THE FORTRESS RESORT & SPA

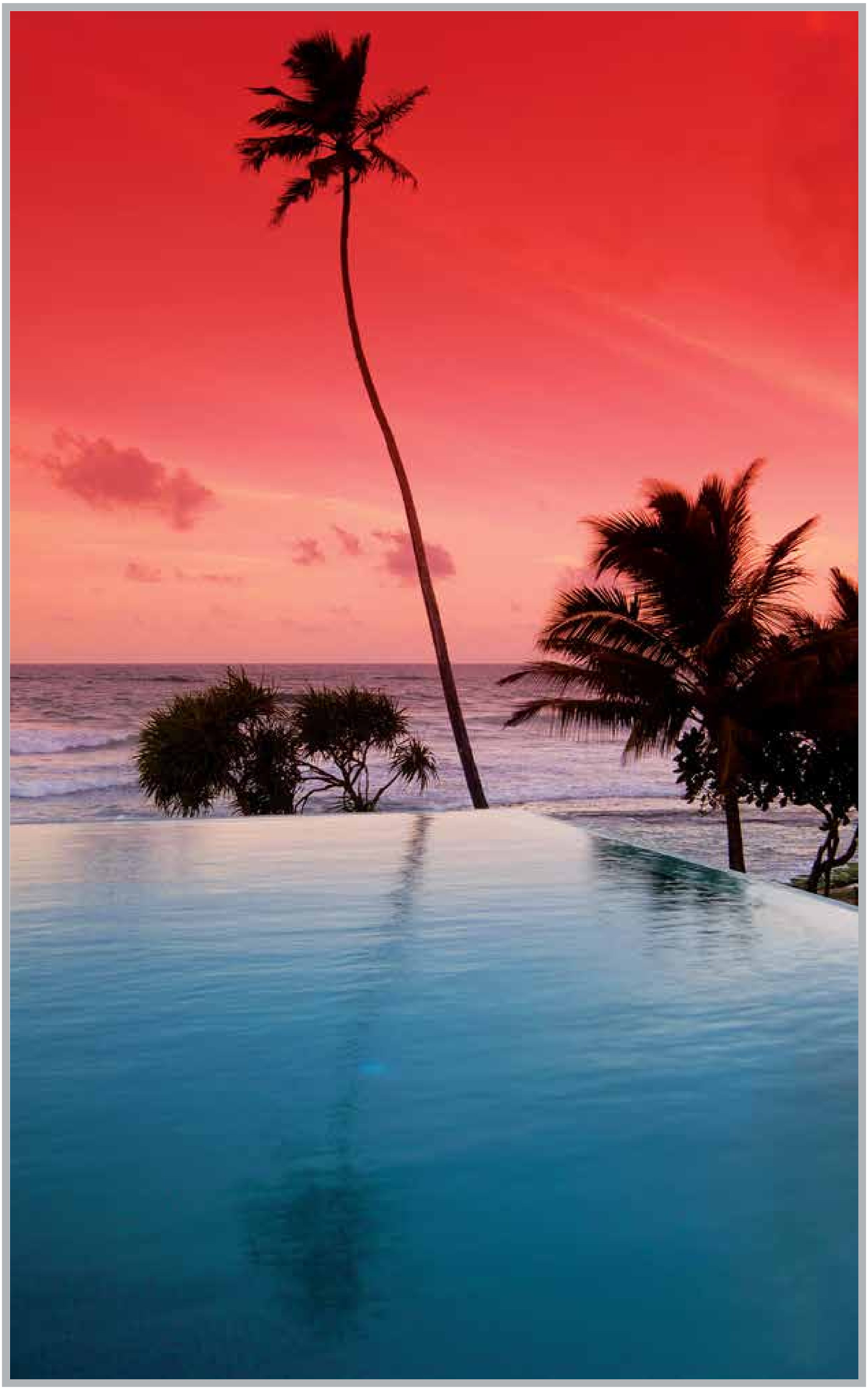
SRI LANKA

IT'S ALL IN THE DETAILS

The Fortress Resorts PLC | Annual Report 2012/13

IT'S ALL IN THE **DETAILS**

Luxury isn't just about ostentation, it's about the finer points in life, the finer points that make your trip one that you will never forget. That is why we believe that our success, for which we have been recognized, is based on paying attention to even the simplest matters. From the amenities in your room, to the care and concern of our staff, we go that extra mile to ensure that no part of your holiday remains untouched by our brand of luxury. Because here at **The Fortress**,
it's all in the **details**.




MOET

The jewels in our crown

The Fortress Resort & Spa has won three awards of the Asia Pacific Hotel Awards for 2012-13 presented by The International Hotel Awards in association with HSBC Bank Malaysia Berhad held on 27 April 2012 in Kuala Lumpur, Malaysia.

- **Best Small Hotel** - *Sri Lanka*
- **Best Resort Hotel** - *Asia Pacific*
- **Best Resort Hotel** - *Sri Lanka*

The acclaimed **Fortress Resort** & Spa in Koggala, continues to shine in the international scene bagging a host of new awards including affirmation as Sri Lanka's best hotel.

Trip Advisor is the world's most influential travel portal in its annual awards crowned the plush Fortress as the first of the best 25 hotels in Sri Lanka, in a race that sees the Southern jewel outshining a host of renowned names.

Trip Advisor prides itself as the world's largest travel community, with more than 32 million members and over 75 million reviews and opinions of hotels, resorts and tourist attractions.

Continental Award Winner of the Indian Ocean for **Best Luxury Coastal Resort**-: World Luxury Hotel Awards 2012.

Contents


THE
FORTRESS

THE FORTRESS RESORT & SPA
SRI LANKA

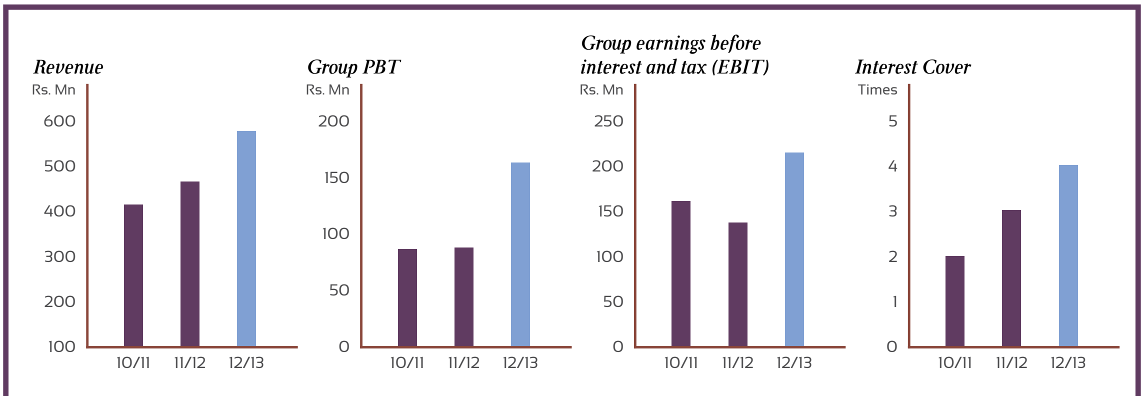
The Fortress

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 free flow 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)

Year Ended 31 st March		2013	2012	2011
Earnings Highlights and Ratios				
Revenue	Rs'000	**577,724**	464,306	416,345
Earnings before interest and tax (EBIT)	Rs'000	**214,158**	136,810	161,059
Group profit before tax (PBT)	Rs'000	**161,735**	87,289	86,032
Group profit after tax (PAT)	Rs'000	**153,613**	84,406	84,398
Group profit attributable to the shareholders	Rs'000	**153,613**	84,406	84,398
Earnings per share (EPS)	Rs.	**1.39**	0.76	0.76
EPS Growth	%	**82%**	41%	207%
Interest cover	No of times	**4**	3	2
Return on Equity	%	**14%**	9%	10%
Pre - tax ROCE	%	**11%**	6%	5%
Balance Sheet highlights and ratios				
Total assets	Rs'000	**1,490,715**	1,389,902	1,375,832
Total debt	Rs'000	**374,808**	425,163	513,674
Total shareholder's funds	Rs'000	**1,038,082**	884,447	800,041
No. of shares in issue	Number	**110,886,684**	110,886,684	110,886,684
Net assets per share	Rs.	**9.36**	7.98	7.21
Debt/Equity	%	**36%**	48%	64%
Debt/Total assets	%	**25%**	31%	37%
Market / Shareholder information				
Market price of share as at 31 st March	Rs.	**15.00**	17.20	25.10
Market capitalisation	Rs'000	**1,663,300**	1,907,251	2,783,256
Price earnings ratio	No of times	**10.83**	22.60	33.03
Operational information				
Average occupancy	%	**70%**	66%	65%
Number of room nights sold	Room nights	**13,459**	12,681	12,055
Room revenue	Rs'000	**357,826**	290,885	243,715
Average room rate (ARR)	Rs.	**26,586**	22,939	20,217
Revenue per occupied room	Rs.	**45,808**	38,828	38,512
Net profit per room	Rs'000	**2,898**	1,593	1,592



The Fortress Resort & Spa

Sri Lanka

Turnover

Rs. 577 Mn

Net Profit

Rs. 153 Mn

Fortress Resort & Spa, a hotel in Koggala in Sri Lanka's southern coast said profit rose sharply to 153 million rupees for the year ended 31st March 2013, by passing a year before profit of Rs. 84 Million.

Chairman's Message

"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 gives me great pleasure to place before you, valued shareholders, Fortress Resort & Spa annual report for the current financial year. I take pride in highlighting the fact that the year 2012/13 was one of strong growth across the group, facilitated by favourable global tourism factors. Your Company consolidated its unique and competitive brand advantage through the year, improving on last year's robust performance. The global lifestyle segment has become increasingly important as guests desire unique travel experiences which reflect the local flavor of their destination. The Fortress Resort & Spa is eminently poised to cater to this discerning set of tourists as is demonstrated by our convincing financial results during this period.

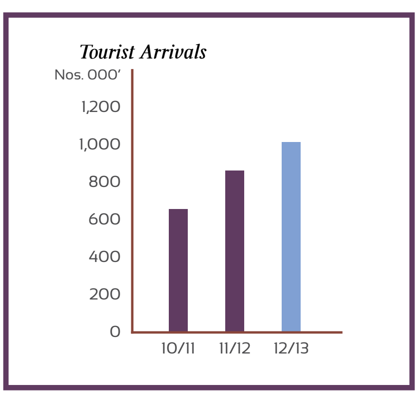
Favourable Global Trends

The year 2012 marked the third consecutive year in which foreign arrivals growth remained positive for the region. Asia and the Pacific retained its position as the hottest tourism destination for international tourism in 2012. The region attracted in excess of 350 million international visitor arrivals, thereby expanding its collective inbound count by more than 5% and generating more than 18 million additional foreign visits year-on-year. By far, South-east Asia was the strongest performer in 2012, improving its performance by as much as 9.9% over the previous year. This growth equals an increase of more than 8 million additional arrivals over that of 2011, bringing the ASEAN aggregate international inbound tourist count to almost 89 million.

Closer to home, South Asia experienced a slackening of numbers. After several years of strong double-digit growth rates, the region witnessed a growth of 6.6% and an increase of well over half-a-million additional international arrivals. The Sri Lankan market performed commendably, recording a growth of almost 18%, with the inbound tourist count eventually passing the one million mark. While Maldives fell just short of this record figure, India claimed the lion's share of the business within South Asia. Experiencing more than 6.6 million arrivals and a year-on-year gain of close to 340,000 additional foreign arrivals, India accounted for approximately 59% of the total additional increase in the arrivals volume to the sub-region.

Sri Lanka Tourism: Mining Global Interest

Having placed tourism squarely at the top of its economic agenda, the government has been making a concerted effort to grow the sector through various initiatives. The visionary statement contained in the Mahinda Chinthanaya spelt out a clear vision for Sri Lanka tourism. The subsequent five year (2011-2016) Tourism Development Strategy has guided the growth of the industry and the country seems to be on track to achieving its target of 2.5 million tourists by 2016. The addition of new hotel rooms upto 45,000 by 2016, completion of major link roads and highways to reduce commuting time and the beautification of Colombo are efforts to attract greater numbers of inbound tourists to Sri Lanka. We are hopeful that these efforts coupled



with the company's competitive brand advantage in the local and global tourism market will usher in the desired results soon. Accomplishing the one million plus tourist magic number and US$1 Billion in revenue in the sector during the year under review bodes well for the industry's prospects. The 2012 calendar year ended with a record 1,005,605 in bound tourists into Sri Lanka.

Robust Earnings

Reflecting a sound financial performance, The Fortress Resort & Spa recorded Rs. 577 Mn total revenue during the period compared to the Rs. 464 Mn revenue during the previous year. This 24% increase was achieved through targeted marketing efforts in key tourist generating markets for the property in tandem with the strong brand positioning we enjoy. As a result,Net profit for the year was Rs. 153 Mn with a 84% increase compared to Rs. 84 Mn in 2011/12. Our balance sheet remains fundamentally robust and allows us to leverage on our strong asset base to ensure that the property is maintained to the same high standards as leading international luxury brands. We are pleased to note that while earnings increased substantially, room rates and occupancy levels also took an upward swing, reflecting operational excellence and a passion for perfection.

The average occupancy of 70% for the financial year marks a 4% improvement in occupancy rates over the corresponding period last year. Total room nights sold during the year was 13,459 compared to 12,681 room nights in the previous year. The average room rate for the year was Rs. 26,586 as against the average room rate of Rs. 22,939 in the previous financial year.

Receiving Global Approval

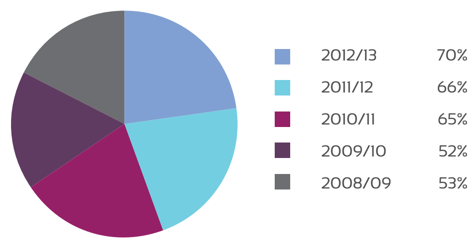
The property continues to gain prominence amongst international travel and tourism fora. Guest feedback and the experience of a genuine luxury resort stay have ensured we have many repeat visitors. The Fortress Resort & Spa was showered with a wide array of awards and accolades during the period under review. These are:

- Business Destinations - Travel Awards 2013 - Best Luxury Hotel, Sri Lanka
- Trip Advisor Traveller's Choice Award for 2013
- Trip Advisor Certificate of Excellence for the year 2012
- Continental Award Winner of the Indian Ocean for Best Luxury Coastal Resort - World Luxury Hotel Awards 2012

Chairman's Message Contd.

- Best Resort Hotel Asia Pacific 2012-13, International Hotel Awards - Asia Pacific in association with HSBC
- Best Resort Hotel Sri Lanka 2012-13, International Hotel Awards - Asia Pacific in association with HSBC
- Best Small Hotel Sri Lanka 2012-13, International Hotel Awards - Asia Pacific in association with HSBC

Hotel Occupancy



occupancy
70%
during 2012/13.

Shared Commitment

The resort's focus on putting the customer at the centre of all our operations remains undiminished despite the wave of accolades, which reflects that our brand of service and delivery is making the right impact with our target customers. Responding to customer needs big and small has helped us perfect our service excellence. Our objective is to create value for our guests that remains consistently superb. Our common commitment to deliver our unique brand of luxury service drives our success. Sustainability is a byword at the resort and underscores our ability to deliver the expectations of responsible tourism to our discerning guests. We remain highly focused on reducing the environmental impact of our operations on the community and the environment. The Fortress Resort & Spa attracts high net worth guests who expect to stay at a luxury property that has sustainability embedded in all its operations and we understand and unfailingly deliver this commitment for our valued customers and other stakeholders.

Acknowledgements

I am indebted to my colleagues on the Board for their support and foresight in ensuring that the Fortress Resort & Spa retains its distinct personality. The Fortress team members deserve a special commendation for the manner in which they have sustained the brand image and consolidated the brand awareness and goodwill to deliver outstanding results for the year. As Sri Lanka prepares to upscale its offering to attract high spending tourists, the Fortress Resort & Spa, which has been doing exactly that since inception, will prove to be the ideal role model to emulate.

Dammika Perera
Chairman

29th May 2013
Colombo

Chief Executive Officer's Review

"However, the tourism sector performed well on the back of a record 1 million plus tourists touching down on the island's shores. Tourism revenue from January to December 2012 rose to 132 million dollars which marked an overall increase of 44.1% over the previous year."

Our passionate quest for creating long-term value for our guests has resulted in a convincing performance in the financial year under consideration despite a challenging macro-economic environment. The Fortress Resort & Spa has been consistently consolidating its market share and achieving revenue progression, thereby driving superior financial results with each passing year irrespective of whether or not local and global macro-economic conditions were conducive for growth.

In contrast to the strong GDP growth of the previous two years, the year 2012 witnessed a slowdown in the Sri Lankan economy. The tightening of the monetary policy and high inflationary environment brought about a reduction in GDP growth in 2012 to 6.4% from 8.3% in 2011. However, the tourism sector performed well on the back of a record 1 million plus tourists touching down on the island's shores. Tourism revenue from January to December 2012 rose to 132 million dollars which marked an overall increase of 44.1% over the previous year. The rising cost of energy and raw materials were obstacles that had to be circumvented with care to safeguard

Chief Executive Officer's Review Contd.

our sustainability commitment whilst managing costs effectively.

Summary of Performance

We are proud of the financial results we were able to achieve through a precise and strategic plan of action. The resort generated total revenue of Rs. 577 Mn during the period compared to the Rs. 464 Mn revenue earned during the previous year. The total revenue increase of 24% is a remarkable achievement despite increase in operational costs due to external price shocks of essential commodities and utilities. Further, profit before tax increased by 86% to Rs. 162 Million while profit after tax for the year was Rs. 153 Mn, recording a 82% increase compared to the previous year's net profit of Rs. 84 Mn.

Strong Balance Sheet

The Fortress Resort & Spa has achieved the highest ever turnover of Rs. 577 Mn during the period ended 31st March 2013. After this year's record financial performance we can proudly declare that our balance sheet is like a fortress - strong and sustainable. Its inherent strength was reinforced further during the year. Return on Capital Employed (ROCE) was 11% compared to 6% in the previous year, while Return on Equity (ROE) was 14% compared to 9% in the previous year.

Earnings per Share

Earnings per share increased by 82% to Rs. 1.39 during the year, which has led shareholder funds to rise to Rs. 1,038 Mn as against Rs. 884 Mn in 2011/12.

Milestones Achieved During 2012/13

The hotel crossed several milestones during the year to ensure operational excellence in all aspects of our functions. We strive for operational excellence as much as we do financial profitability to maintain the excellence in luxury that the brand has come to be known for. We are proud to have reached the best ever occupancy of 70% on average through out the year, which is commendable considering that off-peak seasons can be quite lean for some hotels. Total number of room nights sold during the year was 13,359 compared to the 12,681 room nights sold in the previous year, marking a 4% increase overall. During the year 25,955 guests stayed in the hotel compared to the 24,223 guests in the previous year with an average increase of 7% in guest stays. Achieving the best ever average room rate of Rs. 26,586/- compared to the average room rate of Rs. 22,939/= in the previous year speaks for itself. We were hoping to maintain an average room rate of Rs. 22,285/- which was the same as last year, whilst targeting an increase in occupancy from 66% last year to 70% in the financial year 2012/13. However, due to our direct inventory and revenue management methods, we improved our average room rate to Rs. 26,586/- with aggressive marketing on the web. This success we believe can be purely accredited to the exclusivity of our resort.

Capping a successful year, the property was bestowed with numerous awards during the year which reflects the growing acceptance of Fortress as a strong luxury hospitality brand globally.

The hotel maintained a high profile at key international trade fairs and seminars to forge links with tour operators and industry officials looking for an exotic luxury resort. As a result of our aggressive marketing efforts in the international arena, we were able to generate excitement about the brand and translate interest into actual room nights. The ITB 2013, held in Berlin, Germany; the World Travel Market - 2012, held in London, UK; and the International French Travel Market (IFTM), in Paris, France, were the key events in which we made our presence felt. Besides this, we focused our marketing efforts in the UK and generated a buzz at food fairs in the Maldives and Singapore.

Adding Lasting Value

Our commitment to add value to guest experience led us to undertake a capital expenditure of Rs. 51 million, invested mainly in enhancing the facilities. Responding to customer needs, we set up a stunning fine dining restaurant equipped with brand new imported furniture and cutlery at a cost of Rs. 3.5 million. These exclusive dining options will enable discerning guests to indulge in delectable cuisine in a fine dining ambience. We expect this to be heavily patronized by our guests, many of whom can be classified as high spending tourists.

We also invested in new bed linen imported from Italy to replace the partly used bed linen at a cost of Rs. 4.2 million. The new linen will heighten the feeling of fresh new rooms and reflects our passion to offer nothing short of the best to our customers. We also partly refurbished three Fortress category rooms with new tiled corridors so that guests could enjoy the picturesque sea view. The cost of this refurbishment was Rs. 2 Mn.

Superior cuisine is one of the highlights of our property and in order to ensure fresh produce and well preserved foods, we invested in new cooling display cabinets imported from Germany to enhance the quality in the main restaurant at a cost of Rs. 4.8 million.

A further Rs. 24 Mn was spent to add 3 brand new Sorrento Jeeps to the fleet to enhance guest transport facilities in the resort.

Nurturing Human Resources

Delivering our hallmark service is driven by our people and strongly supported by advanced systems and processes that work in unison for a superior hospitality experience. We ensure our employees in the frontline are empowered with the right skills sets and training to be able to deliver the high standards we maintain. Our Butler facility is highly valued by guests as the quality of our butlers is on par with counterparts in the world. During the period under review, we invited expert trainers from the Australian Butlers Academy for a two-week training session at a cost of Rs. 1.3 Mn, during which our butlers received a thorough grounding in superior butler skills.

Moreover, we have persevered with the English training program for the operational staff throughout the year so that they are able to break down communication and cultural barriers with guests. The aim is to make this an ongoing endeavour so that our staff remains on the cutting edge of service.

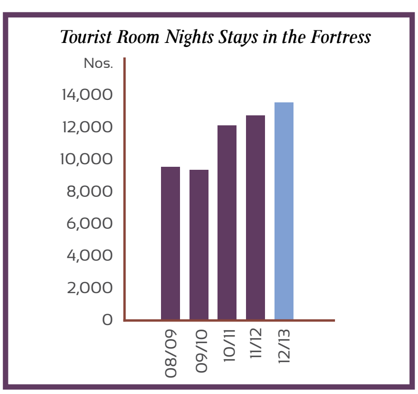
Employee safety and well-being are our foremost priorities and during the year we enhanced the Health and Surgical medical insurance cover for permanent staff at a cost of Rs. 1.8 Mn. The Fortress is one of the preferred employers in the country's hospitality business and this keeps our attrition rates below industry standards. This year too we offered cash rewards and certificates by spending rupees 1 Mn for long serving staff. Meanwhile, best performers in each department have been rewarded on a quarterly basis and a performance based bonus system has been introduced in the resort during the period under review.

In Appreciation

The visionary leadership and wise counsel of the Chairman and the Board of Directors have proved valuable in steering the company to its current profitability. Furthermore, the Fortress team has lived up to the faith placed in them by consistently delivering great value service and ensuring that they go the extra mile to delight our guests. Since its inception half-a-decade ago, the Fortress still remains an icon amongst luxury hotels in Sri Lanka and the Indian subcontinent. Given our legendary signature of being one of the best in hospitality, it will further consolidate its position in this niche for many more years to come.

