

# Luxury Redefined



THE FORTRESS RESORT & SPA

SRI LANKA

The Fortress Resorts PLC  
Annual Report 2011/12





www.the

fortress.lk  
THE  
FORTRESS







# Luxury Redefined

The ability to provide quality products and services is our vision and here at The Fortress, we have refined it to an art. That is why our hotel is well known for creating unforgettable experiences, along with luxury and class. Our extensive work internally, has been foremost in creating spaces in which elegance, style and lifestyle meet and we have become synonymous with comfort and opulence, all within an industry whose momentum is unabated. Sophistication mastered. Excellence ensured. **Luxury Redefined.**



THE FORTRESS RESORT & SPA

SRI LANKA

# Contents

<b>6</b>	Financial Highlights
<b>10</b>	Chairman's Review
<b>14</b>	CEO's Review
<b>18</b>	Board of Directors
<b>26</b>	Management Discussion & Analysis
<b>32</b>	Promoting Sustainability
<b>34</b>	Risk Management
<b>37</b>	Annual Report of the Board of Directors
<b>41</b>	Corporate Governance
<b>44</b>	Statement of Directors' Responsibilities
<b>45</b>	Audit Committee Report
<b>49</b>	Independent Auditor's Report
<b>50</b>	Income Statement
<b>51</b>	Balance Sheet
<b>52</b>	Statement of Changes In Equity
<b>53</b>	Cash Flow Statement
<b>54</b>	Notes to the Financial Statements
<b>75</b>	Five Year Summary - Group
<b>76</b>	Group Value Added Statement
<b>77</b>	Shareholder Information
<b>79</b>	Notice of Annual General Meeting
<b>80</b>	Notes
<b>83</b>	Form of Proxy
<b>Back Inner Cover</b>	Corporate Information



# The Fortress

A Resort in Koggala, Sri Lanka.

A hotel fashioned in the style of a powerful fortress. Rising next to the beach, the resort's walls enclose verdant gardens and water features, a spa featuring Ayurvedic treatments, a freeflow swimming pool, wine cellar, restaurants, boutiques and exquisitely appointed rooms, lofts and residences.

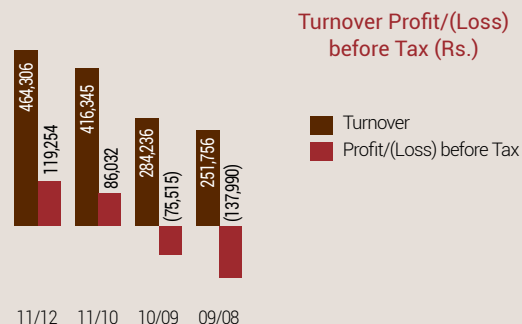
The resort's architecture merges historic Dutch and Portuguese styles into the motifs of Sri Lanka and is Galle's most innovative resort experience.

# Financial Highlights (Group)

Rs. 464 Mn

+11.53%

Turnover





Year Ended 31 st March	2011 / 2012	2010 / 2011	2009 / 2010	2008 / 2009
------------------------	-------------	-------------	-------------	-------------

(Figures in Rs. 000 unless otherwise stated)

#### TRADING RESULTS

Turnover (Excluding other income)	464,306	416,345	284,236	251,756
Profit / (Loss) from operations	242,304	248,009	118,283	54,293
Depreciation	73,529	86,950	98,972	90,424
Interest	49,521	75,027	94,826	101,859
Profit / (Loss) before Tax	119,254	86,032	(75,515)	(137,990)

#### Liquidity Ratios

Gearing (%)	35%	45%	54%	51%
Current Ratio (times)	1.23	1.42	1.02	0.90

#### Investor Ratios

Earnings / (Loss) Per Share (Rs.)	1.07	0.76	(0.71)	(1.25)
Net Assets Per Share (Rs.)	6.75	5.67	4.91	5.62

#### Sector Specific Ratios

Average Room Rate (ARR) (Rs.)	22,939	20,217	16,420	12,673
Income Per Occupied Room (IOR) (Rs.)	38,828	38,512	32,499	28,095





# Luxury



# Chairman's Review

I am pleased to present our Annual Report and Audited Financial Statement of Accounts for the Financial Year ending 31st March 2012. The company has achieved landmark profitability by surpassing the already impressive financial results of the previous year. It gives me great pride to reiterate that the Fortress Resort & Spa has recorded unimaginable financial success during the 2011/12 financial year reflecting strong growth in both revenue and occupancy to conclude a year that has been memorable in every sense of the word.

## Strong Industry Prospects

Our performance exceeded all our ambitious forecasts for the year, boosted no doubt by the influx of high end tourists and increased tourist arrivals onto our shores. The country's tourism sector has performed admirably during the year, attracting 855,000 international tourists during the period as compared to 709,101 in the previous year.

The Government of Sri Lanka needs to be congratulated for its single-minded strategic vision for developing the tourism sector as articulated in the Mahinda Chintana. Sri Lanka is now able to leverage on its tourism industry to share resultant economic and social benefits amongst its people. The sector has become a vital employment generator, unleashing direct and indirect employment to 300,000 workforce in the industry, thereby making a vital contribution to the nation's Gross Domestic Product.

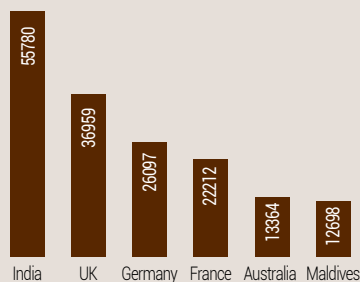
## Global Travel on the Rise

Last year, approximately 980 million international tourists traversed the globe. The good news emanating from emerging

economies such as Asia Pacific is that the region was able to attract 217 million international tourists, thereby recording a six per cent growth during the period under review. The emerging markets of Asia, Latin America, Central and Eastern Europe, Africa and the Middle East have posted impressive tourist growth for the first time ever.

Moreover, 2012/13 will be a watershed year, because it will witness one billion tourists travelling worldwide. This milestone offers the perfect occasion for us to reflect on how we can maximise the opportunities in the tourism sector by stimulating economic growth and generating employment whilst promoting sustainable development. I am proud to note that Sri Lanka is at the forefront of a handful of countries registering high tourism growth rates in the South Asian Region, dubbed the fastest growing tourism sub region in the world by 2030.

Major source markets (Jan-Apr 2012)







"I am proud to note that Sri Lanka is at the forefront of a handful of countries registering high tourism growth rates in the South Asian Region, dubbed the fastest growing tourism subregion in the world by 2030"

K.D.D. Perera  
Chairman

# Chairman's Review Cotnd.

## Impressive Performance

### Operational Excellence

The favourable climate in the global tourism industry has had a positive impact on Sri Lanka as a destination and on Fortress Resort & Spa as a niche luxury boutique hotel that welcomed 24,223 guests in 2011/12, a clear 4 per cent increase over the previous year. In terms of room nights, 12,681 room nights were sold during the year, which is a five per cent increase when compared to room nights sold in 2010/11. Average room rate (ARR) was reported as Rs. 22,939/- and marks a 13 per cent increase over the average room rate in 2010/11. Furthermore, income per occupied room has grown by six per cent to Rs. 38,828/- during this period.

### Financial Strength

The Fortress Resort and Spa experienced strong financial growth in the period under review, achieving total turnover of Rs. 464 million and reaching occupancy of 66 per cent, which brought in a operating profit of Rs. 242 million.

The Group's profit before tax (PBT) was Rs. 119 million - a 37 per cent increase over the PBT of 2010/11 and the profit attributable to equity holders at Rs. 119 million was an increase of 42 per cent over the previous year. It is encouraging to note that our investment strategies over the past few years are contributing towards our endeavor to ensure prudent balance of our business.

### Steady Balance Sheet

The strength of our balance sheet is demonstrated by a debt to equity of 35 per cent, debt to total asset of 32 per cent and interest cover of 3.38 as compared to 2.15 in the previous year. Further, we believe that the current asset turnover can be significantly improved, as the increasing market demand emanating from a rapidly growing economy makes our current capacities work more efficiently both in terms of asset utilisation as well as productivity.

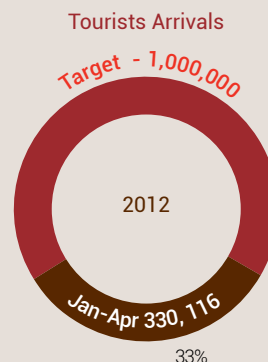
### Looking Ahead

Our consistent growth in profitability, global recognition and ability to attract high end tourists stands undisputed, making the Fortress Resort & Spa one of the most exclusive boutique properties in Sri Lanka. Although our strong financial



performance reflects the hotel's growing global prominence as a property that truly defines luxury, I am of the view that we are yet to realise the full potential of this unique property against the backdrop of emerging economic opportunities arising out of favourable local and global economic conditions.

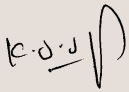
Led by a passion to define luxury, we never lose sight of embracing and propagating sustainable and green tourism. Our desire to practice sustainable tourism has synergies with global trends in sustainable development, helping us to hone our product further and establish global best practices in the hospitality trade. The Fortress Resort & Spa is on a ripe growth trajectory and our present and future efforts will always be underpinned by enhancing shareholder value.



### Appreciation

I would like to express my appreciation to the Board for their immeasurable support and visionary guidance in helping steer the hotel to an era of profitability. The Fortress team has surpassed expectations in their continued pursuit of perfection. I thank each one of you in the belief that you will continue to have faith in the secure work environment of the Fortress Resort & Spa, where you can give wings to your potential.

I also wish to commend the General Manager of the hotel, Mr Jan van Twest and his team for rising to the occasion and achieving the prestigious Global Best Coastal Hotel Award at the World Luxury Hotel Awards in Croatia, the Best Small Hotel in Sri Lanka and the Best Highly Commended Resort Hotel in Sri Lanka at the International Property Awards in Shanghai, through their combined efforts of defining luxury in a unique way. My final wish is a vote of thanks to our valuable stakeholders for placing their trust with us.



**K.D.D. Perera**  
Chairman

17th May 2012



#### Top:

Promoting traditional Artist and their performance at the resort as an inhouse guest entertainment programmes.

#### Bottom:

Fascinating Indian ocean embracing the resort's surroundings.

# Chief Executive Officer's Review

Our signature Fortress style hospitality has ushered in exemplary financial and operational results during the period under review. The company has posted an exceptional year in terms of overall profitability and turnover, surpassing the already impressive achievements that defined our performance in the previous year.

The Fortress Resort & Spa achieved a profit before tax (PBT) exceeding Rs. 100 million for the first time ever, against the backdrop of an improved macro economic environment. The hotel's turnover increased by 11.53% to Rs. 464 million, compared to the previous year's turnover of Rs. 416 million. Meanwhile, the company's net profit before tax overtook the previous year's profit before tax milestone of Rs. 86 million.

## **Favourable External Factors**

Our performance was achieved against the backdrop of a strong GDP growth of 8.3% in 2011 as against 8% in 2010. The service sector in particular recorded sharp upward growth, thereby significantly boosting our performance. Certainly, our property felt the direct beneficial impact of the improved economic climate along with a positive impact on account of greater business confidence and increased disposable incomes.

It is to be noted that there was a slight increase in inflation levels with the annual average CCPI increasing to 6.7% as at 31st March 2012 up from 6.2% in the previous year. However, this marginal increase was driven partially by base effects from the previous year. Certain supply related shocks due to increases in global oil and food prices also impacted the index. However, this relatively muted inflation helped contain certain costs in the businesses, although increases in imported commodities and electricity rate hikes impacted our business negatively.

On the positive side, the hotel benefited from the rupee depreciation against USD, UK Pound and the Euro currencies witnessed late last year. Since our major foreign operator contracts were signed in these three currencies, we earned substantial exchange gains from the currency conversion.

## **High Occupancy Rate**

The Fortress is an embodiment of an iconic boutique hotel that delivers nothing short of the ultimate luxurious lifestyle to its guests. We sustained our impeccable service standards through the 2011/12 financial year, maintaining an average occupancy of 66 % throughout the year. In a welcome development, the hotel was operating at an average occupancy of 95% during the latter part of the fiscal year. As a high end property, attracting a 95% occupancy rate is nothing short of creditable. We are proud of the fact that the Fortress is at the forefront of rendering Sri Lanka a haven for high net worth customers and we are confident that the Fortress experience will help to alter the perception of Sri Lanka over time. High spending tourists are looking for value added leisure experiences and the wellness segment is a valuable revenue generating segment of our business that offers a truly world class spa experience.

The opening of the Southern Expressway is driving an increase in our weekend food and beverage sales, and heartened by this trend, we intend to maximise this avenue in the coming year. In fact, we have converted the existing wine cellar into a fine dining restaurant which will be operational from 1st May 2012. A sum of Rs. 4 million was spent on importing cutlery, crockery and furniture for this restaurant.



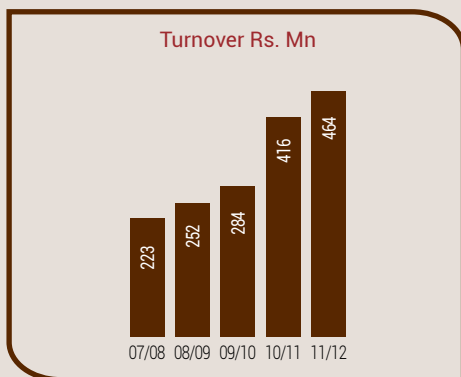


"Certainly our property felt the direct beneficial impact of the improved economic climate along with a positive impact on account of greater business confidence and increased disposable incomes"

A handwritten signature in black ink, appearing to read 'Sumith Adhihetty'.

Mr. Sumith Adhihetty  
Managing Director

# Chief Executive Officer's Review Contd.



## Widening Reach

The Fortress Resort & Spa is a unique boutique hotel and has a universal appeal for lovers of luxury that transcends boundaries. During the period under review we stepped up marketing initiatives in our global source markets. We also participated in all the major trade fairs held in Europe, such as ITB 2011, Berlin; Leisure 2011, Moscow and World Travel Market 2011, London during the year. The senior management took a decision to lay greater emphasis on the USA market by maintaining a strong presence at the New York Travel Show 2012 held in New York, USA. We are confident that these aggressive marketing efforts will bear fruit in the coming months. Moreover, we have also established strong marketing links with reputed international online travel agencies such as Jetsetter, Impuseflyer and Exosphere. These valuable tie-ups have helped us market the hotel better in the run up to the peak season. We have also increased our foreign advertising presence in magazines such as Brides Abroad, International Property Magazine, Rolls Royce & Bentley Owners Club of America, Departures American Express UAE, Travel Trade Gazette, Russia and so on.

## Developing Human Capital

Whilst development of infrastructure is vital to achieve further growth, the development of human capital is even more critical, considering the service oriented nature of the industry. Training and development of our staff assumed greater importance with high levels of growth and additions to the employee cadre in order to maintain our high service standards. The hotel has been conscious of the need for recruitment and training and has taken steps to continuously ensure staff is given adequate exposure and training to develop the required competencies. The hotel has

tied up with an internationally reputed five star Butler Training Academy to cater to this requirement. As the first step, 15 staff members were trained as Butlers over one month during the year at a cost of Rs. 2.5 million. The training was conducted by two eminently qualified Australian trainers.

In addition, the hotel organises English classes for the staff to improve their language skills and develop their career path in a more value added manner. Two English classes were held per week and were conducted by a highly qualified English teacher. All of these efforts will ultimately help us improve our service standards and help us to offer the highest five star hotel service at the Fortress Resort & Spa to satisfy our high end luxury clients. The management also took a strategic decision during the year to offer foreign exposure to operational managers and few of them have already undergone rigorous development programmes in Thailand and Singapore.

## Consolidating Financials

The balance sheet reflected strong growth as expected amidst this excellent performance. The non current assets decreased marginally to Rs. 1.08 billion as against the previous year. But current assets increased to Rs. 148.5 million against 86.2 million in the previous year. This 71% increase over the previous year has been reported mainly due to the increase in short term investments to Rs. 40 million from no investments in the previous year. Meanwhile, the gearing ratio decreased to 35% as against 45% in the previous year. This attractive gearing ratio was achieved due to the repayment of the long term loan of Rs. 112 million. We leveraged on the repayment by maintaining it in cash instead of in term deposits.

## Earnings per share

As a result of this tremendous financial result, earnings per share (EPS) increased to Rs. 1.07 as against 76 cents in the previous year. This 41% increase in the EPS has finally helped to increase shareholder funds to Rs. 748 million against Rs. 629 million in the previous year.

## Future Focus

The year ahead looks quite promising from our standpoint today given the fact that the overall economy is expected to continue its growth momentum of 2011 well into the new financial year. Whilst inflation could see an uptick, we believe interest rates and exchange rates will remain relatively stable, thereby providing

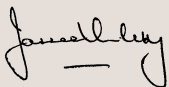
conducive environment for growth. Our aim is to continue our high growth momentum by building on the Rs. 150 million profits before tax figures for 2012/13.

