

HIKKADUWA BEACH RESORT PLC

(Reg No PB 4520 PQ)

No.56/1, Kynsey Road, Colombo 08

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,

ISSUE OF ORDINARY VOTING SHARES BY WAY OF RIGHTS

1.0 INTRODUCTION

- 1.1 The Company pursuant to a Resolution passed by the Board of Directors on 9th January 2024; made an Announcement on the Trading Floor of the CSE of the proposed Rights Issue in terms of Rule 5.2b of the Listing Rules of the CSE.
- 1.2 Consequent to the Application made by the Company, the CSE by its letter dated 27th February 2024, granted to the Company, approval in principle to issue and list the new shares, in terms of Rule 5.2 of the Listing Rules of the CSE, subject to other conditions as set out in the said letter.
- 1.3 The increase of the Stated Capital by way of a Rights Issue, requiring the approval of the holders of Ordinary Voting Shares in terms of Listing Rule 5.2a, a meeting has been convened to be held on the 1st day of April 2024 at 10.00 a.m. for the holders of Ordinary Voting Shares for the purposes as morefully set out in the attached Notice of Extraordinary General Meeting.
- 1.4 Shareholders who are unable to attend, or attend and vote at the Extraordinary General Meeting (EGM), are entitled to appoint a proxy to attend the EGM and vote (as applicable) in her/his place. You may complete the enclosed Form of Proxy in accordance with the instructions specified in the Proxy Form attached to the Notice of Meeting enclosed herewith.

2.0 ISSUE OF ORDINARY SHARES BY WAY OF RIGHTS

- 2.1 In terms of the Board Resolution as referred to in Paragraph 1.1 above, immediately after the Meeting of the Shareholders as aforesaid, upon the Shareholders approving the Ordinary Resolution/s set out in the attached Notice of Meeting, your Board would issue for subscription 257,765,177 new Ordinary Voting Shares, by way of Rights to the existing Ordinary Voting Shareholders in the proportion of Nineteen (19) new Ordinary Shares for every Twenty-one (21) shares held by the holders of Ordinary Voting Shares, as at the end of Trading on the 'Date of Entitlement,' (being the Record Date/Date of Provisional Allotment, which is the 3rd Market Day from and excluding the said EGM date) at an issue price of Rs. 3.50 per share amounting to a total Rights Issue of Rs. 902,178,121/-.

The basis of allotment of new Ordinary Voting Shares shall be:

*Number of shares held by a shareholder as at end of trading on the 4th day of April 2024 (ie the Record Date) * 19 (new shares)
21 (old shares)*

The fractions that are ignored are the fractions arising post multiplication by 19 and then by the division of 21 of the existing shares held by a shareholder, thereafter rounded down to the nearest whole number.

- 2.2 If the Rights Issue of Ordinary Voting Shares is fully subscribed, the Stated Capital of the Company would increase from Rs. 4,624,023,566/- to Rs.5,526,201,687/-and the total number of shares in issue would increase from 284,898,354 Ordinary Voting Shares to 542,663,531 Ordinary Voting Shares.
- 2.3 Your Board considered the price of a share to be issued is fair and reasonable to the Company and to the existing Ordinary Voting Shareholders, as required by the Companies Act No. 07 of 2007

3.0 MINIMUM SUBSCRIPTION

There is no requirement for a minimum subscription since the parent company, Citrus Leisure PLC; holder of 82.857% of shares in issue has given the Company the assurance of taking up its full Rights entitlement, and in addition to subscribe for any shares under the Rights Issue of the balance 17.143% shares held by the minority shareholders resulting in the shares being fully subscribed in the event of any under subscription of the Rights Issue. Consequently, the purpose of raising funds through the Rights Issue referred to elsewhere in the circular would be fulfilled.

As a result of the Parent Company assuring to take up any unsubscribed shares by the holders of the 17.143% shares; the Public Holding would reduce further. The Company as at now; does not have any plans as to the methodology of improving the Public Float post the issue.

