

citrus

Hikkaduwa Beach Resort PLC

Annual Report 2016/17

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Chairman's Review

It gives me immense pleasure to welcome you to the Annual General Meeting of Hikkaduwa Beach Resort PLC, and to present to you the annual report and the audited financial statements for the year ended 31 March 2017. The Company performed well given the challenging circumstances as outlined in this report. Sri Lanka's growth in tourism continues and holds the greatest potential to support the economic revival of the country.

Industry Overview

The tourism industry continues to be one of the fastest growing in the world. Sri Lanka aligned well with this growth and now is the third largest export earner for the country contributing US\$3.5 billion which is an increase of 14% over the previous year. We expect arrivals to reach 2.3 million and earnings to grow to an impressive US\$4 billion in the current year.

Sri Lanka in recent years has been well rated by renowned travel magazines and journals and is now considered a hotspot for tourists across all international markets. The country is uniquely positioned to continue its current trajectory of growth.

Tourism in Sri Lanka can be considered a great multiplier as it continues to spread its earnings to the cities and towns outside Colombo due to strong positioning of attractive locations all over the island. This has the unique advantage of a fair wealth distribution and increased opportunities for youth employment.

Sri Lanka's growing tourism profile has resulted in an increased rate of room supply, which may be of some concern in the medium to long term. Current market rates remain static or are increasingly lowered, resulting in intense price-based competition. This change should be addressed at both national and corporate level, as increased supply will result in further depression of market rates.

In order to maintain current levels of growth, and to compete with destinations like Thailand, Malaysia and Indonesia, it is essential to direct efforts to improve our service delivery in all aspects of tourism related services to survive and maintain long term sustainability. Regulation of service providers, development of international service standards and a skilled workforce, preservation of resources and improvement of the investment climate are key areas of focus that would serve to boost the tourism industry in the near future.

The Informal Sector

With the growth of the tourist sector, Sri Lanka has seen the rise of a diverse portfolio of options for the discerning traveller. The informal sector has grown exponentially and is today a major factor in driving arrivals and growth. It is estimated that the number of units in the informal sector which continues to be unregulated is almost equal to the number of units in the formal sector. This trend is expected to continue. The tourism authorities should

Chairman's Review

consider to meet this challenge in a pragmatic manner by some means of regulation. Currently the informal sector enjoys an unfair advantage over the formal sector, and thus the segment should be brought into the net of formal taxation and levies in such a manner to allow the sector's growth to continue in line with world travel trends. Social media plays a critical role in promoting the informal sector and they should be partners in this exercise in order to regulate and effectively mitigate this challenge. Some of the better known social platforms have already joined hands with governments in this regard.

In order to maintain the sustainability of tourism in the long-term, it is crucial that measures are taken to monitor supply and adopt control mechanisms to ensure that global standards of service are met, thus improving the nation's competitiveness in the international arena.

Development and Infrastructure

The government has continued to improve infrastructure in recent years, through the construction of major expressways and road networks which in turn improve access to tourist destinations across the country. Sri Lanka has untapped potential in locations which to-date have not been promoted by regular tour operators. We have seen more innovative products being introduced of late and this augurs well for Sri Lanka's tourism as clients will have a better choice to visit destinations of great tourism potential.

The capital city of Colombo progresses in the expansion of its skyline with many international brands like Shangri-La, ITC, Radisson and Hyatt which are scheduled to start operations soon. These additional brands will put Sri Lanka on par with competing destinations. The room strength of the city is expected to double in the next two years and a much needed Conference and Exhibition Center is also being strongly pursued to support the MICE Sector.

Human Resource Development

To attain the status of being the destination of choice for travellers worldwide, enhancing service quality and developing competent personnel remain imperative. These areas continue to be a challenge. While there has been little progress with respect to the development of skilled staff, the quality of the senior and top management levels requires further improvement. It is advisable therefore, to introduce a more competitive wage structure in order to retain and develop a competent workforce. In a recent study done by the University of Colombo they have highlighted the fact that the remuneration package paid to the lower levels of staff should be reviewed and a better package put in place to attract and retain quality staff to improve service delivery.

Debt Equity Ratio

With the increasing cost of construction, the room cost per unit has risen dramatically in the recent years pushing ROIs to challenging levels. In fact feasibility studies show that ROIs now show a period extending from ten to twelve years as against six to eight years in the early 2000 period.

We highlight this crucial issue as most of the recent developments are struggling to meet the original repayment schedule agreed with the banks. It is our view that banks should review the repayments schedule by extending longer periods given the fact that this industry has immense potential in the medium to long term cycle of growth.

Sustainable Tourism

Over-visitation of very popular tourism sites like Yala and Sigiriya has been a key issue and the authorities and the industry are equally guilty of not addressing this issue in a pragmatic manner. The relevant regulatory authorities must focus on mitigating the negative impacts through carrying capacity studies and recommend necessary measures. In addition, the introduction of new areas of equal potential would serve to distribute the tourism traffic and ensure the sustainability of touristic value in Sri Lanka as a whole.

In order to spur forward good sustainability practices to maintain our position as one of the most bio-diverse locations in the world, a policy platform (Biodiversity Sri Lanka) has been recently formulated. The objective of this framework is to drive sustainability in the sector by educating and encouraging key stakeholders to work hand in hand to seek innovative methods and adopt best practices to sustain the environment.

Electricity remains a major cost component in terms of operations, which has a significant impact on the bottom line. Leading players in the industry must focus on introducing alternate sources of energy such as solar power in order to optimise costs and ensure sustainability. Responsible collection and disposal of waste is an aspect that requires further advancement, particularly in the informal sector.

Chairman’s Review

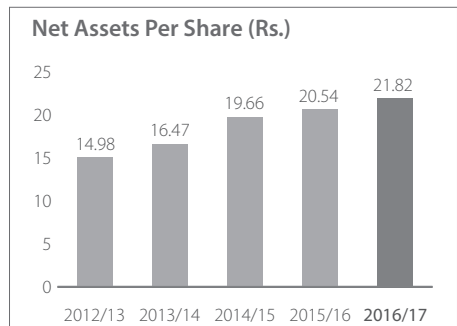
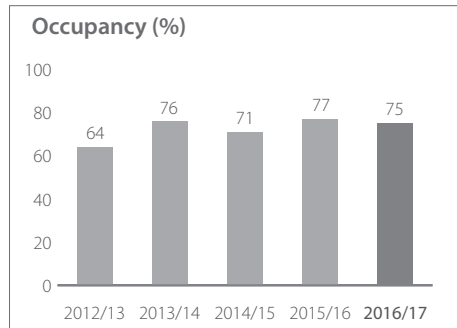
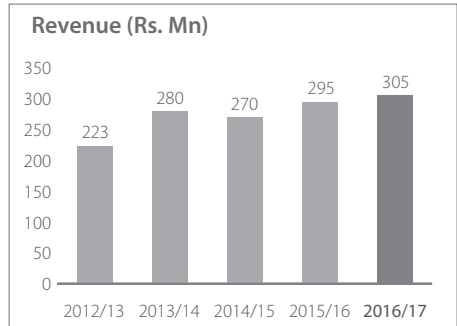
An overview of the Citrus Hikkaduwa

We are extremely proud of the performance of Citrus Hikkaduwa, which has continuously maintained its stability as a leading player in the Hikkaduwa region. The contribution to the top line amounted to Rs. 305 million from Citrus Hikkaduwa with a year on year growth of 3% even though the Hotel was closed for a period of one month from 01st May 2016 for maintenance purposes. The property has added immense value to its customers and shareholders over the last 5 years;

Group Restructure

The Citrus Group of companies announced an overall strategic restructuring plan of its group on 27th September, 2016. The proposed strategic restructuring under the guidance and advice of NDB Investment Bank Limited, will create three unique strategic verticals (viz. owning and operating resorts, third party resorts under management and other leisure related services). It entails Hikkaduwa Beach Resort PLC (CITH) making a voluntary offer to shareholders of Waskaduwa Beach Resort PLC (CITW) and CITH amalgamating with Kalpitiya Beach Resort PLC (CITK) and Passikudah Beach Resorts Limited (PBR).


Pursuant to the announcement, the CSE approved the restructuring in principle and the proposal was passed at the Extraordinary General Meetings of shareholders of Citrus Leisure PLC, Kalpitiya Beach Resort PLC, Passikudah Beach Resorts Limited and CITH held on 03rd July



2017 with no dissenting shareholders. CITH made an Application to the Securities and Exchange Commission of Sri Lanka (SEC), for a waiver under Rule 5.4(b) of the CSE Listing Rules which is required for the restructuring. With the respective companies having also satisfied the preconditions as requested by the SEC, we are awaiting the aforesaid waiver from the SEC for the restructuring to proceed.

Appreciation

I would like to convey my thanks to my fellow board members for their unwavering support throughout the year. I would also like to place on record my appreciation for the management and employees of the company, to whose passion and enthusiastic spirit we owe the organisation's success. On behalf of the Board I also wish to thank you, our valued shareholder for the trust you have placed in us to lead your company in the coming years.



E P A Cooray

Chairman

28 August 2017

Colombo

Board of Directors

Prema Cooray

Mr. Prema Cooray, the immediate Past Chairman of Aitken Spence PLC counts well over 30 years' experience in travel and tourism. He led the Hotel Sector of Aitken Spence for several years making a significant contribution in making Aitken Spence a leading player in the development of resorts both in Sri Lanka and Maldives.

He is acknowledged for the pivotal role played in the development of sustainable tourism and especially for his leadership in developing the renowned Kandalama Hotel which has won many global accolades for its contribution to environmental management, food and beverage excellence and service standards of a truly exceptional nature. These attributes signaled the entry of Sri Lanka's tourism to the world map of the hospitality industry.

He also led the pioneering effort of large scale expansion to the Republic of Maldives in early '90s and this regional development contributed exceptionally to the overall profile and growth of Aitken Spence.

He is the current Chairman of the Sri Lanka Convention Bureau and also chairs a rainforest initiative partnered by the private sector which bench-marks the best practices for Eco Tourism development in Sri Lanka. He serves as a Member of the Grants Board of ICTA, and as a board member of Light House PLC, Fort Hotel Group and Ramada Colombo.

Mr. Prema Cooray was awarded the "Legend of Tourism" by the Ministry of Tourism in 2011.

He is the Past President of the Tourist Hotels Association of Sri Lanka (1998-2000) also served as the Secretary-General/ CEO of the Ceylon Chamber of Commerce (2003- 2008).

Mr. Cooray has an MBA from the University of Sri Jayawardenepura, is a Certified Management Accountant and he is also a Member of the Institute of Hospitality, UK.

Dilith Jayaweera

Mr. Dilith Susantha Jayaweera is a leading business personality in Sri Lanka and was named one of LMD's Ten Business People of the Year 2011. Mr. Jayaweera began his foray into the Sri Lankan business landscape with the establishment of Triad – a small advertising agency – in 1993. Epitomising the spirit of the new generation of Sri Lankan entrepreneurs, less than two decades later Mr. Jayaweera's vision and entrepreneurship have driven Triad to become the largest and most awarded Sri Lankan communication powerhouse extensively diversified to offer integrated communication solutions and he now sits on the boards of thirty six companies in diversified sectors of the economy. He is the Group Chairman of George Stuart & Company Limited. Mr. Jayaweera is also the Chairman of Power House Limited. – TV Derana and FM Derana – Sri Lanka's premium entertainment channels. An attorney at law by profession, Mr. Jayaweera holds an LLB from the Faculty of Law, University of Colombo, and an MBA from the University of Wales.

Sarva Ameresekere

Mr. Sarva Ameresekere, Director/CEO of Triad is responsible for the day-to-day operations and management of one of Sri Lanka's leading advertising agencies. Under his purview, Triad together with its group of companies in the communication industry offer clients a comprehensive integrated business solution. He is also involved in the macro management and strategic planning of the diversified portfolio of investments of the group. Qualified in both Business and Engineering, Mr. Ameresekere brings on board extensive local and foreign exposure including business, fund management, operations, research and analysis. He holds a Masters in Engineering Management from the University of Southern California, Los Angeles and a Degree in Industrial and Operations Engineering from the University of Michigan, Ann Arbor.

Rajinda Seneviratne

Mr. Rajinda Seneviratne's family established Reefcomber Hotel in Hikkaduwa in the 1980s. The family has diversified into trading in tea, packaging and warehousing through Corona T Stores Ltd. Mr. R. Seneviratne is the Managing Director of Corona T Stores Ltd.

Vasula Premawardhana

Mr. Vasula Premawardhana was appointed to the Board of Citrus Leisure PLC as an Independent Non-Executive Director with effect from 02nd May 2012. He is an accomplished professional with over 20 years of comprehensive management experience comprising local and international hands-on experience in the fields of Capital Markets and Risk Management. He holds an MA in Financial Economics from the University of Colombo and a BSc in Computer Science from the University of Southern California- USA.

Mr. Premawardhana is the Chief Executive Officer of Colombo Land & Development PLC and was appointed as an Executive Director with effect from 24th March 2016. Further, he is a former Director of the Securities and Exchange Commission of Sri Lanka.

Annual Report of the Board of Directors on the Affairs of the Company

The Directors of Hikkaduwa Beach Resort PLC have pleasure in presenting their Annual Report together with the Audited Financial Statements of the Company for the year ended 31st March 2017.

General

The Company was incorporated under the Companies Act, No.7 of 2007 as a Limited Liability Company on 23rd February 2011. It obtained a listing for its shares on the Diru Savi Board of the Colombo Stock Exchange on 17th December 2012.

Principal Activity

The principal activities of the Company are provision of food and beverage, lodging, and other hospitality industry related services.

Financial Statements

The complete Financial Statements of the Company duly signed by two Directors on behalf of the Board and the Auditors are given on pages 38 to 88.

Auditors' Report

The Report of the Auditors on the Financial Statements of the Company is given on pages 36 to 37.

Accounting Policies

The accounting policies adopted by the Company in the preparation of financial statements are given on pages 43 to 61 and are consistent with those of the previous period.

Directors

The names of the Directors who held office as at the end of the accounting period are given below.

Executive Director

Mr. D S Jayaweera

Non Executive Directors

Mr. S A Ameresekere

Mr. P V S Premawardhana

Independent Non-Executive Directors

Mr. E P A Cooray

Mr. R Seneviratne

In terms of Article 88 of the Articles of Association of the Company, Mr. P V S Premawardhana retires by rotation and being eligible is recommended by the Directors for re-election.

Interests Register

The Company maintains an interest Register in terms of the Companies Act No. 7 of 2007, which is deemed to form part and parcel of this Annual Report and is available for inspection upon request.

All related party transactions which encompass the transactions of Directors who were directly or indirectly interested in a contract or a related party transaction with the Company during the accounting period are recorded in the Interest Register in due compliance with the applicable rules and regulations of the relevant Regulatory Authorities.

The relevant interests of Directors in the shares of the Company as at 31st March 2017 as recorded in the Interests Register is given under Directors' shareholding.