Sumith Adhihetty
Managing Director

29th May 2013
Colombo



Board of Directors

Mr. Dhammika Perera
Chairman

He is a well known prominent entrepreneur and investor whose business interests include Hydropower Generation, Manufacturing, Hospitality, Entertainment, Banking and Finance.

He is currently the Secretary to the Ministry of Transport, Sri Lanka. He is also the Chairman of Sampath Bank PLC, Vallibel One PLC, Vallibel Finance PLC, Vallibel Power Erathna PLC, Delmege Limited and Greener Water Limited.

He is the Executive Deputy Chairman of L B Finance PLC, Deputy Chairman of Hayleys PLC, Royal Ceramics Lanka PLC and Orit Apparels Lanka (Pvt) Ltd.

He is also a Director of Amaya Leisure PLC, Haycarb PLC, Hayleys MGT Knitting Mills PLC, Hotel Services (Ceylon) PLC, Dipped Products PLC, Horana Plantations PLC, Lanka Walltiles PLC, Lanka Floortiles PLC and Strategic Enterprise Management Agency of Sri Lanka.

He was the former Chairman of the Board of Investments, Sri Lanka

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

A well-known professional in the marketing field, he counts over 32 years of experience in the finance sector.

He serves on the Boards of Vallibel Finance PLC, Vallibel One PLC, Pan Asia Banking Corporation PLC and is the Managing Director of L B Finance 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 and Security Ceylon (Pvt) PLC.

Mr. W.D. Nimal H. Perera
Alternate Director to Mr. P B Perera

Mr. Nimal Perera who joined the Board of The Fortress Resorts PLC on 25th April 2003 resigned on 18th April 2012 and rejoined the Board on 8th August 2012 as an Alternate Director to Mr. P B Perera.

He 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.

He is the Chairman of Pan Asia Banking Corporation PLC, Deputy Chairman of Vallibel One PLC, Executive Director of L B Finance PLC, Managing Director of Royal Ceramics Lanka PLC, Director of Amaya Leisure PLC, Director of Vallibel Finance PLC, Hayleys PLC, Hotel Services (Ceylon) PLC, Talawakelle Tea Estates PLC, Haycarb PLC, Lanka Walltiles PLC, Lanka Floortiles PLC and Horana Plantations PLC.

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, Amaya Resorts and Spa, Maalu Maalu Resorts & Spas, Amaya Leisure PLC and Aliya Resort & Spa. He is a Director of Hunas Falls Hotels PLC. He is a 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 Sri Lanka Tourism Promotion Bureau (SLTPB) and current Board Member of 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 Entrepreneurs category in 1999, organized by the Federation of the Chamber of Commerce & Industry (FCCISL).

Mr. Wickramasinghe is proficient in English, Sinhalese and French.

Mr. Malik J. Fernando
Director

Mr. Malik Fernando was appointed to the Board of The Fortress PLC in 27th May 1999 as a Director.

He is the Director Operations of the MJF Group, which comprises several tea growing and tea packing/exporting companies, supplying the 'Dilmah Tea" brand around the world.

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

Mr. Merril J Fernando
Director

Mr. Merrill J. Fernando was appointed to the Board of The Fortress Resorts PLC on 27th May 1999.

He is the Chairman of MJF Holdings Limited and one of Sri Lanka's first tea tasters in the then British-dominated trade. He is the founder of "DILMAH TEA" brand name which re-launched, redefined and re-established the quality of Ceylon tea. DILMAH is now, a much respected global name, renowned for its quality and the philosophy of caring and sharing behind the brand.

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

Board of Directors Contd.

Mr. Suranimala Senaratne
Director

Mr. Suranimala Senaratne counts over 35 years experience in the tourism and leisure industry. He held the position of Managing Director of Connaissance Group of Companies from 1987 to 2008.

In 2008, he took over the management of Yathra Travels (Pvt) Ltd as the Chairman / Managing Director. He is also the Chairman of Blackpool Holdings (Pvt) Ltd and a Director of Amaya Leisure PLC and Vallibel Finance PLC.

Mr. L.T. Samarawickrema
Director

An Internationally qualified Hotelier having gained most of his management experience in UK, working for large international hotel chains over a long period of time. 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 several years of experience in the trade. Having specialized 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 also a Director of Amaya Leisure PLC, Hunas Falls Hotels PLC, The Hotel Services Ceylon PLC, Royal Ceramics Lanka PLC and KelaniVally Plantation PLC.

Mr. Lalit N de Silva Wijeyeratne
Director

Mr. Lalit N de Silva Wijeyeratne who was appointed to the Board of The Fortress PLC on 22nd March 2010 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 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.

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 specification 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 Maalu Maalu Resorts and Spa, Hunas Falls Hotels PLC and Delair Travels (Pvt) Ltd. An All Island Justice of the Peace and counts over 20 years of experience in the Hospitality Industry, specialising in Marketing and Sales.

Mr. Silva also heads the Marketing & Sales of The Hotel Services Ceylon PLC. Mr. Silva currently functions as the Head of the Marketing Sub-Committee of The Hotels Association of Sri Lanka and the Vice President-Hotels of the Travel Trade Sports Club.

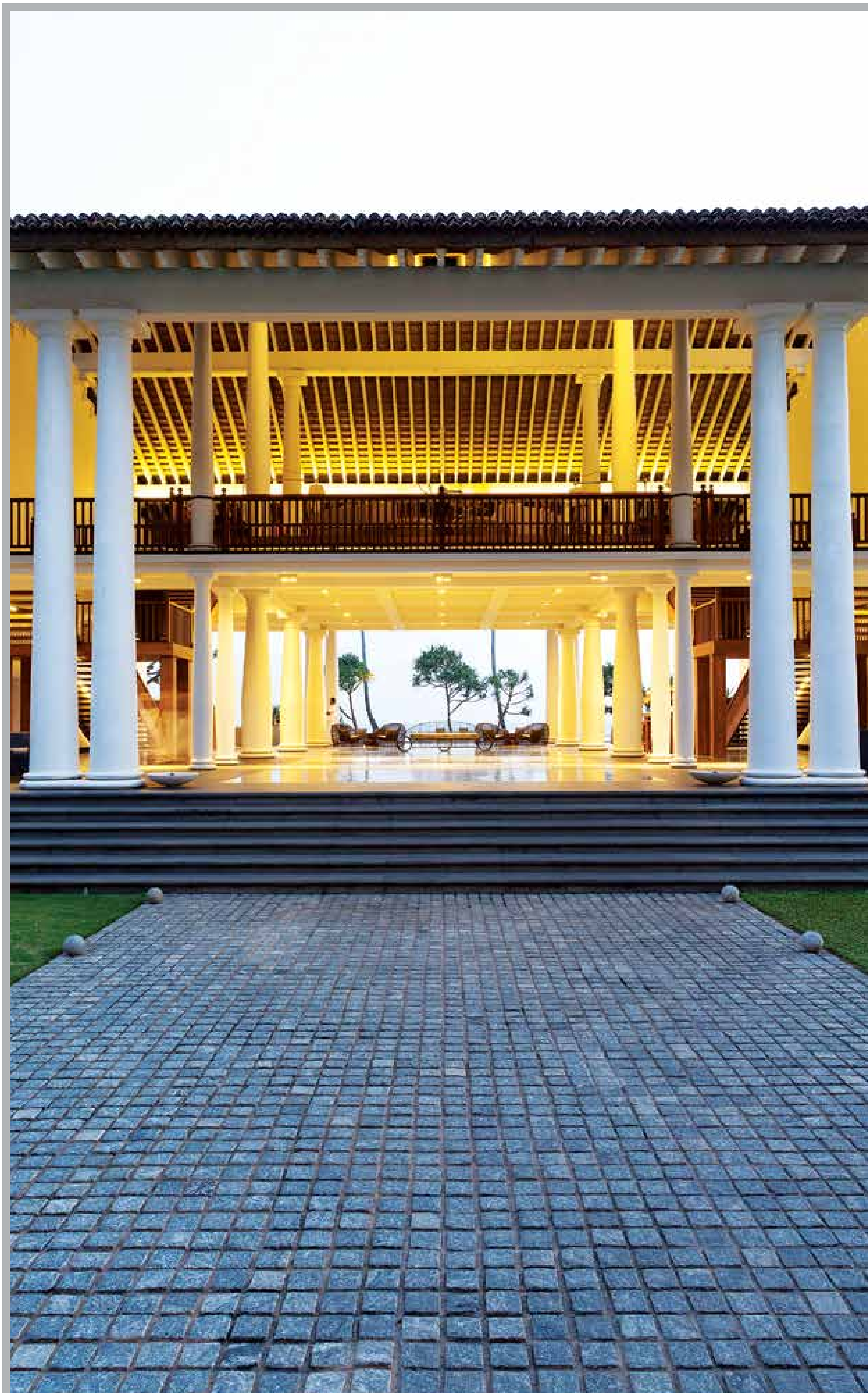
Mr. P.B. Perera
Director

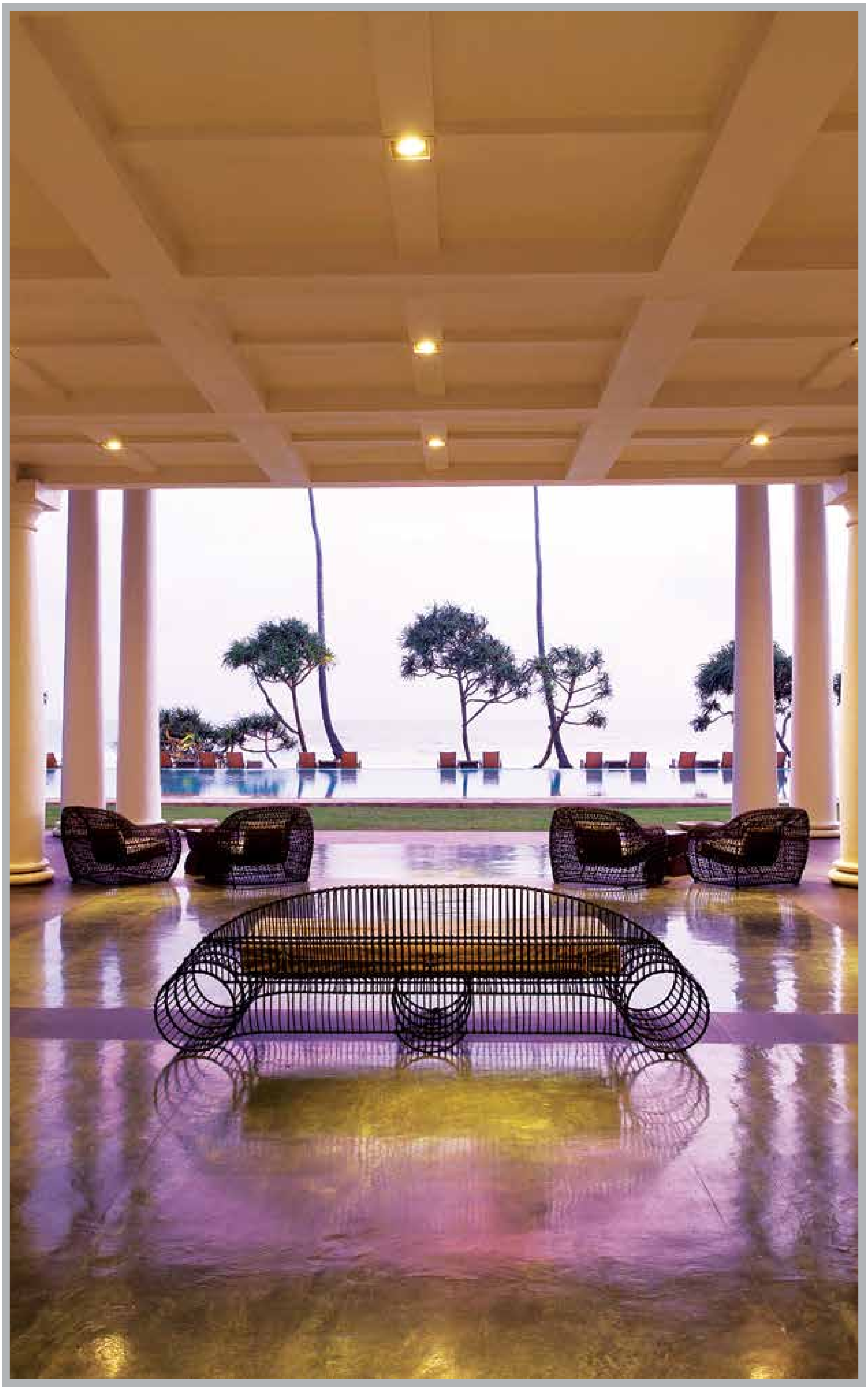
Mr. Prashan Buddhika Perera joined the Company as a Director on the 8th August 2012 and is presently reading for his Degree in Finance at the Bentley University of Boston, Massachusetts, USA.

Mr. H. Somashantha
Alternate Director to Mr. L T Samarawickrema

Mr. Haresh Somashantha is a member of the Institute of Chartered Accountants of Sri Lanka and also holds a Bachelor's Degree in Mathematics from the University of Kelaniya. He counts over 14 years of experience in audit, financial management and reporting, including strategic and corporate planning across different industries.

He is currently the Head of Finance & Treasury of Royal Ceramics Lanka PLC and Chief Financial Officer of Vallibel One PLC. He serves as a Director of Hayleys MGT Knitting Mills PLC, Vallibel Power Erathna PLC, Ever Paint and Chemical Industries (Pvt) Ltd., New World Securities (Pvt) Ltd. and several companies in the Delmege Group. He is also an Alternate Director of Amaya Leisure PLC.





Management Discussion & Analysis

"Over the next ten years this industry is expected to grow by an average of 4% annually, taking it to 10% of global GDP, or some US$10 trillion. By 2022, it is anticipated that it will account for 328 million jobs, or 1 in every 10 jobs on the planet"

Global outlook

Travel & Tourism continues to be one of the world's largest industries. One billion tourists travelled the world in 2012, marking a new record for international tourism. The total impact of the industry means that, in 2012, it contributed 9.3% of global GDP, or a value of over US$6.6 trillion (a 10% increase from 2011), and accounted for 260 million jobs. Over the next ten years this industry is expected to grow by an average of 4% annually, taking it to 10% of global GDP, or some US$10 trillion. By 2022, it is anticipated that it will account for 328 million jobs, or 1 in every 10 jobs on the planet.

The wider global economy has seen another turbulent year in 2012 with generally sluggish national recoveries and soft (yet improving) consumer confidence. Unemployment and downward pressure on household disposable incomes have impacted consumer spending, yet we continue to see a relative resilience in demand for tourism. According to IPK International's World Travel Monitor, a total of 6.8 billion trips will take place this year, 2.5 % more than in 2011 with international travel rising by 4 % to 1.03 billion trips. This forecast is in line with the expectations of the World Tourism Organization (UNWTO) which sees a 3-4% rise in international tourist arrivals in 2012. Looking ahead to 2013, IPK expects world tourism to show its resilience once again with international trips growing in the 2-3% range while the UNWTO predicting a 2-3% rise in international arrivals.

The IMF believes the world economy is running at three different speeds, with emerging market and developing economies still growing strongly, but the

US outperforming the Eurozone among developed economies. It suggests Western economies look to ease austerity measures that are currently in place in order to nurture growth and keep a fragile global recovery on track.

In emerging markets and developing economies, the IMF's "World Economic Outlook" report highlights the need to tighten policies and rebuild buffers while periods of growth continue. The tightening should begin with monetary policy and, when needed, be supported with prudential measures to rein in budding excesses in financial sectors. We are happy to report that despite these measures, Asia will continue to be the strongest growing Travel & Tourism region in 2013. Looking further forward, Asia can expect an average annual growth of 6% over the next 10 years, driven in no small part to the increasing wealth of our own middle classes.

World regional travel trends {change (in %) over respective previous years}

	2011	2012	2013 forecasts
World	+5%	+4%	+2-3%
Europe	+4%	+2%	+2%
North America	-1%	+3%	+0%(US)
Asia Pacific	+6%	+7%	+6%
South America	+7%	+12%	+2% (Brazil)

Globally, the appetite for travel beyond national borders, from leisure and business visitors, has remained undimmed. Data for some countries suggests that we are continuing to see the longer international and short domestic trips being sacrificed to retain more frequent shorter and lower cost international trips. International destinations are increasingly offering discounts to attract visitors, who in turn are taking shorter trips and spending less per trip to make international travel affordable within constrained budgets.

Regional view

Southeast Asia was the strongest performer in 2012 in annual growth terms, with a gain of 9.9% tourism GDP for the year. This equated to an increase of more than 8 million additional arrivals over the previous year and pushed the ASEAN aggregate international inbound count to almost 89 million people.

Within this sub-region, Myanmar had a staggering increase of almost 52% in arrivals, while Cambodia and Lao PDR reported gains of 24 % and 22 % respectively. All 3 destinations broke their previous records with Myanmar breaking the million arrivals mark for the first time in their history Cambodia and Lao PDR each broke the 3 million mark. They were not alone in their milestones as every destination within the ASEAN region (including Sri Lanka) set new highs in terms of international arrivals.

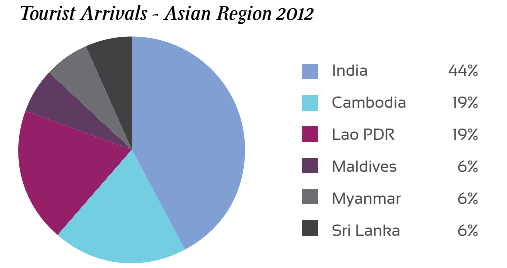
After several years of strong double-digit growth rates, South Asia is now settling back somewhat, however it is still showing strong increases. 2012 for example saw growth of 6.6% and an increase of well over half a million additional international arrivals.

Maldives fell just short of a million arrivals, while India remained the titan within South Asia, receiving more than 6.6 million arrivals with a year on year gain of close to 340,000 additional international visitors. That equates to some 59% of the total additional increase in arrivals volume for the South Asian sub-region.

Asia remained the powerhouse for outbound world tourism growth this year with a strong increase of 7% in outgoing travel as incomes rise and consumers have more disposable income. China and Japan have both performed very strongly with double-digit growth rates in outbound travel according to the Japan Travel Bureau. In addition travel by South Koreans increased by 6.7% from January to August 2012. Hong Kong and Taiwan also grew well over the year. Overall, outbound tourism from North-East Asia can be expected to record double digit growth next year.

The outlook for Asian outbound tourism next year is overwhelmingly positive thanks to continued good prospects for the region's economies. According to the IMF's World Economic Outlook, Asian GDP as a whole is likely to grow by 5.4% this year and 5.9% in 2013. Prospects for Asian tourism in 2013 are even stronger. Only one third (32%) of Asians say the financial crisis will impact their travel intentions while two thirds (68%) say their plans will not be affected. Last year slightly more Asians (36%) were impacted by the crisis. On a similar positive note, 29% of Asians plan to travel more in 2013, up from the 26% figure last year. Only 16% plan to travel less , compared to 21% last year , while 52% plan similar travel levels in 2013 (46% last year). Taking all these factors in to account, IPK currently predicts a healthy 6 % increase in Asian outbound travel in 2013.

Tourist Arrivals - Asian Region 2012



Management Discussion & Analysis Contd.

Local markets

Continuing its positive post-conflict momentum, tourism in Sri Lanka remained on an upward trajectory as the country attracted 1,005,605 foreigners in year 2012. This was a healthy increase of 17% against the previous year. In addition, the highest monthly earnings ever recorded from tourism were seen in December 2012 with earnings amounting to $133.5 million US dollars. For the year 2012 as a whole, earnings from tourism totalled $1,039 million US dollars: an impressive growth of 25.1%. In 2012 we can proudly state that we saw tourism revenues for our country exceed one billion dollars. The Visit Sri Lanka 2011 campaign and the T20 world cup both significantly influenced tourist arrivals.

The Western European market continued to be the largest segment for tourism in Sri Lanka, again despite the financial instability in the region throughout the financial year under review. The UK market is dominating as in previous years by consuming 4,305 room nights during the year against 3626 room nights in the previous year. This is close to 32% of hotel occupancy against previous year UK market performance of 28% of nationwide occupancy. The remainder of the European market showed a decline in the year under review by consuming 1,093 room nights against 1,150 room nights in the previous year.

Government focus

Under the guidance of the Minister of Economic Development, the Government has now launched its Tourism Development Strategy for next five years. This comprehensive plan will help drive now revenues in the industry until post 2016.

The key objectives of the program are:

- To achieve a target number of 2.5 million tourists by 2016.
- Attraction of foreign direct investments (FDI's) of USD 3 billion in the next five years.
- Increase in tourism related employment to 500,000 jobs in 2016.
- Increase foreign exchange earnings from tourism to USD 2.75 billion by 2016.

We are confident that this visionary program will see tourism continuing as one of the bright star industries within the Sri Lankan economy , well into the future.

Operating review

This is an exciting time for the industry and a wonderful opportunity for us to introduce many new visitors to our beautiful country.

Occupancy Growth

This year the Fortress has been able to record the highest ever occupancy figures since the inception of the hotel. The Hotel achieved an average occupancy of 70% during 2012. This is a 5 % increase against the previous year's average occupancy of 65 %. Again, bookings received through the web increased significantly from 1,398 room nights in the previous year to 1,885 room nights in 2012, an average increase of 35% for online bookings.

Rs. 577 million
Revenue
During 2012/13

Website Success

Our hotel Opera Web Suite (OWS) has proven to be increasingly valuable by producing bookings for 432 room nights during the year compared to 179 room nights the previous year. This astonishing 141% increase clearly indicates that our strategic marketing initiatives during the period have been a huge success, both in web marketing and optimization of the online customer experience. Sales generated through our own web contribute much higher yields for the hotel due to an absence of intermediate commission payments against those revenues. Small Luxury Hotels of the World remains our most successful web sales partner by producing 834 room nights during the year, albeit a decrease from 1046 room nights the previous year. This reduction clearly gestures to the popularity of our own web site, which will remain the hotel's key focus for web sales in the future.

Improved Services

To harvest maximum benefits from the upturn in the tourism industry in Sri Lanka, the hotel monitored areas of improvement on a continuous basis. We have made tactical investments in several necessary areas based on rigorous management analysis and customer feedback. During the year under review, Rs. 51.3 million was invested in the capital projects to keep the Fortress brand at the head of the Sri Lankan tourism industry.

In order to keep our reputation as having some of the most exquisite cuisine in the country, we invested Rs. 5 million in new display instruments (Imported from Germany) in the Pepper Restaurant. This will allow us to offer more healthy fresh foods to our valuable up market clients. We also invested Rs. 4 million in the importation of new bed linen from Italy to provide maximum comfort of our resident guests, Rs. 1.5 million to import new cutlery from Thailand and Rs. 2 million to import new sun beds from the Philippines.

Financial review

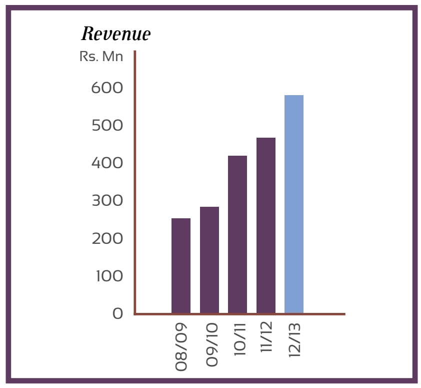
Business performance

The Fortress has recorded a strong financial performance during the year, driven primarily by the growth in tourism in Sri Lanka and the success of our improved web presence.