However, we do see the industry becoming more competitive in the coming months, with more rooms available for occupancy, coupled with an increase in average room rates (ARRs) due to successful negotiations when contracting with the respective foreign/local agents. If average room rates do go up by 5% in the coming year as expected, we will gain in view of the rupee depreciation. In our estimation, 40% of the revenue will accrue from foreign currency rates and as a result the rupee average room rate increment would be greater than the percentage increase in the room rates for the coming year.

Our performance review for the period revealed the fact that during the peak season we were unable to meet the demand for more rooms, thereby losing potential business. Unfortunately, there is little scope for further room expansion on our property and despite our best efforts we have been unable to identify suitable locations for expansion in the vicinity. This limitation of room expansion is a challenge we are exploring solutions to best address this gap.

#### Acknowledgments

The Fortress Resort & Spa has exceeded shareholder and other stakeholder expectations with the strong return on investments accrued this year. Our future efforts will continue to focus on growing shareholder wealth whilst deriving the optimum value from the prevailing economic conditions by delivering excellence in our products and services. I am grateful for the support and guidance extended by the Chairman and Board of Directors and would also like to commend the Fortress staff for their unwavering dedication to maintaining high standards without compromising on our closely held beliefs of delivering luxury defined the Fortress way.



**Mr. Sumith Adhihetty**  
Managing Director

17th May 2012



#### Top:

*The resort's architecture makes historic Dutch and Portuguese styles in to the motifs of Sri Lanka.*

#### Bottom:

*Our extensive works internally has been foremost in creating spaces which elegance and style.*

# Board of Directors







## Board of Directors Contd.

### **[1] Mr. K.D.D. Perera** *Chairman*

---

Mr. Dhammika Perera is the Secretary to the Ministry of Transport of the Government of Sri Lanka whilst also being a well-recognised entrepreneur and investor whose business interests include Hydropower Generation, Manufacturing, Hospitality, Entertainment, Banking and Finance.

He serves as the Chairman of Sampath Bank PLC, Chairman of Vallibel One PLC, , Vallibel Power Erathna PLC, Vallibel Finance PLC, Lewis Brown & Company Private Limited and Greener Water Ltd. He is the Deputy Chairman of Hayleys PLC, Royal Ceramics Lanka PLC & LB Finance PLC. He also serves on the Boards of Haycarb PLC, Hayleys-MGT Knitting Mills PLC, Hotel Services (Ceylon) PLC which owns Ceylon Continental Hotel, Colombo, Dipped Products PLC, Orit Apparels Lanka (Pvt) Ltd, Nirmalapura Wind Power Pvt Ltd, Alutec Anodising & Machine Tools (Private) Ltd and Sri Lanka Insurance Corporation Ltd.

He also a member of the Board of Directors of Strategic Enterprise Management Agency(SEMA).

### **[2] Mr. Sumith Adhihetty** *Managing Director*

---

A veteran Marketer, he started his career as a trainee at KPMG Ford Rhodes Thornton & Company and later joined Mercantile Investments Limited where he served for a period of 26 years. He is the Managing Director of L B Finance PLC and a Director of Vallibel One PLC and Pan Asia Banking Corporation PLC.

He was formerly the Deputy Managing Director of Mercantile Investments Limited and served as a Director of Nuwara Eliya Hotels PLC, Grand Hotel (Pvt) Limited, Royal Palm Beach Hotels PLC, Tangerine Beach Hotels PLC, Nilaveli Beach Hotels Limited, Mercantile Fortunes (Pvt) Limited, Tangerine Tours Limited and Security Ceylon (Pvt) Limited.

### **[3] Mr. W.D.N.H. Perera** *Director*

---

Mr. Nimal Perera is a member of the Sri Lanka Institute of Marketing and counts over 30 years of experience in fields of Finance, Capital Market Operations, Manufacturing, Marketing and Management Services.

Mr. Perera is the Executive Deputy Chairman of Vallibel One PLC and chairman of Pan Asia Banking Corporation PLC, Don Wilbert Capital Ltd, N Sports (Pvt) Ltd, N Capital (Pvt) Ltd, Managing Director of Royal Ceramics Lanka PLC. He also serves on the Boards of Amaya Leisure PLC, Hayleys PLC, Haycarb PLC, L B Finance PLC, Vallibel Power Erathna PLC, Vallibel Finance PLC, Hotel Services (Ceylon) PLC and Thalawakale Tea Estates PLC.

#### **[4] Mr. C.J. Wickramasinghe** *Director*

---

Mr. Chandra J Wickramasinghe counts over 33 years experience in the leisure industry. He is the Founder Chairman of Connaissance de Ceylan (Pvt) Ltd, Maalu Maalu Resorts & Spa and is a Deputy Chairman of Amaya Leisure PLC. He is the past President of the Travel Agents Association of Sri Lanka (TAASL) and a past President of the Sri Lanka Association of Inbound Tour Operators (SLAITO). He is a former Board Member of the Sri Lanka Tourism Promotion Bureau (SLTPB) and current Board Member of the Sri Lanka Tourism Development Authority (SLTDA). He is also the founder President of Alliance Francaise De Kotte. Mr. Wickramasinghe was awarded Silver in the National Entrepreneur category in 1999, organised by the Federation of the Chamber of Commerce and Industry.

#### **[5] Mr. Malik J. Fernando** *Director*

---

Mr. Malik Fernando holds a Bachelor of Science Degree in Management from Babson College, USA.

He is the Director Operations of the MJF Group, which comprises several tea growing and tea packing/exporting companies. The Group recently branched into the leisure industry.

He also serves as a Director of Kahawatte Plantations PLC and Ceylon Tea Services PLC.

#### **[6] Mr. Merrill J. Fernando** *Director*

---

One of the first Sri Lankan tea tasters in the British-dominated trade, Mr. Merrill J. Fernando is the Chairman of MJF Holdings Limited. He founded the 'Dilmah' tea brand that reintroduced pre-packaged Pure Ceylon Tea to Western markets. 'Dilmah', launched in Australia is now sold in over 90 countries around the world and is considered a role model for the value added marketing of a third world commodity.

Mr. Fernando serves as a Director of Ceylon Tea Services PLC.

Mr. Fernando established the MJF Foundation, a low profile charity that works to create better conditions for plantation workers, 'underprivileged children, elders and society's victims.

## Board of Directors Contd.

### **[7] Mr. Suranimala Senaratne** *Director*

---

Mr. Senaratne's involvement in the tourism industry dates back to 1975. He counts over 36 years of experience in the Tourism Sector. He is a Diploma Holder in Foreign Languages. He has a wealth of experience behind him having held Managerial positions in reputed Travel Companies. He has held the position of the Managing Director of Connaissance Holding Group of Companies from 1987 to 2008.

He is also a Director of Amaya Leisure PLC and Vallibel Finance PLC. He is presently Chairman / Managing Director of Yathra Travels (Pvt) Ltd.

### **[8] Mr. L.T. Samarawickrama** *Director*

---

An Internationally qualified hotelier re gained most of his management experience in UK, working for large international hotel chains over a long period of time. He was the first Sri Lankan Manager to be appointed by the Beaufort International Chain of Hotels to run the first seaside boutique resort. Member of the Institute of Hospitality, UK (formerly HCIMA) and of the Royal Society of Health, London. He counts over 39 years experience in the trade. Having specialised in Hotel designs and development, he has been responsible for the careful planning and execution of Amaya Resorts & Spas refurbishment and rehabilitation programmes. He is a Managing Director of Amaya Leisure PLC. He is also a Director of Hunas Falls Hotels PLC, Hotel Services (Ceylon) PLC, Royal Ceramics Lanka PLC and Kelani Valle Plantations PLC and Executive Director of Hayleys PLC.

### **[9] Mr. Lalit N. de S. Wijeyeratne** *Director*

---

Mr. Lalit N. de S. Wijeyeratne is a fellow of Institute of Chartered Accountants in Sri Lanka and counts over thirty five years experience in Finance and General Management both in Sri Lanka and overseas. He was the Group Finance Director of Richard Pieris PLC from January 1997 to June 2008 and also held senior management positions at Aitken Spence & Company, Brooke Bonds Ceylon and Zambia Consolidated Copper Mines Ltd. He is presently a Director of several listed and unlisted Companies.



### **[10] Mr. Denesh Eric Silva** *Director*

---

Fellow Graduate Member from the Ceylon Hotel School and School of Tourism (FCHSGA), in Hotel and Catering Operations with a specialisation in front office operations and was awarded the Management Diploma in Hotel and Catering operations with a Second Class Upper division and a member of the Institute of Hospitality (UK). He is also a Director of Amaya Leisure PLC, Maalu Maalu Resorts & Spa, Hunas Falls Hotels PLC and Delair Travels (Pvt) Ltd. An all Island Justice of the Peace, he counts over 18 years of experience in the Hospitality Industry, specialising in Marketing and Sales.

### **[11] Mr. Haresh Somashantha** *Director*

---

Mr. Haresh Somashantha is a member of the Institute of Chartered Accountants of Sri Lanka & also holds a Bachelor's degree in Mathematics from the University of Kelaniya .He is currently the Head of Finance & Treasury of Royal Ceramics Lanka PLC , Chief Financial Officer of Vallibel One PLC. He is also a Director of Vallibel Power Erathna PLC , Ever Paint and Chemical Industries (Pvt) Ltd & Alternate Director of Amaya Leisure PLC. Having started his career with Ernst & Young, the International Accounting & Consulting firm, he counts over 12 years of experience in audit, financial management and reporting, including strategic and corporate planning across different industries.

# Hospitality

A close-up photograph of a person's hands pouring tea. The person is wearing a white long-sleeved shirt. They are holding a clear glass teapot with a silver lid and handle, pouring a golden-brown liquid into a white ceramic cup. The background is blurred, showing a wooden ceiling with diagonal beams and a counter with a jar.



# Management

## Discussion & Analysis

### Global Tourism Industry In 2011

World travel in the period under review surpassed ambitious forecasts and increased by as much as 5% year on year. The uncertain economic climate in key global markets continues to be one of the salient factors hindering world travel, notes the ITB World Travel Trends Report for 2011/12. It cites conflicts in Arab countries, the tsunami and nuclear disaster in Japan, the euro zone debt crisis, and political and economic drama in Greece and Italy as some of the chief disruptive events during the period. However, emerging markets powered growth in world travel once again, for example, rising prosperity in the BRIC countries of Brazil, Russia, India and China recorded strong growth in outbound travel.

### Tourism Trends

Despite a tumultuous political and economic environment in 2011, the total number of trips rose by about 3% to 6.6 billion this year, while outbound trips went up by about 5% to 980 million. The number of outbound trips with overnight stays was forecast to grow by 5% to 740 million during the year. Interestingly, global outbound travel spending rose faster than the number of trips, indicating higher spending per trip.

There was also a record number of global outbound overnight stays this year, with a 4% rise to 5.9 billion, the World Travel Monitor found. However, international travellers continued to take shorter average trips this year. The world's hotels and accommodation industry mostly enjoyed a year of good growth in 2011 following last year's recovery after the heavy slump in 2009, according to hospitality research company STR Global.

This growth outpaced the increase in capacity, resulting in better occupancy rates and rising average prices

The world's air passenger market also showed resilience this year, with increasing demand with an emerging global middle class with sufficient disposable income to spend on leisure, while business travel demand was being driven by corporate performance and the readiness to spend on travel in order to retain and generate business.

The internet has now clearly established itself as the world's favourite place to book travel, according to the World Travel Monitor. Online bookings now account for nearly half of bookings, while (besides direct bookings with hotels or airlines) travel agents meanwhile trail at not even one-third of bookings.

### Cautious Optimism For 2012

Despite the uncertain political and economic situation in Europe and around the world, the outlook for the world's travel industry for next year remains hopeful. Experts are cautiously optimistic for moderate single-digit growth in 2012, when international arrivals are expected to grow by 3-4% next year and reach the 1 billion mark. This augurs well for the global economy, since the global tourism and travel industry accounts for about 5-10% of the world economy and of global employment. Factors such as rising incomes in emerging markets and stable unemployment and disposable income in mature markets are expected to drive demand next year. Economists are predicting a further decline in global markets in 2012 although emerging markets should continue their growth momentum. Asia's key destination regions

can expect good single-digit growth rates over the next two years, with South Asia experiencing 6% growth in 2012.

Asia is being increasingly seen as the engine of the global economy in 2012, led by China and India. In contrast to the continuing uncertainty in Europe and the USA, Asia is still booming in economic terms. One of the key factors driving travel demand in Asia is the rise of the middle class. There will be further growth in outbound travel from China and India due to the rising purchasing power of the middle class. Further, Indonesia and Vietnam are tipped as major outbound markets, while Japanese outbound travel is also expected to be on the rise in 2012.

#### Local Industry Performance

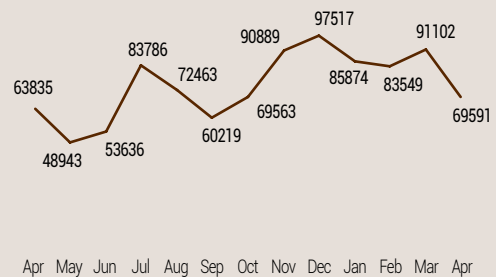
Tourist arrivals crossed 850,000 with earnings recording US\$ 830 million during 2011. While earnings from tourism have increased markedly in recent years, tourism has the potential to become a key source of foreign exchange earnings for Sri Lanka. It is expected that earnings from tourism will exceed US\$ 1 billion in 2012 and increase further thereafter.

The tourism industry expanded substantially in 2011, both in terms of arrivals and earnings. Major international hotel chains are being established in Sri Lanka while several reputed airlines have added Sri Lanka as one of their destinations. Over the medium term, the industry is poised to achieve the target of attracting over 2.5 million tourists by 2016 and the spending target of US\$ 150 per night by 2016 by facilitating high end tourists and infrastructure.

In order to sustain the expected growth in the industry and to further facilitate the promotion of Sri Lanka under the eight unique themes, namely, Heritage, Festive, Scenic, Essence, Thrills, Bliss, Pristine and Wild, the industry requires continuous infrastructure development mainly to support increasing traffic at the existing international airport, diverting some traffic to the international airport being built in Mattala, and improving transport links between attractions. Further, the industry requires a rapid expansion of room capacity, upgrading of existing facilities and the training of professionals in the hospitality industry, notes the Central Bank of Sri Lanka's 2011 annual report.

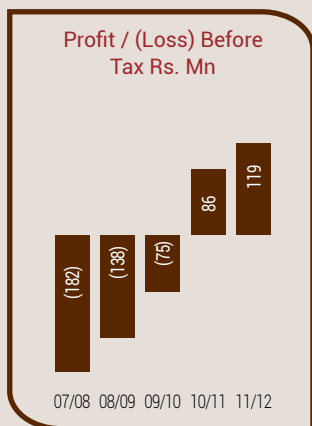


Tourist Arrivals April 11-April 12





# Management Discussion & Analysis



## Instituting Sustainable Growth

Another exceptional year has been notched up by the relatively young property of Fortress Resort & Spa, which is in its sixth year currently. Apart from taking pride in excellent financial results, we remain singularly proud of our commitment to sustainable practices. We are in the process of establishing definitive green practices and policies at our hotel which will sustain our growth into the future whilst also meeting the expectations of increasingly environment conscious high end travellers.

## Operational Review

The Fortress recorded a strong performance during the year, witnessing growth in all its aspects driven primarily by the growth in tourism in Sri Lanka. Tourist arrivals into the country increased by 21% to record 855,975 in inbound tourists.

Meanwhile, revenue grew by 11.53% to Rs. 464 million as against Rs. 416 million in 2010/11. EBIT increased by 5% to Rs. 169 million compared to Rs. 161 million in 2010/11, demonstrating the high operating leverage of the hotel. The repayment of borrowings during the year resulted in lowering the finance cost by 33% to Rs. 50 million as compared to Rs. 75 million in 2010/11.

The resurgence of tourism and business travel positively impacted the hotels sector, with the Fortress Resort & Spa witnessing sharp growth. During the year, the minimum rate

policy increased the rate of five star rooms to US\$ 150. This resulted in a positive impact on average room rates (ARR) of resort hotels whilst not impacting occupancies due to the growth in arrivals. The growth in tourism and expansion in capacity is likely to stretch the infrastructure resources of the country which will need to evolve at a rapid pace.

## Driving Excellence

The Fortress Resort & Spa is reputed for its world class service standards and we continued our efforts to improve service levels through a series of training and development programmes. By upskilling our staff through regular training programmes, we were able to maintain and improve our service levels, thereby exceeding guest expectations. Our tie-up with an Australian butler training academy has proved to be a masterstroke in training our staff to internationally accepted levels. An investment of Rs. 2.5 million for this specialised butler training was made during the period under review and reflects the importance we place on value addition to our guests and to the career progression of our staff.