Directors' Remuneration

The Directors were not paid any remuneration during the year under review.

Director's interests in contracts

Related party disclosures as required by the Sri Lanka Accounting Standards No.24 are detailed in note 26 to the financial statements.

Directors' responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the Company to reflect a true and fair view of the state of its affairs.

A further statement in this regard is included on page 12.

Auditors

Messrs Ernst & Young, Chartered Accountants served as the Auditors during the year under review.

A total amount of Rs. 485,000 is payable by the Company to the Auditors for the year under review as audit fees.

The Auditors have expressed their willingness to continue in office. A resolution to re-appoint the Auditors and to authorise the Directors to

determine their remuneration will be proposed at the Annual General Meeting.

Stated Capital

The Stated Capital of the Company as at 31 March 2017 was Rs. 778,568,197 representing 57,573,897 ordinary shares (Rs. 778,568,197/- representing 57,573,897 ordinary shares as at 31st March 2016).

Directors' Shareholding

Directors' interest in the shares of the Company as at 31st March 2017 and 31st March 2016 were as follows:

	As at 31.3.2017	As at 31.3.2016
Mr. E P A Cooray	1	1
Mr. D S Jayaweera	Nil	Nil
Mr. R Seneviratne	Nil	Nil
Mr. P V S Premawardhana	Nil	Nil
Mr. S A Ameresekere	Nil	Nil

Major Shareholders, Distribution Schedule and other information

Information on the distribution of shareholding, analysis of shareholders, market values per share, earnings per share, net assets per share, twenty largest shareholders of the Company, percentage of shares held by the public as per the Listing Rules of the Colombo Stock Exchange are on pages 92 to 93 under Shareholders' Information.

Annual Report of the Board of Directors on the Affairs of the Company

Employment Policy

The Company's employment policy is totally non-discriminatory which respects individuals and provides career opportunities irrespective of the gender, race or religion.

As at 31st March 2017, 155 employees were in employment (148 employees as at 31st March 2016).

There were no material issues pertaining to employees and industrial relations during the financial year.

Statutory Payments

The Directors confirm that to the best of their knowledge, all payments in respect of statutory liabilities including EPF, ETF and PAYE tax have been made within the stipulated periods during the financial year.

Reserves

The reserves of the Company with the movements during the year are given in the Financial Statements on page 41.

Land Holdings

The Company holds a freehold land of 312 perches as stated in Note 11 to the Financial Statements.

Property, Plant & Equipment

Details and movements of property, plant and equipment are given under Note 11 to the Financial Statements on page 67 to 70.

Investments

The Company has not invested in quoted or unquoted investments during the year under review.

Material Foreseeable Risk Factors

As part of the governance process, the Board on a continuous basis reviews and takes any measures and evaluates the internal controls and risks of the Company and takes any measures required to mitigate the Risk Management objectives and policies are set out in Note 27 to the Financial Statements on pages 83 to 87.

Donations

Rs. 12,860 were made by the Company during the year under review.

Dividends

Directors do not recommend a dividend for the year under review.

Corporate Governance

The Board of Directors confirms that the Company is compliant with section 7.10 of the Listing Rules of the Colombo Stock Exchange.

The report on Corporate Governance is given on Pages 13 to 30 of the Annual Report.

Events after the Reporting Date

Events after the reporting date are disclosed under Note 24 to the Financial Statements on pages 79 to 80.

Group Restructure

The overall strategic restructuring plan of the Group announced on 27th September, 2016 described in Note 24.1 to the financial statements on Pages 79 to 80.

Utilisation of Funds Raised through the Initial Public Offering (IPO)


The utilisation of funds raised through the IPO is described in Note 23 to the financial statements on Pages 78 to 79.

Annual General Meeting

The Annual General Meeting of the Company will be held at Sri Lanka Foundation, Lecture Hall 08, No. 100, Sri Lanka Padanam Mawatha, Independence Square, Colombo 07 on 28th September 2017 at 9.45 am.

The Notice of the Annual General Meeting is on page 94 of this Report.

This Annual Report is signed for and on behalf of the Board of Directors by



E P A Cooray
Chairman



S A Ameresekere
Director



P W Corporate Secretarial (Pvt) Ltd
Secretaries

28 August 2017
Colombo

Statement of Directors' Responsibility

The Companies Act 07 of 2007 stipulates that Directors are responsible for the preparation of financial statements for each financial year and to place before a general meeting financial statements, comprising the statement of financial position as at 31 March 2017, and statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, which presents a true and fair view of the state of affairs of the company as at the end of the financial year and which comply with the requirements of the above Act.

The financial statements have been prepared and presented in accordance with Sri Lanka Accounting Standards. In preparing the financial statements, appropriate accounting policies have been selected and applied consistently, whilst reasonable and prudent judgements and estimates have been made.

As per Section 148 of the Act, the Directors are required to maintain sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and to ensure that the financial statements presented comply with the requirements of the Companies Act.

The Directors are also responsible for devising proper internal controls for safeguarding the assets of the Company against unauthorised use or disposition, prevention and detection of fraud and for reliability of financial information used within the business or for publication.

The Directors continue to adopt the going concern basis in preparing accounts and after making inquiries and following a review of the Company's budget for the financial year 2017/2018, including cash flows and borrowing facilities, consider that the Company has adequate resources to continue in operation.

The Board of Directors is of the opinion that it has discharged its responsibilities as set out above.

By order of the Board of
Hikkaduwa Beach Resort PLC



P W Corporate Secretarial (Pvt) Ltd
Secretaries

28 August 2017
Colombo

Corporate Governance

Board of Directors

The Board of Directors maintain the highest standards of corporate governance and ethical business conduct in the operation and decision making process. In this regards, the Board of Directors is responsible for the governance of the Company whilst the shareholders role in governance is to appoint the Directors and the Auditors to satisfy themselves that an appropriate governance structure is in place.

The Board of the company is responsible to maintain Strong Governance practices which result in strengthened stakeholder confidence, particularly that of both institutional and individual investors.

The Company Secretaries inform shareholders of their voting rights as well as the procedure they could adopt to vote in the event they are unable to attend the meeting.

The Board of Directors of the Company currently comprises of five members. There is a balance of Executive and Non Executive Directors to ensure that the decisions taken by the Board are collective decisions. One third of the Directors retires by rotation at each Annual General Meeting but are eligible for re-election.

Each Non-Executive Director has submitted a Declaration of his independence or non-independence as required under the Listing Rules of the Colombo Stock Exchange.

The Board has determined that Mr. E P A Cooray, Mr. R Seneviratne are Independent Directors while Mr. S. A. Ameresekere and Mr. P V S Premawardhana are Non Executive Directors.

Board Sub Committees

Audit Committee

The Audit Committee functions under written charter. The primary function of the Committee is to assist the Board in fulfilling its responsibilities by reviewing the financial information provided to Shareholders. The Audit Committee also oversees the relationship between the Company and the Auditor and reviews the Company's financial reporting system.

The Audit Committee of the Parent Company namely Citrus Leisure PLC functions as the Audit Committee of the Company. Mr. E P A Cooray serves as Chairman of the Audit Committee and he is a Certified Management Accountant.

The names of the members of the Audit Committee are as follows.

Independent Non Executive Directors

Mr. E P A Cooray - Chairman
Mr. S D De Mel

Non Executive Directors

Mr. S A Ameresekere
Mr. P V S Premawardhana

The Report of the Audit Committee appears on Pages 31 to 32.

Remuneration Committee

The Remuneration Committee of the Parent Company functions as the Remuneration Committee of the Company. The Committee reviews the remuneration of the Senior Management and Executive Directors.

To provide an appropriate remuneration to the employees, Committee conducts market surveys and obtains expert opinion.

Corporate Governance

The names of the members of the Remuneration Committee are as follows.

Non Executive Directors

Mr. J M B Pilimalawwe - Chairman
Mr. S A Ameresekere
Mr. P V S Premawardhana

Independent Non Executive Directors

Mr. R Seneviratne
Mr. S D De Mel

The Report of the Remuneration Committee appears on Page 33.

Related Party Transactions Review Committee

The Related Party Transactions Review Committee of the Parent Company functions as the Related Party Transactions Review Committee of the Company.

The Related Party Transactions Review Committee consists of two Independent Non-executive Directors, two Non Executive Directors and one Executive Director. The Committee ensures that the interests of the shareholders are taken into account when entering into Related Party Transactions. The Related Party Transactions Review Committee has reviewed all related party transactions that require their review for the year ended 31st March 2017 in compliance with the relevant listing rules.

Report of the Related Party Transactions Review Committee appears on Pages 34 to 35.

The names of the members of the Related Party Transactions Review Committee are as follows ;

Independent Non Executive Directors

Mr. E P A Cooray - Chairman
Mr. S D De Mel

Non Executive Directors

Mr. S A Ameresekere
Mr. P V S Premawardhana

Executive Director

Mr. P C B Talwatte

Compliance with Code of Best Practice

The Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka, has been adopted by the Board and is on pages 17 to 30.

Effectiveness of the Board

The Board members meet the Directors and the Senior Management of the Company regularly to consider among other matters, the performance and financial status of the Company, on a monthly basis.

The updating of the Directors' skills and knowledge is progressive and ongoing. This is achieved by keeping them fully briefed on important developments in the business activities of the Company and by providing them access to ;

- External and Internal Auditors
- Periodic reports on performance
- Industry experts and other external professional advisory services
- The services of the Company Secretaries

The Board also monitors and assesses the performance of the hotels by means of Management Reports in prescribed formats, presentations and discussions with the Management team.

Performance of the CEO is annually evaluated by the board.

Board Meetings

The Board meets regularly to discharge their duties effectively. The Board's functions include the assessment of the adequacy and effectiveness of internal controls, compliance with applicable laws and regulations, review

of management and operational information, adoption of annual and interim accounts before they are published, review of exposure to key business risks, strategic direction of operational and management units, approval of annual budgets, monitoring progress towards achieving the budgets, approvals relating to key appointments, sanctioning major capital expenditure etc.

The Board met 9 times during the period under review and the attendance is given below.

Directors' Attendance at the Board Meeting from 01.04.2016 to 31.03.2017

Name of Director	2016						2017		
	11.04.2016	16.05.2016	09.08.2016	15.09.2016	23.09.2016	15.11.2016	05.01.2017	13.02.2017	28.03.2017
Mr. E P A Cooray	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. D S Jayaweera	✗	✓	✓	✓	✓	✓	✗	✓	✓
Mr. R Seneviratne	✗	✗	✓	✗	✗	✓	✓	✗	✓
Mr. P V S Premawardhana	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. S A Ameresekere	✓	✓	✓	✓	✓	✓	✓	✓	✓

Financial Reporting

The Board aims to provide and present a balanced assessment of the Company's position and prospects in compliance with the Sri Lanka Accounting Standards and the relevant Statutes, and has established a formal and transparent process for conducting financial reporting and internal control principles.

The Statement of Directors' Responsibilities for the Financial Statements is given on page 12 of this Report.

Company Secretaries

PW Corporate Secretarial (Pvt) Ltd. who act as Secretary to the Company are qualified to act as Secretary as per the provisions of the Companies Act No. 7 of 2007.

Corporate Governance

Internal Controls

The Board is responsible for the Company's internal controls. In this respect controls are established for safeguarding the Company's assets, making available accurate and timely information and imposing greater discipline on decision making.

Corporate Disclosure and Shareholder Relationship

The Company is committed to providing timely and accurate disclosure of all price sensitive information, financial results and significant developments to all shareholders, the Colombo Stock Exchange and where necessary, to the general public.

Shareholders are provided with Annual Report and, the Company disseminates to the market, Quarterly Financial Statements in accordance with the Listing Rules of the Colombo Stock Exchange.

The Annual General Meeting provides a platform for shareholders to discuss and seek clarifications on the activities of the Company.

Compliance with Legal Requirements

The Board makes every endeavour to ensure that the Company complies with Laws and Regulations. Checks and controls are in place to ensure that the policies of the Board are complied with.

The Board of Directors ensure that the Financial Statements of the Company are prepared in accordance with Sri Lanka Accounting Standards and in accordance with the requirements of the Colombo Stock Exchange. Maximum information is provided to shareholders and full disclosure is made subject only to any sensitive information, which could directly impact the business of the Company.

By order of the Board of

Hikkaduwa Beach Resort PLC



P W Corporate Secretarial (Pvt) Ltd
Secretaries

28 August 2017
Colombo

Compliance with Continuing Listing Rules - Check List

√ Complied X Non-Complied

Rule Ref.	Subject	Applicable requirement	Compliance Status	Applicable section in the Annual Report
7.10.1 (a)	Non-Executive Directors	At least one third of the total number of Directors should be Non-Executives.	✓	Corporate Governance
7.10.2 (a)	Independent Directors	Two or one third of Non-Executive Directors whichever is higher should be Independent.	✓	Corporate Governance
7.10.2 (b)	Independent Directors(ID)	Each Non-Executive Director should submit a declaration of Independence, non independence in the prescribe format	✓	Available with the Secretaries for review
7.10.3 (a)	Disclosure relating to Directors	The board shall annually determine the independence or otherwise of the non Independence. Names of the Independent Directors should be Disclosed in the Annual Report.	✓	Corporate Governance
7.10.3 (b)	Disclosure relating to Directors	The basis for the Board to determine a Directors as independent, if specified criteria for independence is not met.	✓	Corporate Governance
7.10.3 (c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the areas of expertise.	✓	Board of Directors (Profile) Section in the AR
7.10.3 (d)	Disclosure relating to Directors	Provide a brief resume of new Directors appointed to the Board with details specified in 7.10.3(a,b,c & d) to the CSE.	N/A	-
7.10.5	Remuneration Committee	A listed company shall have a Remuneration Committee	✓	Corporate Governance
7.10.5 (a)	Composition of the Remuneration Committee	Shall comprise of Non-Executive Directors a majority of whom will be independent.	✓	Corporate Governance

Corporate Governance

Rule Ref.	Subject	Applicable requirement	Compliance Status	Applicable section in the Annual Report
7.10.5 (b)	Functions of Remuneration Committee	The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and Executive Directors.	✓	Corporate Governance/ Remuneration Committee Report
7.10.5 (c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out (a) Names of Directors comprising the Remuneration Committee. (b) Statement of Remuneration Policy. (c) Aggregated remuneration paid to NED/ NID/ID. (d) Statement of remuneration committee.	✓	Corporate Governance/ Remuneration Committee Report
7.10.6	Audit Committee	The Company shall have an Audit Committee	✓	Corporate Governance/ Audit Committee Report
7.10.6 (a)	Composition of an Audit Committee	Shall comprise of Non-Executive Directors, the majority of whom should be independent. One Non-Executive Director shall be appointed as the Chairman of the Audit Committee. Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings. The Chairman of the Audit Committee or one member should be a member of a professional accounting body.	✓	Corporate Governance/ Audit Committee Report
7.10.6 (b)	Audit Committee Functions	Should be as outlined in Section 7 of the listing rules	✓	Corporate Governance/ Audit Committee Report