Revenue & Earnings

Revenue grew by 24 % to Rs. 577 million (2011/2012 Rs. 464 million) and EBIT increase by 56% to Rs. 214 million (2011/2012 137 million). Revenue growth in the first three quarters of the financial year reported a 31% increase compared to the first three quarters in the previous financial year. This shows how successful our strategic management plan has been in increasing market share and capitalizing on the opportunities presented in the market. Increased occupancy, strategic pricing, strict cost control and an increase in high margin web sales all underpinned the success we have seen in the year under review.

The sharp revenue growth in the off-season has been fundamental in achieving our overall revenue increase of 24 % for the financial year compared to the previous year. The hotel was able to maintain a 62 % average occupancy for the first 9 months in the financial year compared to the 57 % in the first 9 months of the previous financial year. This was a significant contributory factor to our record Rs. 358 million room revenue, an increase of 23% (2011/12 Rs. 290 million)



Other revenues

Food & Beverage revenues also increased at similar levels due to strong F & B sales campaigns conducted in the year under review. The theme nights & week end promotions targeting high end Colombo clients travelling via the newly opened highway has created a new market, improving F & B sales. Coupled with the excellent cost control strategies and applying the correct menu engineering principles, this segment will continue to be a key target for us in 2013. These efforts have enabled the hotel to record a Rs. 197 million food & beverage revenue during the year under review compared to Rs. 155 million in the previous year, an average year on year increase of 27 %.This incredible performance broke the industry norm of 40:60 F & B revenue to Room revenue ratio by creating a new benchmark of 45:55 at the Fortress.

Management Discussion & Analysis Contd.

Spa and Sundry revenues have increased in turn. 2012/2013 saw Rs. 22.3 million and Rs. 29.6 million revenues respectively against Rs. 18.1 million and 23.2 million in the previous year. These represent considerable growths of 23 % Spa and 27% Sundry revenues.

Our thriving business has seen us move into a position of having considerable cash reserves compared to the previous financial year. Total short term deposits were Rs. 200 million at the closure of the financial year compared to the Rs. 40 million short term deposits at the end of previous financial year with a 400% increase in deposit base. During the year under review the hotel has earned Rs. 16.9 million (last year Rs. 0.8 million) from short term fixed deposits.

"The UK market is dominating as in previous years by consuming 4,305 room nights during the year against 3626 room nights in the previous year. This is close to 32% of hotel occupancy against previous year UK market performance of 28% of nationwide occupancy. The remainder of the European market showed a decline in the year under review by consuming 1,093 room nights against 1,150 room nights in the previous year"

Operating Costs and EBIT

Stunning growth in the web sales, strategic price increases and revisions, partnered with fastidious cost control has seen us report a staggering Rs. 214 million to group Earnings before Interest and Tax. This is a 56% increase from Rs. 137 million in the previous year. This was despite direct and operational expenses adversely being affected by fuel price increases, new tariffs and other levies imposed on imported F & B products. Administrative expenses were higher than the previous year due to the major increases in electricity rates, fuel prices, staff and training expenses during the financial year. The resulted increase of almost 17% compared to the previous year.

Rs. 153 million
Net Profit During 2012/13

Training expenses grew substantially during the year as we embarked upon a refresher training program for the butlers' team again from the Australian Butlers Academy. Considerable investment was also made to improve the efficiency of hotel ICT systems and upgrading point of sale software to meet present operational demands.

Finance Cost

Finance cost on the bank loan was same as the previous year despite settlement of Rs. 73 million of loan capital during the financial year. Total finance costs on loans amounted to Rs. 48.1 million during the year versus Rs. 48.6 million the previous year. Expected reduction in loan interest have not materialised due to the increase in borrowing rates due to policies of the Central Bank of Sri Lanka. This directly affected us with an initial loan interest rate of 10.88% rising to 14.38% by the end of the financial year.

Finance charges on lease liabilities have increased to Rs. 3.7 million from Rs. 0.9 million in the previous year due to 3 new lease facilities being taken up during the financial year to acquire three brand new Sorento jeeps for the Hotel vehicle fleet. Finance cost on short term financing was negligible as the hotel maintained a very good cash flow situation throughout the year, not requiring and supplements for working capital purposes. Total finance cost increased by Rs. 2.4 million (approximately 5 %) compared to the previous year, predominantly due to the increase of finance charges on lease liabilities.

Taxation

The hotel still enjoys a tax holiday period so no tax is to be paid on operational profits. However tax charges are incurred on other income such as finance income, which is subject to tax at the standard rate of 28%. Profit after tax reported at the end of the financial year was Rs. 153.6 million against Rs. 84.4 million in the previous year, a sizeable increase of 82% over the previous year.

Liquidity

In line with our substantial EBIT growth, operational cash flows increased by 43% during the year under review against previous year. Short term deposits increased during the financial year by Rs. 160 million, once again, supported by fabulous operational profits. This was 400% increase compared to the previous year and which firmly establishes the company's stability in terms of cash flows.

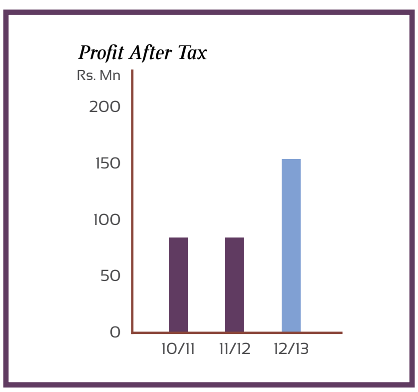
There were no short term borrowings during the financial year and repaid the bank loan by Rs. 73 million by using the operating cash flows. Total borrowing has come down by 18 % from Rs. 397 million to Rs. 324 million at the end of the financial year.

Earnings Per Share

The Group reported earnings per share of Rs. 1.39 for the financial year under review which was a significant 82% growth relative to the previous financial year.

Return on Capital Employed

The return on average capital employed ('ROCE') over the 52 weeks to 31.03.13 was 11% (2011/12: 6%), a year-on-year movement of 83% increase.



"Small Luxury Hotels of the World remains our most successful web sales partner by producing 834 room nights during the year, albeit a decrease from 1046 room nights the previous year. This reduction clearly gestures to the popularity of our own web site, which will remain the hotel's key focus for web sales in the future"

Sustainability Report

"Our attitude to sustainability has been derived through a combination of responsibility and dynamism. We adopt an integrated approach that aligns our sustainability initiatives with our corporate goals"

Creating a Sustainable Balance - Our Approach

Being a relatively new face in the hotel business in Sri Lanka, for Fortress Resorts PLC (FRP), sustainability was ingrained into our conscience right from the very beginning. Our attitude to sustainability has been derived through a combination of responsibility and dynamism. We adopt an integrated approach that aligns our sustainability initiatives with our corporate goals. Our commercial aspirations are deeply interlinked to the pursuit of a sustainable business paradigm that would set the stage for meaningful change in the future.

It is common for modern corporates to be thrust into a hypersensitive commercial environment, where external influences then coerce organizations into adopting an ever changing business paradigm. This perennial shift in thinking, most often leaves companies stumbling and ill prepared to deal with changing organizational parameters and key organizational stakeholders, only serving to highlight the fundamental importance of building a long term sustainable business model. Our philosophy seeks to create a distinctive brand identity that truly reflects the concept of sustainable tourism.

Assessment of Opportunities and Threats

In the recent past, the growing perception of eco-tourism has given rise to a new breed of global travelers in search of the ultimate eco-friendly destination. Furthermore, growing concern over the rapid depletion of renewable energy sources has triggered an upsurge in global environmental laws to curb the uncontrolled plundering of these resources. We have always worked in tandem with these external drivers, keenly aware of their impact on our business. In doing so, we prioritized at an early stage, our core performance indicators and mapped out strategies to harness opportunities and deflect potential threats in fulfilling our sustainability ethos.

Performance Indicator	External Drivers	Opportunities		Threats	
		Potential Opportunity	Action to harness opportunity	Potential Threat	Action to deflect threat
Environment	Growing popularity of "Eco-tourism" concept	Reinvent the product content on an "Eco-Friendly" platform	Promoting the FRP brand profile in line with the resorts' eco concepts ☑	Over use of natural resources	Creating an operational format based on the 3R code of practice (Reduce, Reuse and Recycle)
	Heightened expectations of international travelers	Enable product differentiation that promotes Sri Lanka's unique bio-diversity	Integrated marketing campaign that promotes the unique features of the local environment ☑	Damage or destruction of local bio-diversity and eco systems	Strict adherence to existing environmental regulations that protect bio-diversity and eco systems ☑
					Working with local authorities and the community to minimize the impact on the environment ⌛
	Stricter "Green" Laws	Create sustainable supply chain through effective management	Working out the ideal components of the supply chain and developing a lasting relationship with supply chain stakeholders ⌛	Understanding and interpreting emerging requirements	Using flexible parameters to assess the impact of changing industry needs ☑
				Implementing standardization and enforcing controls across the supply chain	Establishing the required quality standards to encircle the entire supply chain ⌛
	Climate Change	Reducing the FRP carbon footprint	Vigorous management of Energy and Water Resources using the 3R principles ☑	Increasing awareness among all stakeholders	Educating staff on the importance of conserving resources ☑
					Engaging the local community in energy conservation efforts ☑
		Effective Waste Management initiatives	Regular maintenance and upgrade of equipment and facilities ☑		Engaging guests to contribute towards achieving conservation goals ☑

Sustainability Report 2012 Contd.

Performance Indicator	External Drivers	Opportunities		Threats	
		Potential Opportunity	Action to harness opportunity	Potential Threat	Action to deflect threat
Economic	Growth in tourism highlighting the income disparities among local communities	Encouraging local entrepreneurs to add value to FRP services	Uplifting the living standards by creating stable Livelihood opportunities for the local tour and transport sector ☑	Inculcating a new service profile to community entrepreneurs	Motivating entrepreneurs through education and awareness programmes ⌛
				Harmful influences that may destabilize local communities	
Social	Deterioration of cultural values and social alienation due to the growth in tourism	Creating rural community participation by revitalizing local arts and culture	Promoting local cottage industries among guests ☑	Overcoming misconceptions over cultural norms among rural communities	Initiatives that promote mutual understanding and respect between guests and the local community and culture
				Promoting traditional industries amidst growing globalization	Nurturing the profile of local community products to globally acceptable standards while maintaining its unique identity. ⌛
				Elevating the end-product to adhere to internationally acceptable quality standards	
	Growing demand for advanced skills	Fulfilling the need for an easily accessible, dynamic resource pool within the youth community	Youth training initiatives and internship programmes conducted in partnership with key industry stakeholders ☑	Motivating the youth into ensure that skills and ethics are practiced consistently	Creating a regular performance assessment structure to assess the quality of staff within the organization
					Formulating industry-wide assessment standards in consultation with key stakeholders ⌛

☑ - Active ⌛ - Pending

Governance

The FRP management remains steadfast in their belief, that the key to success is a self-regulating, voluntary code of ethics, over and above all mandatory compliance codes. Following a top-down approach to sustainability governance, FRP management has always led from the front, practicing an exemplary code of ethics.

Over the years, we have sought multiple ways to enhance the quality and integrity of our business that would ultimately deliver commercial success while minimizing our carbon footprint. The partnerships we have fostered with key industry stakeholders only serve to enrich our role as a sustainable entity.

Our Partners

- Sri Lanka Tourism Development Authority.
- Ceylon Chamber of Commerce.
- Tourist Hotel Association of Sri Lanka.
- Southern Hoteliers Association.

Awards and Accolades

The multitude of awards we have received over a short span of time is a testament to the commitment of our team and their continuing efforts to strive for even greater sustainability standards.

Local recognitions & Awards

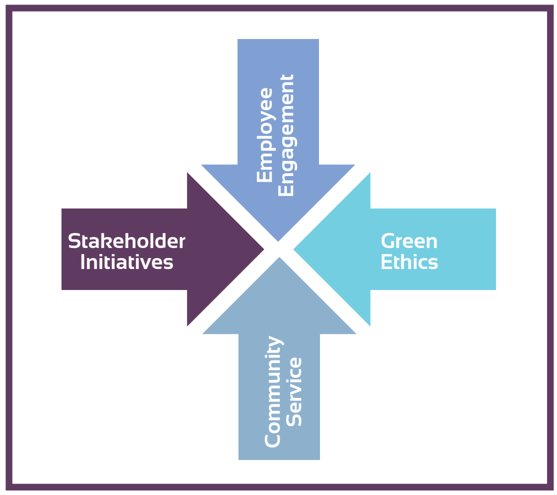
- Business Destinations – Travel Awards 2013 – Best Luxury Hotel, Sri Lanka.
- Trip Advisor – Travelers Choice Award for 2013 – Best among top 25 Hotels in Sri Lanka.
- Trip Advisor – Certificate of Excellence for the year 2012.
- Certificate of Recognition for In the Annual Reports Award completion organized by the Institute of Chartered Accountants of Sri Lanka – for the year 2010/2011 & 2011/2012 .

International recognitions & Awards

- World Luxury Hotel Awards 2012 – Continental Award Winner of the Indian Ocean for Best Luxury Coastal Resort.
- International Hotel Awards – Asia Pacific in association with HSBC – Best Resort Hotel Asia Pacific 2012 – 2013.
- International Hotel Awards - Asia Pacific in association with HSBC – Best Resort Hotel Sri Lanka 2012-2013.

Setting out Priorities

Our sustainability ethos also demands that we act as value creators to the community by facilitating enduring social change across wide strata of society. In pursuance of these goals, we have witnessed our sustainability format evolving into a meticulous code of ethics that now pervades into all spheres of our business on a day-to-day-basis.



Stakeholder Initiatives

We have consistently ensured that the FRP brand is associated with unmatched professionalism and exemplary service standards. Our mission is to generate a sustainable business platform that promotes responsible tourism. We have always adopted a holistic approach in ensuring our value culture permeates through to all our activities. In doing so, we apply our philosophy not only to our internal practices but also to encircle all our business partners and stakeholders, encouraging them to realize the benefits of our value proposition.

Setting the bar

Our efforts to bring about meaningful change at the grass root level, has led to a comprehensive youth support agenda spearheaded by the FRP internship programme. The program aims to be a value creator for the youth community vis-à-vis an extensive training schedule that focuses on instilling FRP's solid value culture and professional work ethic, among a mass youth populace. This in turn lays the foundation for a sustainable resource pool that would be an asset to hoteliers across the nation and eventually, the region.

The tie up with The Sri Lanka Institute of Tourism & Hotel Management (SLITHM) is one such programme. As per the agreement, FRP would identify selected candidates from the SLIHTM student pool and provide free in-house training, residential facilities and amenities including a training stipend, for a period of six months. In 2012 a batch of 16 SLITHM recruits were trained by FRP. In a similar agreement with The National

Sustainability Report 2012 Contd.

Apprentice Board (NAB), candidates can apprentice with FRP for an extended three year period, with all facilities provided for the duration of the apprenticeship. In 2012 a batch of 8 NAB recruits were selected for the programme. Upon successful completion of their apprenticeship with FRP, these SLITHM and NAB graduates are afforded the option of contractual employment with FRP.

Delivering local entrepreneurs

We have always sought opportunities to foster a closer connection with the local community. In our endeavour to provide ultimate convenience to our guests we offer a wide choice of tour and travel options. We engaged the services of the local tour guides and area resident three wheeler transport operators to provide our guests with an easily accessible and affordable option for local travel. We saw this as a mutually beneficial opportunity that would also serve to uplift the local community by providing a regular income source.

Regenerating Livelihoods

From the inception we have supported the local handicraft industry by encouraging our guests to patronize these cottage industries via especially arranged tours, handicraft workshops etc. In making sure that local handicrafts are interlinked to the FRP brand, we have tastefully woven these inimitable artifacts into the hotel décor as well. We also source these unique local handicrafts to be gifted as mementos to guests on special occasions. We are heartened to note that our contributions have significantly enriched the lives of these local entrepreneurs in 2012/13.

Artists	Revenue Distribution 2012/13 Rs.	Revenue Distribution 2011/12 Rs.
Handicrafts	950,321/-	891,850/-
Paintings	1,589,475/-	188,480/-
Reed ware	18,325/-	28,470/-
Others	3,865,039/-	214,019/-
Total	6,423,160/-	1,322,819/-

Safeguarding the Arts

We have consistently supported local cultural performers to showcase traditional Sri Lankan talent to our guests. In doing so, we enlist the services of a diverse range of local acts available in the area. Our weekly schedule is the ideal stage for these performers to showcase their talents to an international audience. In addition to enhancing their livelihood we are indeed proud that a few of these performers have received international exposure via sponsorships received from our guests.

Green Ethics - Seeking "Greener" pastures through a lighter footprint.

We at FRP embraced the principles of "Eco-tourism" long before it became fashionable in Sri Lanka. Right from the very inception, the fundamentals of "Going Green" have been enshrined in our core value culture. So much so, that it is intertwined with the "Fortress" brand identity, optimizing the luxuriousness of going green.

Our Efforts

Energy conservation

We fulfill our energy requirements through a combination of electrical power, LP gas and Diesel power sources. As the predominant energy source, electricity plays a critical role in determining the strength of our environmental footprint.

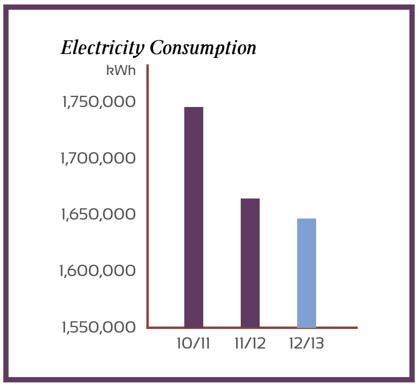
Electricity

Lighting and cooling systems account for over 70% of the total electrical units consumed, underpinning the importance of managing usage. Consequently, we have made a concentrated effort to increase awareness and educate employees on the importance of following energy efficient practices at all times. Furthermore, we have introduced a range of energy efficient solutions to manage and control our electricity parameters.

- The use of dimming regulators wherever possible.
- Optimizing the use of natural lighting with skylights.
- In 2012 a new energy efficient chiller was sourced to support the central air conditioning system, resulting in a dramatic reduction in the number of electricity units consumed.
- During the year, most public areas of the hotel were equipped with energy efficient LED lighting solutions. A notable reduction in the units consumed was observed comparative to the demands of the high energy consuming incandescent bulbs.

Success Table

Year	Electricity consumption (kwh)
2010 / 2011	1,744,458
2011 / 2012	1,642,105
2012 / 2013	1,620,130

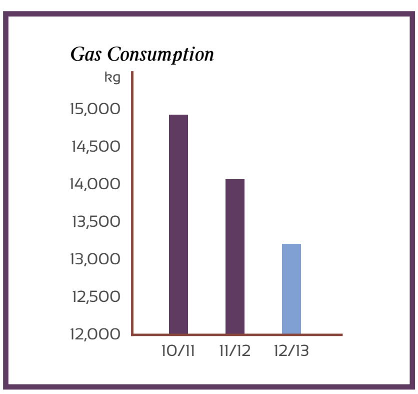


LP Gas

LP gas is predominantly used to power the kitchen equipment. Over the years, our efforts to reduce consumption of this resource has led to greater control of wastage through the introduction of new technology and revamping the kitchen equipment. The new equipment is geared to minimize the usage of LP gas through an efficient heating process.

Success Table

Year	Gas consumption (Kg)
2010 / 2011	14,920
2011 / 2012	14,059
2012 / 2013	13,198



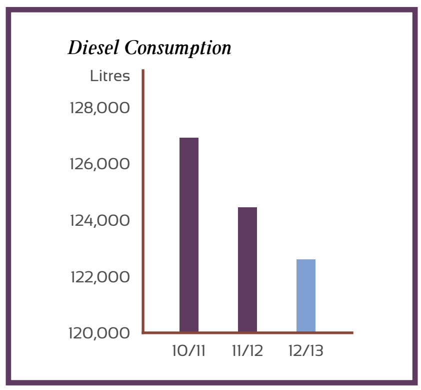
Diesel

Diesel is used primarily as an energy source to power our laundry boiler and stand-by generators, in addition to powering the fleet of transport vehicles. Therefore, it is imperative that our conservation efforts are developed in cognizance with the growing global concern over rapidly depleting renewable energy. Our systems and practices are thorough and seek to mitigate our carbon imprint through a series of well thought out, practical applications. The following decisions were implemented during the year.

- Action: Diesel powered boiler would only function on alternate days.

Success Table

Year	Diesel consumption liters
2010 / 2011	126,850
2011 / 2012	124,391
2012 / 2013	122,541



Water Management

Globalization has led the charge in when it comes to draining the world of its natural resources often at an immeasurable cost to the environment. It is virtually impossible to quantify the impact caused by the degenerating ecological balance. The time has come for the corporate world to lead by example in pursuance of responsible action plans that would ease the pressure on the environment. In response to the universal water crisis, we were urged into action, triggered by our sustainability philosophy to create responsible tourism. We have accepted the challenge to develop solutions for an enabled future by following a pragmatic approach towards achieving a sustainable water management solution. The primary goal of this initiative is to increase our water positivity, i.e. to give back more water than we extract from the environment. Our water treatment system is geared to achieve this objective. In conformity with national environmental regulations, all water used at the resort is diverted to an independent water

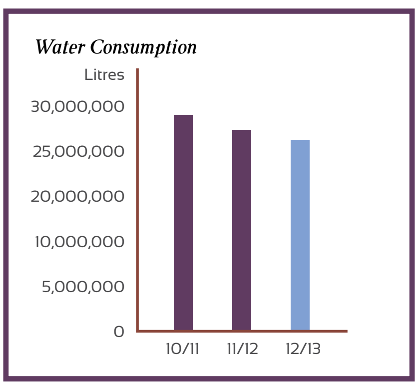
Sustainability Report 2012 Contd.

treatment unit prior to release to the environment.
Of our total treated water load, over 50% is currently redirected to fulfill the water requirements for our gardens, thereby considerably reducing our dependence on the national water supply. We are continuously engaged in refining and fine tuning our water treatment systems to enhance the functional quality of treated water, thereby enabling it to be re-used across a broader range of operational areas.

Additionally, we have made a conscious effort to eliminate unnecessary water usage and minimize wastage. To serve this goal, all public urinals at the resort are equipped with motion sensors to minimize the wastage of water. To further streamline our system and trim off inefficiencies, all key areas are equipped with independent water meters, thereby enabling us to monitor water usage in each area. Any abnormalities are investigated and prompt action is initiated to rectify weak points and leakages that may cause unregulated waste of water.

Success Table

Year	Water consumption liters
2010 / 2011	28,700,000
2011 / 2012	26,763,000
2012 / 2013	25,424,000



Waste Control

Being a world class luxury boutique hotel, we have always been extremely cautious with our waste disposal mechanisms. Careful planning in this area has resulted in an efficient well co-ordinated waste disposal system in place.

All garbage is meticulously sorted, with plastics and glass being diverted for external recycling. A major portion of our waste comprises of food waste of which the wet garbage is channeled to a local piggery as animal feed. All remaining food waste, other than wet garbage is sent for composting. The process had been outsourced to a local contractor who is paid a monthly stipend for his services. Both these initiatives have proven to be a tremendous success, as evidenced by the dual benefits that have ensued, not only in promoting ethical waste disposal but also in support of our local community engagement initiatives.