## Leveraging on Improved Facilities

Our positive outlook on tourism is demonstrated through our investments in refurbishing and the upgrading of rooms in the hotel during the year under review. A capital expenditure of Rs. 47 million was incurred through the year to enhance various facilities at the hotel. Some of the initiatives introduced during the year are:

- Introduction of the Brand new OPERA PMS for the hotel reservation system instead of the old Fidellio version.
- Introduction of the OPERA web suite along with the Internet Payment Gateway was effected, enabling clients to book and pay simultaneously online. We are very proud to state that the Fortress Resort & Spa is the first hotel in Sri Lanka using a fully automated reservation system at the moment. This will help an accurate and speedy reservation process and also increase revenues through web bookings. Online bookings accrue high yield because no commission is paid to third parties.
- By recognising the importance of guest comfort, we have invested in brand new Sorrento Cars for guest transportation (for airport drop/pickup and guest tours) and this helped us

improve the first impression of clients about the hotel. In total, Rs. 47 million has been incurred as capital expenditure during the year and we believe this investment would definitely help us market the Fortress in a more strategic ways.

- New accommodation was constructed for drivers who bring guests to the hotel through travel agents as well as on their own initiative. This also serves as a community welfare project as it gives added revenue to the drivers and a comfortable place to rest.
- In keeping with our commitment to sustainable operations, we have introduced an energy efficient new chiller in our Air Conditioning System, which is estimated to reduce our electricity consumption by 10% annually. Further, we converted the existing air conditioning system in the administration building to a water cool based system, which achieves the maximum utilisation of the chiller and reduces electricity consumption substantially.
- Replacement of Monsoon Blinds in the restaurant and Tea lounge.
- Replacement of roller blinds in all the guest rooms.
- Improving the garden view rooms with enhanced landscaping.
- Fixing of new air conditioners in 'Pepper' restaurant.
- Existing wine cellar has been modified with the extended dining capacity as a fine dining restaurant, with all crockery and cutlery imported from abroad.
- Introduction of world class brands (Bvlgari, Feragamo and Crabtree & Evelyn) as guest amenities.
- Reconstruction of the Hotel Pool Deck.

#### Outlook for 2012 and Beyond

The anticipated growth in tourism in Sri Lanka is expected to continue during the next few years. The tourism industry is gearing up for 1 million tourists in 2012/13. This level of growth would require a significant addition to the current room inventory in the country. The creation of tourism development zones and entry of reputed hotel chains would also improve the attractiveness and visibility of Sri Lanka as an emerging destination, whilst changing the competitive landscape. The need for integrated developments,

## Human Resources Philosophy

At Fortress, we truly believe in the potential and superior quality of our people, each of whom makes a major contribution to our overall success and sets us apart from others. This belief is fully supported by our human resources values:



- Flexibility and responsiveness to the needs of our business partners and local requirements
- Great emphasis on training both locally and internationally and career development
- Genuine care for our people's personal and professional well-being and growth

# Management Discussion & Analysis



*Our positive outlook on tourism demonstrated through our investments in refurbishing and the upgrading facilities in the hotel during the year.*

encompassing hotels, entertainment, convention facilities and retail space is more important to ensure unique positioning and creation of iconic hotspots that would attract visitors, similar to other hotel developments in the region. The need for development of related infrastructure still has to be addressed, although the emergence of new services such as internal air taxi operations is a positive step.

Whilst traditional Western European markets will continue to be of importance to Sri Lanka, new emerging travel markets such as China, India and the Middle East are expected to provide impetus to growth. We recognise the importance of these emerging markets and have implemented strategies to capitalise on this opportunity, which includes ensuring that products and services cater to these segments. The importance of such destinations is exemplified by the fact that the Chinese outbound market will be number one very soon.

## Financial Review

During the period under review, your company's turnover increased by 11.53% to Rs. 464 million compared to Rs. 416 million in the previous year. This moderate growth in revenue was achieved mainly due to the increase in average room rate (ARR) and the increase in number of room nights sold during the year. The revenue growth and cost management strategies adopted during this period contributed to double digit increase in profit before tax. As a result, profit before tax (PBT) increased by 38.6% to Rs. 119.2 million, compared to Rs. 86 million in the previous year.

Return on Capital Employed (ROCE) increased to 10% against 8% in the previous year and EBIT margins dropped marginally to 34.2% from 34.7%, driven by higher ARR and repayment of bank loans. This reduced interest costs by 33% compared to the previous year and ensured high operating leverage for the hotel considering the relatively high level of fixed costs. Asset turnover at 0.45 times as against 0.42 times did not increase significantly as a result of relatively lower revenue growth.

**Earnings per Share**

As a result of this tremendous financial result, earnings per share (EPS) increased to Rs. 1.07 as against 76 cents in the previous year. This 40% increase in the EPS has finally helped to increase shareholder funds to Rs. 748 million against Rs. 629 million in the previous year.

**Healthy Balance Sheet**

The Balance Sheet reflected strong growth as expected amidst this excellent performance. The non current assets decreased marginally to Rs. 1.08 billion as against Rs. 1.1 billion in the previous year. Moreover, working capital saw a significant improvement to Rs. 27.7 million from Rs. 25.4 million in the previous year. Current ratios show a marginal drop of 0.13 times to 1.23 times from 1.42 times during the previous year. This was mainly due to loan installments falling into current account from non current, to be payable in the coming financial year. The gearing ratio decreased from 45% to 35%, taking into account the significant decrease in long term loans during the financial year. The loan has been repaid via Rs. 113 million payback during the year under review.

**Interest & Exchange Rates**

AWPLR increased to 10.77% in March 2012 from 10.74% in the previous year. The 3-month government treasury bill rate increased to 8.68% by March 2012 from 8.45% in previous year. The long term loan interest rate applicable to the hotel on its debts increased to 11.50% from 10.86%.

Meanwhile, the Sri Lankan Rupee (LKR) depreciated to Rs.120.57 as at 31st March 2012 against the US dollar, Rs. 207.75 against the UK Pound and Rs. 173.87 against the EURO compared to Rs. 110.46, Rs. 179.97 and Rs. 158.32 last year. A reduction in US Dollar inflows to the country adversely affected rupee depreciation. The UK pound and the EURO strengthened against the US dollar due to the rate hike by European Central Bank (ECB) and expectations for interest rates to move up faster than in the US.

# Promoting Sustainability

Idyllically located in the vicinity of the heritage city of Galle, the Fortress Resort & Spa recognises and acknowledges its deep connections to all stakeholders. Since inception, the hotel has been closely engaged with the community and the conservation of the environment.

## Promoting Sustainability

### Education

Education forms the cornerstone of economic progress and this belief spurs us to continually engage with under privileged schools in the immediate community in different ways. A team from Fortress visits nearby schools to identify any facilities that students might be severely lacking. We identify one school every year and provide the necessary assistance to the school needs to ensure the students enjoy uninterrupted studies in comfortable surroundings.

As a continuation of our priority area of uplifting the education of village children, the hotel has undertaken to repair damaged portions of the building; the painting of the entire school and provision of a drinking water facility in the G/Ahangama Nakanda Balika Vidyalaya at an estimated cost of Rs. 200,000. Moreover, the hotel contributed Rs. 150,000 for the children of staff members to cover expenses incurred on school books and other education materials for the fifth consecutive year.

### Supporting Local art and Handicrafts

The hotel is supporting local craftsman, painters and cultural artists by arranging exhibitions and shows in the hotel for resident guests. This creates opportunities for the local residents to enhance their income by selling their creative arts to our

resident guests. During the year under review, the hotel has helped them to earn following revenue, a substantial increase over the previous year:

Artist	Amount earned during the year
Handicrafts	Rs. 891,850/=
Paintings	Rs. 188,480/=
Reed ware	Rs. 28,470/=
Others	Rs. 214,019/=

## Promoting Encouraging Local Guides

Since the inception of the hotel, we have mobilised the three wheeler and taxi drivers associations in the vicinity. This mutually beneficial relationship ensures that they get revenue from hotel guests who use their vehicles to get around town for guided tours. All hotel tours upto Galle and Matara are being handled by the respective associations, thereby enhancing their income levels to a great extent. Through the year 2011/12, we have offered them 2,100 guest hires, which is a 35% increase over the year before.

## Supporting the Youth

The hotel has tied up with Sri Lanka Institute of Tourism & Hotel Management (SLITHM) to provide its students free in house training as part of their curriculum. During the year the hotel has trained 23 students and the training periods extended for six months. During their training the hotel provided free meals, accommodation and attractive monthly allowances to give wing to their aspirations. Further, the hotel has given selected graduates of these hotel schools an opportunity to work on a contract basis on completion of their courses.



### Staff Welfare

We remain involved with our staff through various programmes to improve their knowledge and service skills. The hotel is conducting English classes for the front line staff and this has helped them improve their spoken English skills. The classes are handled by the Human Resources department which coordinates with the staff members to identify their precise requirements. The classes are conducted by a well qualified English teacher and participation for these classes by staff has been significant. In all, 250 English lecture hours were extended to the staff at a cost of Rs. 250,000 for the year ended 31st March 2012.

As a Boutique Resort we need to maintain very high standards of service and the management is committed to ensure well trained staff in all aspects of the hotel's operations. During the year under review, we tied up with the Australian Butlers Academy, which sent trainers to the hotel to train selected staff to five-star world class butler standards. The hotel provided one month long Butler training for 15 staff members at the cost of Rs. 2.5 million. These training programmes will be ongoing and we are confident that our guests will accrue the direct benefits as will the staff.

### Community Service

- Donation of Rs. 50,000/= for the " Vesak Kalapaya" of Habaraduwa.
- Donation of Rs. 15,000/= for the Habaraduwa Temple renovation project.



*A team of Fortress visits nearby Schools to identify and facilities that students might be lacking. We identify one School every year and provide the necessary assistance to the School needs to ensure the students enjoy uninterrupted studies.*

# Risk Management

Risk management is an integral part of 'Sustainability' at the Fortress and has enabled the hotel to identify and manage the risks, harness opportunities, adapt to the changing environment and adopt long term and short term strategies which link with the overall objectives of the hotel.

The identification of risk categories founded on the success factors which are critical for the implementation and attainment of hotel objectives. The company has identified external environment, business strategies and policies, organisation and people, business process and technology and data as the main risk categories that could have an impact on the company. These main categories of risks are further analysed into sub components using a risk register, which has been adopted by the Group during the past three years to cater to the specific needs of the Group.

Each risk event is analysed by a simple formula that identifies possible occurrence, the likelihood of occurrence and outcome (severity). Risk review is a continuous process in the Group. Internal risk management is complemented by a stakeholder engagement process. Risk issues identified during the Stakeholder engagement process are considered and addressed through the selection of indicator found in the Global Reporting Initiative (GRI) frame work. The continuous updating of the risk documentation is coordinated centrally giving Management Committees of the business virtual access to an overall picture of the risk status in the business unit.

## **CURRENT STATUS - MODERATE AND ABOVE MODERATE RISKS**

For the financial year ending 31st March 2012 the sub categories

considered to be of moderate to ultra high risk were macro - economic conditions, the legal and regulatory compliance structures in the jurisdictions the hotel operates in and stakeholders particularly employees including human resources management and customers.

## **Macro Economic Conditions**

Financial Year	2011/12	2010/11	2009/10
Risk Rating	Low	Moderate	Moderate

## **Status and action plan**

Since the end of conflict in mid 2009, the Government of Sri Lanka has been aggressively developing the infrastructure of the country such as roads, bridges, power plants, ports, airports etc, which has enabled the lowering of the risk ratings from moderate in 2009/10 to a low in 2011/12. However, the increase activity in tourism and the significant increase anticipated in per capita income growth in the economy demands an acceleration of the infrastructure development progress.

## **Legal and Regulatory Uncertainties**

Financial Year	2011/12	2010/11	2009/10
Risk Rating	Moderate	Moderate	High

## **Status and Action Plan**

There has been considerable progress made in this area with the introduction of guidelines and regulations relating to the conduct of business and other investment activities by the authorities. However more works to be done. Internal processes are in

place to identify changes to legislation and possible changes to legislation in a timely manner allowing the hotel to adopt as appropriate. The hotel is also working with various fora such as industry association and chambers in urging the government to strengthen clarity and consistency in this area.

#### Stakeholder - Employees and Human Resources Management

Financial Year	2011/12	2010/11	2009/10
Risk Rating	High	High	Moderate

#### Status and Action Plan

High caliber employees are attracted to the Group hotels due to many factors such as working environment, performance recognition, career development and reward and benefit plans. Whilst Group hotels have many programs in place to retain good employees such as short term incentives and long term incentives in the form of employee share option plans, there is yet a risk of losing them due to migration and the vast opportunities in the abroad for well qualified and experienced hotel employees. The hotel is actively carrying out many awareness programs amongst current and potential employees in order to attract and retain skilled staff. This issue has been highly addressed in the board level and very proud to say that our staff salary scales are well above the scales in all the group hotels in the country and the working environment has been created them for in such a way.

#### Stakeholder - Customers

Financial Year	2011/12	2010/11	2009/10
Risk Rating	High	High	Moderate

Many globally renowned hotel brands are looking at Sri Lanka as a possible investment destination. Already Shangri-La and Marriot have started two brand new hotel projects in the country. In this contest, it is essential that the Fortress sharpen its ability to serve high profile customer needs. The failure to do so will invariably result in loss of market share and competitor advantage. The hotel has already taken steps by tying up with internationally reputed organisations (Ex, Australian Butlers Training Academy) in areas of training and development. Further, the hotel will enhance its research and development capabilities and will continuously scan the external environment with a view to establishing best practice benchmarks.

#### CURRENT STATUS - LOW RISKS

As risk mitigation and control are considered key for the growth of any industry, the company has taken active steps to reduce risks identified over the years and, as indicated below, have been successful in lowering the risks that were identified as high to medium risks in the past. Though some risks were lowered due to the current improvement in the country situation most others have been lowered due to internal processes that have been implemented and proactive measures taken.

#### Political & Economic Confidence

Financial Year	2011/12	2010/11	2009/10
Risk Rating	Low	Low	Moderate

The structural visibility and the linkages between national economic objectives and the institutions that facilitate and implement them have improved over time and therefore the political and economic status of the country has significantly improved in the last year and subsequently, an increased investor interest in Sri Lanka due to the investment potential offered.

The hotel has been working with foreign agents in projecting Sri Lanka's potential in this regard and has experienced a positive response. The hotel being a member of key bodies such as Chamber of Commerce, Tourist Hotels Association of Sri Lanka (THASL) and other various trade associations, will continue to work with the relevant authorities in creating a better economic environment for all.

#### Brand Control and Protection Threats

Financial Year	2011/12	2010/11	2009/10
Risk Rating	Low	Low	Moderate

The pursuit of 'sustainable development' particularly in the last two years has resulted in the enhancement of the Hotel brand through media exposure received on the hotel's luxury, financial performance, and the management structure. The hotel received an immense exposure after winning the couple of global awards during the last two year period which was certainly affected to get such a reputation.

# Risk Management Contd.

## Environmental Health and Safety Concerns

Financial Year	2011/12	2010/11	2009/10
Risk Rating	Low	Low	Moderate

The hotel has set up formal processes for establishing policies and for monitoring performance periodically regarding the risk associated with hotel's environmental, health and safety concerns. These concerns are addressed through a system of reports which confirm compliance with applicable laws and regulations, company performance standards and other external requirements. In the event of an emergency, relevant procedures and trained personal are in place to ensure that all risks are minimised or mitigated. Sessions were also conducted on the proper usage of personal protective equipments mainly for the hotel operational staff and tsunami evacuation procedures are periodically tested involving both guests and associates in the hotel.

## Financial Exposures

Financial Year	2011/12	2010/11	2009/10
Risk Rating	Low	Low	Moderate

The finance and treasury frame work is review regularly and are fine tuned to meet the hotel's current and anticipated operating needs. This frame work also facilitates the execution of board approved strategies for interest rates, currency and liquidity management.

## Information Technology Dependency

Financial Year	2011/12	2010/11	2009/10
Risk Rating	Low	Low	Moderate

The entire hotel operation is reliant on information technology. The increased centralisation of IT systems allows more discipline and uniform enforcement of security measures in the hotel. The hotel IT function comply with a strict IT security policy and appropriate security safeguards have been implemented and are continuously monitored to ensure the security, privacy and confidentiality of the IT systems. Planning for worse case scenarios, such as complete system failures, by having disaster recovery procedures in place, have enabled the hotel to focus on

the methods and speed of recovery required which are imperative in such instances. Business continuity plans have been or are been implemented in the hotel in order to mitigate the identified risks.