Rule Ref.	Subject	Applicable requirement	Compliance Status	Applicable section in the Annual Report
7.10.6 (c)	Disclosure in the Annual Report relating to the Audit Committee.	(a) Names of the Directors comprising the Audit Committee. (b) The Audit Committee shall make a determination of the independence of the Auditors and disclose for such determination. (c) The Annual Report shall contain a Report of the Audit Committee setting out the manner of compliance of the functions.	✓	Corporate Governance/ Audit Committee Report

Adoption of Joint Code of Best Practice Checklist

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
A.1 DIRECTORS – Board				
A.1.1	Frequency of Board Meetings	The Board should meet regularly, at least once in every quarter	✓	Corporate Governance
A.1.2	Responsibilities of the Board	<ul style="list-style-type: none"> - Formulation and implementation of strategy - Skill adequacy of management and succession - Integrity of information, internal controls and risk management - Compliance with laws, regulations and ethical Standards - Code of conduct - Adoption of appropriate accounting policies 	✓	Corporate Governance

Corporate Governance

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
A.1.3	Access to professional advice	Procedures to obtain independent professional advice	✓	Corporate Governance
A.1.4	Company Secretary	Ensure adherence to board procedures and applicable rules and regulations. Procedure for Directors to access services of Company Secretary	✓	Corporate Governance
A.1.5	Independent Judgement	Directors should exercise independent judgment on issues of strategy, resources, performance and standards of business judgments.	✓	Corporate Governance
A.1.6	Dedication of adequate time and effort by Directors	Directors should devote adequate time and effort to discharge their responsibilities to the Company satisfactorily	✓	Corporate Governance
A.1.7	Training for Directors	Directors should receive appropriate training, hone skills and expand knowledge to more effectively perform duties	✓	Corporate Governance
A.2 DIRECTORS - Chairman & Chief Executive Officer				
A.2.	Division of responsibilities to ensure no individual has unfettered powers of decision	A balance of power and authority to be maintained by separating responsibility for conducting Board business from that of executive decision making	✓	Corporate Governance
A.3 DIRECTORS - Role of Chairman				
A.3	Ensure good corporate governance	The Chairman should preserve order and facilitate effective discharge of board functions by proper conduct of Board meetings.	✓	Corporate Governance

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
A.4 DIRECTORS - Financial Acumen				
A.4	Possession of adequate financial acumen	Board to ensure adequacy of financial acumen and knowledge within Board.	✓	Corporate Governance
A.5 DIRECTORS - Board Balance				
A.5.1	Composition of Board	The Board should include a sufficient calibre and number of Non-Executive independent Directors.	✓	Corporate Governance
A.5.2	Proportion of independent Directors	Two or one third of the Non-Executive directors which ever is higher should be Independent.	✓	Corporate Governance
A.5.3	Test of Independence	Independent Directors should be independent of management and free of any business or other relationship that could materially interfere with the exercise of unfettered and independent judgement.	✓	Corporate Governance
A.5.4	Declaration of independence	Non-Executive Directors should submit a signed and dated declaration of their Independence / Non-Independence	✓	Corporate Governance
A.5.5	Annual determination of criteria of independence / non - independence and declaration of same by Board	The Board should annually determine and disclose the name of Directors deemed to be independent	✓	Corporate Governance

Corporate Governance

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
A.5.6	Appointment of Senior Independent Director	If the roles of Chairman / CEO are combined, a Non-Executive should be appointed as a Senior Independent Director.	N/A	-
A.5.7	Availability of Senior Independent Director(SID) to other Directors	If warranted the SID should be available to the other directors for confidential discussions.	N/A	-
A.5.8	Interaction between Chairman and Non-Executive Independent Directors	The Chairman should meet the Non-Executive Independent Directors at least once a year.	✓	Corporate Governance
A.5.9	Directors concerns to be recorded	When matters are not unanimously resolved, directors to ensure their concerns are recorded in Board minutes.	N/A	-
A.6 DIRECTORS - Supply of information				
A.6.1	Provision of adequate information to Board	Management to ensure the Board is provided with timely and appropriate information	✓	Corporate Governance
A.6.2	Adequacy of Notice and formal agenda to be discussed at Board meetings	Board minutes, agenda and papers should be circulated at least seven days before the Board meeting.	✓	Corporate Governance/ Notice of Meeting

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
A.8 DIRECTORS - Re-election				
A.8.1	Appointment of Non-Executive Directors	Appointment of Non-Executive Directors should be for specified terms and re - election should not be automatic	✓	Corporate Governance/ AR of the BOD
A.8.2	Shareholder approval of appointment of all Directors	The appointment of all Directors should be subject to election by shareholders at the first opportunity	✓	Corporate Governance/ AR of the BOD/ Notice of Meeting
A.9 DIRECTORS - Appraisal of Board Performance				
A.9.1	Annual appraisal of Board performance	The Board should annually appraise how effectively it has discharged its key responsibilities	✓	Corporate Governance
A.9.2	Self evaluation of Board and Board Committees	The Board should evaluate its performance and that of its committees annually	✓	Corporate Governance/ Audit Committee Report
A.9.3	Declaration of basis of performance evaluation	The Board should disclose how performance evaluations have been carried out	✓	Corporate Governance
A.10 DIRECTORS - Disclosure of information in respect of Directors				
A.10.1	Biographical profiles and relevant details of Directors to be disclosed	The Annual Report should disclose the biographical details of directors and attendance at Board/Committee meetings	✓	Board of Directors/ Corporate Governance/ AR of the BOD

Corporate Governance

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
A.11 DIRECTORS - Appraisal of Chief Executive Officer				
A.11.1	Short, medium and long term, financial and non - financial objectives to be set.	The Board should set out the short, medium and long term, financial and non - financial objectives at the commencement of each year	✓	Corporate Governance
A.11.2	Evaluation of CEO performance	The performance of the CEO should be evaluated by the Board at the end of the year	✓	Corporate Governance
B. 1 DIRECTORS REMUNERATION - Remuneration Procedure				
B.1.1	Appointment of Remuneration Committee	The Remuneration Committee of parent may function as such for the Company to make recommendations on Directors remuneration	✓	Corporate Governance
B.1.2	Composition of Remuneration Committee	Board to appoint only Non-Executive Directors to serve on the Remuneration Committee	✓	Corporate Governance
B.1.3	Disclosure of members of Remuneration Committee	The Annual Report should disclose the Chairman and Directors who serve on the Remuneration Committee	✓	Corporate Governance
B.1.4	Remuneration of Non-Executive Directors	Board to determine the level of remuneration of Non-Executive Directors	✓	Corporate Governance
B.1.5	Access to professional advice	The Remuneration Committee should have access to professional advice in order to determine appropriate remuneration for Executive Directors.	✓	Corporate Governance

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
B. 2 DIRECTORS REMUNERATION - Level and Make up of Remuneration				
B.2.1	Remuneration packages for Executive Directors	Packages should be structured to attract, retain and motivate Executive Directors	✓	Corporate Governance/ Remuneration Committee Report
B.2.2	Remuneration packages to be appropriately positioned	Packages should be comparable and relative to that of other companies as well as the relative performance of the Company	✓	Corporate Governance/ Remuneration Committee Report
B.2.3	Appropriateness of remuneration and conditions in relation to other Group companies	When determining annual increases the Remuneration Committee should be sensitive to that of other Group companies	✓	Corporate Governance/ Remuneration Committee Report
B.2.4	Performance related elements of Remuneration	Performance related elements of remuneration should be aligned with interests of Company	✓	Corporate Governance
B.2.5	Share options	Executive share options should not be offered at a discount	N/A	-
B.2.6	Remuneration packages for Non-Executive Directors	Should reflect time commitment and responsibilities of role and in line with existing market practice	N/A	-
B. 3 DIRECTORS REMUNERATION - Disclosure of Remuneration				
B.3.1	Disclosure of details of remuneration	The Annual Report should disclose the remuneration paid to Directors	✓	Financial Statements - Note 26.1

Corporate Governance

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
C. 1 RELATIONS WITH SHAREHOLDERS – Constructive use and conduct of Annual General Meeting				
C.1.1	Proxy votes to be counted	The Company should count and indicate the level of proxies lodged for and against in respect of each resolution	✓	Corporate Governance/ Notice of Meeting
C.1.2	Separate resolutions	Separate resolutions should be proposed for substantially separate issues	✓	Corporate Governance/ Notice of Meeting
C.1.3	Availability of Committee chairman at AGM	The chairman of Board committees should be available to answer any queries at AGM	✓	Corporate Governance
C.1.4	Notice of AGM	15 calendar days notice to be given to shareholders	✓	Notice of Meeting
C.1.5	Procedure for voting at meetings	Company to circulate the procedure for voting with Notice of Meeting	✓	Notice of Meeting
C. 3 MAJOR TRANSACTIONS				
C.3.1	Disclosure of Major Transactions	Transactions that have a value which are greater than 1/3 of the net assets of the Company should be disclosed	✓	Corporate Governance/ AR of the BOD
D.1 ACCOUNTABILITY AND AUDIT - Financial Reporting				
D.1.1	Presentation of public reports	Should be balanced, understandable and comply with statutory and regulatory requirements	✓	Corporate Governance/ Risk Management and Financial Statements

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
D.1.2	Director's Report	<p>The Director's Report should be included in the Annual Report and confirm that</p> <ul style="list-style-type: none"> • the Company has not contravened laws or regulations in conducting its activities • material interests in contracts have been declared by Directors • the Company has endeavoured to ensure equitable treatment of shareholders • that the business is a "going concern" • that there is reasonable assurance of the effectiveness of the existing business systems following a review of the internal controls covering financial, operational and compliance 	✓	Financial Statements/ Corporate Governance/ AR of the BOD/ Audit Committee Report
D.1.3	Respective responsibilities of Directors and Auditors	The Annual Report should contain separate statements setting out the responsibilities of the Directors for the preparation and presentation of the financial statements and the reporting responsibilities of the Auditors	✓	Statement of Directors' Responsibility/ Independent Auditors' Report
D.1.5	Going Concern	Directors to substantiate and report that the business is a going concern or qualify accordingly	✓	AR of the BOD

Corporate Governance

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
D.1.6	Serious Loss of Capital	Directors to summon an Extraordinary General Meeting in the event that the net assets of the Company falls below 50% of the value of Shareholder's Funds	N/A	-
D.2 ACCOUNTABILITY AND AUDIT - Internal Control				
D.2.1	Effectiveness of the system of internal controls	Directors to annually conduct a review of the effectiveness of the system of internal controls. This responsibility may be delegated to the Audit Committee	✓	Audit Committee Report / Risk Management
D.3 AUDIT COMMITTEE				
D.3.1	Chairman and Composition of Audit Committee	Should comprise of a minimum of two Independent, Non- Executive Directors Audit Committee Chairman should be appointed by the Board	✓	Audit Committee Report
D.3.2	Duties of Audit Committee	Should include <ul style="list-style-type: none"> Review of scope and results of audit and its effectiveness Independence and objectivity of the Auditors 	✓	Corporate Governance / Audit Committee Report
D.3.3	Terms of Reference / Charter	The Audit Committee should have a written Term of Reference which define the purpose of the Committee and its duties and responsibilities	✓	Corporate Governance / Audit Committee Report

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
D.3.4	Disclosures	<ul style="list-style-type: none"> The Annual Report should disclose the names of Directors serving on the Audit Committee The Audit Committee should determine the independence of the Auditors and disclose the basis of such determination The Annual Report should contain a report by the Audit Committee setting out the manner of the compliance of the Company during the period to which the Report relates 	✓	Corporate Governance / Audit Committee Report
D.4 CODE OF BUSINESS CONDUCT AND ETHICS				
D.4.1	Adoption of Code of Business Conduct and Ethics	The Company must adopt a Code of Business Conduct and Ethics for directors and members of the senior management team and promptly disclose any violation of the Code	✓	Corporate Governance
D.4.2	Chairman's affirmation	The Annual Report must include an affirmation by the Chairman that he is not aware of any violation of the Code of Business Conduct and Ethics	✓	Chairman's Message / AR of the BOD
D.5 CORPORATE GOVERNANCE DISCLOSURES				
D.5.1	Corporate Governance Report	The Annual Report should include a report setting out the manner and extent to which the Company has adopted the principles and provisions of the Code of Best Practice on Corporate Governance	✓	Corporate Governance / AR of the BOD

Corporate Governance

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
E. INSTITUTIONAL INVESTORS – Structured Dialogue				
E.1	Structured Dialogue with Shareholders	A regular and structured dialogue should be conducted with shareholders and the outcome of such dialogue should be communicated to the Board by the Chairman	✓	Corporate Governance / Notice of Meeting
E.2	Evaluation of Governance Disclosures by Institutional Investors	Institutional investors should be encouraged to consider the relevant factors drawn to their attention with regard to Board structure and composition	✓	Corporate Governance
F. OTHER INVESTORS – Investment/Divestment decisions				
F.1	Individual Investors	Individual shareholders should be encouraged to carry out adequate analysis and seek professional advice when making their investment divestment decisions	✓	Corporate Governance
F.2	Shareholder Voting	Individual shareholders should be encouraged to participate and exercise their voting rights	✓	Corporate Governance / Form of Proxy

Audit Committee Report

The Audit Committee of the Parent Company functions as the Audit Committee of the Company.

Terms of reference, principal focus and medium of reporting

The responsibilities of the Audit committee are governed by the Audit committee charter, approved and adopted by the Board. The Audit committee focuses principally on assisting the Board in fulfilling its duties by providing an independent and objective review of the financial reporting process, internal controls and the audit function. These include the quality of interim and annual reported earnings and the adequacy and fairness of disclosure; monitoring management's strategy for ensuring that the company has implemented appropriate internal controls to address business risks and that these controls are functioning effectively; reviewing procedures relating to statutory, regulatory and related compliance; and the adequacy of the Company's internal and external audit function. The proceedings of the Audit Committee were regularly reported to the Board of Directors through formal minutes.

Committee composition, meetings held and attendance

The Audit Committee is comprised of two independent Non-Executive Directors namely Mr. E P A Cooray (Chairman), Mr. S D De Mel and two Non-Executive Directors, Mr. S A Ameresekere and Mr. P V S Premawardhana.

The Company Secretary functions as the Secretary to the Audit Committee.

The Chairman of the Audit Committee is a Certified Management Accountant. All non-executive directors satisfy the criteria for independence as specified in the standards on Corporate Governance for listed Companies issued by the Securities and Exchange Commission of Sri Lanka. The Audit committee reports directly to the Board. The individual and collective financial and hotel industry specific knowledge, business experience and the independence of members are brought to bear on all matters, which fall within the committee's purview. The Group Accountant, Chief Executive Officer, General Manager & Hotel Accountant attend audit committee meetings by invitation. Outsourced Internal Auditors (PricewaterhouseCoopers) are required to attend meetings on a regular basis. The Committee met on a quarterly basis during the financial year ended 31st March 2017.