Guest Initiatives

Our living spaces are designed on what we like to call an environmental "Greenscape", with a close affinity to nature and all its grandeur. The hotel layout, design and facilities seamlessly unite, to offer guests the opportunity to truly rejuvenate their senses through the captivating serenity of nature. All our guests are also encouraged to actively participate in our efforts to achieve a lighter carbon footprint. Notices are posted in all guest rooms encouraging them to avoid unnecessary waste of electricity by turning off lights and electrical equipment when not in use. Notices placed in the toilet create awareness on how guests can minimize water usage and wastage.

Employee Engagement

At FRP we consider our employees an invaluable asset. We aspire to create an environment where our employees are inspired to discover their full potential, in doing so we hope to build a dynamic, motivated workforce.

Rewarding Excellence

We reiterate our commitment to develop empowered individuals through a structured career progression plan. Hence, the company acts as a mentor by offering career guidance and advice, further supported by a regular performance appraisal structure. We use this tool as guideline to evaluate employees on multiple levels. Appraisals are conducted quarterly and summarized annually to gauge the systematic development and maturity of the employee throughout the course of the year. Cash rewards and recognition certificates are offered on a quarterly basis for exceptional performers, while consistently high performers are richly rewarded by way of annual bonuses, annual increments etc.
In the year, 2012 the company also launched the "Distinguished Service Awards" in recognition of the dedication and loyalty of long serving employees.

Creating Wealth

We also believe all employees should be afforded the opportunity to develop and mature through integrated training that enables them to channel their strengths and overcome weaknesses. Our training and development programme is geared to do just that. It acts as the catalyst in delivering the staff skill levels and professionalism demanded of a world class boutique resort. All primary training programmes for front line staff and management follow a uniquely self-styled structure that gears employees to showcase the distinctive qualities of our resort. While aiming to provide front line staff with English language proficiency, the schedule also spotlights certain critical success factors in addition to focusing on current lifestyle changes and social behavioural patterns that impact on the employee psyche. Deemed also as a confidence building exercise, the programme impresses upon employees the concept of social responsibility as an integral part of the work ethic.

In keeping with the highest international hotel standards, we outsource all butler training programmes to the Australian Butler Academy (ABA). In 2012, ABA trainers concluded the 2nd phase of the training schedule initiated in the previous year. This segment was conducted at a cost of Rs. 1.3 Million specifically targeted to train 15 butlers to achieve the required skill levels on par with international service standards.

Inspiring the Future

Our commitment to develop responsible citizens has spurred us to extend our support to the families of all employees as well. Our initiatives in this area are spearheaded by the "FRP Future Learners" programme, whereby book vouchers are distributed to the children of employees to assist them in purchasing their annual quota of study material. In 2012 alone, vouchers to the value of Rs. 200,000/- were distributed among identified beneficiaries.

Community Service

Our commitment to develop sustainable communities is deeply entrenched in our value code. It is our belief that communities should be empowered with the knowledge and tools to create meaningful change within the community and make a positive contribution to society at large. In confluence with this thinking we have engaged in a number of community development projects to enhance the livelihoods and living standards of many local communities.

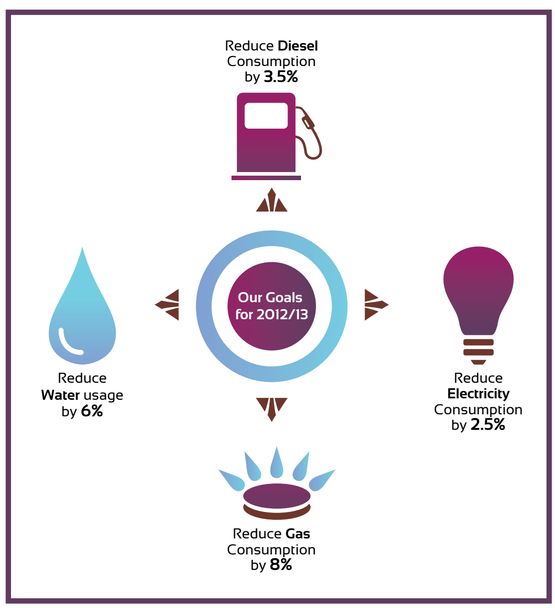
Committed to the Future

Under our ongoing community service endavour to ensure maintenance and upkeep of educational and infrastructure facilities at village schools, we identify area schools in need of assistance. This year we undertook the repairs and upkeep of the G/Ahanngama Nakanda Balika Vidyalaya. At a total cost of Rs. 250,000/- we upgraded the schools' infrastructure in addition to installing a new water sanitation system for the use of the students at the school.

Looking ahead

In promoting sustaianbility, our initiatives have staunchly mirrored the FRP phylosophy of creating responsible tourism through education, awareness and innovation. Our accomplishments in this sphere have certainly enhanced our credentials and cemented FRP's position as an icon in the luxury eco-tourism landscape, in Sri Lanka.

Our continued success is indeed proof that we are on the right track. Through our holistic approach and well-grounded work ethic, we have skillfully managed to create a reliable business model that would act as the mainstay of our future aspirations. Spurred by our success, we have set out even more ambitious targets for the year ahead, reaffirming our commitment towards nurturing a sustainable future while embracing the next generation in eco-tourism.



Risk Management

The Fortress resorts PLC, by engaging its leadership and operational teams in developing a robust, responsive and active risk management process has created and nurtured a risk management culture that is vigilant, alert, proactive, consistent and fast to respond effectively in managing risk. Through this process we have developed a better understanding of major risks, encouraged and facilitated the sharing of best practices in the hotel and reduced the overall cost of risk by continuously improving our risk management approaches.

The main elements of the process which comprise risk identification, evaluation, prioritization and management, enables us to strike an appropriate balance between entrepreneurship and the risk associated with business opportunities along a path of sustainable growth which balances the need and requirement for safeguarding assets with opportunities to create value for our shareholders.

The Board assumes responsibility for ensuring the effectiveness of the Group's risk management and system of internal control and has entrusted the Board Audit Committee with the task of reviewing the processes, assessing adequacy and ensuring effectiveness.

The risk management team systematically monitors existing and potential risk by working with risk owners to refresh risk registers, validate risks for continued relevance, identify emerging risks and prioritise all risks in terms of financial impact and likelihood of occurrence. Existing controls are assessed as well as the ability, benefit and cost to improve them. The review team and externally sourced Internal Auditors , are separately responsible for providing assurance, identifying lapses and proposing new or improvements to existing internal controls in the hotel and provide reports on the internal control framework to the Audit Committee. This ensures the separation of duties between the risk management and internal audit functions thereby supporting good governance.

Risk and the review of the internal controls is an agenda of Board meetings which ensures that well thought-out and appropriate action plans are implemented to manage emerging risk with robust control measures. Furthermore, the review of the internal control and procedures relating to financial, statutory, regulatory and related compliances are also repeating items on the agenda.

Risk management framework

The risk management framework enables us to understand material risks that we currently face as well as emerging risks. This framework ensures that risks are effectively identified and assessed and that appropriate controls and responses are in place.

The risk management team comprising of the Chief Financial Officer, and functional and operational managers take responsibility for the early identification of potential risks. Risks are identified at hotel level through various means including intelligence gathering, quality audits, risk management assessments and internal audits. They are also identified as a result of incidents, customer insight surveys and assessments. Those risks having a catastrophic impact on the organization, but may have a very low or zero probability of occurrence are referred to as core sustainability risks. These are risks that threaten the sustainability or long term viability of a business and are typically risks stemming from our impact on the environment or society that will have an eventual negative impact on the longevity of our business operations.

Indentified risks are recorded on the risk register of the company. They are thereafter analysed and ranked on a scale of 1 to 5 based on their likelihood of occurrence and impact to the business. Following a process of obtaining the input of all concerned, several options are identified and appropriate risk management measures such as acceptance, mitigation, transfer or control of particular risks had been properly monitored. Action plans are reviewed at appropriate levels in the organizational structure and escalated either to drive action or to develop a common solution and implemented along with measures to continuously monitor the effectiveness of same.

By adopting this framework, the Group is able to maintain and develop risk management strategies to assess and control individual types of risk while developing guidelines, raising awareness levels and training staff on the use of controls and systems in order to manage and mitigate existing risk as well as detecting emerging risk. The hotel has maintained insurance at levels determined by it to be appropriate in relation to the cost of cover and the risk profile of the property.

As an outcome of the risk management process, the Audit Committee has received quarterly confirmations of financial and operational compliance from the hotel management with the sustainability reports. The hotel management has also confirmed that the risk register of the hotel has been updated by the hotel.

Risk environment and risk profile

In 2012, the leisure industry in Sri Lanka was characterised by strong overall growth in tourist arrivals. However, evidence of the possible impact of the recession in Europe was seen in the drop in tourist arrivals from the European markets. On the other hand, strong growth in tourist arrivals was recorded from the East, with China and India demonstrating rapid growth. The biggest risk faced by the operations in 2012 was the shift in global travel generating markets from the West to the East. Unpredictable events such as economic meltdown in Turkey and the political issues in middle east , adversely affected both inbound and outbound travel globally.

Although a sharp depreciation of the Sri Lankan Rupee against the US Dollar took placed towards the end of last quarter of the financial year 11/12 remaining throughout the financial year 12/13 and risk exposure and the profile of the group did not change significantly last year. A review of the key risks that could materially affect the hotel with the control measures and action plans implemented to mitigate them are set out bellow.

Risk category and description	Potential Impact	Control measures and action plans to mitigate risk
Strategic Risk : Market Share		
Loss of market share in a high growth environment or industry over capacity.	Reduction in market share and loss of revenue.	• The company adopts a policy of refurbishing the hotel whenever necessary and refreshing the themes of hotel's food & beverage offerings. • Considering the expansion options available at the moment through strategic new investments. • Innovating and trend setting while benchmarking with global competition. • Planed to obtain ISO and HACCP certification for assurance of health and safety.
Business Risk		
The inability of the Hotel to achieve its business objectives.	Adverse impact on planed profitability and cash flows. Availability of affordable credit Increase in operating and assets replacement costs due to fluctuation in exchange rates.	• Corporate plans are formulated on an annual basis and formally approved by the Board. These plans are thereafter monitored and reviewed by the Board on an ongoing basis. • Implementation of stringent cost control procedures and innovative cost saving initiatives. • Ongoing review of cost and expenditure by operational and finance staff to determine appropriate revision of rates and tariffs.
Statutory & Legal Risk		
Implications that arise due to non-compliance with regulatory requirements. Risk of litigations from guests, customers, suppliers, associates and regulatory authorities.	Loss which may arise due to non-compliance with statutes. Enhanced incidence and potential exposure due to proposed legislation Loss arising from flawed contracts	• Statutory returns including taxes are regularly monitored, reviewed and scrutinized by the Group Financial Controller and the CFO. Compliance audits are included in the scope of the internal audit program. A comprehensive financial and operational checklist is reviewed by senior management on a monthly basis. • Active engagement with industry advisory and policy making bodies to articulate concerns and make representations upon invitation. • Continuous review and development of information systems which detect and report deviations.

Risk Management Contd.

Risk category and description	Potential Impact	Control measures and action plans to mitigate risk
Operational Risk		
Demand		
The adverse impact on Hotel turnover due to over / under capacity and / or weak demand in traditional source markets.	Amplified negative impact on revenue streams during the off peak season. Lower room rates and lower growth prospects.	• Expansion of distribution channels through digitised web and direct marketing strategies. • Participation in global and regional tourism promotional events in potential and emerging markets. • Maintaining dynamic relationship with key overseas industry partners through direct contact and local representatives. • Cultivating and nurturing guest loyalty by recognising and rewarding guests who frequently patronise the hotel. • Collaborating with the local tourism authorities to mitigate where appropriate adverse media reports and canvassing relaxation of negative travel advisories. • Collaborating with local tourism authorities in marketing initiatives undertaken in key generating markets. • Introduction of unique and innovative services to create demand for the destination.
Project implementation Risk		
The adverse impact on hotel revenues due to delaying projects.	Cost over runs and loss of earnings due to delays. Exposure to risk of repetitive nature	• Establishing project timelines in consultation with all relevant parties • Formal process established to cover project consultancy , project award and material procurement • Specialised teams monitor project progress and compliance with established sustainability guidelines. • Learning derived from mitigating risks identified during project implementation is documented for future reference
Competition		
Competitive actions from industry peers and threat of new entrants	Erosion of market share , lower occupancy and rates	• Ongoing and timely investments to upgrade the hotel and its facilities • By providing superior service quality. • Providing value for money by enhancing services , improving service delivery and focusing on consistent quality • Monitoring adherence to brand standard across the hotel • Exceeding customer expectations by careful analysis of guest feedback and providing appropriate and prompt responses to identified issues • Strong focus on innovation and nurturing an environment conducive to creative thinking • Benchmarking against globally recognised quality standards

Risk category and description	Potential Impact	Control measures and action plans to mitigate risk
Brand Equity and Reputation		
Any event that could undermine the brand equity and the reputation of the hotel and/or failure to sustain the appeal of the hotel brand to its customers.	Decline in customer base, loss of market share, market penetration and ability to develop the business Inability to maintain room rate differentiation and competitive advantage Erosion in confidence may damage sustainability of hotel business	• Although same factors are beyond its control, the hotel adopts the following approaches to mitigate this risk • Innovative service in keeping with brand promise • The hotel ensures that key managerial positions are held by suitably qualified and trained staff with sufficient experience in the hotel industry • Ongoing attention to environment, health and safety concerns by obtaining appropriate recognised quality certification standards • Hotel operation is monitored against and guided by the Standard Operating procedures (SOP). • Continuous monitoring and review of on-line customer reviews and ratings
Personnel		
The risk of losing highly skilled staff and key personnel due to industry growth, inappropriate labor	Inability to maintain quality standards and meet guest expectations Higher operational cost and loss of business	• Identification of talent pool for succession planning • Structured training arising from performance appraisal process • Developing a spirit of unity by organizing associate gatherings to celebrate staff birthdays, outings, sport days, family get-togethers and religious and cultural festivals • Recognising superior performance by presenting certificates and cash rewards to honor and reward associates
Technology and data protection risk		
Failure to keep pace with developments in the technology could impair our competitive position and operations	Adverse impact on efficiency of operations, guest satisfaction and loss of competitive advantage Additional investment in new technologies/systems to remain competitive	• The IT division of the hotel has implemented procedures to safeguard the computer installations of the hotel to ensure continuity of operations • Reservation and property management system upgraded for greater alignment with business needs making it easier to respond to changes in business strategy • Continuous review of network protection processes to ensure integrity and security of data • Business continuity and disaster recovery plans have been place in line in case for any emergency situations
Internal operational process		
Risk of financial loss due to breakdown in internal controls.	Disruption of operations , loss of profits and ineffective use of assets and resources	• Clearly defined systems and procedures are in place to ensure compliance with internal controls , which are monitored and reviewed for their continued efficiency and effectiveness • An outsourced internal audit firm regularly reviews and provides assurance on the adequacy of the hotel's financial and operational systems. Their scope also covers regulatory and statutory compliance. • Quarterly confirmation of compliance with financial, operational and sustainability procedures and requirements • A formal process in place to review and monitor internal audit findings

Risk Management Contd.

Risk category and description	Potential Impact	Control measures and action plans to mitigate risk
Financial Risk		
Financing and interest rate risk		
Inability to satisfy debt repayment covenants and secure financing for proposed investments	Higher finance cost Loss of reoutation	• The hotel maintains a balance between continuity and flexibility of funding using in domestic borrowings
Credit risk		
Exposure of default by debtors particulary oversees partners	Loss of profits and higher working capital requirement	• Constant monitoring of trends in payment patterns • Being alert to indicators of insolvency by keeping touch with economic alerts and reviews, financial information of partners • Robust credit policy in place to review credit worthiness on a periodic basis • Every endeavour is made to secure advances from agents where ever possible • Actively measuring trade debtor balances with collection targets and regular meeting to monitor and review efficiency of collection activities
Exchange rate risk		
Risk arising due to the volatility in foreign currency exchange rates	Impact on profitability on translation of foreign currency transactions to the base reporting currency	• Sales contracts with major foreign tour operators are denominated in US Dollars which is considered as a safe currency • Denomination of local rates in local currency • All foreign remittance are channel through FCBU accounts denominated in three major currencies (USD, EURO, GBP) to mitigate any possible risks on conversions

Risks associated with and arising from global economic uncertainty, greater regulation, financial volatility, growing competition for markets and talent are among the key risks that will pose a challenge in the future.
In conclusion , the Board is pleased to confirm that a process for identifying, evaluating and managing significant risks that endanger the achievement of the strategic objectives of The Fortress Resorts PLC and its Subsidiary has been in place throughout the year in accordance with the guidelines set out by the Institute of Chartered Accountants of Sri Lanka and industry best practice.

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 2013.

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 Company and group Financial Statements is attached with the Financial Statements.

Accounting Policies

The financial statements of the Company and Group have been prepared in accordance with the revised Sri Lanka Financial Reporting Standards (SLFRS/LKAS) and the accounting policies adopted thereof are given on pages 68 to 97. Figures pertaining to the previous periods have been re-stated where necessary to conform to the current year's presentation.

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 SAdhihetty - Managing Director

Non-Executive Directors

Mr. K D DPerera - Chairman
Mr. C J Wickramasinghe* - Director
Mr. Malik J Fernando - Director
Mr. Merril 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
Mr. PrashanB Perera - Director
(appointed on 08/08/2012)
(Alternate Director - Mr. W D N H Perera)
Mr. W D N H Perera - Director
(resigned w.e.f 18/04/2012)

*__Independent Non-Executive Directors__

During the year under review Mr. W D N H Perera resigned from the Directorate on 18th April 2012. Mr. P B Perera was appointed a Director on 8th August 2012 and Mr. W D N H Perera was appointed as his alternate Director on the same day. Mr. Merril J Fernando was re-appointed as a Director on 27th September 2012.

In terms of Article 84 of the Articles of Association Messrs Malik J Fernando and Denesh E Silva retire by rotation and being eligible are being recommended by the Board for re-election at the forthcoming Annual General Meeting. Mr. P B Perera who was appointed a Director during the year will hold office until the AGM and being eligible is recommended by the Directors for re-election in terms of Article 91 of the Articles of Association of the Company.

Mr. Merril 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 on 30th July 2013;

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

on completion of one year from the date of the preceding Annual General Meeting. A resolution proposing the appointment of Mr. Merril J Fernando, who is 83 years of age, to the Board of the Company, declaring that the age limit of 70 years shall not apply to the said Director, will be place before the shareholders at the Annual General Meeting.

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 SAdhihetty	-	Managing Director
Mr. Malik J Fernando	-	Director
Mr. Merril J Fernando	-	Director
Mr. S Senaratne	-	Director
Mr. L T Samarawickrama	-	Director
Mr. G A R D Prasanna	-	Director

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 23 to the Financial Statements.

Directors' Remuneration

The Directors remuneration is disclosed under Key Management Personnel of the Company in Note No 23.2 to the financial statement on page 93. The Directors of the subsidiary Company were not paid any remuneration during the period 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 2013 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 2013 are as follows:

	Shareholding as at 31/03/2013	Shareholding as at 31/03/2012
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 and appointed as an alternate Director to Mr. P B Perera on 08/08/2012)*	89	89
Mr. C J Wickramasinghe*	19,291	19,291
Mr. Malik J Fernando	833,333	833,333
Mr. Merril J Fernando	2,124,400	2,124,400
Mr. S Senaratne*	1,000	1,000
Mr. L T Samarawickrama *(Alternate Director – Mr H Somasantha)*	1,550	1,550
Mr. L N de S Wijeyeratne*	Nil	Nil
Mr. D E Silva	500	500
Mr. H Somashantha *(alternate Director to Mr. L T Samarawickrama)*	Nil	Nil
Mr. P B Perera *(appointed 08/08/2012)*	500	-

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 2013.

Messrs K D D Perera and P B Perera, (who's alternate Director is Mr. W D N H Perera) are Directors of Vallibel Power Erathna PLC, which held 5,933,400 shares as at 31st March 2013.

Messrs Merril J Fernando and Malik J Fernando are Directors of MJF Holdings Limited, which held 28,616,411 shares as at 31st March 2013.

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 100 and 101.

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. 209,149/- is payable by the Company to the Auditors as Audit Fees (Group –Rs. 790,390/-)for the year under review.

The Auditors have also provided non-Audit services and the fee payable therefor amounts to Rs. 97,854/- (Group – Rs. 209,274/-) for the year under review.

The Auditors have expressed their willingness to continue in office. A resolution to re-appoint the Auditors and to authorize 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. 523,500/-)

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 10 of the Financial Statements.

Material Foreseeable Risk Factors
Foreseeable risks that may materially impact the business are disclosed in the Chairman's review on page 12 and Risk Management Practices on page 40 to 44 of this report.

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).

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 30th July 2013 at 10.30 a.m. at the Auditorium of the L B Finance PLC, Corporate Office, No. 20, Dharmapala Mawatha, Colombo 03

The notice of the Annual General Meeting appears on page 102.

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

Dhammika Perera
Chairman

J A S S Adhihetty
Managing Director

Anusha Wijesekara
P W Corporate Secretarial (Pvt) Ltd
Secretaries

29th May 2013
Colombo

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 Twelve (12) members (with two 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 45.

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.

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 2013, six (06) 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 DPerera	Non-Executive	02/06
Mr. J A S SAdhihetty	Executive	06/06
Mr. W A D C J Wickramasinghe	Independent Non-Executive	02/06
Mr. L T Samarawickrama *(Alternate Director : Mr. Haresh Somasantha)*	Non-Executive	04/06
Mr. Malik J Fernando	Non-Executive	02/06
Mr. Merril J Fernando	Non-Executive	00/06
Mr. S Senaratne	Independent Non-Executive	04/06
Mr. L N de Silva Wijeyeratne	Independent Non-Executive	06/06
Mr. Denesh E Silva	Independent Non-Executive	03/06
Mr. P B Perera *(Appointed from 8/8/2012) Alternate Mr. W D N H Perera*	Non-Executive	00/06
Mr. Haresh Somashantha *(alternate Director to L T Samarawickrama)*		01/06
Mr. W D N H Perera *(alternate to Mr. P B Perera from 8/8/2012)*		01/06

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 time frames and budgets.

Corporate Governance Contd.

Financial Reporting

The Board aims to provide and present a balanced assessment of the Company's position and prospects in compliance with the revised 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 59 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, quarterly Financial Statements in accordance with the Listing Rules of the Colombo Stock Exchange.

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

Financial Disclosures and Transparency

Financial Statements are prepared in accordance with the revised Sri Lanka Accounting Standards and the Companies Act. Being a company listed on the Diri Savi Board of the Colombo Stock Exchange, the unaudited provisional quarterly 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) and No.19 of Sri Lanka Financial Reporting Standards (SLFRS).