## Internal Operation Process Efficiencies

Financial Year	2011/12	2010/11	2009/10
Risk Rating	Low	Low	Moderate

This is an area where much work has been performed over the past three years. Cross functional teams comprising of employees and consultants that are subject matter experts have reviewed and strengthened the company's information system and business processes in keeping with the latest regulatory requirements. Environments so implemented enable business users to balance between performance and control. Furthermore, the hotel provides the user the opportunity through these structured processes to manage and mitigate risk, making Fortress businesses more competitive in the market.

# Annual Report

## of the Board of Directors

## on the Affairs of the Company

The Directors of The Fortress Resorts PLC have pleasure in presenting their Annual Report together with the Audited Financial Statements of the Company and the Consolidated Financial Statements of the Company and its subsidiary, La Forteresse (Private) Limited for the year ended 31st March 2012.

### General

The Fortress Resorts PLC was incorporated on 29th March 1973 as a private limited liability company under the name "Ruhunu Hotels and Travels Limited". It was subsequently converted to a public company and obtained a listing on the Colombo Stock Exchange. The name of the Company was changed to "The Fortress Resorts Limited" on 9th December 2003.

On 13th September 2008, the Company was re-registered in terms of the Companies Act, No.7 of 2007 as "The Fortress Resorts PLC" under Registration No. PQ 207.

The Ordinary Shares of the Company are listed on the Diri Savi Board of the Colombo Stock Exchange.

### Principal activities of the Company and review of performance during the year

The Company has invested in its wholly owned subsidiary, La Forteresse (Private) Limited, which carries on the business of hoteliering.

This Report and the Financial Statements reflect the state of affairs of the Company and its subsidiary.

### Financial Statements

The Financial Statements of the Company and the consolidated Financial Statements of the Company and its subsidiary, duly signed by two Directors on behalf of the Board of Directors and the Auditors, are included in this Annual Report and form part and parcel hereof.

### Auditors' Report

The Report of the Auditors on the group Financial Statements is attached with the Financial Statements.

### Accounting Policies

The accounting policies, which have been adopted by the Company and its subsidiary in the preparation of financial statements, are consistent with those of the previous period.

### Directors

#### Directors of the Company

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

#### Executive Director

Mr. J.A.S.S. Adhihetty	Managing Director
------------------------	-------------------

#### Non-Executive Directors

Mr. K.D.D. Perera	Chairman
Mr. W.D.N.H. Perera	Director (resigned with effect from 18/04/2012)
Mr. C.J. Wickramasinghe*	Director



# Annual Report of the Board of Directors on the Affairs of the Company Contd.

## Non-Executive Directors

Mr. Malik J. Fernando	Director
Mr. Merrill J. Fernando	Director
Mr. S. Senaratne*	Director
Mr. L.T. Samarawickrama	Director (Alternate Director - Mr H Somasantha)
Mr. L.N.de S. Wijeyeratne*	Director
Mr. D.E. De Silva	Director

\*Independent Non-Executive Directors

During the year under review, Mr. W.D.N.H. Perera resigned from the Directorate and Mr. Merrill J. Fernando was appointed with the said changes taking effect on 18th April 2012 and 27th September 2011, respectively.

In terms of Article 84 of the Articles of Association Messrs C. J. Wickremasinghe and L.T. Samarawickrama retire by rotation and being eligible are being recommended by the Board for re-election at the forthcoming Annual General Meeting.

Mr. Merrill J. Fernando, who is over 70 years of age, will vacate office in pursuance of Section 211 of the Companies Act, No.07 of 2007

## Directors of the subsidiary

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

Mr. C.J. Wickramasinghe	Director
Mr. J. A.S.S. Adhihetty	Managing Director
Mr. Malik J. Fernando	Director
Mr. Merrill J. Fernando	Director
Mr. S. Senaratne	Director
Mr. L.T. Samarawickrama	Director
Mr. G.A.R.D. Prasanna	Director (appointed on 10/10/2011)
Mr. K.D.D. Perera	Director (resigned on 10/10/2011)
Mr. W.D.N.H. Perera	Director (resigned on 01/12/2011)

## Interests Register

The Company and the subsidiary maintain Interests Registers in terms of the Companies Act, No.7 of 2007. The names of the Directors, who were directly or indirectly interested in Contracts or related party transactions with the Company or its subsidiary during the accounting period, are stated in Note 25 to the Financial Statements.

## Directors' Remuneration

Neither the Company nor its subsidiary paid any remuneration to the Directors during the year under review.

## Directors' responsibility for Financial Reporting

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

## Stated Capital

The Stated Capital of the Company as at 31st March 2012 amounted to Rs.1,108,866,840/- represented by 110,886,684 shares.

## Directors' shareholding

The relevant interests of Directors in the shares of the Company as at 31st March 2012 are as follows:

	Shareholding as at 31/03/2012	Shareholding as at 31/03/2011
Mr. K.D.D. Perera	10,329,317	10,329,317
Mr. J.A.S.S. Adhihetty	Nil	Nil
Mr. W.D.N.H. Perera (resigned on 18/04/2012)	89	42
Mr. C.J. Wickramasinghe*	19,291	19,291
Mr. Malik J. Fernando	833,333	833,333
Mr. Merrill J. Fernando (appointed 27.09.2011)	2,124,400	2,124,400
Mr. S. Senaratne*	1000	1000
Mr. L.T. Samarawickrama (Alternate Director-Mr. H. Somasantha)	1550	1550

	Shareholding as at 31/03/2012	Shareholding as at 31/03/2011
Mr. L.N.de S. Wijeyeratne*	Nil	Nil
Mr. D.E. Silva	500	500
Mr. H. Somashantha	Nil	Nil

Messrs K.D.D. Perera, J.A.S.S. Adhihetty, W.D.N.H. Perera and L.N. de S. Wijeyeratne are Directors of L B Finance PLC, which held 4,051,100 shares as at 31st March 2012.

Messrs K.D.D. Perera and W.D.N.H. Perera are Directors of Vallibel Power Erathna PLC, which held 5,933,400 shares as at 31st March 2012.

Mr. K.D.D. Perera is a Director of Vallibel Leisure (Pvt) Ltd, which held 24,417,932 shares as at 31st March 2012.

Messrs Merrill J. Fernando and Malik J. Fernando are Directors of MJF Holdings Limited, which held 28,616,411 shares as at 31st March 2012.

Major Shareholders, Distribution Schedule and other information

Information on the twenty largest shareholders, public holding, distribution of shareholding and ratios and market price information (as applicable) are given on pages 77 and 78.

### Auditors

Messrs Ernst & Young, Chartered Accountants served as the Auditors of the Company and its subsidiary, during the year under review.

A sum of Rs. 175,728/- is payable by the Company to the Auditors as Audit Fees (Group - Rs. 677,683/-) for the year under review.

The Auditors have also provided non-Audit services and the fee payable therefore amounts to Rs. 119,918/- (Group - Rs. 217,420/-) for the year under review.

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.

### Donations

The Company did not make any donations during the year under review. (The donations made by the subsidiary amounted to Rs. 247,617/-).

### Dividend

The Directors do not recommend the payment of a dividend.

### Property, Plant and Equipment

Details of property, plant and equipment and changes during the year are given in Note 5 of the Financial Statements.

### Material Foreseeable Risk Factors

The Company is exposed to many internal and external risk factors in its day-to-day operations. One of such risks is the political risk (both local and global). Fortunately, with the end of the civil war in the country, a stable political situation prevails in Sri Lanka, which has thereby generated both commercial activity and tourism to a great extent. This position cannot be attributed to the rest of the world with uprisings in many Middle Eastern countries. The natural disasters that struck Japan and some European countries, also have a bearing on the travel and tourism industry. On the other hand, prediction of another global financial crisis could also affect the industry like in 2009, which can result in huge fluctuations in the rates of foreign currencies that could indirectly affect the industry with exchange rate risks. The lack of skilled human resources required for the Hotel Industry is another risk factor, since domestic skilled workers are being lured by better perks offered by foreign countries.

### Land Holdings

The Company does not own any freehold or leasehold land or buildings (the subsidiary company holds leasehold rights of the lands on which the hotel buildings are constructed).

# Annual Report of the Board of Directors on the Affairs of the Company Contd.

## Employees and Industrial Relations

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

## Statutory Payments

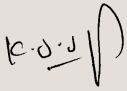
The Directors confirm that, to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and all other known statutory dues as were due and payable by the Company as at the Balance Sheet date have been paid or, where relevant provided for.

## Annual General Meeting

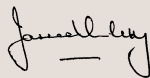
The Annual General Meeting will be held on 29th June at 1.00 p.m. at the Auditorium of the L B Finance PLC Corporate Office, at No. 20, Dharmapala Mawatha, Colombo 03.

The notice of the Annual General Meeting appears on page 79.

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



**K.D.D. Perera**  
*Chairman*



**J.A.S.S. Adhihetty**  
*Managing Director*



**Anusha Wijesinghe**  
**P W Corporate Secretarial (Pvt) Ltd**  
*Secretaries*  
17th May 2012

# Corporate Governance

The Company aspires to adhere to the best practices in Corporate Governance by ensuring greater transparency, business integrity, professionalism and ethical values in the best interests of all stakeholders.

This statement describes the application of the Corporate Governance practices within the Company.

## Board of Directors

The Company's business and operations are managed under the supervision of the Board of Directors which consists of members possessing extensive knowledge and experience in the leisure and hospitality sectors.

The Board is responsible for the formulation of the overall business policies and strategy and for monitoring the effective implementation thereof.

## Composition of the Board of Directors

The Board comprises Ten (10) members (with one Alternate), Nine (09) of whom including the Chairman are Non-Executive Directors.

The names of the Directors who served during the year under review are given on page 37 and 38.

The Board has determined that one third of the Non-Executive Directors, namely three Directors are 'Independent' as per the Listing Rules of the Colombo Stock Exchange; such Directors being Mr. C.J. Wickramasinghe, Mr. S. Senaratne and Mr. L.N. de S. Wijeyeratne.

In determining the Directors' independence, the Board decided that Mr. S. Senaratne, who is a Director of Amaya Leisure PLC (Amaya), on which a majority of the Directors of the Company serve as Directors, shall nevertheless be treated as an Independent Director, considering the fact that he serves on the Board of Amaya as an Independent Director. It was further decided that Mr. C.J. Wickramasinghe, who also serves as a Director of Amaya, is an Independent Director of the Company on the basis that his Directorship on Amaya does not compromise the independence and objectivity of the said Director in discharging the functions as an Independent Director.

## Chairman and Managing Director

The roles of the Chairman and Managing Director are separate, with a clear distinction of responsibilities, which ensures the balance of power and authority.

Mr. K.D.D. Perera is the Chairman of the Board of Directors whilst Mr. J.A.S.S. Adhihetty serves as the Managing Director.

## Tenure, Retirement and Re-election of Directors

In terms of the Articles of Association, at each Annual General Meeting, one-third of the Directors for the time being who are subject to retirement, or, if their number is not a multiple of three, the number nearest to (but not greater than) one-third, shall retire and seek re-election by the shareholders.

The provisions of the Company's Articles of Association also require the Directors appointed by the Board to hold office until the next Annual General Meeting and seek appointment by the shareholders at that meeting.

# Corporate Governance Contd.

## Board Meetings

The results of the business of the Company are considered and monitored against the budgets at Board meetings at which a standard agenda is discussed together with any other matters that require the attention of the Board.

During the year ended 31st March 2012, three (03) meetings of the Board were held. The attendance at the meetings was :

Name of Director	Executive/Non-Executive/ Independent Non-Executive	Attendance
Mr. K.D.D. Perera	Non-Executive	02/03
Mr. J.A.S.S. Adhihetty	Executive	03/03
Mr. W.D.N.H. Perera	Non-Executive from 26/05/2010 Resigned w.e.f 18/04/2012	02/02
Mr. C.J. Wickramasinghe	Independent Non-Executive	02/03
Mr. L.T. Samarawickrama (Alternate Director : Mr. Haresh Somasantha)	Non-Executive	01/03
Mr. Malik J. Fernando	Non-Executive	01/03
Mr. Merril J. Fernando	Non-Executive	00/03
Mr. S. Senaratne	Independent Non-Executive	02/03
Mr. L.N. de S. Wijeyeratne	Independent Non-Executive	03/03
Mr. Haresh Somashantha (Alternate Director to L T Samarawickrama)	Non-Executive	01/03

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, sanctioning major capital expenditure, etc.

## Board Sub Committees

In pursuance of the Listing Rules of the Colombo Stock Exchange on Corporate Governance, the Board of The Fortress Resorts PLC has appointed two Sub Committees the Audit Committee and Remuneration Committee.

### Audit Committee

The Audit Committee consists of four (4) Non-Executive Directors, three (03) of whom are Independent Directors. It is chaired by Mr. L.N. de S. Wijeyeratne, who is a Fellow member of the Institute of Chartered Accountants of Sri Lanka.

The Senior Management attends the meetings by invitation.

## Remuneration Committee

The Remuneration Committee consists of three (3) Non-Executive Directors, two of whom are Independent Directors. Mr. C.J. Wickramasinghe is the Chairman of the Remuneration Committee and Mr. S. Senaratne and Mr. Malik J. Fernando, Members.

The Remuneration Committee is required to make its recommendations on Executive Director's remuneration for the Board's consideration and approval. In accordance with the remuneration policy of the Company, the remuneration packages of employees are linked to the individual performances and aligned with the Company's business.



### The Management

The day-to-day operations of the Company are entrusted to the Senior Management headed by the Managing Director. They ensure that risks and opportunities are identified and steps are taken to achieve targets within defined timeframes and budgets.

### 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 44 of this Report.

### 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. This process is strengthened by regular internal audits.

### Corporate Disclosure and Shareholder Relationship

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

The shareholders are provided with a copy of the Annual Report and the Company disseminates to the market, half yearly 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.

### Financial Disclosures and Transparency

Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards, the Companies Act. Being a company listed on the Diri Savi Board of the Colombo Stock

Exchange, the unaudited provisional half yearly statements of accounts are forwarded to the Colombo Stock Exchange in compliance with the Listing Rules of the Colombo Stock Exchange.

Messrs Ernst & Young, Chartered Accountants act as external auditors of the Company. The Auditors are permitted to act independently and without intervention from the Management or the Board of the Company to express an opinion on the financial statements of the Company. All required information is provided to the Auditors for examination.

### Statutory Payments

All statutory payments due to the Government, which have fallen due, have been made or where relevant provided for. Retirement gratuities have been provided for in accordance with the Sri Lanka Accounting Standard No.16, Employee Benefits (Revised 2006).

By Order of the Board  
The Fortress Resorts PLC



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

17th May 2012

# Statement of Directors' Responsibilities

The Directors are responsible under the Companies Act No. 7 of 2007 to ensure compliance with the requirements set out therein to prepare financial statements for each financial year giving a true and fair view of the state of affairs of the Company and its subsidiary as at the balance sheet date and the profit of the Company and its subsidiary for the financial year.

The Directors are also responsible to ensure that the financial statements comply with any regulations made under the Companies Act which specifies the form and content of group financial statements and any other requirements which apply to the Company's financial statements under any other law.

The financial statements presented in this Annual Report have been prepared using appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and in compliance with the Sri Lanka Accounting Standards and provide information required by the Companies Act, No. 7 of 2007 and the Listing Rules of the Colombo Stock Exchange.

Further, the Directors confirm that, after review of the Company's Business Plan for the financial year 2012/2013, including cash flows and borrowing facilities, they are of the view that the Company has adequate resources to continue in operation and accordingly, have applied a going concern basis in preparing the financial statements.

The Directors have taken adequate measures to safeguard the assets of the Company and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

By Order of the Board  
The Fortress Resorts PLC



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

17th May 2012

# Audit Committee Report

## Committee Composition

An Audit Committee was appointed by the Board in March 2010. The committee comprises four (04) Non-Executive Directors, three (03) of whom are Independent and is chaired by Mr. L N De S. Wijeyeratne, who is a Fellow of the Institute of Chartered Accountants of Sri Lanka.

The members of the Board appointed Audit Committee are;

- a. Mr. L.N. De S. Wijeyeratne
- b. Mr. S. Senaratne
- c. Mr. C.J. Wickramasinghe
- d. Mr. Malik J. Fernando

The Company Secretary functions as the Secretary to the Audit Committee

The Audit Committee has written Terms of Reference, dealing clearly with its authority and duties. This is established for the purpose of assisting the Board in fulfilling their oversight responsibilities regarding the integrity of the financial statements, risk management, internal control and compliance with legal and regulatory requirements, review of External Auditor's performances, independence and the internal audit functions.

## Meetings

The Audit Committee met twice during the year. The Managing Director and Chief Financial Officer also attended this meeting by invitation. The other executives attend the meetings as and when required.