Activities performed

- Reviewed the activities and financial affairs of the Company and the financial reporting system adopted in the preparation of quarterly and annual financial statements to ensure reliability of the process, appropriateness and consistency of accounting policies and methods adopted and that they facilitate compliance with the requirements of Sri Lanka Accounting standards (LKAS, SLFRS), the Companies Act No 7 of 2007 and other relevant statutory and regulatory requirements.

Audit Committee Report

- Met the outsourced Internal Auditors to consider their reports, management responses and matters requiring follow up on the effectiveness of internal financial controls that have been designed to provide reasonable but not absolute assurance to the Directors that assets are safeguarded and that the financial reporting system can be relied upon in the preparation and presentation of the financial statements.
- Reviewed the quarterly and year end financial statements and recommended their adoption to the Board.
- Reviewed the type and quantum of non-audit services provided by the external auditors to the Company to ensure that their independence as auditors has not been impaired.
- Reviewed the Company's compliance framework to determine that it provides reasonable assurance that all relevant laws, rules and regulations have been complied with.

The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young be re-appointed as Auditors for the Financial Year ending 31st March 2018, subject to the approval of the shareholders at the next Annual General Meeting.



E P A Cooray
Chairman - Audit Committee

28 August 2017
Colombo

Report of the Remuneration Committee

The Remuneration Committee of Parent Company functions as the Remuneration Committee of the Company.

The Remuneration Committee, appointed by and responsible to the Board of Directors, comprising of five Non Executive Directors of whom two are Independent. The names of the members of Remuneration Committee as follows ;

Non Executive Directors

Mr. J M B Pilimathalawwe - Chairman
Mr. S A Ameresekere
Mr. P V S Premawardhana

Independent Non Executive Directors

Mr. S D De Mel
Mr. R Seneviratne

Policy

The remuneration policy of the Company endeavors to attract, motivate and retain quality management in a competitive environment with the relevant expertise necessary to achieve the objectives of the Company. The Committee focuses and is responsible to ensure that the total package is competitive to attract the best talent for the benefit of the Company. The remuneration framework of the Company for the Chairman, Chief Executive Officer and Corporate Management is designed to create and enhance value to all stakeholders of the Company and to ensure alignment qua the short and long-term interest of the Company and its Executives and in designing competitive compensation packages, the Committee consciously balances the short-term performance with medium to long-term goals of the Company.

Scope

The Committee reviews all significant changes in the corporate sector in determining salary structures and terms and conditions relating to staff at Senior Executive level. In this decision making process, necessary

information and recommendations are obtained from the Chief Executive Officer. The Committee deliberates and recommends to the Board of Directors the remuneration packages and annual increments and bonuses of the Chief Executive Officer, members of the Corporate Management and Senior Executive staff and lays down guidelines for the compensation structure for all Executive staff and overviews the implementation thereof.

The Chief Executive Officer who is responsible for the overall management of the Company attends all meetings by invitation and participates in the deliberations except when his own performance and compensation package is discussed.

Fees

None of the Non-Executive Directors receive a fee for attendance at Board Meetings. They do not receive any performance or incentive payment.

Meetings

The Committee met on a quarterly basis during the financial year ended 31st March 2017. A report of the decisions approved and recommended to the Board by the Board of Directors.

Professional Advice

The Committee has the authority to seek external professional advice on matters within its purview.

Committee Evaluation

Self-Assessment by Committee members was complied with at the commencement.



J M B Pilimathalawwe

Chairman - Remuneration Committee

28 August 2017
Colombo

Report of the Related Party Transactions Review Committee

The Related Party Transactions Review Committee of Parent Company functions as the Related Party Transactions Review Committee of the Company.

The Role And Responsibilities

The Related Party Transactions Review Committee ("the Committee") is tasked with reviewing all Related Party Transactions of the Company and ensuring that it complies with the requirements of the SEC Code of Best Practices on Related Party Transactions ("the Related Party Code") and other relevant statutes and regulations.

The Committee reviews and pre-approves all proposed non-recurrent Related Party Transactions of the Company. Further, the Committee reviews all recurrent Related Party Transactions on a quarterly basis and annually to ensure compliance with the limits and reporting guidelines specified by the Related Party Code.

Related Party Transactions Review Committee Composition

The Committee comprises of two Independent Non-Executive Directors, two Non Executive Directors and one Executive Director. The members of the Related Party Transactions Review Committee as follows;

Independent Non Executive Directors

Mr. E P A Cooray - Chairman
Mr. S D De Mel

Non Executive Directors

Mr. S A Ameresekere
Mr. P V S Premawardhana

Executive Director

Mr. P C B Talwatte

The Committee met on a quarterly basis during the year under review. The members of the management attend the meetings upon invitation to brief the Committee on specific issues.

Key Activities of the Related Party Transactions Review Committee During the Financial Year

- Review and pre-approve all non-recurrent related party transactions of the Company prior to approval by the Board of Directors.
- Review all related party transactions to ensure that they are in the best interests of the Company.
- Ensure that all reporting requirements of the Related Party Code and other statutes and relations are met.
- Update the Board of Directors on the Related Party Transactions of the Company.
- Assess the adequacy of related party reporting systems along with the advice of the External and Internal Auditors.
- Ensure that all transactions with related parties are in the best interest of all shareholders and adequate transparency is maintained.

- Establish guidelines and policies for the management and reporting of related party transactions.

The Committee has reviewed all related party transactions during the period and has established that they are in the best interest of the Company and comply with all standards of best practice and reporting.

Key Management Personnel

Directors of the Company were designated as Key Management Personnel of the Company. The Committee ensures that no participant in the discussions of a related party transaction shall have a direct related party for that transaction. However, such persons may participate in the discussion for the sole purpose of providing information on such transactions.



E P A Cooray

Chairman - Related Party Transactions Review Committee

28 August 2017
Colombo

Independent Auditors' Report



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TO THE SHAREHOLDERS OF HIKKADUWA BEACH RESORTS PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Hikkaduwa Beach Resorts PLC, ("the Company"), which comprise the statement of financial position as at 31 March 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal T P M Ruberu FCMA FCCA

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of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion, scope and limitations of the audit are as stated above.
- b) In our opinion:
 - we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company, and
 - the financial statements of the Company comply with the requirements of section 151 of the Companies Act No. 07 of 2007.



28 August 2017
Colombo

Statement of Profit or Loss and Other Comprehensive Income

Year ended 31st March	Note	2017 Rs.	2016 Rs.
Revenue	5	304,803,988	295,689,297
Cost of Sales		(66,512,717)	(63,024,262)
Gross Profit		238,291,271	232,665,035
Other Income	6	3,170,718	5,248,459
Administrative Expenses		(96,204,318)	(95,301,827)
Operating Expenses		(57,145,058)	(61,174,446)
Selling and Marketing Expenses		(17,445,728)	(22,882,558)
Operating Profit		70,666,885	58,554,663
Finance Income	7.1	81,679,835	40,343,664
Finance Costs	7.2	(51,161,344)	(30,165,865)
Profit Before Tax	8	101,185,376	68,732,462
Income Tax Expense	9	(22,794,917)	(10,370,620)
Profit for the year		78,390,459	58,361,842
Other Comprehensive Income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Actuarial Gain/ (Loss) on Defined Benefit Plan	20	1,257,485	(706,400)
Deferred Tax effect on Employee Benefits	9.3	(150,898)	30,696
Other comprehensive income for the year, Net of tax		1,106,587	(675,704)
Total Comprehensive Income for the year, net of tax		79,497,046	57,686,138
Earnings Per Share - Basic	10	1.36	1.01

The accounting policies and notes on pages 43 through 88 form an integral part of these financial statements.

Statement of Financial Position

As at 31 March	Note	2017 Rs.	2016 Rs.
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	11	940,779,220	945,905,896
Intangible Assets	12	193,677	248,491
Amount Due From Related Parties	13	711,520,701	619,247,357
		1,652,493,598	1,565,401,744
Current Assets			
Inventories	14	6,053,559	5,696,231
Trade and Other Receivables	15	139,574,098	141,606,420
Advances & Prepayments		10,618,827	4,273,027
Cash and Bank Balances	18.1	48,600,816	43,520,584
		204,847,300	195,096,262
Total Assets		1,857,340,898	1,760,498,006
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated Capital	16	778,568,197	778,568,197
Revaluation Reserve	17	124,178,742	124,178,742
Retained Earnings		353,394,193	279,654,537
Total Equity		1,256,141,132	1,182,401,476

Statement of Financial Position

As at 31 March	Note	2017 Rs.	2016 Rs.
Non-Current Liabilities			
Interest Bearing Loans and Borrowings	19	291,080,000	347,200,000
Retirement Benefit obligation	20	8,598,211	9,001,637
Amounts Due to Related Parties	22	-	2,196,025
Deferred Tax Liability	9.2	5,421,879	5,345,243
		305,100,090	363,742,905
Current Liabilities			
Trade and Other Payables	21	55,040,042	42,231,994
Income Tax Payable		28,794,950	8,580,761
Interest Bearing Loans and Borrowings	19	212,264,684	163,540,870
		296,099,676	214,353,625
Total Equity and Liabilities		1,857,340,898	1,760,498,006

These financial statements are in accordance with the requirements of the Companies Act No. 7 of 2007.



D C A Sandanayake

Group Accountant

The Board of Directors is responsible for the preparation and presentation of these financial statements.
Signed for and on behalf of the board by;



E P A Cooray

Chairman



S A Ameresekere

Director

The accounting policies and notes on pages 43 through 88 form an integral part of these financial statements.

28 August 2017

Colombo

Statement of Changes in Equity

	Stated Capital Rs.	Revaluation Reserves Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01 April 2015	778,568,197	124,178,742	228,877,267	1,131,624,206
Profit for the year	-	-	58,361,842	58,361,842
Other Comprehensive Loss	-	-	(675,704)	(675,704)
Total comprehensive Income	-	-	57,686,138	57,686,138
Dividend Paid	-	-	(6,908,868)	(6,908,868)
Balance as at 31 March 2016	778,568,197	124,178,742	279,654,537	1,182,401,476
Profit for the year	-	-	78,390,459	78,390,459
Other Comprehensive income	-	-	1,106,587	1,106,587
Total comprehensive Income	-	-	79,497,046	79,497,046
Dividend Paid	-	-	(5,757,390)	(5,757,390)
Balance as at 31 March 2017	778,568,197	124,178,742	353,394,193	1,256,141,132

The accounting policies and notes on pages 43 through 88 form an integral part of these financial statements.

Cash Flow Statement

Year ended 31 March 2017		2017	2016
	Note	Rs.	Rs.
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		101,185,376	68,732,462
Adjustments for :			
Depreciation	11.2	35,439,545	40,304,888
Amortisation of Intangible Assets	12	73,086	43,851
Allowance for doubtful debts		484,345	-
Unrealised Exchange Gain		(480,913)	-
Gratuity Provision		1,723,613	1,593,903
Gain on Disposal of Property, Plant, and Equipment		(394,109)	
Finance Income	7.1	(81,679,835)	(40,343,664)
Finance Costs	7.2	51,161,344	30,165,865
Operating Profit before Working Capital Changes		107,512,450	100,497,305
Increase in Inventories		(357,327)	(348,263)
(Increase) / Decrease in Trade and Other Receivables		2,026,088	(5,433,998)
(Increase) / Decrease in Advances and prepayments		(6,345,798)	517,724
Increase in Trade and Other Payables		13,202,157	3,987,183
Cash Generated from Operations		116,037,569	99,219,952
Finance Costs Paid		(51,114,305)	(27,953,939)
Taxes Paid		(2,654,991)	(1,005,555)
Gratuity Paid		(869,554)	(413,812)
Net Cash from Operating activities		61,398,719	69,846,646
Cash Flows from/(Used in) Investing Activities			
Acquisition of Property, Plant and Equipment	11.4	(30,310,066)	(9,017,946)
Acquisition of Intangible Assets		(18,272)	-
Investments in fixed deposits		-	(16,000,000)
Financed to Related Parties		(14,140,216)	(395,567,467)
Finance Income Received		2,253,076	890,885
Net Cash Flows from / (Used in) Investing Activities		(42,215,478)	(419,694,528)
Cash Flows from/(Used in) Financing Activities			
Proceeds From Interest Bearing Loans and Borrowings	19.1	-	480,000,000
Repayment of Bank Loans	19.1	(73,400,000)	(35,481,000)
Principal Payment under Finance Lease Liabilities	19.3	(459,784)	(614,969)
Financed from Related Parties		(2,243,064)	(5,584,570)
Dividend Paid		(5,757,390)	(6,908,868)
Net Cash Flows from (Used in) Financing Activities		(81,860,238)	431,410,593
Net Increase/(Decrease) in Cash and Cash Equivalents		(62,676,997)	81,562,711
Cash and Cash Equivalents at the beginning of the year		(38,464,502)	(120,027,213)
Cash and Cash Equivalents at the end of the year	18.1	(101,141,499)	(38,464,502)

The accounting policies and notes on pages 43 through 88 form an integral part of these financial statements.

Notes to the Financial Statements

Year ended 31st March 2017

1. CORPORATE INFORMATION

1.1 General

Hikkaduwa Beach Resort Limited ("Company") is a Public Limited Liability Company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at No 7/5, Gregory's Road, Colombo 07 and the principal place of business is situated at Hikkaduwa.

1.2 Principal Activities and Nature of Operations

During the period, the principal activities of the Company are provision of food and beverage, lodging, and other hospitality industry related activities.

1.3 Parent Entity and Ultimate Parent Entity

The Company's parent entity is Citrus Leisure PLC. In the opinion of the Directors the Company's ultimate parent undertaking and controlling party is also Citrus Leisure PLC, which is incorporated in Sri Lanka.

1.4 Date of Authorisation for Issue

The Financial Statements of Hikkaduwa Beach Resort PLC for the year ended 31 March 2017 were authorised for issue in accordance with the resolution of the Board of Directors on 28 August 2017.

2. GENERAL

2.1 Statement of Compliance

The Financial Statements of Hikkaduwa Beach Resort PLC comprises the Statement of Financial Position and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement, together with the Accounting Policies and Notes to the Financial Statements.

These financial statements are prepared in accordance with the Sri Lanka Accounting Standards ("SLFRS") laid down by the Institute of Chartered Accountants of Sri Lanka, and also in compliance with the requirements of the Companies Act No. 7 of 2007.

2.2 Basis of measurement

The financial statements have been prepared on a historical cost basis, except for Land and buildings which are measured at cost at the time of the acquisition and subsequently measured at revaluation.

2.3 Comparative Information

The accounting policies have been consistently applied by the Company and, are consistent with those used in the previous year. Previous year's figures and phrases have been re-arranged whenever necessary to conform to current presentation.