By Order of the Board
The Fortress Resorts PLC

P W Corporate Secretarial (Pvt) Ltd
Director / Secretaries

29th May 2013
Colombo

Compliance with Continuing Listing Rules - Check List

Compliant   Non Compliant

Rule No	Subject	Applicable requirement	Compliance Status	Applicable section in the Annual Report
7.10.1 (a)	Non-Executive Directors	At least one third of the total number of Directors should be Non-Executives.	Compliant	Corporate Governance
7.10.2 (a)	Independent Directors	Two or one third of Non-Executive Directors which ever is higher should be Independent.	Compliant	Corporate Governance
7.10.2 (b)	Independent Directors	Each Non-Executive Director should submit a declaration of Independence, non independence in the prescribe format.	Compliant	Available with the Secretaries for review
7.10.3 (a)	Disclosure relating to Directors	The Board shall annually determine the independence or otherwise of the non independency. Names in the ID should be disclosed in the Annual Report.	Compliant	Corporate Governance
7.10.3 (b)	Disclosure relating to Directors	The basis for Board to determine a Directors as independent, if specified criteria for independence is not met.	Compliant	Corporate Governance
7.10.3 ©	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the areas of expertise.	Compliant	Board of Directors (Profile) Section in the AR.
7.10.3 (d)	Disclosure relating to Directors	Provide a brief resume of new Directors appointed to the Board with details specified in 7.10.3(a,b,c & d) to the CSE.	Compliant	Corporate Governance and Bpard of directors (profile) section in the AR.
7.10.5	Remuneration Committee	A Listed company shall have a Remuneration Committee.	Compliant	Corporate Governance
7.10.5 (a)	Composition of Remuneration Committee.	Shall comprise of Non-Excutive Directors a majority of whom will be independent.	Compliant	Corporate Governance
7.10.5 (b)	Functions of Remuneration Committee	The Remuneration Committee shall recommend the remuneration of Chief Excutive Officer and Non-Executive Directors.	Compliant	Corporate Governance
7.10.5 ©	Disclosure in the Annual Report relating to Remuneration Committee.	The Annual Report should setout (a) Names of Directors comprising the RC. (b) Statement of Remuneration Policy. © Aggregated remuneration paid to NED/ NID/ID. (d) Statement of remuneration committee.	Compliant	Corporate Governance and the Board Committee Reports.
7.10.6	Audit Committee	The company shall have an Audit Committee	Compliant	Corporate Governance
7.10.6 (a)	Composition of an Audit Committee	Shall comprise of Non-Executive Directors and majority of whom should be independent.	Compliant	Corporate Governance and the Board Committee Reports.
		Non-Executive Directors shall be appointed as the Chairman of the Audit Committee.	Compliant	

Corporate Governance Contd.

Rule No	Subject	Applicable requirement	Compliance Status	Applicable section in the Annual Report
		Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings.	◉	
		The Chairman of the Audit Committee or one member should be a member of a professional accounting body.	◉	
7.10.6 (b)	Audit Committee Functions	Should be as outlined in the Section 7 of the listing rules	◉	Corporate Governance and the Board Committee Reports.
7.10.6 ©	Disclosure in the Annual Report relating to Audit Committee.	a) Names of the Directors comprising the Audit Committee.	◉	Corporate Governance and the Board Committee Reports.
		b) The Audit Committee shall make a determination of the independence of the Auditors and disclose for such determination.	◉	
		c) The Annual Report Shall contain a Report of the Audit Committee setting out of the manner of compliance of the functions.	◉	

Adoption of Joint Code of Best Practise Checklist

◉ Compliant ◉ Non Compliant

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
A.1 DIRECTORS - Board				
A.1.1	Frequency of Board Meetings	Board should meet regularly, at least once in every quarter	◉	Corporate Governance / AR of the BOD
A.1.2	Responsibilities of the Board	Formulation and implementation of strategy.	◉	Corporate Governance
		Skill adequacy of management and succession		
		Integrity of information , internal controls and risk management		
		Compliance with laws, regulations and ethical standards		
		Code of conduct		
		Adoption of appropriate accounting policies		
A.1.3	Access to professional advice	Procedures to obtain independent professional advice	◉	Corporate Governance
A.1.4	Company Secretary	Ensure adherence to board procedures and applicable rules and regulations	◉	Corporate Governance
		Procedure for Directors to access services of Company Secretary		

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
A.1.5	Independent Judgement	Directors should exercise independent judgement on issues of strategy, resources , performance and standards of business judgement.	◉	Corporate Governance
A.1.6	Dedication of adequate time and effort by Directors	Directors should devote adequate time and effort to discharge their responsibilities to the Company satisfactorily.	◉	Corporate Governance
A.1.7	Training for Directors	Directors should receive appropriate training , hone skills and expand knowledge to more efectively perform duties.	◉	Corporate Governance
A.2 DIRECTORS - Chairman & Chief Executive Officer				
A.2.	Division of responsibilities to ensure no individual has unfettered powers of decision.	A balance of power and authority to be maintained by separating responsibility for conducting Board business from that of executive decision making.	◉	Corporate Governance
A.3 DIRECTORS - Role of Chairman				
A.3	Ensure good corporate governance	Chairman to preserve order and facilitate effective discharge of board functions by proper conduct of Board meetings.	◉	Corporate Governance
A.4 DIRECTORS - Financial Acuman				
A.4	Possession of adequate financial acumen	Board to ensure adequacy of financial acumen and knowledge within Board.	◉	Corporate Governance
A.5 DIRECTORS - Board Balance				
A.5.1	Composition of Board	The Board should include a sufficient number of Non-Executive Independent Directors.	◉	Corporate Governance
A.5.2	Proportion of independent directors	Two or one third of the Non - Executive Directors should be independent.	◉	Corporate Governance
A.5.3	Test of independence	Independent directors should be independent of management and free of any business or other relationship that could materially interfere with the exercise of unfettered and independent judgement.	◉	Corporate Governance
A.5.4	Declaration of independence	Non - Executive Directors should submit a signed and dated declaration of their independence / non - independence	◉	Corporate Governance / Annual Report of the Board of Directors
A.5.5	Annual determination of criteria of independence / non - independence and declaration of same by Board	The Board should annually determine and disclose the name of directors deemed to be independent	◉	Corporate Governance
A.5.6	Appointment of senior Independent Director	If the roles of Chairman / CEO are combined, a Non - Executive should be appointed as a Senior Independent Director.	N / A	

Corporate Governance Contd.

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
A.5.7	Availability of Senior Independent Director to other Directors	If warranted the SID should be available to the other directors for confidential discussions.	N / A	
A.5.8	Interaction between Chairman and Non - Executive Independent Directors.	The Chairman should meet the Non - Executive Independent Directors at least once a year.	◉	Corporate Governance
A.5.9	Directors concerns to be recorded	When matters are not unanimously resolved, directors to ensure their concerns are recorded in Board minutes.	N / A	
A.6 DIRECTORS - Supply of information				
A.6.1	Provision of adequate information to Board	Management to ensure the board is provided with timely and appropriate informstion.	◉	Corporate Governance
A.6.2	Adequacy of Notice and formal agenda to be discussed at board meetings	Board minutes , agenda and papers should be circulated at least seven days before the Board meeting.	◉	Corporate Governance
A.7 DIRECTORS - Appointments to the Board				
A.7.1	Nomination Committee	Nomination committee of parent may function as such for the Company and make recommendations to the Board on new Board appointments.	◉	Corporate Governance
A.7.2	Annual assessment of Board composition	Nomination committee or Board should annually assess the composition of Board.	◉	Corporate Governance
A.7.3	Disclosure of new board appointments	Profiles of new Board appointments to be communicated to Shareholders.	◉	Corporate Governance / Notice of meeting
A.8 DIRECTORS - Re - election				
A.8.1	Appointment of Non - Executive Directors	Appointment of Non - Executive Directors should be for specified terms and re - election should not be automatic	◉	Corporate Governance / Annual Report of the Board of Directors
A.8.2	Shareholder approval of appointment of all directors	The appointment of all directors should be subject to election by shareholders at the first opportunity	◉	Corporate Governance / Annual Report of the Board of Directors / Notice of Meeting
A.9 DIRECTORS - Appraisal of Board Performance				
A.9.1	Annual appraisal of Board performance	The Board should annually appraise how effectively it has discharged its key responsibilities	◉	Corporate Governance
A.9.2	Self evaluation of Board and Board Committees	The Board should evaluate its performance and that of its committees annually	◉	Corporate Governance / Audit Committee Report
A.9.3	Declaration of basis of performance evaluation	The Board should disclose how performance evaluations have been carried out	◉	Corporate Governance

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
A.10 DIRECTORS -Disclosure of information in respect of Directors				
A.10.1	Biographical profiles and relevant details of Directors to be disclosed	Annual Report should disclose the biographical details of directors and attendance at board/committee meetings	◉	Board of Directors , Corporate Governance / Audit Committee Report.
A.11 DIRECTORS - Appraisal of Chief Executive Officer				
A.11.1	Short , medium and long term , financial and non - financial objectives to be set.	The Board should set out the short, medium and long term, financial and non - financial objectives at the commencement of each year.	◉	Corporate Governance
A. 11.2	Evaluation of CEO performance	The performance of the CEO should be evaluated by the Board at the end of the year.	◉	Corporate Governance
B.1 DIRECTORS REMUNERATION - Remuneration Procedure				
B.1.1	Appointment of Remuneration Committee	Remuneration Committee of parent may function as such for the Company to make recommendations on directors remuneration.	◉	Corporate Governance
B.1.2	Composition of Remuneration Committee	Board to appoint only Non - Executive directors to serve on Remuneration Committee.	◉	Corporate Governance
B.1.3	Disclosure of members of Remuneration Committee	The Annual Report should disclose the chairman and directors who serve on the Remuneration Committee.	◉	Corporate Governance
B.1.4	Remuneration of non - executive directors	Board to determine the level of Remuneration of Non-Executive Directors	◉	Corporate Governance
B.1.5	Access to professional advice	Remuneration Committee should have access to professional advice in order to determine appropriate remuneration for Executive Directors.	◉	Corporate Governance
B.2 DIRECTORS REMUNERATION - Level and Make up of Remuneration				
B.2.1	Remuneration packages for Executive Directors.	Packages should be structured to attract, retain and motivate executive directors.	NA	Corporate Governance
B.2.2	Remuneration packages to be appropriately positioned.	Packages should be comparable and relative to that of other companies as well as the relative performance of the Company.	NA	Corporate Governance
B.2.3	Appropriateness of remuneration and conditions in relation to other Group companies	When determining annual increases remuneration committee should be sensitive to that of other Group companies.	NA	Corporate Governance
B.2.4	Performance related elements of remuneration	Performance related elements of remuneration should be aligned with interests of Company.	◉	Corporate Governance
B.2.5	Share options	Executive Directors should not be offered at a discount.	NA	Corporate Governance
B.2.6	Remuneration packages fro Non - Executive Directors	Should reflect time commitment and responsibilities of role and in line with existing market practice	NA	Corporate Governance

Corporate Governance Contd.

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
8.3 DIRECTORS REMUNERATION - Disclosure of Remuneration				
8.3	Disclosure of details of remuneration	The Annual Report should disclose the remuneration paid to directors	◉	Financial Statements note
C . 1 RELATIONS WITH SHARE HOLDERS - Constructive use and conduct of Annual General Meeting				
C.1.1	Proxy votes to be counted	The company should count and indicate the level of proxies lodged for and against in respect of each resolution	◉	Corporate Governance
C.1.2	Separate resolutions	Separate resolutions should be proposed for substantially separate issues	◉	Corporate Governance / Notice of Meeting
C.1.3	Availability of Committee Chairman at AGM	The Chairman of Board committees should be available to answer any queries at AGM	◉	Corporate Governance
C.1.4	Notice of AGM	15 working days notice to be given to shareholders	◉	Notice of Meeting
C.1.5	Procedure for voting at meetings	Company to circulate the procedure for voting with Notice of Meeting	◉	Notice of Meeting
C.2 MAJOR TRANSACTIONS				
C.2.1	Disclosure of Major Transactions	Transactions that have a value which are greater than half of the net assets of the Company should be disclosed	◉	Corporate Governance / Annual Report of the Board of Directors
D.1 ACCOUNTABILITY AND AUDIT - Financial Reporting				
D.1.1	Presentation of public reports	Should be balanced, understandable and comply with statutory and regulatory requirements	◉	Management Discussion / Corporate Governance / Risk Management / Financial Statements
D.1.2	Directors Report	The Directors Report should be included in the Annual Report and confirm that	◉	Audit Committee Report
				Annual Report of the Board of Directors
		The company has not contravened laws or regulations in conducting its activities		
		Material interests in contracts have been declared by Directors		Financial Statements
		The Company has endeavoured to ensure equitable treatment of shareholders		Corporate Governance
		That the business is a "going concern"		Annual Report of the Board of Directors
		That there is reasonable assurance of the effectiveness of the existing business systems following a review of the internal controls covering financial, operational and compliance		

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
D.1.3	Respective responsibilities of Directors and Auditors	The Annual Report should contain separate statements setting out the responsibilities of the Directors for the preparation of the financial statements and the reporting responsibilities of the Auditors	◉	Respective responsibilities of Directors and Auditors
D.1.4	Management Discussion and Analysis	Annual Report to include section on Management Discussion and Analysis	◉	Management Discussion
D.1.5	Going Concern	Directors to substantiate and report that the business is a going concern or qualify accordingly	◉	Annual Report of the Board of Directors
D.1.6	Serious Loss of Capital	Directors to summon an Extraordinary General Meeting in the event that the net assets of the company fails bellow 50 % of the value of Shareholders Funds	N / A	
D.2 ACCOUNTABILITY AND AUDIT - Internal Control				
D.2.1	Effectiveness of system of internal controls	Directors to annually conduct a review of the effectiveness of the system of internal controls. This responsibility may be delegated to the Audit Committee	◉	Audit Committee Report / Risk Management
D.3 AUDIT COMMITTEE				
D.3.1	Chairman and Composition of Audit Committee	Should comprise of a minimum of two Independent Non - Executive Directors	◉	Audit Committee Report
		Audit Committee Chairman should be appointed by the Board		
D.3.2	Duties of Audit Committee	Should include	◉	
		Review of scope and results of audit and its effectiveness		Corporate Governance
		Independence and objectivity of the Auditors		
D.3.3	Terms of Reference / Charter	The Audit Committee should have a written terms of reference which define the purpose of the Committee and its duties and responsibilities	◉	Corporate Governance
D.3.4	Disclosures	The Annual Report should disclose the names directors serving on the Audit Committee	◉	Corporate Governance / Audit Committee Report
		The Audit Committee should determine the independence of the Auditors and disclose the basis of such determination		Corporate Governance
		The Annual Report should contain a report by the Audit Committee setting out the manner of the compliance of the Company during the period to which the report relates.		Audit Committee Report

Corporate Governance Contd.

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
D.4 CODE OF BUSINESS CONDUCT AND ETHICS				
D.4.1	Adoption of Code of Business Conduct and Ethics	The company must adopt a Code of Business Conduct and Ethics for directors and members of the senior management team and promptly disclose any violation of the Code	◉	Corporate Governance
D.4.2	Chairman's affirmation	The Annual Report must include an affirmation by the Chairman that he is not aware of any violation of the Code of Business Conduct and Ethics	◉	Chairman's Statement / Annual Report of the Board of Directors
D.5 CORPORATE GOVERNANCE DISCLOSURES				
D.5.1	Corporate Governance Report	The Annual Report should include a report setting out the manner and extent to which the company has adopted the principles and provisions of the Code of Best Practise on Corporate Governance	◉	Corporate Governance
E. INSTITUTIONAL INVESTORS - Structured Dialogue				
E.1	Structured Dialogue with Shareholders	A regular and structured dialogue should be conducted with shareholders and the outcome of such dialogue should be communicated to the Board by the Chairman	◉	Corporate Governance
E.2	Evaluation of Governance Disclosures by institutional investees	Institutional Investees should be encouraged to consider the relevant factors drawn to their attention with regard to Board structure and composition	◉	Corporate Governance
F. OTHER INVESTORS - Investment / Divestment decisions				
F.1	Individual Investees	Individual shareholders should be encouraged to carry out adequate analysis and seek professional advice when making their investment / divestment decisions.	◉	
F.2.	Shareholder Voting	Individual shareholders should be encouraged to participate and exercise their voting rights	◉	Corporate Governance / Form of Proxy

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 revised 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 2013/2014, 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

29th May 2013
Colombo

Audit Committee Report

Terms of reference, principal focus and medium of reporting

The responsibilities of the Audit committee are governed by the Audit committee charter, approved and adopted by the Board. The Audit committee focuses principally in assisting the Board in fulfilling its its oversight responsibilities by providing an independent and objective review of the financial reporting process and monitoring the integrity and reliability of the financial statements. The Committee also oversees the effectiveness of the system of internal controls and financial risk management, independence and performance of the external auditors, compliance with statutory and regulatory requirements, with a view to safeguarding the interests of all stakeholders of the company. The proceedings of the Audit Committee were regularly reported to the Board of Directors.

Committee composition, meetings held and attendance

The Audit Committee consists of four members. The Chairman of the Audit Committee is a Fellow of the Institute of Chartered Accountants of Sri Lanka. All Non-Executive Directors satisfy the criteria for independence as specified in the standards on Corporate Governance for listed Companies issued by the Securities and Exchange Commission of Sri Lanka. The Audit committee reports directly to the Board. The individual and collective financial and hotel industry specific knowledge, business experience and the independence of members are brought to bear on all matters, which fall within the committee's purview. The Chief Financial Officer, Managing Director, General Manger & Hotel Financial Controller attend audit meetings by invitation. Outsourced Internal Auditors (BDO partners) are required to attend meetings on a regular basis. The committee met three times during the financial year ended 31st March 2013 and the attendance of the members at such meetings were as follows.

Name of Director	18.05.2012	15.11.2012	14.02.2013
Mr. L N De S Wijeyeratne	present	present	present
Mr. S Senaratne	present	present	present
Mr. C J Wickramasinghe	excused	excused	excused
Mr. Malik J Fernando	excused	present	excused

Activities performed during the year

- Reviewed the financial reporting system adopted in the preparation of quarterly and annual financial statements to ensure the reliability of the process, appropriateness and consistency of the accounting policies and procedures adopted and compliance with the requirements of Sri Lanka Accounting standards (LKAS, SLAS), the Companies Act No. 7 of 2007 and other relevant statutory and regulatory requirements.
- Met the outsourced Internal Auditors to consider their reports on the effectiveness of internal financial controls. Control weaknesses highlighted were critically examined and the actions taken by management to implement the recommendations made were reviewed.
- Reviewed the quarterly and yearend financial statements and recommended their adoption to the Board.
- Reviewed the non-audit services provided by the external auditors to the Company to ensure that their independence as auditors has not been impaired.
- Reviewed the Company's compliance framework to determine that it provides reasonable assurance that all relevant laws, rules and regulations have been complied with.

The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young be re-appointed as Auditors for the Financial Year ending 31st March 2014, subject to the approval of the shareholders at the next Annual General Meeting.

L.N. de S. Wijeyeratne (FCA)
Chairman
Audit Committee

29th May 2013
Colombo

Financial Reports

Independent Auditor's Report

ERNST & YOUNG

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Sri Lanka

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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 statement of financial position as at 31 March 2013, and the statements of comprehensive income, 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 2013 and the Financial Statements give a true and fair view of the Company's state of affairs as at 31 March 2013 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 2013 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

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.

Ernst + Young

29 May 2013
Colombo

Statement of Comprehensive Income

Year ended 31 March 2013	Note	Group 2013 Rs.	Group 2012 Rs.	Company 2013 Rs.	Company 2012 Rs.
Revenue	4	**577,724,141**	464,305,525	-	-
Cost of Sales		**(145,093,847)**	(118,888,623)	-	-
Gross Profit		**432,630,294**	345,416,902	-	-
Other Income and Gains	5	**40,040,646**	28,078,315	-	-
Selling and Marketing Expenses		**(24,115,407)**	(17,762,081)	-	-
Administrative Expenses		**(251,276,991)**	(219,771,016)	**(5,638,542)**	(2,981,819)
Finance Cost	6.1	**(52,445,220)**	(49,521,332)	**(296)**	-
Finance Income	6.2	**16,902,120**	848,356	-	-
Profit/(Loss) before Tax	7	**161,735,441**	87,289,144	**(5,638,838)**	(2,981,819)
Income Tax Expenses	8	**(8,100,721)**	(2,883,054)	-	-
Profit/(Loss) for the year		**153,634,720**	84,406,090	**(5,638,838)**	(2,981,819)
Other Comprehensive Income		-	-	-	-
Total Comprehensive Income for the Year, net of tax		**153,634,720**	84,406,090	**(5,638,838)**	(2,981,819)
Basic Earnings/(Loss) per Share	9	**1.39**	0.76	**(0.05)**	(0.00)

The Accounting Policies and Notes on pages 68 to 97 form an integral part of these Financial Statements.

Statements of Financial Position

As at 31 March 2013	Note	Group 2013 Rs.	Group 2012 Rs.	Group As at 01 April 2011 Rs.	Company 2013 Rs.	Company 2012 Rs.	Company As at 01 April 2011 Rs.
ASSETS							
Non-Current Assets							
Property, Plant and Equipment	10	**1,180,138,917**	1,235,170,781	1,289,585,000	**-**	-	-
Investments in Subsidiary	11	**-**	-	-	**1,000,009,990**	1,000,009,990	1,000,009,990
Intangible Assets	12	**6,007,177**	6,189,056	-	**-**	-	-
		1,186,146,094	1,241,359,837	1,289,585,000	**1,000,009,990**	1,000,009,990	1,000,009,990
Current Assets							
Inventories	14	**15,233,347**	13,891,065	11,340,373	**-**	-	-
Trade and Other Receivables	15	**59,351,959**	70,727,400	40,601,885	**-**	-	-
Advances and Prepayments		**17,571,444**	10,181,893	11,587,592	**-**	-	-
Income Tax Receivables		**162,841**	2,404,114	758,455	**137,474**	137,474	-
Short Term Deposits	16	**200,000,000**	40,000,000	-	**-**	-	-
Cash and Bank Balances	17	**12,249,166**	11,338,047	21,958,300	**36,449**	35,673	44,192
		304,568,757	148,542,519	86,246,605	**173,923**	173,147	44,192
Total Assets		**1,490,714,851**	1,389,902,356	1,375,831,605	**1,000,183,913**	1,000,183,137	1,000,054,182
EQUITY AND LIABILITIES							
Capital and Reserves							
Stated Capital	18	**1,108,866,840**	1,108,866,840	1,108,866,840	**1,108,866,840**	1,108,866,840	1,108,866,840
Accumulated Losses		**(70,784,807)**	(224,419,528)	(308,825,618)	**(136,728,201)**	(131,089,363)	(128,107,544)
Total Equity		**1,038,082,033**	884,447,312	800,041,222	**972,138,639**	977,777,477	980,759,296
Non-Current Liabilities							
Interest Bearing Loans and Borrowings	13.1	**296,709,848**	359,832,227	492,962,963	**-**	-	-
Retirement Benefit Obligation	19	**5,219,145**	3,881,128	3,776,833	**-**	-	-
Deferred Tax Liability	8.3	**24,283,646**	20,915,518	18,270,005	**-**	-	-
		326,212,639	384,628,873	515,009,801	**-**	-	-
Current Liabilities							
Trade and Other Payables	20	**48,321,771**	55,495,355	40,069,632	**28,044,202**	22,405,660	19,294,886
Interest Bearing Loans and Borrowings	13.1	**78,098,408**	65,330,815	20,710,950	**1,072**	-	-
		126,420,179	120,826,170	60,780,582	**28,045,274**	22,405,660	19,294,886
Total Equity and Liabilities		**1,490,714,851**	1,389,902,356	1,375,831,605	**1,000,183,913**	1,000,183,137	1,000,054,182

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

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 68 to 97 form an integral part of these Financial Statements.