4.0 OBJECTIVE OF RIGHTS ISSUE/UTILIZATION OF PROCEEDS/ BENEFITS TO THE SHAREHOLDERS

The objectives of the Rights Issue does not amount to a major transaction

4.1 Objectives of the Rights Issue

The objectives of the Rights Issue in order of priority are to:

- (i) Settle outstanding related party loans of the Company borrowed from Citrus Leisure PLC amounting to Rs.566,317,618/-, which is within the subscription amount by Citrus Leisure PLC under its entitlement in the Rights Issue. These loans were obtained for the purpose of working capital requirements of the company for a period of three (03) months with interest being accrued monthly and payable at the end of every three (03) months. In the event the principal and/ or the interest is not settled in three (03) months, the loan is to be renewed for a further period of three (03) months (revolving), and the accrued interest is to be capitalized as a new loan upon a written request by the borrower and acceptance by the Lendor. The RP loans are unsecured.

- (ii) The total investment value in the Rights Issue of Waskaduwa with the under-writing obligation being Rs. 678,288,405/- [based on the Rights Entitlement of the Company being 312,119,220 shares and the maximum under-writing obligation being to take up to 4,7907,672 shares – totaling to Rs.61,814,596 and Rs.116,473,809] the company has a shortfall of Rs.219,386,694/- which sum it seeks to raise through this Rights Issue
- (iii) Subscribe to any additional Shares required to raise the full amount under the Rights Issue of CITW up to a maximum of Rs.116, 473,809/-
- (iv) Retire non-related party loans of the Company (more fully set out herein) to the maximum extent possible, if in the event of any funds raised via the Rights Issue, remaining with the Company post subscription to the Rights Issue of CITW up to a maximum of Rs. 116, 473,809/-;

For the above purpose, the identified non-related party loan is the Pan Asia Bank Loan of Rs. 167,000,000/- as at 30th November 2023 of which a part settlement of up to Rs.116,473,809/- would be made (please see the schedule below)

Please see below the (1) Related Party loans between Citrus Leisure PLC and the Company as at 31st December 2023; (2) Bank Borrowings of the company.

The settlement of the loans out of the Rights Issue proceeds was identified based on firstly the Lendor, namely, Citrus Leisure PLC, being willing to accept the settlement of their loans through the issue of shares to them (Rs. 566,317,618/-) and secondly to retire Non-Related Party Loans of the company; if in the event of any funds raised via the Rights Issue, remaining with the Company post subscription to the Rights Issue of CITW up to a maximum of Rs. 116, 473,809/-, the company has identified the Pan Asia Bank Loan of Rs. 836,767,833/- to be partly settled due to the higher interest rate and the requirement to restructure the said loan. As a result, this would reduce the financial cost of the company.

4.2 (1) Related Party loans between Citrus Leisure PLC and the Company as at 31st December 2023

Quarter	Total Loans Granted During the Quarter	Loan Outstanding as at 31.12.2023	Interest Capitalised	Outstanding Accrued Interest Balance as at 31.12.2023
01/04/2022 - 30/06/2022	6,700,000	-	869,177	34,358
01/07/2022 - 30/09/2022	46,711,733	12,161,733	5,202,872	687,780
01/10/2022 - 31/12/2022	40,778,582	16,123,352	2,700,845	744,118
01/01/2023 - 31/03/2023	15,473,673	5,473,673	403,667	232,332
01/04/2023 - 30/06/2023	199,644,165	197,944,165	6,919,279	7,573,834
01/07/2023 - 30/09/2023	159,226,092	147,246,092	698,074	5,280,167
01/10/2023 - 31/12/2023	196,675,253	182,275,253	-	2,519,309
	665,209,498	561,224,268	16,793,913	17,071,898

(2) Bank Borrowings of the Company

Bank	Balance as at 31st Dec 2023	Type of Loan	Date of obtaining the loan *	Security	Tenor	Purpose
Sampath	206,600,000	Term Loan	26-Jun-22	Land and building of Hotel, Citrus – Hikkaduwa owned by Hikkaduwa Beach resort PLC & a Letter of Undertaking from Citrus Leisure PLC	26-Jun-33	For group funding requirements
Sampath	138,300,000	Term Loan	26-Jun-22		26-Jun-33	For recurrent operational expenses of the group
Sampath	91,330,000	Moratorium Term Loan	26-Jun-22		26-Jun-28	Service the interest on existing term loan under easter Sunday & covid concessions.
Sampath	59,860,379	Term Loan	26-Jun-22		26-Jun-28	To capitalize the interest to be due (Jul/22 to Dec/22)
Sampath	8,677,837	Moratorium Loan - Easter Sunday	26-Jun-22		26-Oct-24	Working capital requirement
PABC	836,767,833	Short Term Loan 1	27-Sep-23	Quoted Equity Shares of Colombo Land and Development Company PLC & Shares invested in Asian Hotel Properties PLC	31-Mar-24	Restructure existing facilities
PABC	157,004,924	Short Term Loan 2	27-Sep-23		31-Mar-24	Restructure accrued interest outstanding of existing facilities
NDB	37,700,000	Term Loan	21-Dec-22	Shares of Waskaduwa Beach Resort PLC	26-Jan-25	To absorb/settle the principle and interest accrued
NTB	21,019,544	OD (25Mn)	25-Feb-19	Assignment over AMEX Receivables from the Company, Letter of Comfort, from Citrus Leisure PLC	On Demand	Working Capital requirement
NTB	6,341,543	Term Loan	25-Feb-19		16-Dec-24	To term out the existing POD limit to Term loan
NTB	11,989,513	Term Loan	20-Dec-22		16-Dec-24	Moratorium balance converted to loan facility
NTB	779,091	Moratorium Loan	20-Mar-20		16-Dec-24	To service the interest component on the existing term loan facility