Notes to the Financial Statements

Year ended 31st March 2017

2.4 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Current versus non-current classification

The Company presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle
- Expected to be realised within twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is due to be settled within twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

3.2 Foreign currencies

The Financial Statements are presented in Sri Lankan Rupees (Rs.), which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. All exchange variances are charged to the Statement of profit and loss.

3.3 Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
- Or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- **Level 1** - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- **Level 2** - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- **Level 3** - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable for the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Management of the Company determines the policies and procedures for both recurring fair value measurement, such as Property, Plant and Equipment-Land and Buildings.

Notes to the Financial Statements

Year ended 31st March 2017

Involvement of external valuers is decided upon annually by the Management.

At each reporting date, the Management analyses the movements in the values of assets which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the Management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Management, in conjunction with the Company's external valuer, also compares the change in the fair value of each asset with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3.4 Statement of Profit or loss and Other Comprehensive Income

3.4.1 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue

can be reliably measured, regardless of when the payment been made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described below must also be met before revenue is recognised.

Room Revenue

Room revenue is recognised on the rooms occupied on a daily basis.

Food, Beverage and Other Hotel Related Revenue

Food and beverage and other hotel related sales are accounted for at the point of sales.

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of profit or loss.

Gains and losses on Disposal of Assets

Gains and losses on disposal of Assets are determined by comparing the net sales proceeds with the carrying amounts of the Assets and are recognised net within "other operating income" in the Statement of Profit or Loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

Others

Other income is recognised on an accrual basis.

3.4.2 Expenses

All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year.

Repairs and renewals are charged to the Statement of Profit or Loss in the year in which the expenditure is incurred.

3.4.3 Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in Statement of Profit or Loss.

Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying

asset are recognised in statement of Profit or Loss using the effective interest method.

The interest expense component of finance lease payments is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.4.4 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred except to the extent where borrowing cost that are directly attributable to acquisition, construction or production of assets that takes a substantial period of time to get ready for its intended use or sale. Such borrowing costs are capitalised as part of those assets.

3.4.5 Taxation**a) Current Tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. The provision for income tax is based on the elements of income and expenditure as reported in

Notes to the Financial Statements

Year ended 31st March 2017

the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and subsequent amendments thereto.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

- **Hotel Operations**

The profit relating to the hotel trade is exempt from income tax for 6 years reckoned from the commencement of the year of assessment in which such undertaking commences to make profits from transactions entered in to in that year of assessment or from the commencement of the year of assessment immediately succeeding the year of assessment in which such undertaking completes a period of two years reckoned from the date on which such undertaking commences to carry on commercial operations, whichever occurs earlier. Accordingly tax exemption will commence from the year of assessment 2011/12 to 2016/17.

- **Interest Income**

Interest income is taxed at the rate of 28%.

- b) **Deferred Tax**

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legal enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

c) *Economic Service Charge (ESC)*

As per the provisions of the Economic Service Charges Act No. 13 of 2006, ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the income tax liability. Any unclaimed liability can be carried forward and set off against the income tax payable for further four years.

d) *Sales Tax*

Revenue, expenses and assets are recognised net of the amount of sales tax except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authorities in which case the sales tax is recognised as a part of the cost of the asset or part of the expense items as applicable and receivable and payable that are stated with the amount of sales tax included. The amount of sales tax recoverable and payable in respect of taxation authorities is included as a part of receivables and payables in the Statement of Financial Position.

Sales taxes include Value Added Tax (VAT), Nation Building Tax (NBT) and Tourist Board Levy (TDL). The Company pays such taxes in accordance with the respective statutes.

Notes to the Financial Statements

Year ended 31st March 2017

3.5 Assets and Bases of their Valuation

3.5.1 Property, Plant and Equipment

a) Basis of measurement

All items of property, plant and equipment are initially recorded at cost.

The cost of property, plant and equipment is the cost of acquisition or construction together with any expenses incurred in bringing the asset to its working condition for its intended use. Subsequent to the initial recognition land and buildings are carried at revalued amounts less any subsequent depreciation and impairment thereon. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment. Accumulated depreciation is provided for, on the bases specified in (d) below.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

b) Subsequent Costs

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and refurbishment cost, is capitalised. Other subsequent expenditure is capitalised only when it increases the

future economic benefits embodied in the item of property, plant and equipment. All other expenditure incurred on repairs or maintenance of property, plant and equipment in order to restore or maintain the future economic benefits expected from the originally assessed standard of performance, is recognised as an expense when incurred.

c) Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal; or when no future economic benefits are expected from its use. Gains and losses on derecognition are recognised in statement of Profit or Loss and gains are not classified as revenue. When revalued assets are disposed, any related amount included in the Revaluation Reserve is transferred to Retained Earnings.

d) Depreciation

Depreciation is recognised in the statement of profit or loss on straight-line basis on all property, plant and equipment, other than freehold land. The estimated useful lives for the current and comparative periods are as follows;

Buildings	40 Years
Furniture and Fittings	6 Years
Entertainment Equipment	4 Years

Plant, Machinery and Other Equipment	10 Years
Electrical Fittings and Other Equipment	10 Years
Linen and Furnishing	3 years
Kitchen Utensils and Other Equipment	10 years
Air Condition	15 years
Gardening and Landscaping	6 Years
Crockery, Cutlery and Glasswear	3 Years
Motor Vehicles	5 Years
Generator and Transformers	15 Years
Computers and Hardware	3 Years

Depreciation of an asset begins when it is available for use and ceases at the earlier of the dates on which the asset is classified as held for sale or is derecognised.

The asset's residual values, useful lives are reviewed, and adjusted if appropriate, at each financial year end and adjusted prospectively, if appropriate.

e) Revaluation

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses if any; recognised after the date of the revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit or loss, in which case the increase is recognised in the statement of profit or loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

f) Capital Work in Progress

Capital work in progress represents the cost of civil construction work not completed and property, plant and equipment that are not ready for their intended use.

3.5.2 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with indefinite useful lives are tested for impairment annually

Notes to the Financial Statements

Year ended 31st March 2017

either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

3.5.3 Leases

Company as a Lessee

Finance Leases

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term. The depreciation policy for depreciable leased assets is consistent with that for depreciable asset that are owned.

Operating Leases

Operating lease payments are recognised as an expense in the statement of profit or loss on a straight-line basis over the lease term.

3.5.4 Inventories

Inventories are valued at the lower of cost and estimated net realisable value, after making due allowances for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

The cost incurred in bringing inventories to its present location and condition is accounted using the following cost formulae.

Food and Beverage	} At actual cost on weighted average basis
Housekeeping and Maintenance	
Other Stocks	

3.5.5 Impairment of non financial assets

The carrying amounts of the Company's non financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in Profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.5.6 Cash and cash equivalents

Cash and cash equivalents are cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

3.5.7 Financial Instruments – Initial recognition and subsequent measurement

Financial assets

a) Initial recognition and measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at Fair Value Through Profit or Loss, Loans and Receivables, Held-To-Maturity investments and Available-For-Sale financial assets, as appropriate and determine the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or

Notes to the Financial Statements

Year ended 31st March 2017

convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include trade and other receivables, cash and bank balances.

b) Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the Effective Interest Rate ("EIR"), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR method. The amortisation is included in finance income in the Statement of Profit or Loss.

c) Derecognition

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Company has transferred its rights to receive cash flows

from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

d) Impairment of financial assets

The Company assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present

value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of Profit or Loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the Statement of Profit or Loss.

Financial liabilities

e) *Initial recognition and measurement*

Financial liabilities within the scope of LKAS 39 are classified as other financial liabilities as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings.

f) *Subsequent measurement*

The measurement of financial liabilities depends on their classification as described below:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of profit or loss.

g) *Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Notes to the Financial Statements

Year ended 31st March 2017

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

h) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts and
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

i) Fair value of financial instruments

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions
- Reference to the current fair value of another instrument that is substantially the same

- A discounted cash flow analysis or other valuation models.

3.6 Liabilities and Provisions

3.6.1 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Profit or Loss net of any reimbursement.

3.6.2 Retirement Benefit Liabilities

a) Defined Benefit Plan – Gratuity

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The defined benefit is calculated by independent actuaries using Projected Unit Credit (PUC) method as recommended by revised LKAS 19 – “Employee benefits”. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates

that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability.

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

Accordingly, the employee benefit liability is based on the actuarial valuation as of 31 March 2017, carried out by Messrs. Actuarial and Management Consultants (Private) Limited, actuaries.

Funding Arrangements

The Gratuity liability is not externally funded.

b) *Defined Contribution Plans- Employees' Provident Fund and Employees' Trust Fund*

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with respective statutes and regulations. These are recognised as an expense in the statement of income as incurred.

The Company contributes 12% and 3% of gross emoluments of the employees to Employees' Provident Fund and Employees' Trust Fund respectively.

3.6.3 *Stated Capital*

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

3.7 *Cash Flow Statement*

The Cash Flow Statement has been prepared using the "indirect method".

3.8 *Significant Accounting Judgements, Estimates and Assumptions*

In the process of applying the Company's accounting policies management has exercised judgement and estimates in determining the amounts recognised in the Financial Statements. Use of available information, estimates and assumptions and application of judgement is inherent in the preparation of the Financial Statements as they affect the application of accounting policies and the recorded amounts in the Financial Statements.

The Company believes its estimates including the valuation of assets and liabilities are appropriate. Estimates and underlying assumptions are reviewed on

Notes to the Financial Statements

Year ended 31st March 2017

a continuous basis. However, the actual results may differ from those estimates. The most significant use of judgements and estimates are as follows:

a) *Going Concern*

The Directors have made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared and presented on a going concern basis.

b) *Employee Benefit Liability - Gratuity*

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Actuarial valuation involves making assumptions about inter-alia discount rates, future salary increases, remaining working life of employees and mortality rates. Due to the long term nature of these obligations such estimates are subject to significant uncertainty. Description of employee benefits is given in note 20.

c) *Impairment of financial assets*

The Company assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Management uses judgement in estimating such impairment considering the duration of outstanding and any other factors management is aware of that indicates uncertainty in recoverability.

d) *Valuation of Property, Plant and Equipment*

The Company measures land and buildings at revalued amounts with changes in fair value being recognised in other comprehensive income and in the statement of equity. The Company engaged independent valuation experts to determine fair value of land and buildings.

The valuer has used valuation techniques such as market values and depreciated replacement cost method where there was lack of comparable market data available based on the nature of the property. Description of property, plant and equipment is given in note 11.

4. **STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

SLFRS 9 – Financial Instruments

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.

SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

SLFRS 15 – Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

SLFRS 16 - Leases

SLFRS 16 provides a single lessee accounting model, requiring leases to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value even though lessor accounting remains similar to current practice. This supersedes: LKAS 17 Leases, IFRIC 4 determining whether an arrangement contains a Lease, SIC 15 Operating Leases- Incentives; and SIC 27 evaluating the substance of Transactions Involving the Legal form of a Lease. Earlier application is permitted for entities that apply SLFRS 15 Revenue from Contracts with customers.

Notes to the Financial Statements

Year ended 31st March 2017

SLFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019.

The following amendments and improvements are not expected to have a significant impact on the Company's financial statements.

LKAS 7 Disclosure Initiative - Amendments to LKAS 7

The amendments to LKAS 7 Statement of Cash Flows are part of the Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Company.

LKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to LKAS 12

The amendments clarify that an entity needs to consider whether tax law restricts

the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

SLFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to SLFRS 2

The CA Sri Lanka issued amendments to SLFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual

periods beginning on or after 1 January 2018, with early application permitted. The Company is assessing the potential effect of the amendments on its financial statements.

SLFRS 9 and SLFRS 15 are not expected to have a material effect on the Financial Statements of the Company. Pending the comprehensive study, possible impact/effects that would result in initial application of these standards are not yet estimable.

Notes to the Financial Statements

Year ended 31st March

	2017 Rs.	2016 Rs.
5. REVENUE		
5.1 Summary		
Revenue (Note 5.1.2)	304,803,988	295,689,297
	304,803,988	295,689,297

Tourism Development Levy on the revenue and other income amounted to Rs. 3,168,644/- (2016 - Rs. 3,083,109/-).

	2017 Rs.	2016 Rs.
5.1.2 Revenue		
Room Revenue	182,463,178	186,172,102
Food Revenue	82,342,470	79,666,786
Beverage Revenue	15,666,918	15,924,464
Banquet Revenue	24,331,422	13,925,945
	304,803,988	295,689,297

	2017 Rs.	2016 Rs.
6. OTHER INCOME		
Telephone Income	3,551	18,972
Laundry Income	455,473	838,072
Swimming Pool Income	220,209	150,491
Foreign Currency Encashment Income	241,456	199,794
Ayurvedic Spa Income	540,490	672,321
Exchange Gain	949,873	-
Sundry Income	365,557	3,368,809
Assets Disposal Gain	394,109	-
	3,170,718	5,248,459

	2017 Rs.	2016 Rs.
7. FINANCE COSTS AND INCOME		
7.1 Finance Income		
Interest Income - Fixed Deposits	3,542,516	1,927,486
Interest Income - FCBU	4,192	8,474
Interest Income - Inter-company	78,133,127	38,407,704
	81,679,835	40,343,664

	2017 Rs.	2016 Rs.
7.2 Finance Cost		
Interest Expense on Overdrafts	174,487	75,565
Interest Expense on Finance Leases	21,109	109,911
Interest Expenses on Bank Loans	50,918,709	29,478,839
Interest Expenses on Inter-Company Loans	47,039	501,550
	51,161,344	30,165,865

	2017 Rs.	2016 Rs.
8. PROFIT BEFORE TAX		
Stated after Charging		
Included in Administrative and Operating Expenses		
Employees Benefits including the following		
- Salaries and Wages	33,816,743	32,754,392
- Defined Benefit Plan Costs - Gratuity	1,723,612	1,593,903
- Defined Contribution Plan Costs - EPF and ETF	4,557,626	7,438,256
Depreciation	35,439,545	40,304,888
Auditors' Remuneration	485,000	462,000

Notes to the Financial Statements

Year ended 31st March

	2017 Rs.	2016 Rs.
9. INCOME TAX EXPENSE		
Current Income Tax		
Income Tax Expense (Note 9.1)	22,869,180	11,291,479
Deferred Income Tax		
Deferred Taxation Charge (Note 9.3)	(74,263)	(920,859)
	22,794,917	10,370,620
	2017 Rs.	2016 Rs.
9.1 Reconciliation between Current Tax Expense/ (Income) and the product of Accounting Profit.		
Accounting Profit (Profit Before Tax)	101,185,376	68,732,462
Disallowed expenses	51,158,499	52,523,698
Deductible expenses	(133,745,734)	(100,717,455)
Profit from Trade or Business	18,598,141	20,538,704
Profit and Income Exempt from Tax	(18,598,141)	(20,538,704)
Net Taxable Profit/(Loss)	-	-
Interest Income	81,679,835	40,343,664
Profits and income exempt from tax	(4,192)	(8,475)
	81,675,643	40,335,189
Current Income Tax Expense - 28%	22,869,180	11,291,479

	Statement of Financial Position		Income Statement	
	31.03.2017 Rs.	31.03.2016 Rs.	31.03.2017 Rs.	31.03.2016 Rs.
9.2. Deferred Tax Liabilities and Income Tax relates to the followings				
Deferred Tax Assets				
Capital allowances for tax purposes	3,329,867	3,358,092	28,224	(725,062)
Retirement Benefit Obligation - Through Income Statement	1,031,785	1,080,196	(102,487)	(195,797)
Retirement Benefit Obligation - Through Other Comprehensive Income	-	-	150,898	(30,696)
	4,361,652	4,438,288	-	-
Deferred income tax Income / (Expense)	-	-	76,635	(951,555)
Deferred Tax Liability				
Deferred Taxation on Revaluation of Assets	(9,783,531)	(9,783,531)	-	(115)
Net Deferred Tax Asset / (Liability)	(5,421,879)	(5,345,243)	-	-
9.3 Reconciliation of Deferred Tax Charge / (Reversal)				
Deferred Tax Charge reported in the Income Statement	-	-	(74,263)	(920,859)
Deferred Tax Charge reported in Other Comprehensive Income	-	-	150,898	(30,696)
	-	-	76,635	(951,555)

Notes to the Financial Statements

Year ended 31st March

10. EARNINGS PER SHARE / DIVIDENDS PER SHARE

10.1 Earnings Per Share

Basic Earnings Per Share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The weighted average number of ordinary shares outstanding during the period are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as Bonus Issue.