29 May 2013
Colombo

Statement of Changes in Equity

Year ended 31 March 2013

Group	Stated Capital Rs.	Accumulated Losses Rs.	Total Rs.
Balance as at 01 April 2011	1,108,866,840	(308,825,618)	800,041,222
Profit for the year	-	84,406,090	84,406,090
Balance as at 31 March 2012	1,108,866,840	(224,419,528)	884,447,312
Profit for the year	-	153,634,720	153,634,720
Balance as at 31 March 2013	1,108,866,840	(70,784,807)	1,038,082,033

Company	Stated Capital Rs.	Accumulated Losses Rs.	Total Rs.
Balance as at 01 April 2011	1,108,866,840	(128,107,544)	980,759,296
Loss for the year	-	(2,981,819)	(2,981,819)
Balance as at 31 March 2012	1,108,866,840	(131,089,363)	977,777,477
Loss for the year	-	(5,638,838)	(5,638,838)
Balance as at 31 March 2013	1,108,866,840	(136,728,201)	972,138,639

The Accounting Policies and Notes on pages 68 to 97 form an integral part of these Financial Statements.

Cash Flow Statement

Year ended 31 March 2013	Note	Group 2013 Rs.	Group 2012 Rs.	Company 2013 Rs.	Company 2012 Rs.
Cash Flows from/(used in) Operating Activities					
Profit/(Loss) before Tax		**161,735,441**	87,289,144	**(5,638,838)**	(2,981,819)
Adjustments for					
Depreciation	10	**106,363,164**	105,493,303	-	-
Amortization	12	**1,237,811**	-	-	-
Finance Cost	6.1	**52,445,220**	49,521,332	-	-
Finance Income	6.2	**(16,902,120)**	(848,356)	-	-
Exchange Gain		**(4,321,521)**	(5,491,871)	-	-
Loss/(Profit) on Disposal of Property, Plant and Equipment	5	**(7,481,355)**	813,379	-	-
Provision for Defined Benefit Obligation		**2,087,327**	204,370	-	-
Operating Profit/(Loss) before Working Capital Changes		**295,163,967**	236,981,301	**(5,638,838)**	(2,981,819)
(Increase)/Decrease in Inventories		**(1,342,282)**	(2,550,692)	-	-
(Increase)/Decrease in Trade and Other Receivables		**3,985,890**	(28,700,661)	-	-
Increase/(Decrease) in Trade and Other Payables		**(7,173,584)**	16,551,552	**5,638,542**	3,110,774
Cash Generated from/(used in) Operations		**290,633,991**	222,281,500	**(296)**	128,955
Finance Cost paid	6.1	**(52,445,220)**	(49,521,332)	-	-
Defined Benefit Obligation paid	19	**(749,310)**	(100,075)	-	-
Tax paid		**(2,491,321)**	(1,883,199)	-	(137,474)
Net Cash from/(used in) Operating Activities		**234,948,140**	170,776,894	**(296)**	(8,519)
Cash Flows from/(used in) Investing Activities					
Proceeds from Disposal of Property Pant and Equipment		**7,481,355**	7,636,886	-	-
Acquisition of Property, Plant and Equipment	10.4	**(27,659,757)**	(40,928,789)	-	-
Acquisition of Intangible Assets	12	**(1,055,932)**	(6,189,056)	-	-
Investment in Short term deposits	16	**(160,000,000)**	(40,000,000)		
Finance Income Received	6.2	**16,902,120**	848,356	-	-
Net Cash from/(used in) Investing Activities		**(164,332,214)**	(78,632,603)	-	-
Cash Flows from/(used in) Financing Activities					
Repayment of Bank Loans	13.2	**(73,512,694)**	(112,487,306)	-	-
Principal Payments under Finance Lease Liabilities	13.3	**(7,398,511)**	(2,214,961)	-	-
Net Cash from/(used in) Financing Activities		**(80,911,205)**	(114,702,267)	-	-
Effect of Exchange Rate changes on Cash and Cash Equivalents		**4,321,521**	5,491,871	-	-
Net Increase/(Decrease) in Cash and Cash Equivalents		**(10,295,278)**	(22,557,976)	**(296)**	(8,519)
Cash and Cash Equivalents at the beginning of the year		**1,477,310**	18,543,415	**35,673**	44,192
Cash and Cash Equivalents at the end of the year	17	**(4,496,447)**	1,477,310	**35,377**	35,673

The Accounting Policies and Notes on pages 68 to 97 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. CORPORATE INFORMATIONS

1.1 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 2013 comprise the Company and its subsidiary (together referred to as "the Group").

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

1.2 Principal Activities and Nature of Operations

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

1.3 Parent Entity and Ultimate Parent Entity

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 31 March and are incorporated in Sri Lanka.

1.4 Date of Authorization for Issue

The Consolidated Financial Statements of the Group for the year ended 31 March 2013 were authorized for issue in accordance with a resolution of the Board of Directors on 29 May 2013.

2.1 BASIS OF PREPARATION

2.1.1 Basis of preparation and adoption of SLAS (SLFRS and LKAS) effective for the financial period beginning on or after 01 April 2012

The Consolidated 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 (SLFRS's and LKAS's) promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL), and with the requirements of the Companies Act No. 7 of 2007.

For all periods up to and including the year ended 31 March 2012, the Group prepared its Financial Statements in accordance with Sri Lanka Accounting Standards (SLAS).

These Financial Statements for the year ended 31 March 2013 are the first the Group has prepared in accordance with SLASs (SLFRS and LKAS) effective for the periods beginning on or after 01 April 2012.

Subject to certain transition elections and exceptions disclosed in Note 03 the Group has consistently applied the accounting policies used in preparation of its opening SLFRS statement of financial position at 01 April 2011 through all periods presented, as if these policies had always been in effect.

Note 03 discloses the impact of the transition to SLFRS on the Group's reported financial position and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Group's Consolidated financial statements for the year ended 31 March 2012 prepared under SLASs.

2.1.2 Basis of Measurement

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

2.1.3 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 March 2013.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

2.1.3.1 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	2013	2012
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.

2.1.4 Functional and presentation currency

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

2.1.5 Going Concern

The Directors have made an assessment of the Group's ability to continue as a going concern and they do not intend either to liquidate or to cease trading and operations.

2.1.6 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.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Group/Company in preparing its consolidated financial statements:

2.2.1 Functional and Presentation Currency

The Group's Consolidated Financial Statements are presented in Sri Lanka Rupees, which is the functional and presentation currency of the Group. Transactions in foreign currencies are translated to the functional currency of Group entities at exchange rulings applicable on the dates of the transaction.

Transactions in foreign currencies are initially recorded by the Group at the functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.
All differences are taken to the income statement.

Non-monetary assets and liabilities which are carried in terms of historical cost in a foreign currency are translated at the exchange rate that prevailed at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.2.2 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

Room revenue

Room revenue is recognized 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.

Interest income

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

Rental income

Rental income is recognised in profit and loss as it accrues.

Gains and losses on Disposal of Assets

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

Notes to the Financial Statements Contd.

2.2.3 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.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with investments in subsidiaries, equity accounted investee and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

  Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Tax withheld on dividend income from subsidiaries and equity accounted investees is recognised as an expense in the Consolidated Income Statement at the same time as the liability to pay the related dividend is recognised.

- **Sales tax**
  Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

- Receivables and payables that are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position

2.2.4 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.

2.2.4.1 Borrowing costs

Borrowing costs are recognized 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 a qualifying asset, in which case they are capitalized as part of the cost of that asset.

2.2.4.2 Finance costs

Finance costs comprise interest expense on borrowings that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

2.2.5 Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred.

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

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is recognised in the Statement of Income on a straight-line basis over the estimated useful lives of each part of an item of Property, Plant and Equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

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

	2013	**2012**
Buildings on Leasehold Land - Hotel	Over the Lease Period	Over the Lease Period
Buildings on Leasehold Land - Administration	Over the Lease Period	Over the Lease Period
Plant and Equipments	10 years	10 years
Furniture and Fittings	10 years	10 years
Fixtures and Fittings	10 years	10 years
Computer Equipments	05 years	05 years
Telephone Equipments	04 years	04 years
Kitchen Equipments	04 years	04 years
Electrical Equipments	10 years	10 years
Linen and Furnishing	04 years	04 years
Crockery and Cutlery	04 years	04 years
Other Equipments	04 years	04 years
Air-conditioners	10 years	10 years
Motor Vehicles	05 years	05 years

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale in accordance with SLFRS 5 and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

An item of property, plant and equipment and any

Notes to the Financial Statements Contd.

significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

2.2.5.1 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases that transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between 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.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

2.2.6 Intangible Assets

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

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

2.2.7 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 House Keeping and Maintenance Others	- Weighted Average Basis

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

2.2.8 Financial instruments – initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs for loans and in cost of sales or other operating expenses for receivables.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

ii) Impairment of financial assets
The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed

Notes to the Financial Statements Contd.

for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

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

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

iv) Offsetting of financial instruments

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

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

v) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

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

- Using recent arm's length market transactions
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 13.4

2.2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. 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.

2.2.10 Impairment of non- financial assets

The carrying amounts of the Group's non financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date or more frequently, if events or changes in circumstances indicate that they might be impaired.

2.2.10.1 Calculation of recoverable amount

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

2.2.10.2 Impairment/ Reversal of impairment

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit and loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.
An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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.

2.2.11 Provisions

2.2.11.1 General

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.2.11.2 Post Employment Benefits

i) Defined Benefit Plan - Gratuity

The Group operates a defined benefit plan as prescribed in Gratuity act No.12 of 1983. These benefits are unfunded. The cost of benefits under the defined benefit plans is determined using the projected unit credit method. Actuarial gains and losses for both defined benefit plans are recognised in full in the period in which they occur in the income statement. Such actuarial gains and losses are also immediately recognised in retained earnings and are not reclassified to profit or loss in subsequent periods.

Unvested past service costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. Past service costs are recognised immediately if the benefits have already vested immediately following the introduction of, or changes to, a pension plan.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds), less unrecognised past service costs and less the fair value of plan assets out of which the obligations are to be settled.

ii) Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The

Notes to the Financial Statements Contd.

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

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, 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.

Estimates and assumptions

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 consolidated 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.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are further explained in Note 14.

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 judgement 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 losses carried forward amounting to Rs.50, 537,265/- (2012 - Rs. 44,898,427/-). These losses relate to The Fortress Resort PLC that has a 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 8.2.

Retirement Benefit Obligation

The cost of retirement benefit obligation and the present value of the retirement benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of long term government bonds, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality. Future salary increases and pension increases are based on expected future inflation rates for the respective country.

Further details about the assumptions used are given in Note 19.2.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

- **SLFRS 9 Financial Instruments: Classification and Measurement**
  SLFRS 9 replaces LKAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in LKAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. The adoption of the first phase of SLFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- **SLFRS 10-Consolidated Financial Statements**
  SLFRS 10 replaces the portion of LKAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee - SIC-12 Consolidation - Special Purpose Entities.

  SLFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by SLFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in LKAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2014.

- **SLFRS 12-Disclosure of Interests in other entities**
  SLFRS 12 includes all of the disclosures that were previously in LKAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in LKAS 31 and LKAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2014.

- **SLFRS 13-Fair Value Measurement**
  SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not state when an entity is required to use fair value, but rather provides guidance on how to measure fair value under SLFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2014.

2.5 Explanations to the transition of SLFRS

To comply with the SLFRS 1, the Group provides explanations to the transition to SLFRS/LKAS from SLAS. The explanations includes a background and quantification of the change, This also includes reconciliation of Group's equity as at the date of transition 1 April 2011 and end of latest reporting period 31 March 2012. Reconciliation for total comprehensive income includes only for the latest financial year ended 31 March 2012.

Notes to the Financial Statements Contd.

3. FIRST TIME ADOPTION OF SLFRS

Reconciliation of equity as at 01 April 2011 (date of transition to SLFRS)

These Financial Statements, for the year ended 31 March 2013, are the first the Group has prepared in accordance with SLFRS. For periods up to and including the year ended 31 March 2011, the Group prepared its Financial Statements in accordance with Sri Lanka Accounting Standards (SLAS).

Accordingly, the Group has prepared Financial Statements which comply with SLFRS applicable for periods ended on or after 31 March 2013, together with the comparative period data as at and for the year ended 31 March 2012, as described in the accounting policies. In preparing these Financial Statements, the Group's opening statement of financial position was prepared as at 1 April 2011, the Group's date of transition to SLFRS. This note explains the principal adjustments made by the Group in restating its SLASs statement of financial position as at 1 April 2011 and its previously published SLASs Financial Statements as at and for the year ended 31 March 2012.

3.1 Reconciliation of equity as at 01 April 2011 (date of transition)

		Group			Company		
	Note	SLAS As at 1 April 2011 Rs.	Remeasurement Rs.	SLFRS/LKAS As at 1 April 2011 Rs.	SLAS As at 1 April 2011 Rs.	Remeasurement Rs.	SLFRS/LKAS As at 1 April 2011 Rs.
ASSETS							
Non-Current Assets							
Property, Plant and Equipment	A	1,100,504,176	189,080,824	1,289,585,000	-	-	-
Investments in Subsidiary		-	-	-	1,000,009,990	-	1,000,009,990
Intangible Assets		-	-	-	-	-	-
		1,100,504,176	189,080,824	1,289,585,000	1,000,009,990	-	1,000,009,990
Current Assets							
Inventories		11,340,373	-	11,340,373	-	-	-
Trade and Other Receivables	B	52,189,477	(11,587,592)	40,601,885	-	-	-
Advances and prepayments	B	-	11,587,592	11,587,592			
Income Tax Receivables		758,455	-	758,455	-	-	-
Short Term Deposits	-	-	-	-	-	-	
Cash and Bank Balances		21,958,300	-	21,958,300	44,192	-	44,192
		86,246,605	-	86,246,605	44,192	-	44,192
Total Assets		1,186,750,781	189,080,824	1,375,831,605	1,000,054,182	-	1,000,054,182
EQUITY AND LIABILITIES							
Capital and Reserves							
Stated Capital		1,108,866,840	-	1,108,866,840	1,108,866,840	-	1,108,866,840
Revaluation Reserve	C	124,372,838	(124,372,838)	-	-	-	-
Accumulated Losses	C	(604,009,275)	295,183,657	(308,825,618)	(128,107,544)	-	(128,107,544)
Total Equity		629,230,403	170,810,819	800,041,222	980,759,296	-	980,759,296
Non-Current Liabilities							
Interest Bearing Loans and Borrowings		492,962,963	-	492,962,963	-	-	-
Retirement Benefit Obligation		3,776,833	-	3,776,833	-	-	-
Deferred Tax Liability	D	-	18,270,005	18,270,005	-	-	-
		496,739,796	18,270,005	515,009,801	-	-	-
Current Liabilities							
Trade and Other Payables		40,069,632	-	40,069,632	19,294,886	-	19,294,886
Interest Bearing Loans and Borrowings		20,710,950	-	20,710,950	-	-	-
		60,780,582	-	60,780,582	19,294,886	-	19,294,886
Total Equity and Liabilities		1,186,750,781	189,080,824	1,375,831,605	1,000,054,182	-	1,000,054,182

3. FIRST TIME ADOPTION OF SLFRS Contd.

3.2 Reconciliation of equity as at 31 March 2012

	Note	Group SLAS As at 31 March 2012 Rs.	Group Remeasurement Rs.	Group SLFRS/LKAS As at 31 March 2012 Rs.	Company SLAS As at 31 March 2012 Rs.	Company Remeasurement Rs.	Company SLFRS/LKAS As at 31 March 2012 Rs.
Non-Current Assets							
Property, Plant and Equipment	A	1,078,054,401	157,116,380	1,235,170,781	-	-	-
Investments in Subsidiary		-	-	-	1,000,009,990	-	1,000,009,990
Intangible Assets		6,189,056	-	6,189,056	-	-	-
		1,054,243,457	157,116,380	1,241,359,837	1,000,009,990	-	1,000,009,990
Current Assets							
Inventories		13,891,065	-	13,891,065	-	-	-
Trade and Other Receivables	B	80,909,293	(10,181,893)	70,727,400	-	-	-
Advances and prepayments	B	-	10,181,893	10,181,893			
Income Tax Receivables		2,404,114	-	2,404,114	137,474	-	137,474
Short Term Deposits		40,000,000	-	40,000,000	-	-	-
Cash and Bank Balances		11,338,047	-	11,338,047	35,673	-	35,673
		148,542,519	-	148,542,519	173,147	-	173,147
Total Assets		1,232,785,976	157,116,380	1,389,902,356	1,000,183,137	-	1,000,183,137
EQUITY AND LIABILITIES							
Capital and Reserves							
Stated Capital		1,108,866,840	-	1,108,866,840	1,108,866,840	-	1,108,866,840
Revaluation Reserve	C	124,372,838	(124,372,838)	-	-	-	-
Accumulated Losses	C	(484,993,227)	(260,573,699)	(224,419,528)	(131,089,363)	-	(131,089,363)
Total Equity		748,246,451	136,200,861	884,447,312	977,777,477	-	977,777,477
Non-Current Liabilities							
Interest Bearing Loans and Borrowings		359,832,227	-	359,832,227	-	-	-
Retirement Benefit Obligation		3,881,128	-	3,881,128	-	-	-
Deferred Tax Liability	D	-	20,915,518	20,915,518	-	-	-
		363,713,355	20,915,518	384,628,873	-	-	-
Current Liabilities							
Trade and Other Payables		55,495,355	-	55,495,355	22,405,660	-	22,405,660
Interest Bearing Loans and Borrowings		65,330,815	-	65,330,815	-	-	-
		120,826,170	-	120,826,170	22,405,660	-	22,405,660
Total Equity and Liabilities		1,232,785,976	157,116,380	1,389,902,356	1,000,183,137	-	1,000,183,137

3.3 Reconciliation of total comprehensive income for the year ended 31 March 2012

	Note	Group SLAS As at 31 March 2012 Rs.	Group Remeasurement Rs.	Group SLFRS/LKAS As at 31 March 2012 Rs.	Company SLAS As at 31 March 2012 Rs.	Company Remeasurement Rs.	Company SLFRS/LKAS As at 1 April 2012 Rs.
Revenue		464,305,525	-	464,305,525	-	-	-
Cost of Sales		(109,611,610)	(9,277,013)	(118,888,623)	-	-	-
Gross Profit	E	354,693,915	(9,277,013)	345,416,902	-	-	-
Other Income		28,078,315	-	28,078,315	-	-	-
Selling and Marketing Expenses		(17,762,081)	-	(17,762,081)	-	-	-
Administrative Expenses	E	(197,083,585)	(22,687,431)	(219,771,016)	(2,981,819)	-	(2,981,819)
Finance Cost		(49,521,332)	-	(49,521,332)	-	-	-
Finance Income		848,356	-	848,356	-	-	-
Profit/(Loss) before Tax		119,253,588	(31,964,444)	87,289,144	(2,981,819)	-	(2,981,819)
Income Tax Expenses	D	(237,540)	(2,645,514)	(2,883,054)	-	-	-
Profit/(Loss) for the year		119,016,048	(34,609,958)	84,406,090	(2,981,819)	-	(2,981,819)
Other Comprehensive Income		-	-	-	-	-	-
Total Comprehensive Income for the Year, net of tax		119,016,048	(34,609,958)	84,406,090	(2,981,819)	-	(2,981,819)

Notes to the Financial Statements Contd.

3. FIRST TIME ADOPTION OF SLFRS Contd.

3.4 Notes to the reconciliation of equity as at 1 April 2011 and 31 March 2012 and total comprehensive income for the year ended 31 March 2012

A. Revaluation of Property Plant and Equipments

In accordance with SLFRS first time adoption, the company has adopted deemed cost exemption in relating to property plant and equipments . Accordingly, all the Property Plant and Equipments of the Group have been revalued as at 01 April 2011, by Mr H R De Silva an independent valuer in reference to market based evidence and revalued amount of Rs 1,289.5 Million has been considered as deemed cost . The surplus generated from applying deemed cost which amounting to Rs. 189 Million and previous recognised revaluation surplus of Rs. 124 Million was transferred to retained earnings as at the transition date.

The details relating to the said revaluation is as follows,

A-1

As at 1 April 2011

Category	Cost/ valuation as at 01 April 2011 Rs.	Accumilated depreciation as at 01 April 2011 Rs.	Net Book Value Rs.	Revaluation surplus /deplicit Rs.	Revalued Amount Rs.
Buildings - on Leasehold Land					
- Hotel	865,343,244	(45,837,040)	819,506,204	86,308,796	905,815,000
- on Administration	58,314,668	(4,477,007)	53,837,661	(11,837,661)	42,000,000
Plant and Other Equipment	27,812,677	(11,551,035)	16,261,642	469,358	16,731,000
Furniture and Fittings	148,126,823	(62,031,303)	86,095,520	15,426,480	101,522,000
Fixtures and Fittings	34,139,429	(14,562,683)	19,576,746	5,886,254	25,463,000
Computer Equipment	17,289,186	(14,544,990)	2,744,196	5,462,804	8,207,000
Telephone Equipment	3,388,033	(3,254,229)	133,804	1,439,196	1,573,000
Kitchen Equipment	47,357,222	(46,328,146)	1,029,076	34,817,924	35,847,000
Electric Equipment	137,056,746	(60,281,165)	76,775,581	28,043,419	104,819,000
Linen and Furnishing	31,381,829	(25,230,117)	6,151,712	573,288	6,725,000
Cutlery and Crockery	28,296,479	(26,990,470)	1,306,009	12,933,991	14,240,000
Other Equipment	23,719,700	(22,589,321)	1,130,379	10,029,621	11,160,000
Air-conditioners	25,214,181	(12,396,972)	12,817,209	(6,134,209)	6,683,000
Motor Vehicles - Cost	11,125,000	(9,085,417)	2,039,583	5,220,238	7,259,821
- On finance lease	5,993,750	(4,894,896)	1,098,854	441,325	1,540,179
Total	1,464,558,967	(364,054,791)	1,100,504,176	189,080,824	1,289,585,000

A-2

As at 31 March 2012

Impact on Accounting under Deemed Cost as at the transition date	A-1,	189,080,824
Incremental Depreciation as a Result of Accounting Under Deemed Cost	E,	(31,964,444)
Total		**157,116,380**

B. Trade and Other Receivables/ Advances and prepayments

Under SLAS, the Group categorized Receivables, Advances and Prepayments as "Trade and Other Receivables". Under SLFRS, Advances and Prepayments do not fall within the definition of Financial Assets as defined in LKAS 39. Advances and prepayments has therefore been disclosed separately in the Statement of Financial Position as such presentation would facilitate a better understanding of the entity's financial position.