## Financial Reporting

As part of its responsibilities to oversee the Company's financial reporting process on behalf of the Board of Directors, the Committee has reviewed the annual Financial Statements for the year ended 31st March 2012, including the extent of compliance with the Sri Lanka Accounting Standards and the Companies

Act No. 07 of 2007. Matters of special interest in the current environment and the processes that support certification of the financial statements by the Company's Managing Director and Chief Financial Officer were also brought up for discussion

## Internal Audit

The Company's internal audit function has been out sourced to Messrs BDO Partners. During the year, the Audit Committee reviewed the performance of the internal auditors, the findings of the audits completed with special reference to the internal controls regarding hotel operations.

## External Audit

The Committee reviewed the matters relating to the scope of the audit, in addition to the annual evaluation of the independence and objectivity of the External Auditor and the effectiveness of the audit process were also undertaken.

The Non- Audit Services provided by the External Auditor was also reviewed and the Committee was of the view that such services did not impair with their independence and were not within the category of services identified as restricted under The Guidelines for Listed Companies on Audit Committee issued by the Securities and Exchange Commission of Sri Lanka.

The re-appointment of the External Auditor, M/s Ernst & Young has been recommended to the Board of Directors and the Committee has also fixed the Auditor's remuneration, for approval by the shareholders at the Annual General Meeting.



**L.N. De S. Wijeyeratne**  
Chairman  
Audit Committee

17th May 2012

# Ambiance

A woman wearing a white bikini and a straw hat is sitting on a lounge chair, looking out at the ocean. The ocean has white-capped waves breaking. A large yellow umbrella is partially visible in the upper right corner. The sky is blue with some clouds. The word "Ambiance" is written in a large, brown, serif font across the middle of the image.

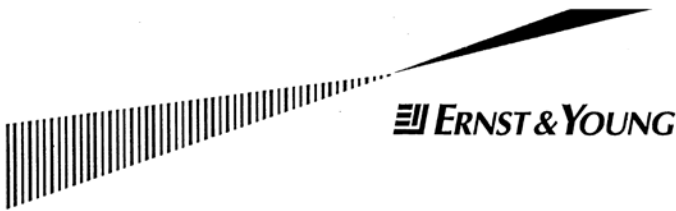


# Financial Reports

- 49** Independent Auditors' Report
- 50** Income Statement
- 51** Balance sheet
- 52** Statement of Changes in Equity
- 53** Cash Flow Statement
- 54** Notes to the Financial Statements



# Independent Auditor's Report



## Chartered Accountants

201 De Saram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka

Tel : (0) 11 2463500  
Fax Gen : (0) 11 2697369  
Tax : (0) 11 5578180  
eysi@lk.ey.com

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE FORTRESS RESORTS PLC

### Report on the Financial Statements

We have audited the accompanying Financial Statements of The Fortress Resorts PLC, the Consolidated Financial Statements of the Company and its subsidiary which comprise the balance sheets as at 31 March 2012, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Scope of Audit and Basis of Opinion

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 plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An

audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2012 and the Financial Statements give a true and fair view of the Company's state of affairs as at 31 March 2012 and its loss and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the Consolidated Financial Statements give a true and fair view of the state of affairs as at 31 March 2012 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiary dealt with thereby, so far as concerns the shareholders of the Company.

### Report on Other Legal and Regulatory Requirements

In our opinion, these Financial Statements also comply with the requirements of Sections 151(2) and 153(2) to 153(7) of the Companies Act No. 07 of 2007.

17 May 2012  
Colombo

**Partners:** A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva ACA Ms. Y A de Silva ACA W R H Fernando FCA FCMA W K B S P Fernando FCA FCMA 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 ACA Ms. L C G Nanayakkara FCA FCMA N M Sulaiman ACA ACMA B E Wijesuriya ACA ACMA

# Income Statement

	Note	Group 2012 Rs.	Group 2011 Rs.	Company 2012 Rs.	Company 2011 Rs.
<i>Year ended 31 March</i>					
<b>Revenue</b>	17	<b>464,305,525</b>	416,345,390	-	-
Cost of Sales		<b>(109,611,610)</b>	(111,345,703)	-	-
Gross Profit		<b>354,693,915</b>	304,999,687	-	-
Other Income	18	<b>28,078,315</b>	47,915,181	-	265,706
Selling and Marketing Expenses		<b>(17,762,081)</b>	(14,087,175)	-	-
Administrative Expenses		<b>(197,083,585)</b>	(180,466,537)	<b>(2,981,819)</b>	(1,573,892)
Finance Cost	19.1	<b>(49,521,332)</b>	(75,027,030)	-	-
Finance Income	19.2	<b>848,356</b>	2,698,127	-	-
<b>Profit/(Loss) before Tax</b>	20	<b>119,253,588</b>	86,032,253	<b>(2,981,819)</b>	(1,308,186)
Income Tax Expenses	21	<b>(237,540)</b>	(1,634,321)	-	(694,001)
<b>Profit/(Loss) for the year</b>		<b>119,016,048</b>	84,397,932	<b>(2,981,819)</b>	(2,002,187)
Basic Earnings/(Loss) per Share	22	<b>1.07</b>	0.76	<b>(0.03)</b>	(0.02)

The Accounting Policies and Notes on pages 54 to 74 form an integral part of these Financial Statements.

# Balance Sheet

	Note	Group 2012 Rs.	2011 Rs.	Company 2012 Rs.	2011 Rs.
<i>As at 31 March</i>					
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property, Plant and Equipment	5	1,078,073,556	1,100,504,176	-	-
Investments in Subsidiary	6	-	-	1,000,009,990	1,000,009,990
Intangible Assets	7	6,189,056	-	-	-
		1,084,262,612	1,100,504,176	1,000,009,990	1,000,009,990
<b>Current Assets</b>					
Inventories	8	13,891,065	11,340,373	-	-
Trade and Other Receivables	9	80,890,138	52,189,477	-	-
Income Tax Receivables		2,404,114	758,455	137,474	-
Short Term Deposits	10	40,000,000	-	-	-
Cash and Bank Balances	11	11,338,047	21,958,300	35,673	44,192
		148,523,364	86,246,605	173,147	44,192
<b>Total Assets</b>		<b>1,232,785,976</b>	<b>1,186,750,781</b>	<b>1,000,183,137</b>	<b>1,000,054,182</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and Reserves</b>					
Stated Capital	12	1,108,866,840	1,108,866,840	1,108,866,840	1,108,866,840
Revaluation Reserve	13	124,372,838	124,372,838	-	-
Accumulated Losses		(484,993,227)	(604,009,275)	(131,089,363)	(128,107,544)
<b>Total Equity</b>		<b>748,246,451</b>	<b>629,230,403</b>	<b>977,777,477</b>	<b>980,759,296</b>
<b>Non-Current Liabilities</b>					
Interest Bearing Loans and Borrowings	14	359,832,227	492,962,963	-	-
Retirement Benefit Obligation	15	3,881,128	3,776,833	-	-
		363,713,355	496,739,796	-	-
<b>Current Liabilities</b>					
Trade and Other Payables	16	55,495,355	40,069,632	22,405,660	19,294,886
Interest Bearing Loans and Borrowings	14	65,330,815	20,710,950	-	-
		120,826,170	60,780,582	22,405,660	19,294,886
<b>Total Equity and Liabilities</b>		<b>1,232,785,976</b>	<b>1,186,750,781</b>	<b>1,000,183,137</b>	<b>1,000,054,182</b>

These Financial Statements are in compliance with the requirements of the Companies Act No. 7 of 2007.

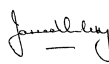


Chief Finance Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the Board by;



Director



Director

The Accounting Policies and Notes on pages 54 to 74 form an integral part of these Financial Statements.

17 May 2012  
Colombo

# Statement of Changes in Equity

## Group

	Stated Capital Rs.	Revaluation Reserve Rs.	Accumulated Losses Rs.	Total Rs.
<b>Balance as at 01 April 2010</b>	1,108,866,840	124,372,838	(688,407,207)	544,832,471
Profit for the year	-	-	84,397,932	84,397,932
<b>Balance as at 31 March 2011</b>	1,108,866,840	124,372,838	(604,009,275)	629,230,403
Profit for the year	-	-	119,016,048	119,016,048
<b>Balance as at 31 March 2012</b>	1,108,866,840	124,372,838	(484,993,227)	748,246,451

## Company

	Stated Capital Rs.	Accumulated Losses Rs.	Total Rs.
<b>Balance as at 01 April 2010</b>	1,108,866,840	(126,105,357)	982,761,483
Loss for the year	-	(2,002,187)	(2,002,187)
<b>Balance as at 31 March 2011</b>	1,108,866,840	(128,107,544)	980,759,296
Loss for the year	-	(2,981,819)	(2,981,819)
<b>Balance as at 31 March 2012</b>	1,108,866,840	(131,089,363)	977,777,477

The Accounting Policies and Notes on pages 54 to 74 form an integral part of these Financial Statements.

# Cash Flow Statement

	Note	Group 2012 Rs.	2011 Rs.	Company 2012 Rs.	2011 Rs.
<i>Year ended 31 March</i>					
<b>Cash Flows from/(used in) Operating Activities</b>					
Profit/(Loss) before Tax		119,253,588	86,032,253	(2,981,819)	(1,308,186)
Adjustments for					
Depreciation	5.2	73,528,859	86,950,019	-	-
Finance Cost	19.1	49,521,332	75,027,030	-	-
Finance Income	19.2	(848,356)	(2,698,127)	-	-
Exchange Gain	18	(5,491,871)	(2,201,974)	-	-
Loss/(Profit) on Disposal of Property, Plant and Equipment		813,379	(891,318)	-	-
Provision for Defined Benefit Obligation		204,370	1,151,241	-	-
Creditors written back		-	(23,795,416)	-	(265,706)
Other Debtors written off		-	1,322,628	-	-
Operating Profit/(Loss) before Working Capital Changes		236,981,301	220,896,336	(2,981,819)	(1,573,892)
(Increase)/Decrease in Inventories		(2,550,692)	(1,100,184)	-	-
(Increase)/Decrease in Trade and Other Receivables		(28,700,661)	(12,212,900)	-	-
Increase/(Decrease) in Trade and Other Payables		16,551,552	3,536,357	3,110,774	2,501,796
Cash Generated from/(used in) Operations		222,281,500	211,119,609	128,955	927,904
Finance Cost paid	19.1	(49,521,332)	(77,969,238)	-	-
Defined Benefit Obligation paid	15	(100,075)	-	-	-
Tax paid		(1,883,199)	(3,457,090)	(137,474)	(934,404)
Net Cash from/(used in) Operating Activities		170,776,894	129,693,281	(8,519)	(6,500)
<b>Cash Flows from/(used in) Investing Activities</b>					
Proceeds from Disposal of Property Plant and Equipment		7,636,886	40,491	-	-
Acquisition of Property, Plant and Equipment		(40,928,789)	(41,507,013)	-	-
Acquisition of Intangible Assets	7.1	(6,189,056)	-	-	-
Proceeds from Disposal of Other Investments		-	58,144,658	-	-
Finance Income Received	19.2	848,356	2,698,127	-	-
Net Cash from/(used in) Investing Activities		(38,632,603)	19,376,263	-	-
<b>Cash Flows from/(used in) Financing Activities</b>					
Repayment of Bank Loans	14.1	(112,487,306)	(139,605,241)	-	-
Principal Payments under Finance Lease Liabilities	14.2	(2,214,961)	(5,853,519)	-	-
Net Cash from/(used in) Financing Activities		(114,702,267)	(145,458,760)	-	-
Effect of Exchange Rate changes on Cash and Cash Equivalents		5,491,871	2,201,974	-	-
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>22,933,895</b>	<b>5,812,758</b>	<b>(8,519)</b>	<b>(6,500)</b>
Cash and Cash Equivalents at the beginning of the year		18,543,415	12,730,657	44,192	50,692
Cash and Cash Equivalents at the end of the year	11	41,477,310	18,543,415	35,673	44,192

The Accounting Policies and Notes on pages 54 to 74 form an integral part of these Financial Statements.

# Notes to the Financial Statements

## 1. REPORTING ENTITY

The Fortress Resorts PLC ("the Company") is a public limited liability Company incorporated and domiciled in Sri Lanka. The ordinary shares of the Company are listed on the Colombo Stock Exchange of Sri Lanka. The registered office of the Company is located at Level 27, East Tower, World Trade Center, Colombo - 01 and the principal place of business is situated at Koggala.

The Consolidated Financial Statements of the Company for the year ended 31 March 2012 comprise the Company and its subsidiary (together referred to as "the Group").

The Consolidated Financial Statements of the Group for the year ended 31 March 2012 were authorised for issue in accordance with a resolution of the Board of Directors on 17 May 2012.

The Company has invested in its wholly owned subsidiary Company "La Forteresse (Private) Limited".

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

The Company does not have an identifiable parent company of its own.

The Financial Statements of all companies in the Group are prepared for a common financial year, which ends on 31st March and are incorporated in Sri Lanka.

## 2. BASIS OF PREPARATION

### 2.1 Statement of Compliance

The Financial Statements have been prepared in accordance with the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, which requires compliance with Sri Lanka Accounting Standards (SLASs) promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL), and with the requirements of the Companies Act No. 7 of 2007.

### 2.2 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis unless stated otherwise and accounting policies are applied consistently.

## 2.3 Basis of Consolidation

The Consolidated Financial Statements (referred to as the "Group") comprise the Financial Statements of the Company and its subsidiary.

### 2.3.1 Subsidiary

Subsidiary is an enterprise controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities which is evident when the Group controls the composition of the Board of Directors of the entity or holds more than 50% of the issued shares of the entity or 50% of the voting rights of the entity or entitled to receive more than half of every dividend from shares carrying unlimited right to participate in distribution of profits or capital.

The subsidiary and its controlling percentage of the Group, which have been consolidated, are as follows:

Subsidiary	2012	2011
La Forteresse (Private) Limited	100%	100%

The Financial Statements of the subsidiary are prepared in compliance with the Group's accounting policies unless stated otherwise.

### 2.3.2 Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements.

## 2.4 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupee, which is the Group's functional currency unless stated otherwise.

## 2.5 Comparative Information

The accounting policies applied by the Group and are consistent with those used in the previous year. The previous year's figures and phrases have been reclassified or restated wherever necessary to conform current year in order to provide a better presentation.

## 2.6 Use of Estimates and Judgments

The preparation of the Group's Financial Statements in conformity with SLAS's requires management to make



## Notes to the Financial Statements Contd.

judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the Financial Statements were prepared. Existing circumstances and assumptions about future developments however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

### Revaluation of Property, Plant and Equipment

The Group measures buildings at revalued amounts with changes in fair value being recognised in Statement of Equity. The Group engaged independent valuation specialists to determine fair value as at 31 March 2009. The revaluation of property, plant and equipment are further disclosed in Note 5.

### Defined Benefit Plans

The employee benefits liability of the Group is based on the actuarial valuation carried out by Messrs. Actuarial and Management Consultants (Private) Limited, actuaries. The actuarial valuations involve making assumptions about discount rates and future salary increases. The complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation are highly sensitive to changes in these assumptions. Further details of the key assumptions used in the estimates are contained in Note 15.

### Taxes

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and

the level of future taxable profits together with future tax planning strategies.

The Group has tax loss carry forwards amounting to Rs.44,898,429/- (2011 - Rs.41,916,608/-). These losses relate to The Fortress Resorts PLC that has history of losses. A deferred tax asset has not been recognised in respect of this tax loss and other temporary differences which has resulted deferred tax assets as it is anticipated that the deferred tax asset will not realise in the foreseeable future. Further details on taxes are disclosed in note 21.

### 2.7 Materiality and Aggregation

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Foreign Currency Translations

The Financial Statements of the Group are presented in Sri Lanka Rupees, which is the functional and presentation currency of the Group. 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 Balance Sheet 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. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### 3.2 Assets and the Bases of their Valuation

Assets classified as current assets in the Balance Sheet are cash and bank balances and those which are expected to realise in cash, during the normal operating cycle or within one year from the Balance Sheet date, whichever is shorter.

Assets other than current assets are those which the Group intends to hold beyond a period of one year from the Balance Sheet date.

# Notes to the Financial Statements Contd.

## 3.2.1 Property, Plant and Equipment

### Recognition and Measurement

Items of property, plant and equipment are measured at cost or at fair value in the case of buildings less accumulated depreciation and accumulated impairment losses, if any.

#### a) Owned Assets

The cost of property, plant and equipment includes expenditure that are directly attributable to the acquisition of the asset. Such cost includes the cost of replacing part of the property, plant and equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

A revaluation of buildings is done when there is a substantial difference between the fair value and the carrying amount of the buildings, and is undertaken by professionally qualified valuers.

Increases in the carrying amount on revaluation are credited to the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same individual asset are charged against revaluation reserve directly in equity. All other decreases are expensed in profit and loss.