* Based on Latest Agreement

As required by the Listing Rules, the Related Party Transactions Review Committee (RPTRC) has recommended to the Board to obtain the loans referred to herein and the settlement thereof as set out herein.

The following are the members of the RPTRC :

Mr. E P A Cooray – Independent Non-Executive Director – Chairman of the Committee.

Mr. P C B Talwatte – Executive Director – Member

Mr. P V S Premawardhane – Non-Independent Non-Executive Director – Member

Mr. S D de Mel – Independent Non-Executive Director – Member

Mr. S A Ameresekere – Non-Independent Non-Executive Director – Member

4.3 Timelines for Settlement

The funds with respect to the objective (i) aforesaid would be utilized immediately upon the allotment of shares under the Rights Issue of the Company.

The funds with respect to the Objectives (ii) and (iii) aforesaid would be utilized immediately upon the allotment of shares under the Rights Issue of CITW.

The funds with respect to the objective (iv) aforesaid would be utilized within a period of one (1) month from the allotment of shares under the Rights Issue of the Company.

There is no risk of the funds raised through the Rights Issue for the objectives not being utilized within the timeframe mentioned above, as the related party and non-related party loans are outstanding for settlement, and the investment in the Rights Issue of CITW is to be done prior to closing the Rights Issue of CITW, except the objective (iv) of which the timeline is stated above.

Any proceeds that are not utilized immediately upon receipt will be invested during the interim period in Government Securities and/or in Fixed Deposits in Licensed Commercial Banks and/or Money Market funds generating a minimum return equivalent to prevailing overnight REPO Rates

Important Notice:

Kindly note that if any changes occur to circumstances and if proceeds are not utilized as proposed (objectives & timelines), the Company may utilize the funds appropriately subject to obtaining approval from the shareholders.

If in the event of any change in the objectives of the Rights Issue, the time period within which, as aforesaid, the funds are allocated, or a change in the amounts allocated, the Company will notify the CSE and make immediate market announcements, prior to seeking the approval of the Shareholders. The Company will further disclose in the Interim Financial Statements and the Annual Report of the Company that is published, following any such deviation.

4.3 Benefits to Shareholders

The utilization of funds for the purpose aforesaid will improve the financial position of the Company vis-à-vis in the settlement of loans, and by investing in the Rights Issue of its subsidiary (CITW) would facilitate the improvement of the financial position of CITW and for the Company to maintain at a minimum its current shareholding in the said subsidiary.

5.0 DISCLOSURES IN THE INTERIM FINANCIAL STATEMENTS AND THE ANNUAL REPORT

Information as per the template below will be disclosed in the Interim Financial Statements and the Annual Report/s from the date of raising funds until objectives are achieved and funds are fully utilized by the Company.

Continuous Disclosures regarding status of utilization of funds raised via Rights Issue.

Rights Issue proceeds utilization as at (dd-mm-yyyy)

Objective number	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 utilized against allocation (B)/(A)	Clarification if not fully utilized including if not utilized where are the funds invested (e.g. whether lent to related parties)
1.								

- The Company would disclose in the Annual Report or the Interim Financial Statements, whichever is published first, the manner in which the funds have been utilized in the above format
- The Company would disclose any material change to the use of funds raised in terms of this Rights Issue
- If the funds so raised are fully utilized between two financial years, the Company would disclose in the immediate succeeding Annual Report or the Interim Financial Statements, whichever is published first.