3. FIRST TIME ADOPTION OF SLFRS Contd.

C. Accumulated Losses - Group

		31.03.2012	01.04.2011
Impact on Accounting under Deemed Cost as at the transition date	A-1	189,080,824	189,080,824
Transferring the Revaluation surplus to other Component of Equity		124,372,838	124,372,838
Accounting for deferred tax		-	(18,270,005)
Incremental Depreciation as a result of accounting under Deemed Cost	E	(31,964,444)	-
Total		281,489,218	295,183,657

D Deferred Tax Liability

Under SLAS the Group had not accounted for deferred tax since the profit and income from business of La Forteresse (Private) Limited is exempted from income tax as stated in Note 2.2.3 of these Financial Statements. However under SLFRS the Group had accounted for deferred tax since the tax exemption period will be ceased on 31.03.2013

E. Additional Depreciation Charge

	2012 Rs
Buildings - on Leasehold Land - Hotel	3,077,132
- on Administration	(471,281)
Plant and Other Equipment	(50,731)
Furniture and Fittings	1,644,952
Fixtures and Fittings	818,206
Computer Equipment	2,049,566
Telephone Equipment	728,615
Kitchen Equipment	6,418,355
Electric Equipment	4,528,275
Linen and Furnishing	1,363,256
Cutlery and Crockery	2,858,658
Other Equipment	4,945,867
Air-conditioners	(1,280,531)
Motor Vehicles - Cost	5,220,238
- On finance lease	113,866
Total	31,964,444
Included in the cost of sales	(9,277,013)
Included in the administration expenses	(22,687,431)
Total	(31,964,444)

4. REVENUE

	Group		Company	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
Revenue (Note 4.1)	**577,724,141**	464,305,525	-	-
	577,724,141	464,305,525	-	-

4.1 Revenue

Apartment Revenue	**358,711,091**	290,885,494	-	-
Restaurant Sales	**140,711,704**	106,336,704	-	-
Bar Sales	**55,966,965**	48,907,756	-	-
Spa Income	**22,334,381**	18,175,571	-	-
	577,724,141	464,305,525	-	-

Notes to the Financial Statements Contd.

5. OTHER INCOME AND GAINS

	Group 2013 Rs.	Group 2012 Rs.	Company 2013 Rs.	Company 2012 Rs.
Laundry Income	**2,908,663**	2,638,889	-	-
Transport Income	**4,045,137**	2,487,307	-	-
Excursions Income	**5,525,177**	4,167,019	-	-
Boutique Income	**2,841,270**	1,510,510	-	-
Telephone Income	**24,529**	75,102	-	-
Exchange Gain	**4,321,521**	5,491,871	-	-
Sundry Income	**12,892,994**	11,707,617	-	-
Profit on Disposal Property, Plant and Equipment	**7,481,355**	-	-	-
	40,040,646	28,078,315	-	-

6. FINANCE COSTS AND INCOME

6.1 Finance Costs

	Group 2013 Rs.	Group 2012 Rs.	Company 2013 Rs.	Company 2012 Rs.
Interest Expense on Bank Loans	**48,683,288**	48,560,414	-	-
Interest Expense on Bank Overdrafts	**3,608**	1,224	**296**	-
Finance Charges on Lease Liabilities	**3,758,324**	959,694	-	-
	52,445,220	49,521,332	**296**	-

6.2 Finance Income

	Group 2013 Rs.	Group 2012 Rs.	Company 2013 Rs.	Company 2012 Rs.
Interest Income	**16,902,120**	848,356	-	-
	16,902,120	848,356	-	-

7. PROFIT/(LOSS) BEFORE TAX

Stated after Charging	Group 2013 Rs.	Group 2012 Rs.	Company 2013 Rs.	Company 2012 Rs.
Included in Cost of Sales				
Employees Benefits including the following	**30,078,989**	28,337,554	-	-
- Defined Benefit Plan Cost - Gratuity (included in Employee Benefits)	**453,659**	426,937	-	-
- Defined Contribution Plan Cost - EPF and ETF (included in Employee Benefits)	**2,740,126**	2,372,247	-	-
Depreciation	**11,816,982**	10,456,188	-	-
Included in Administrative Expense				
Employees Benefits including the following	**47,036,203**	38,382,429	-	-
- Defined Benefit Plan Cost - Gratuity (included in Employee Benefits)	**1,693,731**	(222,567)	-	-
- Defined Contribution Plan Cost - EPF and ETF (included in Employee Benefits)	**4,105,099**	3,589,440	-	-
Depreciation	**94,546,182**	95,037,115	-	-
Amortisation of Intangible Asset	**1,197,127**	-	-	-
Audit Fees	**790,390**	677,683	**209,149**	175,728
Charity and Donations	**523,500**	247,617	-	-
Land Rent	**2,034,727**	2,324,059	-	-
Loss on Disposal of Property, Plant and Equipment	-	813,379	-	-
Included in Selling and Marketing Expenses				
Advertising	**10,775,352**	7,010,584	-	-

8. INCOME TAX EXPENSE

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

	Group		Company	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
Income Statement				
Current Income Tax				
Current Income Tax Charge (Note 8.1)	**4,732,594**	237,540	**-**	-
Deferred Income Tax				
Deferred Taxation Charge/(Reversal) (Note 8.3)	**3,368,127**	2,645,514	**-**	-
Income tax expense reported in the Income Statement	**8,100,721**	2,883,054	**-**	-

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

	Group		Company	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
Accounting Profit/(Loss) before Income Tax	**161,735,441**	87,289,144	**(5,638,838)**	(2,981,819)
Exempted Profit	**(150,472,160)**	(89,422,607)	**-**	-
Interest Income	**(16,902,120)**	(848,356)	**-**	-
Taxable Profit/(Loss) from Business	**(5,638,839)**	(2,981,819)	**(5,638,838)**	(2,981,819)
Other Sources of Income				
Interest Income	**16,902,120**	848,356	**-**	-
Taxable Other Income	**16,902,120**	848,356	**-**	-
Income Tax @ 28%	**4,732,594**	237,540	**-**	-
Current Income Tax Charge	**4,732,594**	237,540	**-**	-
Effective Tax Rate	**3%**	0%	**0%**	0%

8.2 Tax Losses Utilized

	Group 2013	Group 2012	Company 2013	Company 2012
Tax Losses Brought Forward	**44,898,427**	41,916,608	**44,898,427**	41,916,608
Loss Incurred during the year	**5,638,838**	2,981,819	**5,638,838**	2,981,819
Adjustments on Finalization of Liability	**-**	-	**-**	-
Tax Losses Carried Forward	**50,537,265**	44,898,427	**50,537,265**	44,898,427

La Forteresse (Private) Limited

The profit and income from business of La Forteresse (Private) Limited is exempted from income tax as stated in Note 2.2.3 of these Financial Statements.

Notes to the Financial Statements Contd.

8.3 Deferred Tax - Group

	Balance Sheet			Income Statement	
	2013 Rs.	2012 Rs.	2011 Rs.	2013 Rs.	2012 Rs.
Deferred Tax Liability					
Directly Charged to Equity	**25,073,724**	25,073,724	25,073,724	-	-
	25,073,724	25,073,724	25,073,724	-	-
Deferred Tax Assets					
Capital Allowances for Tax purpose	**(268,164)**	(3,770,093)	(6,426,036)	**3,501,929**	2,655,943
Retirement Benefit Obligation	**(521,915)**	(388,113)	(377,683)	**(133,802)**	(10,430)
	(790,078)	(4,158,206)	(6,803,719)	**3,368,127**	2,645,514
Deferred Taxation Charge/(Reversal)				**3,368,127**	2,645,514
Net Deferred Tax Liability	**24,283,646**	20,915,518	18,270,005		

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

The Fortress Resorts PLC has a tax loss amounting to Rs. 50,537,265/- (2012 - Rs. 44,898,427/-) which is available indefinitely for offsetting against future Statutory Income of the Company subject to a limit of 28% of Statutory Income in each year of assessment. A deferred tax asset amounting to Rs. 14,150,434/- (2012 - Rs. 12,571,560/-) 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.

9. 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.

9.1 Amounts used as the Numerator

	Group		Company	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
Profit/(Loss) attributable to Ordinary Shareholders for Basic Earnings/(Loss) per Share	**153,634,720**	84,406,090	**(5,638,838)**	(2,981,819)

9.2 Number of Ordinary Shares Used as the Denominator

	Group		Company	
	2013 Number	2012 Number	2013 Number	2012 Number
Weighted Average Number of Ordinary Shares applicable to Basic Earnings/(Loss) per Share	**110,886,684**	110,886,684	**110,886,684**	1,108,866,840

10. PROPERTY, PLANT AND EQUIPMENT - GROUP

10.1 Gross Carrying Amounts

	Balance As at 01.04.2011 Rs.	Additions Rs.	Disposals Rs.	Balance As at 01.04.2012 Rs.	Additions Rs.	Disposals Rs.	Balance As at 31.03.2013 Rs.
At Cost/ Deemed Cost							
Buildings on Leasehold Land							
- Hotel	905,815,000	2,950,901	-	908,765,901	2,004,453	-	**910,770,354**
- Administration	42,000,000	2,433,510	-	44,433,510	61,880	-	**44,495,390**
Plant and Equipment	16,731,000	85,200	-	16,816,200	361,233	-	**17,177,433**
Furniture and Fittings	101,522,000	2,224,180	(1,200,660)	102,545,520	3,460,180	-	**106,005,700**
Fixtures and Fittings	25,463,000	13,497,038	-	38,960,038	1,660,608	-	**40,620,646**
Computer Equipment	8,207,000	2,464,978	-	10,671,978	1,279,954	-	**11,951,932**
Telephone Equipment	1,573,000	89,341	-	1,662,341	87,702	-	**1,750,043**
Kitchen Equipment	35,847,000	320,559	-	36,167,559	6,269,320	-	**42,436,879**
Electrical Equipment	104,819,000	3,995,487	(4,520,920)	104,293,567	3,570,796	-	**107,864,363**
Linen and Furnishing	6,725,000	1,046,395	-	7,771,395	4,317,835	-	**12,089,230**
Cutlery and Crockery	14,240,000	2,169,331	-	16,409,331	1,521,356	-	**17,930,687**
Other Equipment	11,160,000	533,186	-	11,693,186	1,927,411	-	**13,620,597**
Air conditioners	6,683,000	8,500,876	(4,000,000)	11,183,876	661,517	-	**11,845,393**
Motor Vehicles	7,259,821	-	-	7,259,821	-	(7,259,821)	**-**
	1,288,044,821	40,310,982	(9,721,580)	1,318,634,223	27,184,245	(7,259,821)	**1,338,558,647**
Assets on Finance Leases							
Motor Vehicles	1,540,179	20,363,351	(1,540,179)	20,363,351	24,147,055	-	**44,510,406**
	1,540,179	20,363,351	(1,540,179)	20,363,351	24,147,055	-	**44,510,406**
Total Gross Carrying Amount	1,289,585,000	60,674,333	(11,261,759)	1,338,997,574	51,331,300	(7,259,821)	**1,383,069,053**

10.2 Depreciation

	Balance As at 01.04.2011 Rs.	Charge for the year Rs.	Disposals Rs.	Balance As at 01.04.2012 Rs.	Charge for the year Rs.	Disposals Rs.	Balance As at 31.03.2013 Rs.
At Cost/ Deemed Cost							
Buildings on Leasehold Land							
- Hotel	-	26,491,452	-	26,491,452	26,575,121	-	**53,066,573**
- Administration	-	1,808,310	-	1,808,310	1,867,326	-	**3,675,636**
Plant and Equipment	-	2,733,377	-	2,733,377	2,739,057	-	**5,472,435**
Furniture and Fittings	-	16,600,601	(116,731)	16,483,870	16,816,899	-	**33,300,769**
Fixtures and Fittings	-	4,442,014	-	4,442,014	5,631,336	-	**10,073,351**
Computer Equipment	-	4,359,278	-	4,359,278	4,264,854	-	**8,624,132**
Telephone Equipment	-	776,081	-	776,081	795,053	-	**1,571,135**
Kitchen Equipment	-	6,760,405	-	6,760,405	7,564,107	-	**14,324,512**
Electrical Equipment	-	17,713,928	(113,023)	17,600,905	18,068,494	-	**35,669,398**
Linen and Furnishing	-	3,128,426	-	3,128,426	3,737,664	-	**6,866,090**
Cutlery and Crockery	-	3,695,785	-	3,695,785	4,252,875	-	**7,948,660**
Other Equipment	-	5,344,259	-	5,344,259	5,699,682	-	**11,043,941**
Air conditioners	-	1,471,298	(666,667)	804,632	1,334,661	-	**2,139,292**
Motor Vehicles	-	7,259,821	-	7,259,821	-	(7,259,821)	**-**
	-	102,585,037	(896,421)	101,688,616	99,347,128	(7,259,821)	**193,775,923**
Assets on Finance Leases							
Motor Vehicles	-	2,908,267	(770,090)	2,138,177	7,016,036	-	**9,154,213**
	-	2,908,267	(770,090)	2,138,177	7,016,036	-	**9,154,213**
Total Depreciation	-	105,493,303	(1,666,510)	103,826,793	106,363,164	(7,259,821)	**202,930,136**

Notes to the Financial Statements Contd.

10. PROPERTY, PLANT AND EQUIPMENT - GROUP Contd.

10.3 Net Book Values

	2013 Rs.	2012 Rs.	01 April 2011 Rs.
At Cost/ Deemed Cost			
Buildings on Leasehold Land - Hotel	**857,703,781**	882,274,449	905,815,000
- Administration	**40,819,754**	42,625,200	42,000,000
Plant and Equipment	**11,704,998**	14,082,823	16,731,000
Furniture and Fittings	**72,704,931**	86,061,650	101,522,000
Fixtures and Fittings	**30,547,295**	34,518,024	25,463,000
Computer Equipment	**3,327,800**	6,312,700	8,207,000
Telephone Equipment	**178,908**	886,260	1,573,000
Kitchen Equipment	**28,112,367**	29,407,154	35,847,000
Electrical Equipment	**72,194,965**	86,692,662	104,819,000
Linen and Furnishing	**5,223,140**	4,642,969	6,725,000
Cutlery and Crockery	**9,982,027**	12,713,546	14,240,000
Other Equipment	**2,576,656**	6,348,927	11,160,000
Air conditioners	**9,706,101**	10,379,244	6,683,000
Motor Vehicles	**-**	-	7,259,821
	1,144,782,724	1,216,945,607	1,288,044,821
Assets on Finance Leases			
Motor Vehicles	**35,356,193**	18,225,174	1,540,179
Total Carrying Amount of Property, Plant and Equipment	**1,180,138,917**	1,235,170,781	1,289,585,000

10.4 During the financial year, the Group acquired property, plant and equipment to the aggregate value of Rs. 51,331,300/- (2012 - Rs 60,674,333/-) of which Rs 24,147,055/- (2012 - Rs. 20,363,351/-) was acquired by means of finance leases. Cash payments amounting to Rs. 27,659,757/- (2012 - Rs 40,928,789/-) were made during the year for purchase of Property, Plant and Equipment.

10.5 The hotel and administration buildings of the Group 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.

10.6 Property, plant and equipment of the Group includes fully depreciated assets having a gross carrying amounts of Rs. 133,821,367/- (2012 - 123,115,733/-).

11. INVESTMENT IN SUBSIDIARY - COMPANY/ GROUP

11.1 Non-Quoted Investments

	2013 %	2012 %	Cost 2013 Rs.	Cost 2012 Rs.	Cost 2011 Rs.	Director's Valuation 2013 Rs.	Director's Valuation 2012 Rs.	Director's Valuation 2011 Rs.
La Forteresse (Private) Limited	**100%**	100%	**1,000,009,990**	1,000,009,990	1,000,009,990	**1,000,009,990**	1,000,009,990	1,000,009,990

12 INTANGIBLE ASSETS - GROUP

12.1 Cost

	Balance As at 01.04.2011 Rs.	Additions Rs.	Disposals Rs.	Balance As at 01.04.2012 Rs.	Additions Rs.	Disposals Rs.	Balance As at 31.03.2013 Rs.
	-	6,189,056	-	6,189,056	1,055,932	-	**7,244,988**
Computer Software	-	6,189,056	-	6,189,056	1,055,932	-	**7,244,988**

12.2 Amortisation

	-	-	-	-	1,237,811	-	**1,237,811**
Computer Software	-	-	-	-	1,237,811	-	**1,237,811**

12. INTANGIBLE ASSETS - GROUP Contd.

12.3 Net Book Values

	2013 Rs	2012 Rs	2011 Rs
Computer Software	**6,007,177**	6,189,056	-

Intangible Asset is amortized over 05 years.

13. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES

13.1 Interest Bearing Loans and Borrowings - Group

	Interest Rate	2013 Rs	2012 Rs	As at 01 April 2011 Rs
Current Interest Bearing Loans and Borrowings				
Other Current Loans (Note 13.2)	AWDR + 4%	**51,111,120**	51,111,120	17,037,037
Bank Overdrafts		**16,745,613**	9,860,737	3,414,885
Obligation Under the Financial Lease (Note 13.3)		**10,241,675**	4,358,958	259,028
Total Current Interest Bearing Loans and Borrowings		**78,098,408**	65,330,815	20,710,950
Non Current Interest Bearing Loans and Borrowings				
Other Non Current Loans (Note 13.2)	AWDR + 4%	**272,888,880**	346,401,574	492,962,963
Obligation Under the Financial Lease (Note 13.3)		**23,820,968**	13,430,653	-
Total Non Current Interest Bearing Loans and Borrowings		**296,709,848**	359,832,227	492,962,963

13.2 Bank Loans

	Balance As at 01.04.2011 Rs.	Loans Obtained Rs.	Repayments Rs.	Balance As at 31.03.2012 Rs.	Loans Obtained Rs.	Repayments Rs.	Balance As at 31.03.2013 Rs.
Bank of Ceylon							
Term Loan - I	460,000,000	-	(62,487,306)	397,512,694	-	(73,512,694)	**324,000,000**
Term Loan - II	50,000,000	-	(50,000,000)	-	-	-	**-**
Total	510,000,000	-	(112,487,306)	397,512,694	-	(73,512,694)	**324,000,000**

	2013 Rs.	2012 Rs.	2011 Rs.
Current	**51,111,120**	51,111,120	17,037,037
Non Current	**272,888,880**	346,401,574	492,962,963
Total	**324,000,000**	397,512,694	510,000,000

* Note 22 provides the details of assets pledge relating to the above bank loan.

Notes to the Financial Statements Contd.

13. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES Contd.

13.3 Finance Leases

	Balance As at 01.04.2011 Rs.	New Leases Obtained Rs.	Repayments Rs.	Balance As at 31.03.2012 Rs.	New Leases Obtained Rs.	Repayments Rs.	Balance As at 31.03.2013 Rs.
Hatton National Bank PLC	274,005	-	(274,005)	-	-	-	-
Pan Asia Banking Corporation PLC	-	19,091,818	(2,784,222)	16,307,596	31,234,398	(9,762,000)	**37,779,994**
Bank of Ceylon	-	5,541,408	(115,446)	5,425,962	-	(1,385,352)	**4,040,610**
Gross Liability	274,005	24,633,226	(3,173,673)	21,733,558	31,234,398	(11,147,352)	**41,820,604**
Finance Charges allocated to Future periods	(14,977)	(4,887,682)	958,712	(3,943,947)	(7,562,855)	3,748,841	**(7,757,961)**
Net Liability	259,028	19,745,544	(2,214,961)	17,789,611	23,671,543	(7,398,511)	**34,062,643**

	2013 Rs.	2012 Rs.	2011 Rs.
Current	**10,241,675**	4,358,958	259,028
Non Current	**23,820,968**	13,430,653	-
Total	**34,062,643**	17,789,611	259,028

* Note 21 provides the details of the above finance leases.

13.4 Fair Values - Group

	Carrying Amount			Fair Values		
	2013	2012	As at 01 April 2011	2013	2012	As at 01 April 2011
Financial Assets						
Trade and Other Receivables	**59,351,959**	70,727,400	40,601,885	**59,351,959**	70,727,400	40,601,885
Short Term Deposits	**200,000,000**	40,000,000	-	**200,000,000**	40,000,000	-
Cash and cash equivalents other than bank over draft	**12,249,166**	11,338,047	21,958,300	**12,249,166**	11,338,047	21,958,300
Total	**271,601,125**	122,065,447	62,560,185	**271,601,125**	122,065,447	62,560,185
Financial Liabilities						
Interest Bearing Loans and Borrowings						
Financial Lease	**34,062,643**	17,789,611	259,028	**34,062,643**	17,789,611	259,028
Fixed rate Borrowings	**324,000,000**	397,512,694	510,000,000	**324,000,000**	397,512,694	510,000,000
Trade and other payables	**48,321,771**	55,495,355	40,069,632	**48,321,771**	55,495,355	40,069,632
Bank Overdraft	**16,745,613**	9,860,737	3,414,885	**16,745,613**	9,860,737	3,414,885
Total	**423,130,027**	480,658,397	553,743,545	**423,130,027**	480,658,397	553,743,545

13.5 Fair Values - Company

	2013	2012	As at 01 April 2011	2013	2012	As at 01 April 2011
Financial Assets						
Trade and Other Receivables	**-**	-	-	**-**	-	-
Cash and Short term Deposits	**36,449**	35,673	44,192	**36,449**	35,673	44,192
Total	**36,449**	35,673	44,192	**36,449**	35,673	44,192
Financial Liabilities						
Interest Bearing Loans and Borrowings						
Financial Lease	**-**	-	-	**-**	-	-
Fixed rate Borrowings	**-**	-	-	**-**	-	-
Trade and other payables	**28,044,202**	22,405,660	19,294,886	**28,044,202**	22,405,660	19,294,886
Bank Overdraft	**1,072**	-	-	**1,072**	-	-
Total	**28,045,274**	22,405,660	19,294,886	**28,045,274**	22,405,660	19,294,886

13. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES Contd.

Fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than on a forced or liquidation sale.

- Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

- Long-term fixed-rate and variable-rate receivables / borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 March 2013, the carrying amounts of such receivables, net of provision for impairment, are not materially different from their calculated fair values.

14. INVENTORIES - GROUP

	2013 Rs.	2012 Rs.	01 April 2011 Rs.
Food and Beverages	**6,425,297**	5,858,072	5,359,912
House Keeping and Maintenance	**7,252,840**	7,250,740	4,864,414
Others	**1,555,210**	782,253	1,116,047
Total	**15,233,347**	13,891,065	11,340,373

15. TRADE AND OTHER RECEIVABLES - GROUP

	2013 Rs.	2012 Rs.	01 April 2011 Rs.
Trade Debtors	**59,351,959**	70,182,242	40,601,885
Other Debtors	**-**	545,158	-
Total	**59,351,959**	70,727,400	40,601,885

Trade receivables are non-interest bearing and are generally on terms of 0-120 days.

As at 31 March, the ageing analysis of trade receivables are as follows:

	Total Rs.	Niether past due or nor Impaired Rs.	Past due but not impaired < 30 days Rs.	31 - 60 days Rs.	61 - 90 days Rs.	91 - 120 days Rs.	> 120 days Rs.
2013	59,351,959	6,677,395	32,349,371	16,141,483	3,633,136	479,652	70,922
2012	70,182,242	10,878,526	37,418,376	15,261,779	3,455,198	759,011	2,409,352
2011	40,601,885	4,143,720	24,325,949	11,938,254	90,749	83,651	19,562

Impairment of Debtors

- No any impairment provision has been accounted for Trade Debtors.
- Refer Note 26 on credit risk of Trade Debtors, which discuss how the Group measure credit quality of Trade Debtors that are niether past due nor impairment.

Notes to the Financial Statements Contd.