The following reflects the income and share data used in the basic Earnings Per Share computation.

	2017 Rs.	2016 Rs.
Amounts Used as the Numerator:		
Profit for the year	78,390,459	58,361,842
	2017 Number	2016 Number
Numbers of Ordinary Shares Used as Denominator:		
Weighted Average number of Ordinary Shares in issue	57,573,897	57,573,897

10.2 Dividend Per Share

Dividend per share is calculated by dividing the dividend declared/Proposed during the year attributable to ordinary shareholders from the weighted average number of ordinary shares in issue during the year.

	2017 Rs.	2016 Rs.
Final Dividend for 2016/2017 ; Rs. 0.10/- per share (2015/2016: Rs. 0.12/- per share)	5,757,390	6,908,868
	5,757,390	6,908,868
No of Shares	57,573,897	57,573,897
Dividend Per Share	0.10	0.12

	Balance As at 01.04.2016 Rs.	Additions / Acquisitions Rs.	Transfers / Disposals Rs.	Balance As at 31.03.2017 Rs.
11. PROPERTY, PLANT AND EQUIPMENT				
11.1 Gross Carrying Amounts At Cost / Valuation				
Freehold Land	312,100,000	-	-	312,100,000
Buildings	550,835,886	25,302,321	-	576,138,207
Furniture and Fittings	38,995,047	676,565	-	39,671,612
Entertainment Equipment	5,800,309	659,850	-	6,460,159
Office Equipment	7,184,656	440,366	-	7,625,022
Sundry Equipment	20,391,636	537,300	-	20,928,936
Kitchen Utensils and Other Equipment	13,424,733	154,088	-	13,578,820
Air Condition	59,421,186	540,514	-	59,961,700
Gardening & Other Equipment	343,762	-	-	343,762
Linen and Furnishing	13,666,033	1,310,011	-	14,976,044
Electrical Fittings	28,544,316	392,729	-	28,937,045
Crockery and Cutlery	2,967,900	296,323	(394,109)	2,870,114
Generator	10,497,393	-	-	10,497,393
Motor Vehicle	3,691,093	-	-	3,691,093
Total Gross Carrying Amount	1,067,863,952	30,310,066	(394,109)	1,097,779,909

Notes to the Financial Statements

Year ended 31st March

	Balance As at 01.04.2016 Rs.	Charge for the year / Transfers Rs.	Disposals During the Year Rs.	Balance As at 31.03.2017 Rs.
11. PROPERTY, PLANT AND EQUIPMENT (Contd.)				
11.2 Depreciation				
At Cost / Valuation				
Buildings	14,626,267	14,179,432	-	28,805,698
Furniture & Fittings	25,584,208	6,539,002	-	32,123,210
Entertainment Equipment	5,752,858	219,609	-	5,972,467
Office Equipment	4,754,112	1,230,576	-	5,984,688
Sundry Equipment	17,672,423	1,521,639	-	19,194,062
Kitchen Utensils and Other Equipment	5,058,350	1,348,068	-	6,406,418
Air Condition	17,862,515	4,584,732	-	22,447,247
Gardening & Other Equipment	273,018	68,753	-	341,771
Linen and Furnishing	10,946,789	1,768,119	-	12,714,908
Electrical Fittings	9,736,331	2,869,970	-	12,606,301
Crockery & Cutlery	2,798,068	246,102	(394,109)	2,650,061
Generator	3,415,993	807,250	-	4,223,243
Motor Vehicle	3,474,322	56,293	-	3,530,615
Total Depreciation	121,955,252	35,439,545	(394,109)	157,000,687

	2017 Rs.	2016 Rs.
11.3 Net Book Values		
At Cost / Valuation		
Freehold Land	312,100,000	312,100,000
Buildings	547,332,508	536,209,619
Furniture and Fittings	7,548,402	13,410,839
Entertainment Equipment	487,692	47,451
Office Equipment	1,640,334	2,430,544
Sundry Equipment	1,734,874	2,719,213
Kitchen Utensils and Other Equipment	7,172,402	8,366,383
Air Condition	37,514,453	41,558,671
Gardening & Other Equipment	1,992	70,744
Linen and Furnishing	2,261,136	2,719,244
Electrical Fittings	16,330,744	18,807,985
Crockery and Cutlery	220,052	169,832
Generator	6,274,151	7,081,400
Motor Vehicle	160,478	213,970
	940,779,220	945,905,896

- 11.4 During the financial year the Company acquired Property, Plant and Equipment to an aggregate value of Rs. 30,310,066/- (2016 - Rs. 9,017,946/-) and cash payment amounting to Rs. 30,310,066/- (2016 - Rs. 9,017,946/-).
- 11.5 Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of Rs. 37,094,250/- (2016 - Rs. 3,814,622/-).

Notes to the Financial Statements

Year ended 31st March

11. PROPERTY, PLANT AND EQUIPMENT (Contd.)

11.6 The land and buildings belonging to Hikkaduwa Beach Resorts PLC, situated at No.400, Galle Road, Hikkaduwa were revalued as at 31 March 2015 based on market comparable method.

The following properties are revalued and recorded under freehold land & Building. Fair Value measurement disclosure for revalued land based on un-observable input as follows.

(A) Quoted Price (unadjusted) in active markets for identical assets or liabilities (Level -1).

(B) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is derived from prices) (Level - 2).

(C) Input for the assets or liability that are not based on observable market data (that is, unobservable inputs) (Level -3).

	Location	Extent	Valuation Date	Valuation Details	Significant un-observable input : price per perch	Fair Value measurement using Significant un-observable inputs (Level 3) Rs. Mn
Land	Hikkaduwa	312.1 perch	31-Mar-2015	Market based evidence	Rs. 1 Million/- per perch	312.1

	Extent (Square feet)			Valuation Date	Valuation Details	Significant un-observable input : price per perch	Fair Value measurement using Significant un-observable inputs (Level 3) Rs. Mn
	Deluxe Rooms	Standard Rooms	Other Rooms				
Building	11,000	11,935	58,305	31-Mar-2015	Market based evidence	Deluxe - Rs.10,000 Standard - Rs.7,500 Other - 5,000	486.97

	2017 Rs.	2016 Rs.
12. INTANGIBLE ASSETS		
Cost		
As at 01 April	292,342	-
Additions during the year	18,272	292,342
At 31 March	310,614	292,342
Amortisation		
As at 01 April	43,851	-
Amortisation for the year	73,086	43,851
At 31 March	116,937	43,851
Net Book Value	193,677	248,491

	Relationship	2017 Rs.	2016 Rs.
13. AMOUNTS DUE FROM RELATED PARTIES - NON CURRENT			
Citrus Leisure PLC	Parent Company	385,318,496	348,049,797
Citrus Aqua Limited	Affiliate Company	1,235,731	1,064,623
Citrus Vacations Limited	Affiliate Company	15,316,280	14,197,109
Passikudah Beach Resorts Limited	Affiliate Company	114,501,760	101,467,383
Waskaduwa Beach Resort PLC	Affiliate Company	164,505,034	153,867,446
Kalpitiya Beach Resort PLC	Affiliate Company	16,316,712	-
Citrus Silver Limited	Affiliate Company	14,326,689	600,999
		711,520,701	619,247,357

	2017 Rs.	2016 Rs.
14. INVENTORIES		
Food and Beverage	3,487,134	3,452,859
House keeping and Maintenance	2,102,725	1,835,791
Other Stocks	463,700	407,581
	6,053,559	5,696,231

Notes to the Financial Statements

Year ended 31st March

	2017 Rs.	2016 Rs.
15. TRADE AND OTHER RECEIVABLES		
Trade Debtors - Others	46,118,596	52,245,477
- Related parties (Note 15.1)	599,127	1,670,829
Less - Allowance for doubtful debts	(1,584,345)	(1,100,000)
	45,133,378	52,816,306
Other Debtors - Others	5,749,579	9,306,806
- Related Parties (Note 15.2)	88,693,141	79,483,308
	139,574,098	141,606,420

	Relationship	2017 Rs.	2016 Rs.
15.1 Trade debtors - Related Parties			
Citrus Leisure PLC	Parent Company	145,401	169,975
Citrus Vacations Limited	Affiliate Company	357,181	430,369
George Steuart Health (Pvt) Ltd	Affiliate Company	25,000	-
Triad (Pvt) Ltd	Affiliate Company	71,545	51,545
George Steuart Travels (Pvt) Ltd	Affiliate Company	-	1,018,940
		599,127	1,670,829

	Relationship	2017 Rs.	2016 Rs.
15.2 Other Debtors - Related Parties			
Citrus Leisure PLC	Parent Company	6,329,705	2,284,547
Citrus Aqua Limited	Affiliate Company	67,100	56,001
Citrus Vacations Limited	Affiliate Company	740,988	-
Kalpitiya Beach Resort PLC	Affiliate Company	974,197	-
Citrus Silver Limited	Affiliate Company	573,234	-
Passikudah Beach Resorts Limited	Affiliate Company	7,104,865	4,885,351
Waskaduwa Beach Resort PLC	Affiliate Company	72,903,053	72,257,408
		88,693,141	79,483,308

	Total Rs.	< 30 days Rs.	31 - 60 days Rs.	61 - 90 days Rs.	> 90 days Rs.
2017	46,717,723	26,037,317	8,762,454	5,737,035	6,180,917
2016	53,916,306	28,362,714	14,848,652	4,380,241	6,324,699

	2017		2016	
	Number	Rs.	Number	Rs.
16. STATED CAPITAL				
Stated Capital as at	57,573,897	778,568,197	57,573,897	778,568,197
	57,573,897	778,568,197	57,573,897	778,568,197

	2017 Rs.	2016 Rs.
17. REVALUATION RESERVE		
On: Property, Plant and Equipment		
As at 1 April	124,178,742	124,178,742
Revaluation of surplus during the year	-	-
As at 31 March	124,178,742	124,178,742

	2017 Rs.	2016 Rs.
18. CASH AND CASH EQUIVALENTS		
18.1 Components of cash and cash equivalents		
Cash and Cash Equivalents Balance		
Cash and Bank Balances	48,600,816	43,520,584
Less: Fixed Deposits with original maturity more than one year	(18,157,631)	(16,864,000)
Unfavourable Cash and Cash Equivalent Balances		
Bank Overdraft (Note 19)	(131,584,684)	(65,121,086)
Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement	(101,141,499)	(38,464,502)

Notes to the Financial Statements

Year ended 31st March

	2017 Rs.	2016 Rs.
19. INTEREST BEARING LOANS AND BORROWINGS		
Non Current		
Long term loans (Note 19.1)	291,080,000	347,200,000
Finance leases (Note 19.3)	-	-
	291,080,000	347,200,000
Current		
Long term loans (Note 19.1)	80,680,000	97,960,000
Finance leases (Note 19.3)	-	459,784
Bank overdrafts (Note 18)	131,584,684	65,121,086
	212,264,684	163,540,870
Total Interest-bearing loans and borrowings	503,344,684	510,740,870
	2017 Rs.	2016 Rs.
19.1 Long Term Loans		
At the beginning of the year	445,160,000	641,000
Loans obtained during the year	-	480,000,000
Repayments during the year	(73,400,000)	(35,481,000)
At the end of the year	371,760,000	445,160,000
Payable within 1 year	80,680,000	97,960,000
Payable after 1 year	291,080,000	347,200,000
	371,760,000	445,160,000

19.2 Interest Bearing Loans and Borrowings

Lender	Rate of Interest	Repayment Terms	Security Amount Rs.	Security	Balance As At 31st March 2017 Rs.
Sampath Bank PLC - 480 Mn Loan	Variable (AWPLR + Margin) payable monthly	84 monthly instalments	480,000,000	Primary Mortgage over property depicted as lot No. 'A' in plan No.1647 in Hikkaduwa. Carrying value as at 31 March 2017 Rs. 940 Mn/-	371,760,000

	Balance As at 01.04.2016 Rs.	New Leases Obtained Rs.	Repayments Rs.	Balance As at 31.03.2017 Rs.
19.3 Finance Lease				
National Development Bank PLC	480,893	-	480,893	-
Finance Charges Allocated to future periods	(21,109)	-	(21,109)	-
Net Liability	459,784	-	459,784	-

	2017 Rs.	2016 Rs.
Current	-	480,893
Non Current	-	(21,109)
	-	459,784

Notes to the Financial Statements

Year ended 31st March

	2017 Rs.	2016 Rs.
20. RETIREMENT BENEFIT OBLIGATION		
Opening Balance	9,001,637	7,115,146
Current Service Cost	823,449	882,388
Interest Cost	900,164	711,515
Actuarial (Gain)/Loss	(1,257,485)	706,400
Payments made during the year	(869,554)	(413,812)
Closing Balance	8,598,211	9,001,637

	2017 Rs.	2016 Rs.
20.1 Maturity Profile of the Defined benefit obligation		
Future Working Life Time		
Within the next 12 months	1,920,241	1,314,960
Between 1-2 Years	1,770,745	2,725,840
Between 2-5 Years	3,028,790	2,042,290
Between 5-10 Years	1,605,557	2,368,738
Beyond 5-10 Years	272,878	549,809

20.2 Sensitivity of the principal assumptions used

In order to illustrate the significance of the salary escalation rates and discount rates assumed in these valuations a sensitivity analysis for all employees of company is carried out as follows;