6.0 ADDITIONAL INFORMATION

6.1 List of 20 Major Shareholders as at 30th September 2023

	Name	No. of Shares	%
1	CITRUS LEISURE PLC	236,058,408	82.857
2	MR. K D D PERERA	11,998,305	4.211
3	MR. T G THORADENIYA	4,080,156	1.432
4	MRS. K M GOONEWARDENE	3,647,054	1.280
5	MR. K V HEWAVITARNE	2,000,000	0.702
6	HATTON NATIONAL BANK PLC/RAVINDRA ERLE RAMBUKWELLE	1,727,520	0.606
7	MR. C YATAWARA	1,622,464	0.569
8	PHANTOM INVESTMENTS (PVT) LTD.	1,458,493	0.512
9	PEOPLES LEASING AND FINANCE PLC/S GOBINATH	800,000	0.281
10	MR. H P FERNANDO	628,570	0.221
11	MR. R E RAMBUKWELLE	622,578	0.219
12	ROYAL CERAMICS LANKA PLC.	583,393	0.205
13	DR. M A M S COORAY	557,812	0.196
14	MS. M R H GALAPPATTI	534,357	0.188
15	MERCHANT BANK OF SRI LANKA & FINANCE PLC./ A NISSANKA	513,648	0.180
16	MR. W A S N MILTON	513,141	0.180
17	MR. S M A D S SUGATHAPALA	464,394	0.163
18	MR. A LUKMANJEE	345,889	0.121
19	HATTON NATIONAL BANK PLC/PADMESH SAJEEWA WEERASEKERA	339,691	0.119
20	MR. E P A COORAY	333,334	0.117
	Sub Total	268,828,937	94.360
	Others	16,069,417	5.640
	Total	284,898,354	100.00

The public float percentage as at 30th September 2023 was 16.941%.

6.2 Market Price of Shares

Month	High (Rs.)	Low (Rs.)	Closing (Rs.)	Volume of Ordinary Voting Shares Traded	No. of Trades
September 2023	6.30	5.50	5.50	484,829	262
October 2023	6.30	5.00	5.00	305,732	232
November 2023	5.20	4.70	5.00	204,767	195
December 2023	6.10	4.80	5.20	164,472	140

6.3 Stated Capital

The current Stated Capital of the Company is **Rs. 4,624,023,566** represented by **284,898,354** Ordinary Voting Shares.

6.4 Dividend History for the Previous five (5) Years

No dividends have been declared during the previous five financial years.

6.5 Financial Position of the Company

Shareholders attention is drawn to the Audited Financial Statements for the year ended 31st March 2023 which is hosted on https://cdn.cse.lk/cmt/upload_report_file/1222_1693568836823.pdf. Shareholders attention is also drawn to the Unaudited Financial Statements of the Company for the quarter ended 30th September 2023, which is hosted on https://cdn.cse.lk/cmt/upload_report_file/1222_1707908776760.Hikkaduwa%20Beach%20Resort%20PLC%20-Interim%20Financial%20Statements%2031.12.2023.pdf

6.6 Contingent Liabilities

There has not been any material change in the nature of contingent liabilities as disclosed in the Company's Interim Financial Statements as of 30th September 2023 and the Audited Financial Statements for the year ended 31st March 2023.

6.7 Licences

The Company being in the hospitality and tourism industry requires a licence to carry on business as a classified tourist hotel, which is a yearly renewable licence. The License for the year from 01/01/2024 to 31/12/2024, dated 19th January 2024 was issued to the Company by the Sri Lanka Tourism Development Authority (SLTDA).

6.8 Other Regulatory Approvals

There is no specific requirement to obtain the approval of any regulator other than the CSE for this Rights Issue.

7.0 APPLICATION FOR RIGHTS AND PROVISIONAL ALLOTMENT

As stated elsewhere in this Circular, the 257,765,177 Ordinary Voting Shares will be provisionally allotted on the Record Date (3rd Market Day from and excluding the date of the EGM) after the shareholders, at the EGM to be held on 1st April 2024, approving the Resolution to provisionally allot the new Ordinary Shares as recommended by the Board to shareholders in the Register of Shareholders as at end of Trading on 4th April 2024 (Record Date / Date of Provisional Allotment) on the Rights.

In the allotment of Shares, 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 identification purposes.