#### b) Leased Assets

##### Finance Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Leases other than finance leases are recognised as operating leases. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the Income Statement.

### Operating leases

Operating lease payments are recognised as an operating expense in the Income Statement on a straight-line basis over the lease term.

### Subsequent Expenditure

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised in accordance with the derecognition policy given below.

The costs of the day-to-day servicing of property, plant and equipment are recognised in profit and loss as incurred.

### 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 profit and loss and gains are not classified as revenue.

### Depreciation

Depreciation is recognised in profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Assets held under finance leases are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets unless it is reasonably certain that the Group will have ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

Buildings on Leasehold Land - Hotel	Over the Lease Period
Buildings on Leasehold Land - Administration	Over the Lease Period
Plant and Equipments	10 years
Furniture and Fittings	10 years
Fixtures and Fittings	10 years

## Notes to the Financial Statements Contd.

Computer Equipments	05 years
Telephone Equipments	04 years
Kitchen Equipments	04 years
Electrical Equipments	10 years
Linen and Furnishing	04 years
Crockery of Cutlery	04 years
Other Equipments	04 years
Air Conditioners	10 years
Motor Vehicles	05 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 assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

### 3.2.2 Intangible Assets

An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably in accordance with SLAS 37 on Intangible Assets. Accordingly, these assets are stated in the Balance Sheet at cost less accumulated amortisation and accumulated impairment losses.

#### a) Purchased Software

Purchased software which are not integral part of related hardware is recognised as an intangible asset and is amortised on a straight line basis over its useful life.

A summary of the policies applied to the Group's intangible assets is as follows:

Intangible	Purchased Software
Useful lives	Finite
Amortisation method used	Amortisation on a straight line basis over the period of 5 years
Internally generated or acquired	Acquired

### Subsequent Expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit and loss as incurred.

### Amortisation

Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets from the date on which they are available for use.

### 3.2.3 Investment in Subsidiaries

In the parent Company's Financial Statements, investments in subsidiaries are carried at cost less impairment losses under the parent Company's accounting policy for long term investments.

Provision for impairment is made when in the opinion of the Directors there has been a decline which is other than temporary in the value of the investment. Income from these investments is recognised only to the extent of dividend received.

### 3.2.4 Inventories

Inventories are measured at the lower of cost and net realisable value. The general basis on which cost is determined is:

Food and Beverages	} - Weighted Average Basis
House Keeping and Maintenance	
Others	

Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses.

### 3.2.5 Trade and Other Receivables

Trade and other receivables are stated at their estimated realisable amounts. A provision for doubtful debts is made when the collection of the full amount is no longer probable. Bad debts are written off when identified.

### 3.2.6 Short Term Deposits

Short term deposits comprise deposits with an original maturity of three months or less is stated at cost.

# Notes to the Financial Statements Contd.

## 3.2.7 Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and short term deposits (deposits with maturities of three months or less from the date of acquisition). Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

## 3.2.8 Impairment of Non-Financial Assets

The carrying amounts of the Group's 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.

### Calculation of Recoverable Amount

The recoverable amount of an asset 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.

### Impairment/ Reversal of Impairment

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit and 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.

## 3.3 LIABILITIES AND PROVISIONS

Liabilities classified as current liabilities on the Balance Sheet are those which fall due for payment on demand or within one year from the Balance Sheet date. Non-current liabilities are those balances that fall due for payment later than one year from the Balance Sheet date.

All known liabilities have been accounted for in preparing the Financial Statements.

## 3.3.1 Retirement Benefit Obligation

### Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Provident and Trust Funds covering all employees are recognised as an expense in profit and loss as incurred.

The Group contributes 12% and 3% of gross emoluments to employees as Provident Fund and Trust Fund contribution respectively.

### Defined Benefit Obligation - 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 SLAS16 - "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. Key assumptions used in determining the defined retirement benefit obligations are given in Note 15. Any changes in these assumptions will impact the carrying amount of defined benefit obligations.

Provision has been made for retirement gratuities from the first year of service for all employees, in conformity with SLAS 16 (Revised 2006) on employee benefit. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability is not externally funded.

## 3.3.2 Trade and Other Payables

Trade and other payables are stated at their cost.

## 3.3.3 Capital Commitments and Contingencies

Capital commitments and contingent liabilities of the Group are disclosed in the respective Notes to the Financial Statements.

# Notes to the Financial Statements Contd.

## 3.3.4 Provisions, Contingent Assets and Contingent Liabilities

Provisions are made for all obligations existing as at the Balance Sheet date when it is probable that such an obligation will result in an outflow of resources and a reliable estimate can be made of the quantum of the outflow.

All contingent liabilities are disclosed as a note to the Financial Statements unless the outflow of resources is remote. Contingent assets are disclosed, where inflow of economic benefit is probable.

## 3.4 INCOME STATEMENT

For the purpose of presentation of the Income Statement, the function of expenses method is adopted, as it represents fairly the elements of Group performance.

### 3.4.1 Turnover

The Company's turnover comprises proceeds from provision of lodging, food, beverage and other hospitality industry related activities excluding turnover taxes and trade discounts.

### 3.4.2 Revenue

#### *Hotel Income*

Room revenue is recognised on the rooms occupied on a daily basis and food and beverage and other hotel related sales are accounted for at the point of sales.

#### *Other Income*

Other income is recognised on an accrual basis.

#### *Interest Income*

Interest income is recognised as interest accrues.

#### *Gains and Losses*

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the net sales proceeds with the carrying amounts of property, plant and equipment and are recognised net within "other operating income" in profit and loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

### 3.4.3 Turnover based Taxes

Turnover based taxes include value added tax, nation building tax, economic service charge and tourism development levy. Group pays such taxes in accordance with the respective statutes.

### 3.4.4 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 profit and loss in the year in which the expenditure is incurred.

### 3.4.5 Operating Leases

Leases where the lessor effectively retains substantially all the risks and rewards of ownership over the lease term are classified as operating leases. Payments made under operating leases are recognised in profit and loss on a straight-line basis over the term of the lease.

### 3.4.6 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent that they are directly attributable to the acquisition, construction or production of asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### 3.4.7 Finance Income and Expenses

Finance income comprises interest income on funds invested. Interest income is recognised in profit and loss as it accrues.

Finance expenses comprise interest payable on borrowings.

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.

### 3.4.8 Taxation

#### *Current Taxes*

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date and any adjustments to tax payable in respect of previous years.

# Notes to the Financial Statements Contd.

## **La Forteresse (Private) Limited**

Pursuant to agreement dated 08 July 2004, entered into with Board of Investments of Sri Lanka under section 17 of the Board of Investment Law No. 04 of 1978, the provision of the Inland Revenue Act No. 10 of 2006 relating to the imposition, payment and recovery of income tax in respect of the profit and income of the Company shall not apply for a period of five (05) years reckoned from the year of assessment as may be determined by the Board ("the tax exemption period").

For the above purpose the year of assessment shall be reckoned from the year in which the Company commences to make profits or any year of assessment not later than two (02) years reckoned from the date of commencement of commercial operations whichever comes first, as may be specified in a certificate issued by the Board. This exemption period commence from 01 April 2008 and expires on 31 March 2013.

## **Deferred Taxation**

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred income tax relating to items recognised directly equity is recognised in equity and not in the Income Statement.

## **La Forteresse (Private) Limited**

As the Inland Revenue Act does not apply as stated above, temporary differences do not exist during the tax exemption period. Therefore deferred tax does not apply.

## **3.5 Events Occurring after the Balance Sheet Date**

All material post Balance Sheet events have been considered and where appropriate adjustments or disclosures have been made in the respective notes to the Financial Statements.

## **3.6 Earnings per Share**

The Group presents basic earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

## **3.7 Cash Flow Statement**

The Cash Flow Statement has been prepared using the "indirect method". Interest paid is classified as an operating cash flow. Interest income is classified as cash flows from investing activities.

## **4. SRI LANKA ACCOUNTING STANDARDS EFFECTIVE FROM 01 JANUARY 2012**

The Group will be adopting the new Sri Lanka Accounting Standards (new SLAS) comprising LKAS and SLFRS applicable for financial periods commencing from 01 January 2012 as issued by the Institute of Chartered Accountants of Sri Lanka. The Group has commenced reviewing its accounting policies and financial reporting in readiness for the transition. As the Group has a 31 March year end, priority has been given to considering the preparation of an opening Balance Sheet in accordance with the new SLASs as at 01 April 2011. This will form the basis of accounting for the new SLASs in the future, and is required when the Group prepares its first new SLAS compliant Financial Statements for the year ending 31 March 2013. Set out below are the key areas where accounting policies will change and may have an impact on the Financial Statements of the Group. The Group is in the process of quantifying the impact on the Financial Statements arising from such changes in accounting policies.

- (a) **SLFRS 1 - First Time Adoption of Sri Lanka Accounting Standards** requires the Group to prepare and present opening new SLFRS Financial Statements at the date of transition to new SLAS. The Group shall use the same accounting policies in its opening new SLAS Financial Statements and throughout all comparable periods presented in its first new SLAS Financial Statements. **LKAS 1 - Presentation of Financial Statements** requires an entity to present, in



## Notes to the Financial Statements Contd.

a Statement of Changes in Equity, all owner changes in equity. All non owner changes in equity are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). This standard also requires the Group to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

- (b) **LKAS 16 - Property Plant and Equipment** requires a company to initially measure an item of property plant and equipment at cost, using the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period, unless such interest is capitalised in accordance with **LKAS 23 Borrowing Costs**.

All site restoration costs including other environmental restoration and similar costs must be estimated and capitalised at initial recognition, in order that such costs can be depreciated over the useful life of the asset. This standard requires depreciation of assets over their useful lives, where the residual value of assets is deducted to arrive at the depreciable value. It also requires that significant components of an asset be evaluated separately for depreciation.

- (c) **LKAS 32 - Financial Instruments: Presentation, LKAS 39 - Financial Instruments: Recognition and Measurement and SLFRS 7** - Disclosures will result in changes to the current method of recognising financial assets, financial liabilities and equity instruments. These standards will require measurement of financial assets and financial liabilities at fair value at initial measurement. The subsequent measurement of financial assets classified as fair value through profit and loss and available for sale will be at fair value, with the gains and losses routed through the statements of comprehensive income and equity respectively.

Financial assets classified as held to maturity and loans and receivables will be measured subsequently at amortised cost. These assets will need to be assessed for any objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') coupled with a reliable estimate of the loss event (or

events) impact on the estimated future cash flows of the financial asset or group of financial assets. As such the current method of assessing for impairment will have to be changed to meet the requirements of these new standards.

Financial liabilities will be either classified as fair value through profit or loss or at amortised cost. At present, the Group does not identify, categorise and measure financial assets and liabilities as per the requirements of the standard and also does not recognise certain derivative instruments on the balance sheet.

- (d) **SLFRS 3 - Business combinations** will require the company to apply this standard to transactions and other events that meet the new definition of a business i.e. an integrated set of assets (inputs) and activities( processes) which are capable of being conducted and managed to provide a return, as opposed to a mere asset acquisition. Under the new acquisition method of accounting, in addition to recognising and measuring in its financial statements the identifiable assets acquired and liabilities assumed the standard also requires recognition and measurement of any non-controlling interest in the acquiree and re-measuring to fair value any previously held interests which could have an impact on the recognition of goodwill. Subsequent to the acquisition of control any acquisitions or disposals of non-controlling interest without loss of control will be accounted for as equity transactions and cannot be recognised as profit/ loss on disposal of investments in the statement of financial performance.
- (e) **LKAS 12 - Income Tax** requires deferred tax to be provided in respect of temporary differences which will arise as a result of adjustments made to comply with the new SLAS.
- (f) **LKAS 18 - Revenue** requires the Group to measure revenue at fair value of the consideration received or receivable. It also specifies recognition criteria for revenue, and the Group needs to apply such recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction.

# Notes to the Financial Statements Contd.

## 5. PROPERTY, PLANT AND EQUIPMENT - GROUP

Year ended 31 March	Balance As at 01.04.2011 Rs.	Additions Rs.	Disposals Rs.	Balance As at 31.03.2012 Rs.
<b>5.1 Gross Carrying Amounts</b>				
<b>At Cost</b>				
Buildings on Leasehold Land - Hotel	23,519,844	2,950,901	-	26,470,745
- Administration	138,068	2,433,510	-	2,571,578
Plant and Equipments	27,812,677	85,200	-	27,897,877
Furniture and Fittings	148,126,823	2,224,180	-	150,351,003
Fixtures and Fittings	34,139,429	13,497,038	(1,400,000)	46,236,467
Computer Equipments	17,289,186	2,464,978	-	19,754,164
Telephone Equipments	3,388,033	89,341	-	3,477,374
Kitchen Equipments	47,357,222	320,559	(89,494)	47,588,287
Electrical Equipments	137,056,746	3,995,487	(9,103,275)	131,948,958
Linen and Furnishing	31,381,829	1,046,395	(1,101,833)	31,326,391
Cutlery and Crockery	28,296,479	2,169,331	(833,157)	29,632,653
Other Equipments	23,719,700	533,186	(403,000)	23,849,886
Air Conditioners	25,214,181	8,500,876	(10,009,365)	23,705,692
Motor Vehicles	11,125,000	-	-	11,125,000
	558,565,217	40,310,982	(22,940,124)	575,936,075
<b>At Valuation</b>				
Buildings on Leasehold Land - Hotel	841,823,400	-	-	841,823,400
- Administration	58,176,600	-	-	58,176,600
	900,000,000	-	-	900,000,000
<b>Assets on Finance Leases</b>				
Motor Vehicles	5,993,750	20,363,351	(5,993,750)	20,363,351
	5,993,750	20,363,351	(5,993,750)	20,363,351
<b>Total Gross Carrying Amount</b>	1,464,558,967	60,674,333	(28,933,874)	1,496,299,426

## Notes to the Financial Statements Contd.

<i>Year ended 31 March</i>	Balance As at 01.04.2011 Rs.	Charge for the year Rs.	Disposals Rs.	Balance As at 31.03.2012 Rs.
<b>5.2 Depreciation</b>				
<b>At Cost</b>				
Buildings on Leasehold Land - Hotel	333,072	662,172	-	<b>995,244</b>
- Administration	2,213	42,194	-	<b>44,407</b>
Plant and Equipments	11,551,035	2,784,108	-	<b>14,335,143</b>
Furniture and Fittings	62,031,303	14,955,649	-	<b>76,986,952</b>
Fixtures and Fittings	14,562,683	3,623,808	(980,000)	<b>17,206,491</b>
Computer Equipments	14,544,990	2,309,712	-	<b>16,854,702</b>
Telephone Equipments	3,254,229	47,466	-	<b>3,301,695</b>
Kitchen Equipments	46,328,146	342,050	(89,494)	<b>46,580,702</b>
Electrical Equipments	60,281,165	13,185,653	(4,434,756)	<b>69,032,062</b>
Linen and Furnishing	25,230,117	1,765,170	(1,101,833)	<b>25,893,454</b>
Cutlery and Crockery	26,990,470	837,127	(765,561)	<b>27,062,036</b>
Other Equipments	22,589,321	398,392	(403,000)	<b>22,584,713</b>
Air Conditioners	12,396,972	2,751,829	(6,005,619)	<b>9,143,182</b>
Motor Vehicles	9,085,417	2,039,583	-	<b>11,125,000</b>
	<b>309,181,133</b>	<b>45,744,913</b>	<b>(13,780,263)</b>	<b>341,145,783</b>
<b>At Valuation</b>				
Buildings on Leasehold Land - Hotel	45,503,968	22,752,148	-	<b>68,256,116</b>
- Administration	4,474,794	2,237,397	-	<b>6,712,191</b>
	<b>49,978,762</b>	<b>24,989,545</b>	<b>-</b>	<b>74,968,307</b>
<b>Assets on Finance Leases</b>				
Motor Vehicles	4,894,896	2,794,401	(5,577,517)	<b>2,111,780</b>
	4,894,896	2,794,401	(5,577,517)	<b>2,111,780</b>
<b>Total Depreciation</b>	<b>364,054,791</b>	<b>73,528,859</b>	<b>(19,357,780)</b>	<b>418,225,870</b>

# Notes to the Financial Statements Contd.

	2012 Rs.	2011 Rs.
<b>5.3 Net Book Values</b>		
<b>At Cost</b>		
Buildings on Leasehold Land - Hotel	25,475,501	23,186,772
- Administration	2,527,171	135,855
Plant and Other Equipments	13,562,734	16,261,642
Furniture and Fittings	73,364,051	86,095,520
Fixtures and Fittings	29,029,976	19,576,746
Computer Equipments	2,899,462	2,744,196
Telephone Equipments	175,679	133,804
Kitchen Equipments	1,007,585	1,029,076
Electrical Equipments	62,916,896	76,775,581
Linen and Furnishing	5,432,937	6,151,712
Cutlery and Crockery	2,570,617	1,306,009
Other Equipments	1,265,173	1,130,379
Air Conditioners	14,562,510	12,817,209
Motor Vehicles	-	2,039,583
	<b>234,790,292</b>	<b>249,384,084</b>
<b>At Valuation</b>		
Buildings on Leasehold Land - Hotel	773,567,284	796,319,432
- Administration	51,464,409	53,701,806
	<b>825,031,693</b>	<b>850,021,238</b>
<b>Assets on Finance Leases</b>		
Motor Vehicles	18,251,571	1,098,854
	<b>18,251,571</b>	<b>1,098,854</b>
<b>Total Carrying Amount of Property, Plant and Equipment</b>	<b>1,078,073,556</b>	<b>1,100,504,176</b>

**5.4** The Buildings of the Company were revalued by Messrs. A.A.M. Fathihu an independent valuer, in report dated 31 March 2009. The results of such revaluation were incorporated in these Financial Statement from its effective date, which is 31 March 2009. Buildings were valued on an open market value for existing use basis. The surplus arising from the revaluation was transferred to a revaluation reserve.