	2017 Rs.	2016 Rs.
Discount Rate		
Effect on DBO due to decrease in the discount rate by 1%	273,652	415,920
Effect on DBO due to increase in the discount rate by 1%	(256,452)	(382,645)
Salary Escalation		
Effect on DBO due to decrease in salary escalation rate by 1%	(256,816)	(367,922)
Effect on DBO due to increase in salary escalation rate by 1%	269,726	392,585
Change in Present value of Defined Benefit Obligation		

20.3 The average duration of the defined benefit plan obligation at the end of the reporting period is 3.43 years. (2016 - 4.83 years)

20.4 Principle assumptions used for Actuarial valuation,

Messrs. Actuarial & Management Consultants (Pvt) Ltd, Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity using the Projected Unit Credit Method as at 31st March 2017. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

	2017 Rs.	2016 Rs.
Discount Rate Assumed	12.5%	10%
Further Salary Increase	9%	9%
Staff Turn Over	20%	15%
Retiring Age	55 years	55 years

	2017 Rs.	2016 Rs.
21. TRADE AND OTHER PAYABLES		
Trade Payables - Others	6,677,798	2,570,870
- Related Parties (Note 21.1)	205,809	-
Other Payables - Others		
- Related Parties (Note 21.2)	162,082	680,541
Sundry Creditors Including Accrued Expenses	47,994,353	38,980,583
	55,040,042	42,231,994

	Relationship	2017 Rs.	2016 Rs.
21.1 Trade Payables - Related Parties			
George Steuart Laboratories (Pvt) Ltd	Affiliate Company	86,451	-
George Steuart Teas (Pvt) Ltd	Affiliate Company	119,358	-
		205,809	-

Notes to the Financial Statements

Year ended 31st March

	Relationship	2017 Rs.	2016 Rs.
21. TRADE AND OTHER PAYABLES (Contd.)			
21.2 Other Payables - Related Party			
Kalpitiya Beach Resort PLC	Affiliate Company	-	156,767
Citrus Silver Limited	Affiliate Company	-	74,347
Citrus Vacations Limited	Affiliate Company	-	449,427
Triad (Pvt) Ltd	Affiliate Company	162,082	-
		162,082	680,541

	Relationship	2017 Rs.	2016 Rs.
22. AMOUNTS DUE TO RELATED PARTIES - NON - CURRENT			
Kalpitiya Beach Resort PLC	Affiliate Company	-	2,196,025
		-	2,196,025

23. COMMITMENTS AND CONTINGENCIES

The Company does not have significant capital commitments and contingencies as at the reporting date.

23.1 Utilisation of funds raised through the Initial Public Offering (IPO)

The remaining IPO funds of the Company (approximately Rs. 57.6 million) were to be utilised to enhance the "live-in experience" of the hotel guests. Accordingly funds have been thus far utilised as set out below.

- i) Improvement of the swimming pool and attendant areas was curtailed to a cost of Rs. 7.5 Million and completed by 1st June 2016. Thereafter in November 2016, the pool structure, pool deck and service areas were reinforced and upgraded incurring a cost of Rs. 2.5 Mn.
- ii) Upgrading the ground floor rooms was curtailed to a cost of Rs. 6.3 Million and completed by 1st June 2016. Furthermore, in November and December 2016 additional rooms were identified and upgraded in line with the above incurring a cost of Rs. 4.1 Mn.
- iii) Construction of an Aqua Themed Beach Bar was curtailed to a cost of Rs. 2.5 Million by modifying the existing beach bar and was completed by 1st June 2016. In addition a mobile unit was created as an extension to the Beach Bar incurring a cost of approximately Rs. 0.5Mn

in November 2016. The further enhancement of the Beach Bar area which was scheduled to be completed before 31st March 2017 costing approximately Rs. 2 Mn has been earmarked to be done in parallel with the mandatory upgrades required as directed by Sri Lanka Tourism Development Authority for star classification which is to be completed within the next six (06) months.

- iv) An upscale amenity retailer was secured to our satisfaction and a shop space was created and rented in December 2016. Since only a part of the area allocated for shop space was utilised, the cost incurred was only Rs. 2.6 Mn. However, negotiations are on the way with another promising retailer for Accessories & Amenities shop so that the remaining allocated space can be utilised.
- v) Construction of a water activity area for children has been deferred during this financial year.

Hence, approximately Rs. 31.6 Mn (as at date of approval of the Financial Statements) of the funds raised through the IPO which remains unutilised is held in fixed deposits.

The shareholders are informed that, due to the actual costs incurred for the aforesaid items of expenditure being less than originally anticipated, the unutilised funds are proposed to be channelled for upgrading the Hotel to be in compliance with the recently introduced requirements of the Sri Lanka Tourism Development Authority to maintain the Hotel's star classification as per Gazette (Extraordinary) No. 1963/28 dated April 20, 2016.

An Ordinary Resolution is placed before the shareholders to obtain their approval as set-out in the Notice of Meeting for the aforesaid variation prior to the utilisation.

24. EVENTS OCCURRING AFTER THE REPORTING DATE

24.1 Citrus Group Restructure

Pursuant to the Announcement made on 27th September, 2016, pertaining to the Citrus Group Restructure,

- (i) Hikkaduwa Beach Resort PLC (CITH) made an Application to the Colombo Stock Exchange (CSE) to list 151,891,561 ordinary voting shares of CITH to be allotted to the Shareholders of Waskaduwa Beach Resort PLC, Kalpitiya Beach Resort PLC and Passikudah Beach Resorts Limited, arising from the Amalgamation of Kalpitiya Beach Resort PLC and Passikudah Beach Resorts Limited with CITH, and the Voluntary Offer to be made by CITH to the shareholders of Waskaduwa Beach Resort PLC; and
- (ii) CITH made an Application to the Securities and Exchange Commission of Sri Lanka (SEC), for a waiver under Rule 5.4(b) of the CSE Listing Rules for the issue of the said 151,891,561 ordinary voting shares.

Notes to the Financial Statements

Year ended 31st March

24. EVENTS OCCURRING AFTER THE REPORTING DATE (Contd.)

The CSE by their letter dated 26th May 2017, approved in principle, the Application for the listing of 151,891,561 ordinary voting shares of CITH as aforesaid subject to CITH ensuring compliance with the conditions set out in the said letter.

The SEC, by its letter dated 25th May 2017, advised CITH to revert to the SEC, upon the respective companies' satisfying the conditions referred to in the application made by CITH, in order that the SEC consider the application made by CITH for the waiver aforesaid.

At the Extraordinary General Meetings of shareholders of Citrus Leisure PLC, Kalpitiya Beach Resort PLC, Passikudah Beach Resorts Limited and CITH held on 03rd July 2017, all the Special Resolutions placed before the shareholders were passed as required by the Companies Act, No. 07 of 2007.

CITH, having complied with the several conditions referred to in the CSE's letter of 26th May 2017, on 17th day of July 2017 provided to the SEC the information as required by the SEC in order to process the waiver under Rule 5.4 (b) of the Listing Rules of CSE.

The Group Restructure which involves the amalgamations and the voluntary offer as set out in paragraph 1 hereof, will commence immediately upon receiving the waiver from SEC as referred to in paragraph 1 hereof.

- 24.2 No other circumstances have arisen since the reporting date, which would require adjustments to or disclosures in the Financial Statements except as disclosed in Note 24.1.

25. ASSETS PLEDGE

The Company has pledged its assets as security for the interest bearing loans and borrowings obtained as stated in note 19.2.

The following assets have been pledged as security for Permanent Overdraft Facility obtained from bank.

Security	Lender	Nature of Liability	Carrying Amount of the asset Pledged	
			2017 Rs.	2016 Rs.
Investment in Fixed Deposits of Hikkaduwa Beach Resort PLC	Sampath Bank	Rs. 33.15 Mn Bank Overdraft	36.86 Mn	36.86 Mn

26. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

Transaction with the parent and related entities

Nature of Transaction	Parent Company		Affiliate Companies*		Total	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Balance as at 1 April	350,504,319	(8,989,482)	347,020,609	268,460,262	697,524,928	259,470,780
Transfer of Assets	-	-	-	(1,660,313)	-	(1,660,313)
Fund Transfers	10,694,050	345,750,000	38,350,000	109,635,000	49,044,050	455,385,000
Collection made by the Company on behalf of others	-	-	(7,687,934)	(1,287,052)	(7,687,934)	(1,287,052)
Collection made by the Other Company on behalf of the companies	220,500	-	-	122,650	220,500	122,650
Expense incurred on behalf of other companies	5,738,749	7,598,851.54	13,037,441	10,607,861	18,776,190	18,206,712
Expense incurred on behalf of the company	(10,183,494)	(2,575,424)	(13,103,785)	(12,056,836)	(23,287,279)	(14,632,259)
Funds received from Inter-company	-	-	-	(46,000,000)	-	(46,000,000)
Inter-company Interest Income	47,050,943	18,729,412	31,082,184	19,678,292	78,133,127	38,407,704
Inter-company Interest Expense	-	(22,295)	(47,039)	(479,255)	(47,039)	(501,550)
Management Fee	(12,231,465)	(9,986,744)	-	-	(12,231,465)	(9,986,744)
Payments Made	-	-	-	-	-	-
Total	391,793,602	350,504,319	408,651,476	347,020,609	800,445,078	697,524,928
Included under						
Trade and other receivables	6,475,106	2,454,522	82,817,162	78,699,615	89,292,268	81,154,137
Due from related parties	385,318,496	348,049,797	326,202,205	271,197,560	711,520,701	619,247,357
Trade and other payables	-	-	(205,809)	(2,196,025)	(205,809)	(2,196,025)
Due to related parties	-	-	(162,082)	(680,541)	(162,082)	(680,541)
Total	391,793,602	350,504,319	408,651,476	347,020,609	800,445,078	697,524,928

Notes to the Financial Statements

Year ended 31st March

26. RELATED PARTY DISCLOSURES (Contd.)

Parent Company is Citrus Leisure PLC.

*Transaction with the related entities include Waskaduwa Beach Resort PLC, Kalpitiya Beach Resort PLC, Citrus Silver Limited, Citrus Vacations Limited, Citrus Aqua Limited, Passikudah Beach Resorts Limited, Triad (Pvt) Ltd, George Steuart Health (Pvt) Ltd, George Steuart Travels (Pvt) Ltd, George Steuart Laboratories (Pvt) Ltd and George Steuart Teas (Pvt) Ltd.

The company carried out Fund transfers represents the sales proceeds of the subsidiaries received by one group company and it will be settled by transferring of funds back to the relevant companies.

The transactions between related parties are taken place at agreed transaction rate based on arms length basis.

Terms and conditions for Non Current Receivables and Payables.

* These receivables are not secured.

** Interest rate - AWPLR (6 months) + Margin commenced from 1st April 2016.

*** Repayment period - 120 Months including 36 months grace period.

There were no Related Party transactions exceeding 10% of the Equity or 5% of Total Assets, whichever is lower which require disclosure as per section 7.16 of the Listing Rules of the Colombo Stock Exchange.

26.1 Transactions with Key Management Personnel

Key management personnel include the Board of Directors of the Company, that of its parent entity Citrus Leisure PLC

i) Compensation to Key management personnel

No directors emoluments were incurred for the year ended 31 March 2017 (2016 - Nil).

(ii) Other transactions with key management personnel

There are no other transactions between the Company and Key Management Personnel for the year ended 31 March 2017 (2016 - Nil).

26.2 Other Related Parties Disclosures

Transactions with the parties/entities in which Key Management Personnel or their Close Family Members have control, joint control or significant influence, which disclosure in these Financial Statements.

No material transactions have taken place during the year with the parties/entities in which Key Management Personnel or their Close Family Members have control, joint control or significant influence, which disclosure in these Financial Statements other than those disclosed above.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

27.1 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

Financial Instruments held by Company, principally comprise of cash, trade and other receivables, trade and other payables, loans and borrowings and finance leases. The main purpose of these financial liabilities is to manage the Company's operating, investing and financing activities.

Financial Risk management of the Company is carried out based on the guidelines established by the parent company's management team which comes under the purview of the Board of Directors of the parent company.

Notes to the Financial Statements

Year ended 31st March

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd.)

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks, foreign exchange transactions and other financial instruments. The Company trades only with recognised, creditworthy third parties. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk.

It is the Company's policy that all clients who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Risk Management Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered.

Liquidity Risk

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

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

As at 31 March 2017	On demand Rs.	Less than 3 months Rs.	3 to 12 months Rs.	1 to 5 years Rs.	Over 5 years Rs.	Total Rs.
Company						
Interest-bearing loans and borrowings	131,584,684	27,560,000	65,400,000	278,800,000	-	503,344,684
Trade and other payables	9,950,171	17,769,829	10,625,817	16,694,225	-	55,040,042
	141,534,855	45,329,829	76,025,817	295,494,225	-	558,384,726

As at 31 March 2016	On demand Rs.	Less than 3 months Rs.	3 to 12 months Rs.	1 to 5 years Rs.	Over 5 years Rs.	Total Rs.
Company						
Interest-bearing loans and borrowings	65,121,086	184,418	98,235,366	347,200,000	-	510,740,870
Trade and other payables	1,870,276	176,229	40,185,488	-	-	42,231,994
	66,991,362	360,647	138,420,854	347,200,000	-	552,972,864

Market Risk

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

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company's exposure to the risk of changes in market interest rates relates primarily to the Company's long term debt and short term borrowings with floating interest rates. The company manages its risk by striking a balance between long term and short term debts. The company has easy access to funds at competitive interest rates.

Notes to the Financial Statements

Year ended 31st March

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd.)

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of the long term and short term borrowings. With all other variables held constant, the Company profit before tax is affected through the impact on floating rate borrowings as follows;

	Change in basis points	Change in Profit before tax
2017	100 (1%)	4.08 Mn
2016	100 (1%)	4.02 Mn

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company's exposure to the risk of changes in foreign exchange rates relates primarily to the company's operating activities.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in United States Dollar (USD) and Euro (EUR) rates with all other variables held constant, the Company profit before tax. The Company exposure to all the other currencies are not material.

	Change in exchange rate	Change in Profit before tax
2017	+5%	1.24 Mn
2016	+5%	0.95 Mn

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Company's operations.

28. CAPITAL MANAGEMENT

Capital includes equity attributable to the equity holders of the company. The primary objective of the company's capital management is to ensure that it maintains a healthy capital ratios in order to support its business and maximise shareholder value. The company manages its capital structure and makes adjustments to it in light of changes in economic conditions..

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2017 and 31 March 2016.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company includes within net debt, interest bearing loans and borrowings less cash and cash equivalents.

