central Bank of Sri Lanka, to make such payments must accompany the Letter of Acceptance and Registration and the Application for Additional Shares (as applicable), more details will be set out in the Provisional Letter of Allotment which would be dispatched to the Shareholders, once the Rights Issue is approved by the Shareholders at the meeting of the shareholders to be convened by the Company.
- 10.5 **Additional Details and Assistance** – Shareholders who may require additional details or assistance in relation to any of the above mentioned matters may contact, P W Corporate Secretarial (Private) Limited, the Registrars to the issue at No.3/17, Kynsey Road, Colombo 08.
- 10.6 Relevant documentation with respect to the listing of 422,400,000 new Shares through the issue of Rights has been submitted to the CSE. Such new Shares will be provisionally allotted to the existing shareholders based on their shareholdings as at the date of Entitlement, as

referred to herein. Approval, in principle, has been obtained from the CSE to the Application made by the Company.

- 10.7 **The listing of the Shares by the CSE will in no way be reflective of the merits of the issue. The CSE assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports included.**
- 10.8 The Directors of the Company collectively and individually accept full responsibility for the accuracy of the information given and confirm having made all reasonable enquiries, that to the best of their knowledge and belief, that there are no other facts the omission of which would render any statement in the Circular misleading.

11.0 ANNUAL GENERAL MEETING

- 11.1 The issue of Shares by way of Rights, requires the approval of the shareholders by way of an Special Resolution, at a General Meeting as set out in the attached Notice of Meeting, as required by CSE Listing Rule 5.2a.
- 11.2 Attached hereto is a Notice of an Annual General Meeting convened to be held on 26th November 2020 to consider and if thought fit to pass by way of an Special Resolution to proceed with the proposed Rights Issue.
- 11.3 Shareholders who are unable to attend the Meeting in person are kindly requested to complete the enclosed Form of Proxy, in accordance with the instructions specified therein, and deposit the same at the Secretaries' Office of the Company at No. 100/1, Sri Jayawardenapura Mawatha, Rajagiriya not less than forty eight (48) hours, before the time appointed for the commencement of the Meeting.

**By Order of the Board
Eden Hotel Lanka PLC**



**L O L C Corporate Services (Pvt) Ltd
Secretaries**

On this 16th day of October 2020.