The carrying amount of revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation is as follows:

## Class of Asset

	Cost Rs.	Cumulative Depreciation If assets were carried at Cost Rs.	Net Carrying Amount 2012 Rs.	Net Carrying Amount 2011 Rs.
Buildings on Leasehold Land - Hotel	765,075,620	105,137,241	659,938,379	679,348,331
- Administration	48,834,614	9,308,651	39,525,963	41,244,483
	<b>813,910,234</b>	<b>114,445,892</b>	<b>699,464,342</b>	<b>720,592,814</b>

## Notes to the Financial Statements Contd.

**5.5** During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs.60,674,333/- (2011 - 41,507,013/-) of which Rs.19,745,544/- was acquired by means of finance leases. Cash payments amounting to Rs.40,928,789/- (2011 - 41,507,013/-) were made during the year for purchase of Property, Plant and Equipment.

**5.6** The hotel and administration buildings of the Company were constructed on leasehold lands from the Ceylon Tourist Board and Board of Investment of Sri Lanka for a period of 40 years and 30 years at rentals of Rs.1,558,908/- and Rs.219,615/- per annum respectively.

**5.7** Property, plant and equipment of the company includes fully depreciated assets having a gross carrying amounts of Rs.133,821,367/- (2011 - 123,115,733/-)

### 6. INVESTMENT IN SUBSIDIARY

#### 6.1 Non-Quoted Investments

	Group/Company Holding		Group Cost		Cost	Company Directors' Valuation	Cost	Directors' Valuation
	2012	2011	2012	2011	2012	2012	2011	2011
	%	%	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
La Forteresse (Private) Limited	100%	100%	-	-	1,000,009,990	1,000,009,990	1,000,009,990	1,000,009,990

### 7. INTANGIBLE ASSETS - GROUP

	Computer Software
<b>7.1 Cost</b>	
As at 01.04.2011	-
Acquired during the year	6,189,056
As at 31.03.2012	6,189,056
<b>7.2 Amortisation</b>	
As at 01.04.2011	-
Amortisation for the year	-
As at 31.03.2012	-
<b>7.3 Net Book Values</b>	
As at 1 April 2011	-
As at 31 March 2012	6,189,056

# Notes to the Financial Statements Contd.

## 8. INVENTORIES

	2012 Rs.	Group 2011 Rs.
Food and Beverages	5,858,072	5,359,912
House Keeping and Maintenance	7,250,740	4,864,414
Others	782,253	1,116,047
	13,891,065	11,340,373

## 9. TRADE AND OTHER RECEIVABLES

	2012 Rs.	Group 2011 Rs.
Trade Debtors	70,163,087	40,601,885
Other Debtors	545,158	-
Advances, Deposits and Prepayments	10,181,893	11,587,592
	80,890,138	52,189,477

## 10. SHORT TERM DEPOSITS

	2012 Rs.	Group 2011 Rs.
Investments in Call Deposits	40,000,000	-

## 11. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

	2012 Rs.	Group 2011 Rs.	Company 2012 Rs.	2011 Rs.
<b>Components Cash and Cash Equivalent Balances</b>				
<b>Favorable Cash and Cash Equivalent Balances</b>				
Cash and Bank Balances	11,338,047	21,958,300	35,673	44,192
Call Deposits (Note 10)	40,000,000	-	-	-
<b>Unfavorable Cash and Cash Equivalent Balances</b>				
Bank Overdraft	(9,860,737)	(3,414,885)	-	-
<b>Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement</b>	<b>41,477,310</b>	<b>18,543,415</b>	<b>35,673</b>	<b>44,192</b>



## Notes to the Financial Statements Contd.

### 12. STATED CAPITAL

	Number	Group/Company		Number	Rs.
		2012	2011		
		Rs.			Rs.
Fully paid ordinary Shares	110,886,684	1,108,866,840	110,886,684	1,108,866,840	
	110,886,684	1,108,866,840	110,886,684	1,108,866,840	

### 13. REVALUATION RESERVE

	Group	
	2012	2011
	Rs.	Rs.
<b>On: Property, Plant and Equipment</b>		
As at 1 April	124,372,838	124,372,838
As at 31 March	124,372,838	124,372,838

The above revaluation surplus consists of net surplus resulting from the revaluation of property plant and equipment. The unrealised amount cannot be distributed to shareholders.

### 14. INTEREST BEARING LOANS AND BORROWINGS - GROUP

	2012 Amount Repayable Within 1 Year Rs.	2012 Amount Repayable After 1 Year Rs.	2012 Total Rs.	2011 Amount Repayable Within 1 Year Rs.	2011 Amount Repayable After 1 Year Rs.	2011 Total Rs.
Bank Loans (Note 14.1)	51,111,120	346,401,574	397,512,694	17,037,037	492,962,963	510,000,000
Finance Leases (Note 14.2)	4,358,958	13,430,653	17,789,611	259,028	-	259,028
Bank Overdraft (Note 11)	9,860,737	-	9,860,737	3,414,885	-	3,414,885
	65,330,815	359,832,227	425,163,042	20,710,950	492,962,963	513,673,913

#### 14.1 Bank Loans

	Balance As at 01.04.2011 Rs.	Loans Obtained Rs.	Repayments Rs.	Balance As at 31. 03. 2012 Rs.	Rate of Interest %	Terms of Repayment
<b>Bank of Ceylon</b>						
Term Loan - 1	460,000,000	-	(62,487,306)	397,512,694	AWDR + 4%	156 equal monthly installments
Term Loan - 11	50,000,000	-	(50,000,000)	-		
	510,000,000	-	(112,487,306)	397,512,694		

# Notes to the Financial Statements Contd.

## 14.2 Finance Leases

	Balance As at 01.04.2011 Rs.	New Leases Obtained Rs.	Repayments Rs.	Balance As at 31.03.2012 Rs.
Hatton National Bank PLC	274,005	-	(274,005)	-
Pan Asia Banking Corporation PLC	-	19,091,818	(2,784,222)	<b>16,307,596</b>
Bank of Ceylon	-	5,541,408	(115,446)	<b>5,425,962</b>
Gross Liability	274,005	24,633,226	(3,173,673)	<b>21,733,558</b>
Finance Charges allocated to Future periods	(14,977)	(4,887,682)	958,712	<b>(3,943,947)</b>
Net Liability	259,028	19,745,544	(2,214,961)	<b>17,789,611</b>

## 15. RETIREMENT BENEFIT OBLIGATION

	Group 2012 Rs.	2011 Rs.
<b>Defined Benefit Obligation - Gratuity</b>		
Defined Benefit Obligation as at the beginning of the year	<b>3,776,833</b>	2,625,592
Charge for the year	<b>991,632</b>	969,134
Interest Cost	<b>377,683</b>	262,559
Actuarial (Gain)/Loss	<b>(1,164,945)</b>	(80,452)
Benefit paid	<b>(100,075)</b>	-
Defined Benefit Obligation as at the end of the year	<b>3,881,128</b>	3,776,833

The defined benefit obligation of the Company is based on the Messers. Actuarial and Management Consultants (Private) Limited, actuaries. Appropriate and compatible assumptions were used in determining the cost of defined benefits.

	2012	2011
The principle assumptions used were as follows,		
Discount Rate	<b>10%</b>	10%
Future Salary Increment Rate	<b>10%</b>	9%

# Notes to the Financial Statements Contd.

## 16. TRADE AND OTHER PAYABLES

	Group		Company	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Trade Creditors	10,565,735	8,258,076	-	-
Other Payables - Related Parties (Note 16.1)	-	-	22,251,660	19,138,086
- Other	42,784,144	30,395,687	-	-
Accrued Expenses	2,145,476	1,415,869	154,000	156,800
	55,495,355	40,069,632	22,405,660	19,294,886

### 16.1 Other Debtors - Related Parties Relationship

La Forteresse (Private) Limited	Subsidiary Company	-	-	22,251,660	19,138,086
		-	-	22,251,660	19,138,086

## 17. REVENUE

	Group		Company	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Revenue (Note 17.1)	464,305,525	416,345,390	-	-
	464,305,525	416,345,390	-	-

### 17.1 Revenue

Apartment Revenue	290,885,494	243,715,459	-	-
Restaurant Sales	106,336,704	104,217,545	-	-
Bar Sales	48,907,756	48,040,650	-	-
Spa Income	18,175,571	20,371,736	-	-
	464,305,525	416,345,390	-	-

## 18. OTHER INCOME

	Group		Company	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Laundry Income	2,638,889	2,327,839	-	-
Transport Income	2,487,307	2,948,919	-	-
Excursions Income	4,167,019	3,595,885	-	-
Boutique Income	1,510,510	1,498,406	-	-
Telephone Income	75,102	196,813	-	-
Exchange Gain	5,491,871	2,201,974	-	-
Sundry Income	11,707,617	10,458,611	-	-
Profit on Disposal Property, Plant and Equipment	-	891,318	-	-
Creditors written back	-	23,795,416	-	265,706
	28,078,315	47,915,181	-	265,706

# Notes to the Financial Statements Contd.

## 19. FINANCE COSTS AND INCOME

	Group	
	2012 Rs.	2011 Rs.
<b>19.1 Finance Costs</b>		
Interest Expense on Bank Loans	48,560,414	74,209,296
Interest Expense on Bank Overdrafts	1,224	6,255
Finance Charges on Lease Liabilities	959,694	811,479
	<b>49,521,332</b>	<b>75,027,030</b>
<b>19.2 Finance Income</b>		
Interest Income	848,356	2,698,127
	<b>848,356</b>	<b>2,698,127</b>

## 20. PROFIT/(LOSS) BEFORE TAX

	Group		Company	
Stated after Charging	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
<b>Included in Cost of Sales</b>				
Employees Benefits including the following	28,337,554	26,133,463	-	-
- Defined Benefit Plan Cost - Gratuity (included in Employee Benefits)	426,937	107,007	-	-
- Defined Contribution Plan Cost - EPF and ETF (included in Employee Benefits)	2,372,247	2,286,776	-	-
Depreciation	1,179,175	10,961,936	-	-
<b>Included in Administrative Expense</b>				
Employees Benefits including the following	38,382,429	27,901,382	-	-
- Defined Benefit Plan Cost - Gratuity (included in Employee Benefits)	(222,567)	1,044,234	-	-
- Defined Contribution Plan Cost - EPF and ETF (included in Employee Benefits)	3,589,440	2,270,126	-	-
Depreciation	72,349,684	75,988,083	-	-
Audit Fees	677,683	666,718	175,728	160,608
Charity and Donations	247,617	167,656	-	-
Land Rent	2,324,059	1,199,718	-	-
Loss on Disposal of Property, Plant and Equipment	813,379	-	-	-
Other Debtors written off	-	1,322,628	-	-
<b>Included in Selling and Marketing Expenses</b>				
Advertising	7,010,584	4,462,053	-	-

## Notes to the Financial Statements Contd.

### 21. INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31 March are as follows :

	Group		Company	
	2012	2011	2012	2011
	Rs.	Rs.	Rs.	Rs.
<b>Income Statement</b>				
<b>Current Income Tax</b>				
Current Income Tax Charge (Note 21.1)	237,540	958,509	-	-
Under/(Over) Provision of Current Taxes in respect of prior years	-	642,657	-	660,846
Income Tax Receivable written off	-	33,155	-	33,155
	237,540	1,634,321	-	694,001
<b>Deferred Income Tax</b>				
Deferred Taxation Charge/(Reversal) (Note 21.3)	-	-	-	-
<b>Income tax expense reported in the Income Statement</b>	<b>237,540</b>	<b>1,634,321</b>	<b>-</b>	<b>694,001</b>

21.1 A reconciliation between income tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows;

	Group		Company	
	2012	2011	2012	2011
	Rs.	Rs.	Rs.	Rs.
Accounting Profit/(Loss) before Income Tax	119,253,588	86,032,253	(2,981,819)	(1,308,186)
Allowed Items	(121,387,051)	(84,642,312)	-	-
Interest Income	(848,356)	(2,698,127)	-	-
Taxable Profit/(Loss) from Business	(2,981,819)	(1,308,186)	(2,981,819)	(1,308,186)
<b>Other Sources of Income</b>				
Interest Income	848,356	2,698,127	-	-
Taxable Other Income	848,356	2,698,127	-	-
Income Tax @ 28% (2011 - 35%)	237,540	944,344	-	-
SRL @ - (2011 - 1.5%)	-	14,165	-	-
Current Income Tax Charge	237,540	958,509	-	-

### 21.2 Tax Losses Utilised

Tax Losses Brought Forward	41,916,608	41,610,082	41,916,608	41,610,082
Loss Incurred during the year	2,981,819	1,308,186	2,981,819	1,308,186
Adjustments on Finalisation of Liability	-	(1,001,660)	-	(1,001,660)
Tax Losses Carried Forward	44,898,427	41,916,608	44,898,427	41,916,608

### La Forteresse (Private) Limited

The profit and income from business of La Forteresse (Private) Limited is exempted from income tax as stated in Note 3.4.8 of these Financial Statements during the tax exemption period.

# Notes to the Financial Statements Contd.

## 21.3 Deferred Tax

### Company

The Company has a tax loss amounting to Rs.44,898,427/- (2011 - Rs.41,916,608/-) which is available indefinitely for offsetting against future Statutory Income of the Company subject to a limit of 35% of Statutory Income in each year of assessment. A deferred tax asset amounting to Rs.12,571,560/- (2011 - Rs.11,736,650/-) has not been recognised in respect of this tax loss and other temporary differences which has resulted deferred tax assets as it is anticipated that the deferred tax asset will not realise in the foreseeable future.

### La Forteresse (Private) Limited

As the Inland Revenue Act does not apply as stated in Note 3.4.8 of these Financial Statements, temporary differences do not exist during the tax exemption period. Therefore deferred tax does not apply.

## 22. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share is calculated by dividing the net profit/(loss) for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic earnings/(loss) per share computations.

### 22.1 Amounts used as the Numerator

	Group		Company	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Profit/(Loss) attributable to Ordinary Shareholders for Basic Earnings/(Loss) per Share	119,016,048	84,397,932	(2,981,819)	(2,002,187)

### 22.2 Number of Ordinary Shares Used as the Denominator

	Group		Company	
	2012 Number	2011 Number	2012 Number	2011 Number
Weighted Average Number of Ordinary Shares applicable to Basic Earnings/(Loss) per Share	110,886,684	110,886,684	110,886,684	110,886,684

## 23. COMMITMENTS AND CONTINGENCIES

### 23.1 Capital Expenditure Commitments

The Group doesn't have significant capital commitment as at the Balance Sheet date.

### 23.2 Contingent Liabilities

The Group doesn't have significant contingent liabilities as at the Balance Sheet date.

## Notes to the Financial Statements Contd.

### 24. ASSETS PLEDGED

The following assets have been pledged as security for liabilities as at balance sheet date.

Nature of Assets	Nature of Liability	Carrying Amount Pledged		Included Under
		2012 Rs.	2011 Rs.	
Buildings on Leasehold Land	Term Loan Facility of Rs.460Mn Obtained from Bank of Ceylon	<b>853,034,365</b>	873,343,865	Property, Plant and Equipment

### 25. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

#### 25.1 Transactions with the Parent and Related Entities

Nature of Transactions	Subsidiary Company	
	2012 Rs.	2011 Rs.
<b>As at 1 April</b>	<b>(19,138,086)</b>	(16,294,047)
Expenses Incurred on behalf of the Company	<b>(3,113,574)</b>	(2,468,196)
Settlement of Liabilities by Others on behalf of the Company	-	(375,843)
<b>As at 31 March</b>	<b>(22,251,660)</b>	(19,138,086)
<b>Included in</b>		
Trade and Other Payables	<b>(22,251,660)</b>	(19,138,086)
	<b>(22,251,660)</b>	(19,138,086)

Subsidiary: La Forteresse (Private) Limited

#### 25.2 Transactions with Key Management Personnel of the Company

The Key Management Personnel of the Company are the members of its Board of Directors.