Based on the basis of allotment, there would be fractions arising post multiplication by 19 new shares and then by the division of 21 of the existing shares by the shareholder, which would be rounded down to the nearest whole number, which fractional shares would be pooled together and allotted to the respective holders of shares who applied for additional shares.

New Ordinary Shares, not duly subscribed for as at the last date of acceptance and payment specified in the Provisional Letter of Allotment, shall be deemed to have been declined.

The new Ordinary Voting Shares provisionally allotted will upon due acceptance and payment, rank *pari passu* in all respects with the existing issued Ordinary Voting Shares of the Company and will qualify for all dividends declared on Ordinary Voting Shares, only after the final allotment which shall be after the last date of acceptance and payment.

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.

If you do have a CDS Account and your existing shares are not lodged in the said CDS Account/ or you propose to open a CDS Account prior to 4th April 2024, you are advised to lodge your Shares prior to such date, to facilitate the direct lodgment of Rights to your CDS Account.

The Provisional Letters of Allotment setting out your entitlement together with the Acceptance and Registration Form and Form of Application for Additional Shares will be dispatched to you on 8th April 2024 by post, together with clear instructions for returning the completed applications together with the payment, therefore. Additionally, the said forms would be uploaded on the company page of the CSE website www.cse.lk

Shareholders must strictly follow and adhere to the instructions provided in the Provisional Letter of Allotment in respect of acceptance, renunciation, and applying for additional shares.

For further clarification, you may contact the Registrars to the Issue, Central Depository Systems (Pvt) Limited, on Telephone No. 0112356444

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 17th April 2024 to 25th April 2024).

The Rights entitlement of the Shareholders whose shares are held in the CDS, will be directly uploaded to their CDS Accounts within three (3) Market Days from and excluding the Record Date to facilitate trading.

The last date for acceptance and payment shall be 2nd May 2024.

Application for additional Shares will be permitted. Additional Shares will be available for allotment only in the event any of the existing shareholders do not take up their rights entitlement in part or in full or if the Letter of Acceptance and Registration is rejected by the Company as being invalid. The Shares not subscribed for as at the last day of acceptance specified in the Provisional Letter of Allotment will be deemed to have been declined and such declined shares, will be allotted at the same price to the shareholders applying for additional Shares, on a pro-rata basis to their existing shareholding. In making such further allotments of unsubscribed shares, the Company will comply with the timelines set out in Rule 5.2 of the Listing Rules.

As per the Directive of the 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.

Accordingly, the Shares arising from the Rights Issue would be directly deposited to the respective shareholder’s CDS Accounts within Ten (10) Market Days from the last day of acceptance and payment.

Refunds in respect of rejected applications be paid as expeditiously as possible but not exceeding Ten (10) Market Days from the last date of acceptance and payment.

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.

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 allotted in respect of Letters of Acceptance which do not carry a valid CDS Account Number or which indicate an incorrect/inaccurate CDS Account Number will not be uploaded to the CDS Accounts on the date specified for upload as per the Rules of the CSE. Shares allotted in respect of such acceptances will be uploaded on a weekly basis when the Shareholders/Applicants forward to the Secretaries/Registrars their correct CDS Account Numbers.

Shareholders/Applicants who do not have a CDS Account are advised to open a CDS Account, prior to submitting the completed Form 'A' and Form 'C' (if applicable) in order to facilitate the uploading of the Shares allotted to them.

The new shares will commence trading on or before 20th May 2024, subject to the Company complying with the relevant Listing Rules pertaining to the Rights Issue.

8.0 GENERAL INSTRUCTIONS FOR THE RIGHTS ISSUE

- 8.1 **Non-Resident Shareholders** – Non-Resident Shareholders are required to make payments for rights through their Inward Investment Account (IIA). If the payment is not made out of an IIA, 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.

- 8.2 **Additional Details and Assistance** – Shareholders who may require additional details or assistance in relation to any of the above-mentioned matters may visit the office of the Registrars to the Issue at Corporate Solutions Unit, Central Depository System (Pvt) Limited, Ground Floor, M & M Center, No. 341/5, Kotte Road, Rajagiriya, or contact Ms. Shashikala De Mel of Central Depository Systems (Pvt) Limited on Telephone No. 0112356444.
- 8.3 **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.**
- 8.4 **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.**

**By Order of the Board of
Hikkaduwa Beach Resort PLC**

D. D. S. C.

**P W Corporate Secretarial (Pvt) Ltd
Secretaries**

14th day of March 2024