The Company's debt to adjusted capital ratio at the end of the reporting period was as follows:

	2017	2016
Interest-bearing loans and borrowings (Note 19)	503,344,684	510,740,870
Trade and other payables (Note 21)	55,040,042	42,231,994
Less: cash and short-term deposits (Note 18.1)	(48,600,816)	(43,520,584)
Net debt	509,783,910	509,452,280
Equity	1,256,141,132	1,182,401,476
Total capital	1,256,141,132	1,182,401,476
Capital and net debt	1,765,925,042	1,691,853,756
Gearing ratio	29%	30%

Notes to the Financial Statements

Year ended 31st March

29. FAIR VALUE MEASUREMENT

29.1. Details of Non-Financial assets carried at fair value is given in Note 11.

29.2. Financial Assets and Financial Liabilities not carried at fair value

For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values.

For financial assets and financial liabilities that have a long term maturity (original maturities more than a year), the carrying amounts approximate its fair values as such assets and liabilities bear interest rates prevailing in the market.

Financial liabilities with variable interest rates are also considered to be carried at fair value.

Accordingly, the following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value.

Assets

Trade and Other Receivables
Cash and short-term deposits
Amounts Due from related parties

Liabilities

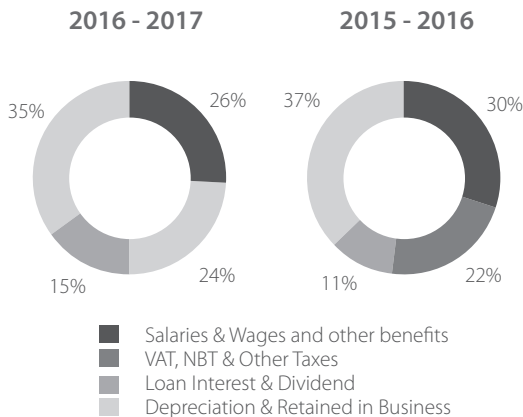
Trade and Other Payables
Interest Bearing Loans and Borrowings
Amount due from related parties

Five Year Summary

		2012/13	2013/14	2014/15	2015/16	2016/17
TRADING RESULTS						
Turnover and Other Income	Rs:000s	229,087	282,429	281,100	300,938	307,975
Profit before Tax	Rs:000s	52,326	87,481	65,906	68,733	101,185
Income Tax (Expense) / Reversal	Rs:000s	5,414	728	793	(10,371)	(22,795)
Net Profit	Rs:000s	57,740	88,209	66,699	58,362	78,390
ASSETS						
Non-Current Assets	Rs:000s	885,441	869,494	1,180,909	1,565,402	1,652,494
Current Assets	Rs:000s	107,720	740,737	162,769	195,096	204,847
Total Assets	Rs:000s	993,161	1,610,231	1,343,678	1,760,498	1,857,341
EQUITY AND LIABILITIES						
Capital and Reserves						
Stated Capital	Rs:000s	778,568	778,568	778,568	778,568	778,568
Revaluation Reserve	Rs:000s	-	-	124,179	124,179	124,179
Retained Earnings	Rs:000s	84,125	169,482	228,877	279,654	353,394
Total Equity	Rs:000s	862,693	948,050	1,131,624	1,182,401	1,256,141
Non-Current Liabilities						
Interest Bearing Borrowings	Rs:000s	4,739	373,420	458	347,200	291,080
Retirement Benefit Obligation	Rs:000s	4,965	5,391	7,115	9,002	8,598
Amounts Due To Related Parties	Rs:000s	-	-	7,468	2,196	-
Deferred Tax Liability	Rs:000s	-	-	6,297	5,345	5,422
Total Non Current Liabilities	Rs:000s	9,704	378,811	21,338	363,743	305,100
Current Liabilities						
Trade and Other Payables	Rs:000s	101,613	54,758	36,723	42,232	55,040
Income Tax Payable	Rs:000s	-	-	-	8,581	28,795
Interest Bearing Borrowings	Rs:000s	19,151	228,612	153,993	163,541	212,265
Total Current Liabilities	Rs:000s	120,764	283,370	190,716	214,354	296,100
Total Liabilities	Rs:000s	130,468	662,181	212,054	578,097	601,200
Total Equity and Liabilities	Rs:000s	993,161	1,610,231	1,343,678	1,760,498	1,857,341
VALUE TO SHAREHOLDERS						
Earnings Per Share - Basic	Rs.	1.13	1.53	1.16	1.01	1.36
Net Asset Per Share	Rs.	14.98	16.47	19.66	20.54	21.82
Dividend Per Share	Rs.	-	0.05	0.12	0.12	0.10
Dividend Pay Out Ratio	%	-	3.26	10.34	11.88	7.36
Debt to Equity Ratio	Times	0.03	0.64	0.15	0.45	0.41
Current Ratio	Times	0.89	2.61	0.85	0.91	0.69
Quick Asset Ratio	Times	0.86	2.60	0.83	0.88	0.67

Statement of Value Added

	2016/17	%	2015/16	%
Gross Turnover	392,731,052		372,758,444	
Finance & Other Income	84,850,553		45,592,123	
	477,581,605		418,350,567	
Less: Cost of Material & Services Bought in	(145,079,308)		(151,551,208)	
	332,502,297		266,799,359	
Value allocated to Employees				
Salaries & Wages and other benefits	87,434,784	26%	80,577,161	30%
To Government				
VAT, NBT and Other Taxes	80,076,165	24%	57,411,708	22%
To providers of Capital				
Loan Interest & Dividend	51,161,344	15%	30,165,865	11%
To Expansion & Growth				
Depreciation and Retained in business	113,830,004	35%	98,644,624	37%
	332,502,297	100%	266,799,358	100%



Share Information

ORDINARY SHAREHOLDERS

There were 702 registered shareholders as at 31st March 2017, distributed as follows.

Shareholders Categorised Summary Report - As at 31st March 2017

From	To	No of Shareholders	No of Shares	%
1	1,000	559	119,792	0.21
1,001	10,000	118	337,222	0.59
10,001	100,000	22	572,260	1.00
100,001	1,000,000	1	195,116	0.34
Over 1,000,000		2	56,349,507	97.86
Total		702	57,573,897	100.00

Categories of Share Holders

Category Shareholders	No of Holders	No of Shares	%
Local Individuals	664	842,493	1.46
Local Institutions	34	56,711,159	98.50
Foreign Individuals	3	245	0.00
Foreign Institutions	1	20,000	0.04
Total	702	57,573,897	100.00

The percentage of issued shares held by the public as at 31st March 2017 was 11.15%. (As at 31st March 2016 was 11.15%) Comprising 696 shareholders (As at 31st March 2016 was 645 shareholders).

Share Information

20 MAJOR SHAREHOLDERS OF THE COMPANY

Name	No of Shares As At 31.03.2017	(%)	No of Shares As At 31.03.2016	(%)
1 Citrus Leisure PLC	51,127,239	88.80	51,127,239	88.80
2 Pan Asia Banking Corporation PLC / C N Samarathunga	5,222,268	9.07	5,222,268	9.07
3 Ventura Crystal Investments Ltd	195,116	0.34	222,000	0.39
4 Mr. W V Jagath Pushpa Kumara	96,956	0.17	98,506	0.17
5 Dee Sanda Holdings (Pvt) Ltd	41,081	0.07	41,081	0.07
6 Mr. A K A K S Senarathne	35,190	0.06	-	-
7 Union Investments (Private) Ltd	33,742	0.06	-	-
Merchant Bank of Sri Lanka Limited/Union Investments Ltd	-	-	33,742	0.06
8 Mr. M M Fuad	32,659	0.06	67,392	0.12
9 Mr. J S A Perera and Mrs. R N Perera	31,214	0.05	-	-
10 Mr. C N Samarathunga	26,088	0.05	26,088	0.05
11 Dr. W S E Fernando and Mrs. S K Fernando	26,000	0.05	26,000	0.05
12 Mr. N L Wickramage	25,140	0.04	25,140	0.04
13 H D K Investments (Pvt) Ltd	25,001	0.04	25,001	0.04
14 Mr. V R A S Sovis	23,000	0.04	23,000	0.04
15 Mr. K J S S Fernando	22,100	0.04	22,100	0.04
16 Mr. S H Amarasekera	20,600	0.04	20,600	0.04
17 Tranz Dominion, L.I.C.	20,000	0.03	20,000	0.03
18 Divasa Equity (Pvt) Ltd	17,971	0.03	17,971	0.03
19 Mr. K P Premadasa and Mrs. H N Fernando	16,544	0.03	18,935	0.03
20 Mr. I P C Jayawardana	16,054	0.03	16,054	0.03
	57,053,963	99.10	57,053,117	99.10
Others	519,934	0.90	520,780	0.90
Total	57,573,897	100.00	57,573,897	100.00

Share prices for the year

	2016/17 Rs.	2015/16 Rs.
Highest during the year	18.00 (15.04.2016 & 30.09.2016)	20.10 (12.05.2015)
Lowest during the year	11.00 (28.02.2017)	13.00 (11.03.2016)
As at end of the year	13.20	13.30

Directors' Shareholding

	No of Shares as at 31.03.2017	(%)	No of Shares as at 31.03.2016	(%)
1 Mr. E P A Cooray	1	-	1	-
2 Mr. D S Jayaweera	-	-	-	-
3 Mr. R Seneviratne	-	-	-	-
4 Mr. P V S Premawardhana	-	-	-	-
5 Mr. S A Ameresekere	-	-	-	-

Chief Executive Officer's Shareholding

	No of Shares as at 31.03.2017	(%)	No of Shares as at 31.03.2016	(%)
1 Mr. P C B Talwatte	5,000	0.01	5,000	0.01

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Sixth Annual General Meeting of Hikkaduwa Beach Resort PLC will be held on 28th September 2017 at 9.45 a.m. at Sri Lanka Foundation, Lecture Hall 08, No. 100, Sri Lanka Padanam Mawatha, Independence Square, Colombo 07 for the following purposes.

ORDINARY BUSINESS

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Statement of Accounts for the year ended 31st March 2017, together with the Report of the Auditors thereon.
2. To re-elect Mr. P V S Premawardhana who retires by rotation in terms of Article 88 of the Articles of Association as a Director of the Company.
3. To re-appoint M/s Ernst & Young Chartered Accountants as Auditors of the Company and to authorise the Directors to determine their remuneration.
4. To authorise the Directors to determine donations for the year ending 31st March 2018 and up to the date of the next Annual General Meeting.

SPECIAL BUSINESS

5. To approve the following Ordinary Resolution with or without modification.
'IT IS HEREBY RESOLVED to authorise the Board to utilise the Rupees Thirty One Million Six Hundred Thousand (Rs. 31.6 Mn) remaining out of the Initial Public Offering (IPO) funds for the purpose of upgrading the Hotel to be in compliance with the recently introduced requirements of the Sri Lanka Tourism Development Authority to maintain the Hotel's star classification as per Gazette (Extraordinary) No. 1963/28 dated April 20, 2016.'

By order of the Board of

Hikkaduwa Beach Resort PLC



P W Corporate Secretarial (Pvt) Ltd

Secretaries

Colombo

28 August 2017

Note:

- i) A Shareholder is entitled to appoint a Proxy to attend and vote at the meeting on his/her behalf.
- ii) A Proxy need not be a shareholder of the Company.
- iii) The completed Form of Proxy should be deposited at the Registered Office of the Secretaries; 3/17, Kynsey Road, Colombo 8 not later than 36 hours prior to the time appointed for the holding of the meeting.

Form of Proxy

I/We..... of being a Shareholder / Shareholders of Hikkaduwa Beach Resort PLC, do hereby appoint of or failing *him /her

Mr. E P A Cooray	of Colombo	or failing him*
Mr. D S Jayaweera	of Colombo	or failing him*
Mr. R Seneviratne	of Colombo	or failing him*
Mr. P V S Premawardhana	of Colombo	or failing him*
Mr. S A Ameresekere	of Colombo	

as *my/our proxy to represent *me/us, to speak and to vote for *me/us on *my/our behalf at the Sixth Annual General Meeting of the Company to be held at Sri Lanka Foundation, Lecture Hall 08, No. 100, Sri Lanka Padanam Mawatha, Independence Square, Colombo 07 on 28th September 2017 at 9.45 a.m. and any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
1. To re-elect Mr. P V S Premawardhana who retires by rotation in terms of Article 88 of the Articles of Association, as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-appoint M/s Ernst & Young, as Auditors of the Company and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
3. To authorise the Directors to determine donations for the year ending 31st March 2018 and up to the date of the next Annual General Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
4. To approve the Ordinary Resolution to authorise the Board to utilise the Rupees Thirty One Million Six Hundred Thousand (Rs. 31.6 Mn) remaining out of the Initial Public Offering (IPO) funds for the purpose of upgrading the Hotel to be in compliance with the recently introduced requirements of the Sri Lanka Tourism Development Authority to maintain the Hotel's star classification as per Gazette (Extraordinary) No. 1963/28 dated April 20, 2016.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this day of 2016

.....
Signature of Shareholder/s

- Notes**
- *Please delete the inappropriate words.
 - Instructions as to completion are noted on the reverse hereof.

Form of Proxy

INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the Form of Proxy by filling in legibly your full name, address and signing in the space provided and filling in the date of signature.
2. Please indicate with an "X" in the boxes provided how your Proxy is to vote on each resolution. If no indication is given, the Proxy in his discretion will vote as he thinks fit.
3. If you wish to appoint a person other than the Chairman or a Director of the Company as your Proxy, please insert the relevant details in the space provided (above the names of the Board of Directors) on the Proxy Form.
4. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should accompany the Form of Proxy for registration if such Power of Attorney has not already been registered with the Company.
5. If the appointer is a Company / Incorporated body this Form must be executed in accordance with the Articles of Association / Statute.
6. The completed Form of Proxy should be deposited at the Registered Office of the Secretaries; 3/17, Kynsey Road, Colombo 8 not later than thirty six (36) hours before the time appointed for the meeting.

Corporate Information

Name of Company

Hikkaduwa Beach Resort PLC

Legal Form

Public Quoted Company with limited liability
Incorporated in Sri Lanka.

Company Registration No.

PB 4520 PQ

Registered Office

No. 7/5 Gregory's Road, Colombo 07.

Telephone : 0115 755 055

Fax : 0115 470 000

E-mail : info@citrusleisure.com

Website : www.citrusleisure.com

Board of Directors

Mr. E P A Cooray (Chairman)

Mr. D S Jayaweera

Mr. R Seneviratne

Mr. P V S Premawardhana

Mr. S A Ameresekere

Chief Executive Officer

Mr. Chandana Talwatte

Director Marketing

Mr. Mani Sugathapala

Stock Exchange Listing

The Shares of the Company are listed on the
Colombo Stock Exchange.

Company Secretaries

P W Corporate Secretarial (Pvt) Ltd.
No. 3/17, Kynsey Road, Colombo 08.

Auditors

Ernst & Young

Chartered Accountants

No. 201, De Saram Place, Colombo 10.

Bankers

Sampath Bank PLC

Commercial Bank of Ceylon PLC

Hatton National Bank PLC

Pan Asia Banking Corporation PLC

Bank of Ceylon

Nation Trust Bank PLC

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Hikkaduwa Beach Resort PLC