No material transactions have taken place during the year with the Key Management Personnel of the Company which require to disclosure in these Financial Statements.



# Notes to the Financial Statements Contd.

## 25.3 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.

Related Party	Description	2012 Rs.	2011 Rs.
LB Finance PLC	Lease Rental Paid	-	(5,006,304)
	Lease Payables as at 31 March	-	-
Pan Asia Banking Corporation PLC	Lease Rental paid	(2,784,222)	-
	Lease Payables as at 31 March	16,307,596	-

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 require to disclosure in these Financial Statements other than those disclosed above.

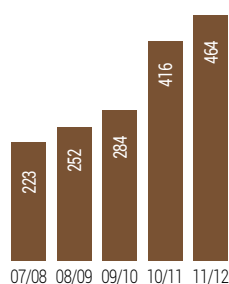
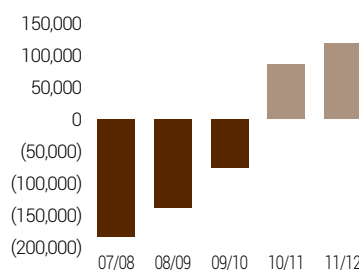
## 26. EVENT OCCURRING AFTER THE BALANCE SHEET DATE

There have been no material events occurring after the Balance Sheet date that require adjustment to or disclosure in the Financial Statements.

# Five Year Summary - Group

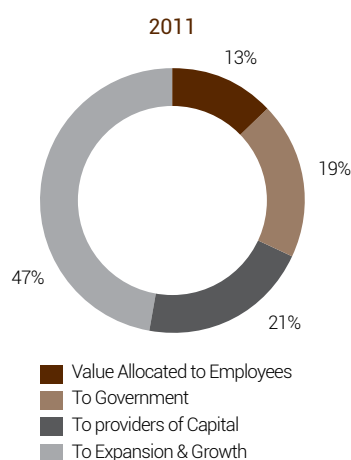
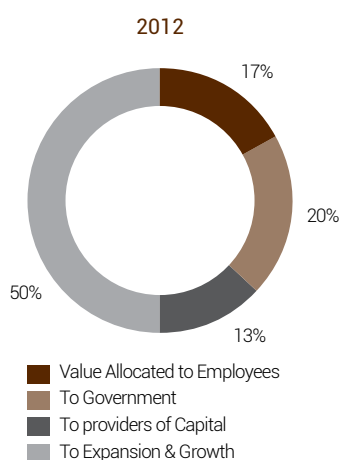
Year Ended 31 st March	2007 / 2008	2008/ 2009	2009 / 2010	2010 / 2011	2011 / 2012
(Figurs in Rs. 000 unless otherwise stated)					
<b>TRADING RESULTS</b>					
Turnover (Gross)	222,829	251,756	284,236	416,345	<b>464,306</b>
Profit / (Loss) from operations	16,251	54,293	118,283	248,009	<b>242,304</b>
Depreciation	88,415	90,424	98,972	86,950	<b>73,529</b>
Interest	110,246	101,859	94,826	75,027	<b>49,521</b>
Profit / (Loss) before Tax	(182,410)	(137,990)	(75,515)	86,032	<b>119,254</b>
<b>STATED CAPITAL &amp; RESERVES</b>					
Stated Capital	1,108,867	1,108,867	1,108,867	1,108,867	<b>1,108,867</b>
Revenue Reserves	(475,653)	(621,511)	(688,407)	(604,009)	<b>(484,993)</b>
Other Reserves	4,457	136,382	124,373	124,373	<b>124,373</b>
Shareholders' Funds / Net Assets	637,671	623,738	544,833	629,231	<b>748,247</b>
Long Term Loans / Deferred Liabilities	11,374	657,619	651,453	496,740	<b>363,713</b>
Capital Employed	649,045	1,281,357	1,196,286	1,125,971	<b>1,111,961</b>
<b>ASSETS EMPLOYED</b>					
Current Assets	121,430	78,535	71,580	86,246	<b>148,523</b>
Current Liabilities	674,882	86,886	70,501	60,781	<b>120,825</b>
Working Capital	(553,452)	(8,351)	1,079	25,465	<b>27,698</b>
Fixed Assets	1,203,273	1,290,932	1,197,832	1,100,504	<b>1,084,263</b>
<b>RATIO &amp; STATISTICS</b>					
Gearing (%)	2%	51%	54%	45%	<b>35%</b>
Current Ratio	0.18	0.90	1.02	1.42	<b>1.23</b>
Earnings Per Share (Rs.)	(1.65)	(1.24)	(0.68)	0.76	<b>1.07</b>
Net Assets Per Share	5.75	5.62	4.91	5.67	<b>6.75</b>
Return On Capital Employed (ROCE)	-28%	-11%	-6%	8%	<b>10%</b>
Return On Equity	-29%	-22%	-14%	14%	<b>16%</b>
Debt to Total Assets	1%	48%	51%	43%	<b>32%</b>
Earnings Before Interest & Tax (EBIT)	(72,164)	(36,131)	19,311	161,059	<b>168,775</b>

Turnover Rs. Mn

Profit / (Loss) Before Tax  
Rs.000'

# Group Value Added Statement

	Group		Company	
	2012	2011	2012	2011
	Rs. 000' s	Rs. 000' s	Rs. 000' s	Rs. 000' s
Turnover	540,730	482,447	-	-
Other Income	28,927	50,613	-	266
Less : Cost of Material and Service bought in	(184,115)	(170,575)	(2,982)	(1,574)
	385,542	362,485	(2,982)	(1,308)
<b>Value Allocated to Employees</b>				
Salaries, Wages & other benefits	66,813	48,599	-	-
<b>To Government</b>				
VAT,TDL , NBT & Income Tax	76,425	67,512	-	787
<b>To providers of Capital</b>				
Loan Interest	49,521	75,027	-	-
<b>To Expansion &amp; Growth</b>				
Depreciation & Retained in business	192,783	171,347	(2,982)	(2,095)
	385,542	362,485	(2,982)	(1,308)



# Shareholder Information

## 20 MAJOR SHAREHOLDERS

	as at 31/03/2012		as at 31/03/2011	
	No of Shares	(%)	No of Shares	(%)
1. M J F Holdings Ltd	28,616,411	25.807	28,616,411	25.807
2. Vallibel Leisure (Private) Limited	24,417,932	22.021	24,417,932	22.021
3. Royal Ceramics Lanka PLC	14,012,450	12.637	13,676,350	12.334
4. Mr. K.D.D. Perera	10,329,317	9.315	10,329,317	9.315
5. Vallibel Power Erathna PLC	5,933,400	5.351	5,933,400	5.351
6. L B Finance PLC	4,051,100	3.653	4,051,100	3.653
7. Mr. Merrill J. Fernando	2,124,400	1.916	2,124,400	1.916
8. Bank of Ceylon No. 1 Account	1,461,100	1.318	285,100	.257
9. Seylan Bank PLC/Jayantha Dewage	1,441,400	1.300	1,125,000	1.015
10. Mrs. N.U.D. Ariyaratna	1,414,500	1.276	1,440,000	1.299
11. Almar International (Pvt) Ltd	1,290,600	1.164	-	-
12. Merchant Bank of Sri Lanka PLC / J A S Piyawardena	980,500	0.884	1,040,600	0.938
13. Mr. D.C. Fernando	833,333	0.752	833,333	0.752
14. Mr. Malik J. Fernando	833,333	0.752	833,333	0.752
15. Polychrome Inks Limited	566,666	0.511	566,666	0.511
16. Seylan Bank PLC./Bertram Manson Amarasekara	550,000	0.496	1,231,300	1.110
17. Almar Trading Co (Pvt) Ltd	361,200	0.326	-	-
18. Mr. Y.K.B. Dissanayake	303,540	0.274	303,540	0.274
19. Seylan Bank Plc/A M Nimesha Anuruddha Abeykoon	291,200	0.263	100	-
20. Mr. R. Manoharan	291,000	0.262	366,000	0.330
	100,103,382	90.28	97,173,882	87.63
Others	10,783,302	9.72	13,712,802	12.37
Total	110,886,684	100.00	110,886,684	100.00

# Shareholder Information Contd.

## SHARE DISTRIBUTION

Shareholding As At 31st March 2012

From	To	No of Holders	No of Shares	%
1	1,000	1,542	704,285	0.64
1,001	10,000	847	3,237,754	2.92
10,001	100,000	155	4,371,960	3.95
100,001	1,000,000	22	7,480,075	6.73
Over 1,000,000		11	95,092,610	85.76
		2,577	110,886,684	100.00

## Categories of Shareholders

	No of Holders	No of Shares	%
Local Individuals	2,420	24,378,424	21.98
Local Institutions	137	86,390,435	77.91
Foreign Individuals	20	117,825	0.11
Foreign Institutions	-	-	-
	2,577	110,886,684	100.00

## DIRECTORS' SHAREHOLDING AS AT 31ST MARCH 2012

	No. of Shares	%
Mr. K.D.D. Perera	10,329,317	9.315%
Mr. J.A.S.S. Adhihetty	Nil	Nil
Mr. Malik J. Fernando	833,333	0.751%
Mr. Merrill J. Fernando	2,124,400	1.915%
Mr. W.D.N.H. Perera	89	0.000%
Mr. C.J. Wickramasinghe	19,291	0.017%
Mr. S. Senaratne	1000	0.000%
Mr. L.T. Samarawickrama	1550	0.001%
Mr. L.N. De S. Wijeyeratne	Nil	Nil
Mr. D.E. Silva	500	0.000%
Mr. H. Somasantha	Nil	Nil

## SHARE PRICES FOR THE YEAR

	As at 31/03/2012	As at 31/03/2011
<b>Market price per share</b>		
Highest during the year	Rs.35.90	Rs.33.00
Lowest during the year	Rs.14.10	Rs.18.20
As at end of the year	Rs.17.20	Rs.25.10

## PUBLIC HOLDING

The Public Holding percentage - 27.53%

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Twenty Eighth (28th ) Annual General Meeting of the Company will be held at the Auditorium of the L B Finance PLC Corporate Office, No.20, Dharmapala Mawatha, Colombo 3, on Friday, 29th June at 1.00 p.m. for the following purposes :

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and its subsidiary and the Statement of Accounts for the year ended 31st March 2012 with the Report of the Auditors thereon.
2. To pass the ordinary resolution set out below to appoint Mr. Merril J. Fernando, who is 82 years of age, as a Director of the Company.

"IT IS HEREBY RESOLVED that Mr. Merril J. Feranndo who has attained the age of 82 years be and is hereby appointed a Director of the Company and it is hereby declared that the age limit of 70 years stipulated in Section 210 of the Companies Act, No.7 of 2007 shall not apply to the said Director."

3. To re-elect Mr. C.J. Wickramasinghe who retires by rotation pursuant to the provisions of Article 84 of the Articles of Association of the Company.
4. To re-elect Mr. L.T. Samarawickrema who retires by rotation pursuant to the provisions of Article 84 of the Articles of Association of the Company.
5. To re-appoint Messrs Ernst & Young, Chartered Accountants, as the Auditors of the Company and to authorise the Directors to fix their remuneration.
6. To authorise the Directors to determine donations for the year ending 31st March 2013 and up to the date of the next Annual General Meeting.

By order of the Board  
THE FORTRESS RESORTS PLC



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

17th May 2012

## Notes

1. A Shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on behalf of him/her.
2. A proxy need not be a Shareholder of the Company.
3. The Form of Proxy is enclosed for this purpose.
4. The completed Form of Proxy must be deposited at the Office of the Secretaries, No.3/17, Kynsey Road, Colombo 8, by 1.00 p.m. on 27th June 2012.

# Notes

Sl. No.	Name of the Candidate	Grade	Score	Remarks
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				
46				
47				
48				
49				
50				
51				
52				
53				
54				
55				
56				
57				
58				
59				
60				
61				
62				
63				
64				
65				
66				
67				
68				
69				
70				
71				
72				
73				
74				
75				
76				
77				
78				
79				
80				
81				
82				
83				
84				
85				
86				
87				
88				
89				
90				
91				
92				
93				
94				
95				
96				
97				
98				
99				
100				





## Notes

[illegible]

# Form of Proxy

I/We\*.....(NIC No. ....).  
 of ..... being a shareholder/shareholders\*of THE FORTRESS RESORTS PLC hereby  
 appoint .....  
 ..... (NIC No.....) of .....(or failing him)

Mr. K.D.D. Perera	of Colombo or failing him*
Mr. J.A.S.S. Adihetty	of Colombo or failing him*
Mr. C.J. Wickramasinghe	of Colombo or failing him*
Mr. Malik J. Fernando	of Colombo or failing him*
Mr. Merrill J. Fernando	of Colombo or failing him*
Mr. S. Senaratne	of Colombo or failing him*
Mr. L.T. Samarawickrama	of Colombo or failing him*
Mr. L.N. de S. Wijeyeratne	of Colombo or failing him*
Mr. D.E. Silva	of Colombo

as my/our\* proxy to represent and speak and vote for me/us\* and on my/our\* behalf at the Annual General Meeting of the Company to be held on Friday, 29th June 2012 and at any adjournment thereof and every poll which may be taken in consequence of the aforesaid meeting.

I/We,\* the undersigned, hereby authorise my/our proxy to speak and vote for me/us\* and on my /our\* behalf in accordance with the preference as indicated below

	For	Against
1. To receive and consider the Annual Report of the Board of Directors and the Statements of Accounts for the year ended 31st March 2012 with the Report of the Auditors thereon	<input type="checkbox"/>	<input type="checkbox"/>
2. To appoint Mr. Merrill J. Fernando who is 82 years of age, as a Director of the Company pursuant to the provisions of the Companies Act, No.7 of 2007	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. C.J. Wickramasinghe as a Director in terms of Article 84 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. L.T. Samarawickrama as a Director in terms of Article 84 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-appoint Messrs. Ernst & Young, Chartered Accountants as Auditors of the Company and to authorise the Directors to fix their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
6. To authorise the Directors to determine donations for the year ending 31st March 2013 and up to the date of the next Annual General Meeting.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/our\* hands this ..... day of ..... Two Thousand and Twelve

\*Please delete as appropriate

.....  
 Signature of Shareholder/s

## Notes:

1. A proxy need not be a shareholder of the Company.
2. Instructions as to completion appear overleaf.

## Form of Proxy Contd.

### INSTRUCTIONS FOR COMPLETION

1. Kindly perfect the Form of Proxy by filling in legibly your full name address and the National Identity Card number and signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Office of the Secretaries, P W Corporate Secretarial (Pvt) Ltd, No.3/17, Kynsey Road, Colombo 8, Sri Lanka by 1.00 p.m. on 27th June 2012.
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.

# Corporate Information

## **Name of Company**

The Fortress Resorts PLC

## **Company Registration No**

PQ 207

## **Legal Form**

Public Quoted Company with Limited Liability, Quoted on the Secondary Board of the Colombo Stock Exchange.

## **Registered Office**

Level 27, East Tower  
World Trade Center  
Echelon Square  
Colombo 01

## **Board of Directors**

Mr. K.D.D.Perera (Chairman)  
Mr. J.A.S.S.Adhihetty (Managing Director)  
Mr. C.J. Wickramasinghe  
Mr. Malik .J.Fernando  
Mr. Merrill J. Fernando  
Mr. S. Senaratne  
Mr. L.T.Samarawickrama  
Mr. W.D.N.H.Perera  
Mr. L.N.De Silva Wijeyeratne  
Mr. D.E.Silva  
Mr. H.Somashantha

## **Subsidiary Company**

La Forteresse (Private) Limited

## **Hotel**

The Fortress Resorts & Spa  
Koggala  
Telephone : 0914389400  
Fax : 0914389458  
Email: info@thefortress.lk

## **Secretaries**

P W Corporate Secretarial (Pvt) Ltd.  
No 3 / 17 Kynsey Road  
Colombo 08  
Telephone: 0114640360-3  
Fax: 0114740588  
Email: pwcs@pwcs.lk

## **External Auditors**

Ernst & Young  
Chartered Accountants  
201, De Seram Place  
Colombo 10

## **Internal Auditors**

BDO Partners  
Chartered Accountants  
'Charter House"  
65/2 Sir Chittampalam A Gardiner Mawatha  
Colombo 02

## **Bankers**

Bank of Ceylon  
Hatton National Bank PLC  
Sampath Bank PLC  
Pan Asia Banking Corporation PLC



THE FORTRESS RESORT & SPA

SRI LANKA