16. SHORT TERM DEPOSITS - GROUP

	2013 Rs.	2012 Rs.	01 April 2011 Rs.
Investments in Fixed Deposits	**200,000,000**	40,000,000	-

17. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

Components of Cash and Cash Equivalents

	Group			Company		
	2013 Rs.	2012 Rs.	2011 Rs.	2013 Rs.	2012 Rs.	01 April 2011 Rs.
Favorable Cash and Cash Equivalent Balances						
Cash and Bank Balances	**7,174,010**	11,338,047	21,958,300	**36,449**	35,673	44,192
Short term deposits with 3 months or before maturity	**5,075,156**	-	-	**-**	-	-
	12,249,166	11,338,047	21,958,300	**36,449**	35,673	44,192
Unfavorable Cash and Cash Equivalent Balances						
Bank Overdraft	**(16,745,613)**	(9,860,737)	(3,414,885)	**(1,072)**	-	-
Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement	**(4,496,447)**	1,477,310	18,543,415	**35,377**	35,673	44,192

18. STATED CAPITAL - COMPANY/ GROUP

	2013		2012		2011	
	Number	Rs.	Number	Rs.	Number	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**	110,886,684	1,108,866,840	110,886,684	1,108,866,840

19. RETIREMENT BENEFIT OBLIGATION - GROUP

Defined Benefit Obligation - Gratuity	2013 Rs.	2012 Rs.	01 April 2011 Rs.
Defined Benefit Obligation as at the beginning of the year	**3,881,128**	3,776,833	2,625,592
Charge for the year	**1,136,702**	991,632	969,134
Interest Cost	**388,113**	377,683	262,559
Actuarial (Gain)/Loss	**562,512**	(1,164,945)	(80,452)
Benefit paid	**(749,310)**	(100,075)	-
Defined Benefit Obligation as at the end of the year	**5,219,145**	3,881,128	3,776,833

19.1 The defined benefit obligation of the Group 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.

19. RETIREMENT BENEFIT OBLIGATION - GROUP Contd.

19.2 The principle assumptions used were as follows,

	2013	2012	01 April 2011
Discount Rate	**10%**	10%	10%
Future Salary Increment Rate	**10%**	10%	10%

20. TRADE AND OTHER PAYABLES

	Group			Company		
	2013 Rs.	2012 Rs.	2011 Rs.	2013 Rs.	2012 Rs.	01 April 2011 Rs.
Trade Creditors	**15,591,429**	10,565,735	8,258,076	**-**	-	-
Other Payables						
- Related Parties (Note 20.1)	**80,937**	-	-	**27,874,802**	22,251,660	19,138,086
- Other	**30,177,117**	42,784,144	30,395,687	**-**	-	-
Accrued Expenses	**2,472,288**	2,145,476	1,415,869	**169,400**	154,000	156,800
	48,321,771	55,495,355	40,069,632	**28,044,202**	22,405,660	19,294,886

Terms and Conditions of the above financial liabilities

- Trade and Other Payables are non-interest bearing
- Trade Payables are normally settled on 30 day terms

20.1 Other Payables - Related Parties

	Relationship	2013 Rs.	2012 Rs.	01 April 2011 Rs.
Company				
La Forteresse (Private) Limited	Subsidiary Company	**27,874,802**	22,251,660	19,138,086
		27,874,802	22,251,660	19,138,086
Group				
Hotel Services Ceylon PLC	Affiliate	**80,937**	-	-

21. COMMITMENTS AND CONTINGENCIES

21.1 Capital Expenditure Commitments

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

21.2 Contingent Liabilities

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

21.3 Operating lease commitments - Group as lessee

"The hotel building has been constructed in a Land which belongs to the Ceylon Tourist Board and the Group has entered in to a lease agreement with them starting from 01st August 2005 and ends on 31st July 2035. There is a possibility of extending the period for further 10 years if the Group is wishes to do so. Lease rentals are paid on monthly basis and rent is been revised for every five year intervals as per the agreement. The hotel service building is situated in a land belongs to BOI and entered in to a similar agreement with them starting from 28th January 2005 and ends on 27th January 2035. Rentals are been prefixed for the entire period and paid on a yearly basis."

	2013	2012	As at 1 April 2011
Within one year	**1,800,484**	1,778,523	1,778,523
After one year but not more than five years	**9,074,894**	9,050,736	9,001,617
More than five years	**30,296,223**	30,656,672	33,945,507
	41,171,601	41,485,931	44,725,647

Notes to the Financial Statements Contd.

21. COMMITMENTS AND CONTINGENCIES Contd.

21.4 Finance lease commitments

The Group has finance leases for various Motor Vehicles. These leases have terms of renewal but no purchase options or escalation clauses. Renewals are at the option of the specific entity that holds the lease. Future minimum lease payments under finance leases with the present value of the net minimum lease payments are, as follows:

	2013		2012		As at 1 April 2011	
	Minimum payments	Present value of payments (Note 13)	Minimum payments	Present value of payments (Note 13)	Minimum payments	Present value of payments (Note 13)
Within one year	**14,183,586**	**10,241,675**	6,158,304	4,358,958	274,005	259,028
After one year but not more than five years	**27,637,018**	**23,820,968**	15,575,254	13,430,653	-	-
More than five years	**-**	**-**	-	-	-	-
Total minimum lease payments	**41,820,604**	**34,062,643**	21,733,558	17,789,611	274,005	259,028
Less amounts representing finance charges	**(7,757,961)**	**-**	(3,943,947)	-	(14,977)	-
Present value of minimum lease payments	**34,062,643**	**34,062,643**	17,789,611	17,789,611	259,028	259,028

22. 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 2013 Rs.	2012 Rs.	2011 Rs.	Included Under
Buildings on Leasehold Land	Term Loan Facility of Rs. 460 Mn Obtained from Bank of Ceylon	**910,770,354**	908,765,901	905,815,000	Property, Plant and Equipment

23. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

23.1 Transactions with the Parent and Related Entities - Company

	Subsidiary Company 2013 Rs.	2012 Rs.	01 April 2011 Rs.
As at 1 April	**22,251,660**	19,138,086	16,294,047
Expenses Incurred on behalf of the Company	**5,623,142**	3,113,574	2,468,196
Settlement of Liabilities by Others on behalf of the Company	**-**	-	375,843
As at 31 March	**27,874,802**	22,251,660	19,138,086
Included in			
Trade and Other Payables	**27,874,802**	22,251,660	19,138,086

Subsidiary : La Forteresse (Private) Limited

23. RELATED PARTY DISCLOSURES Contd.

23.2 Transactions with Key Management Personnel of the Company

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

The Fortress PLC has been paid director fees for the Directors of the parent company amounting to Rs. 2.7 million and this has been included under the administration expenses.

23.3 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		2013 Rs.	2012 Rs.	01 April 2011 Rs.
LB Finance PLC		-	-	(5,006,304)
Pan Asia Banking Corporation PLC	Lease Rental Paid	**(9,762,000)**	(2,784,222)	-
	Lease Payables as at 31 March	**37,779,994**	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.

24. EVENT OCCURING 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.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings and Trade and Other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group has loan and other receivables, trade and other receivables, and cash and short-term deposits that arrive directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's management oversees the management of these risks. The Group's management is supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The financial risk committee provides assurance to the Group's senior management that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite.

The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, and other price risk, such as equity price risk. Financial instruments affected by market risk include: loans and borrowings, deposits and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 March in 2013 and 2012.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed-to-floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2013.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Contd.

The analyses exclude the impact of movements in market variables on the carrying value of Retirement Benefit Obligation and provisions.

The following assumptions have been made in calculating the sensitivity analyses:

- The statement of financial position sensitivity relates to derivatives.
- The sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 March 2013 and 2012.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's Interest rate includes an fixed and variable emelement, which is AWDR +4%

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings, With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

		Increase/decrease in basis points		Effect on profit before tax
2013				
Interest Bearing Loans and Borrowings	+/-	10%	+/-	4,868,690
2012				
Interest Bearing Loans and Borrowings	+/-	10%	+/-	4,856,164
2011				
Interest Bearing Loans and Borrowings	+/-	10%	+/-	7,421,555

The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility than in prior years.

Foreign currency risk

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

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible changes in the GBP and EURO exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity . The Group's exposure to foreign currency changes for all other currencies is not material.

		Change in GBP/ EURO rate		Effect on profit before tax		Effect on equity
2013	+/-	5%	+/-	1,352,149	+/-	1,216,935
2012	+/-	5%	+/-	4,187,290	+/-	3,768,561

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Contd.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored. At 31 March 2013, the Group had 14 customers (2012: 17 customers, 1 April 2011: 11 customers) that owed the Group more than Rs 1 Million each and accounted for approximately 71% (2012: 76%, 1 April 2011: 67%) of all receivables owing. There were four customers (2012: four customers, 1 April 2011: two customers) with balances greater than Rs 3 Million accounting for just over 42% (2012: 32%, 1 April 2011: 25%) of the total amounts receivable.

The requirement for an impairment is analysed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 15. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis, and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments. The Group's maximum exposure to credit risk for the components of the statement of financial position is the carrying amounts as illustrated in Note 16 except for financial guarantees and derivative financial instruments. The Group's maximum exposure for financial guarantees and financial derivative instruments are noted in Note 30 and in the liquidity table below, respectively.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool.

The Group's objective is to maintain the operating cash flow to meet the working capital requirements on day to day operation and no intention to finance the working capital requirement through bank overdrafts. However acquisition of any new motor vehicles will mainly finance through finace leases after evaluating the viability of those arrangements compared to the outright purchasing. The Group's policy is that not more than 30% of borrowings should mature in the next 12-month period. 15% of the Group's debt will mature in less than one year at 31 March 2013 (2012: 13%, 1 April 2011 10.0%) based on the carrying value of borrowings reflected in the financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available since the Group's operating cash flow is very sound as per the present conditions.

Excessive risk concentration

Concentrations arise when a number of new Hotels are coming and engaged in similar business activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry. And also the prevailing economic unrest in the European region and some other Asia Pacific countries would significantly affect the hotel industry.

Notes to the Financial Statements Contd.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Contd.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines mitigate those risk factors. The Group has now considered to improve the marketing activities specially in the USA and Middle East region to attract many more tourists from those regions. Credit risks are controlled and managed accordingly. To mitigate the risk arising from currency fluctuations the group has engaged their contracts with local operators in dollars only where the fluctuations are negligable compared to other predominant currencies.

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

Year ended 31 March 2013	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings	16,745,613	12,777,780	38,333,340	204,444,480	68,444,400	340,745,613
Finance Leases (Gross)	-	3,491,724	10,475,172	27,853,708	-	41,820,604
Other liabilities						
Trade and other payables	-	18,165,777	710,488	-	-	18,876,265

Year ended 31 March 2012	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings	9,860,737	12,777,780	38,333,340	204,444,480	141,957,094	407,373,431
Finance Leases (Gross)	-	1,539,576	4,618,728	15,575,254	-	21,733,558
Trade and other payables	-	18,338,493	1,241,156	-	-	19,579,649

As at 1 April 2011	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings	3,414,885	9,583,335	38,333,340	204,444,480	257,638,845	513,414,885
Finance Leases (Gross)	-	274,005	-	-	-	274,005
Trade and other payables	-	14,680,026	692,260	-	-	15,372,286

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net.

Capital management

Capital includes only the equity attributable to the equity holders of the parent.

The primary objective of the Group's capital management is to ensure healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2013 and 2012.

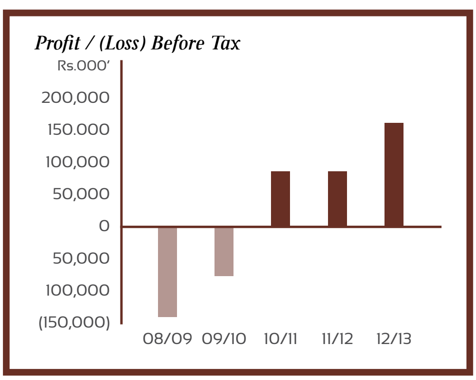
The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio less than 50%. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Contd.

	2013	2012	As at 1 April 2011
Interest-bearing loans and borrowings (Note 13)	**364,566,581**	420,804,084	513,414,885
Trade and other payables (Note 20)	**48,321,771**	55,495,355	40,069,632
Less: cash and short-term deposits (Note 16/17)	**212,249,166**	51,338,047	21,958,300
Net debt	**(625,137,518)**	(424,961,392)	(531,526,217)
Equity	**1,038,082,033**	884,447,312	800,041,222
Total capital	**1,038,082,033**	884,447,312	800,041,222
Capital and net debt	**412,944,515**	459,485,920	268,515,005
Gearing ratio	**28%**	35%	41%

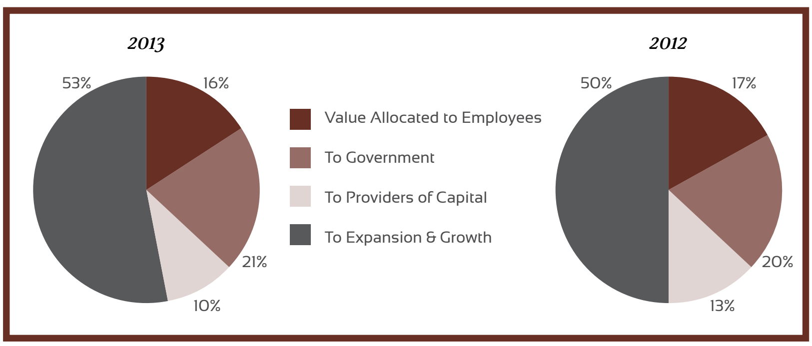
Five Year Summary - Group

Year Ended 31 st March	2008/ 2009	2009 / 2010	2010 / 2011	2011 / 2012	2012 / 2013
(Figures in Rs. 000 unless otherwise stated)					
TRADING RESULTS					
Turnover (Gross)	251,756	284,236	416,345	464,306	**577,724**
Profit / (Loss) from operations	54,293	118,283	248,009	242,303	**321,759**
Depreciation	90,424	98,972	86,950	105,493	**107,601**
Interest	101,859	94,826	75,027	49,521	**52,445**
Profit / (Loss) before Tax	(137,990)	(75,515)	86,032	87,289	**161,713**
STATED CAPITAL & RESERVES					
Stated Capital	1,108,867	1,108,867	1,108,867	1,108,867	**1,108,867**
Revenue Reserves	(621,511)	(688,407)	(308,826)	(224,420)	**(70,785)**
Other Reserves	136,382	124,373	124,373	-	**-**
Shareholders' Funds / Net Assets	623,738	544,833	800,041	884,447	**1,038,082**
Long Term Loans / Deferred Liabilities	657,619	651,453	510,000	397,513	**324,000**
Capital Employed	1,281,357	1,196,286	1,310,041	1,281,960	**1,362,082**
ASSETS EMPLOYED					
Current Assets	78,535	71,580	86,246	148,543	**304,569**
Current Liabilities	86,886	70,501	60,781	120,826	**126,420**
Working Capital	(8,351)	1,079	25,465	27,717	**178,149**
Fixed Assets	1,290,932	1,197,832	1,289,585	1,241,359	**1,186,146**
Capital Employed	1,282,581	1,198,911	1,315,050	1,269,076	**1,364,295**
RATIO & STATISTICS					
Gearing (%)	51%	54%	35%	31%	**24%**
Current Ratio	0.90	1.02	1.42	1.23	**2.41**
Earnings Per Share (Rs.)	(1.24)	(0.68)	0.76	0.76	**1.39**
Net Assets Per Share	5.62	4.91	7.21	7.98	**9.36**
Return On Capital Employed (ROCE)	-11%	-6%	7%	7%	**12%**
Return On Equity	-22%	-14%	11%	10%	**16%**
Debt to Total Assets	48%	51%	37%	29%	**22%**
Interest Cover (times)	-	-	2	3	**4**
Earnings Before Interest & Tax (EBIT)	(36,131)	19,311	161,059	136,810	**214,158**
Asset Turnover	19%	26%	36%	40%	**52%**



Group Value Added Statement

	Group 2013 Rs. 000' s	Group 2012 Rs. 000' s	Company 2013 Rs. 000' s	Company 2012 Rs. 000' s
Turnover Gross	**673,973**	540,730	-	-
Other Income Gross	**46,711**	28,927	-	-
Less : Cost of Material and Service bought in	**(221,131)**	(184,115)	(5,639)	(2,982)
	499,553	385,542	(5,639)	(2,982)
Value Allocated to Employees				
Salaries, Wages & other benefits	**80,822**	66,813	-	-
To Government				
VAT,TDL , NBT & Income Tax	**102,920**	76,425	-	-
To Providers of Capital				
Loan Interest	**51,907**	49,521	-	-
To Expansion & Growth				
Depreciation & Retained in business	**263,904**	192,783	(5,639)	(2,982)
	499,553	385,542	(5,639)	(2,982)



Shareholder Information

20 MAJOR SHAREHOLDERS

		as at 31/03/2013		as at 31/03/2012	
		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.	Vallibel One PLC	**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. Merril J Fernando	**2,124,400**	**1.916**	2,124,400	1.916
8.	Bank of Ceylon No. 1 Account	**1,461,100**	**1.318**	1,461,100	1.318
9.	Seylan Bank PLC / Jayantha Dewage	**1,441,400**	**1.300**	1,441,400	1.300
10.	Mrs. N U D Ariyaratna	**1,414,500**	**1.276**	1,414,500	1.276
11.	Almar International (Pvt) Ltd	**1,249,600**	**1.127**	1,290,600	1.164
12.	Mr. D C Fernando	**833,333**	**0.752**	833,333	0.752
13.	Mr. Malik J Fernando	**833,333**	**0.752**	833,333	0.752
14.	Freudenberg Shipping Agencies Limited	**830,019**	**0.749**	100,000	0.090
15.	Polychrome Inks Ltd	**566,666**	**0.511**	566,666	0.511
16.	Seylan Bank PLC / Bertram Manson Amarasekera	**550,000**	**0.496**	550,000	0.496
17.	Royal Ceramics Lanka PLC	**336.100**	**0.303**	14,012,450	12.637
18.	Mechant Bank of Sri Lanka PLC / J A S Piyawardena	**315,196**	**0.284**	980,500	0.884
19.	Mr. Y K B Dissanayake	**303,540**	**0.274**	303,540	0.274
20.	Mr. R Manoharan	**291,000**	**0.262**	291,000	0.262
		99,574,697	**89.80**	99,550,982	89.78
Others		**11,311,987**	**10.20**	11,335,702	10.22
Total		**110,886.684**	**100.00**	110,886,684	100.00

SHARE DISTRIBUTION

SHAREHOLDING AS AT 31ST MARCH 2013

From	To	No. of Holders	No. of Shares	%
1	1,000	1,512	642,642	0.58
1,001	10,000	804	3,034,514	2.74
10,001	100,000	169	4,783,927	4.31
100,001	1,000,000	24	7,710,091	6.95
Over 1,000,000		11	94,715,510	85.42
		2,520	110,886,684	100.00

CATEGORIES OF SHAREHOLDERS

Local Individuals	2,366	24,302,196	21.92
Local Institutions	135	86,440,982	77.95
Foreign Individuals	19	143,506	0.13
Foreign Institutions	0	0	0.00
	2,520	110,886,684	100.00

DIRECTORS' SHAREHOLDING AS AT 31ST MARCH 2013

	NO. OF SHARES	%
Mr. K D D Perera	10,329,317	9.315
Mr. J A S S Adhihetty	13,741	0.012
Mr. Malik J Fernando	833,333	0.751
Mr. Merill J Fernando	2,124,400	1.916
Mr. W D N H Perera	89	0.000
(Alternate Director to Mr. P B Perera)		
Mr. W A D C J Wickramasinghe	19,291	0.017
Mr. S Senaratne	1,000	0.001
Mr. L T Samarawickrama	1,550	0.001
Mr. L N De Silva Wijeyeratne	Nil	Nil
Mr. D E Silva	500	0.000
Mr. P B Perera	500	0.000
Mr. H Somashantha	Nil	Nil

(Alternate Director to Mr. L T Samarawickrama)

SHARE PRICES FOR THE YEAR

	As at 31/03/2012	As At 31/03/2013
Market price per share		
Highest during the year	Rs. 35,90 (30-05-11)	Rs 22.10 (18-09-12)
Lowest during the year	Rs 14.10 (15-02-12)	Rs 10.50 (06-06-12)
As at end of the year	Rs 17.20	Rs 15.00

PUBLIC HOLDING

The Public Holding percentage as at 31 March 2013 was - 27.82 %

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Twenty Ninth (29th) 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 30th July 2013 at 10.30 a.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 2013 with the Report of the Auditors thereon.

2. To pass the ordinary resolution set out below to re-elect Mr. Merril J Fernando, who is 83 years of age, as a Director of the Company.

   "IT IS HEREBY RESOLVED that Mr. Merril J Fernando who has attained the age of 83 years be and is hereby re-elected 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. Malik J Fernando who retires by rotation pursuant to the provisions of Article 84 of the Articles of Association of the Company, as a Director.

4. To re-elect Mr. Denesh E Silva who retires by rotation pursuant to the provisions of Article 84 of the Articles of Association of the Company, as a Director.

5. To re-elect Mr. Prashan B Perera who retires by rotation pursuant to the provisions of Article 91 of the Articles of Association of the Company, as a Director.

6. To re-appoint Messrs Ernst & Young, Chartered Accountants, as the Auditors of the Company and to authorise the Directors to fix their remuneration.

7. To authorise the Directors to determine donations for the year ending 31st March 2014 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

29th May 2013

Notes

1. A Shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, speak 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 10.30 a.m. on 28th July 2013.

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 DPerera	of Colombo or failing him*
Mr. J A S SAdhihetty	of Colombo or failing him*
Mr. W A D C J Wickramasinhe	of Colombo or failing him*
Mr. Malik J Fernando	of Colombo or failing him*
Mr. Merril 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 Silva Wijeyeratne	of Colombo or failing him*
Mr. Denesh E Silva	or failing him
Mr. P B Perera	

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 30th July 2013 and any adjournment thereof and at every poll which may be taken in consequence thereof.

I/We.* the undersigned, hereby authorize 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
i).	To receive and consider the Report of the Directors, the Statement of Accounts for the year ended 31st March 2013 with the Report of the Auditors thereon.		
ii)	To appoint Mr. Merril J Fernando who is 83 years of age, as a Director of the Company pursuant to the provisions of the Companies Act No.7 of 2007.		
iii)	To re-elect Mr. Malik J Fernando, who retires by rotation in terms of Article 84 of the Articles of Association as a Director of the Company.		
iv).	To re-elect Mr. Denesh E Silva, who retires in terms of Article 84 of the Articles of Association as a Director of the Company		
v).	To re-elect Mr. Prashan B Perera, who retires in terms of Article 91 of the Articles of Association as a Director of the Company)		
vi)	To re-appoint Messrs Ernst & Young as Auditors and to authorise the Directors to determine their remuneration		
vi).	To re-appoint Messrs Ernst & Young as Auditors and to authorise the Directors to determine their remuneration		
vii)	To authorise the Directors to determine donations for the year ending 31st March 2014 and up to the date of the next Annual General Meeting.		

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

Signature of Shareholder/s
*Please delete as appropriate

Notes

1. A proxy need not be a shareholder of the Company
2. Instructions as to completion are noted on the reverse hereof

INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the form of proxy by filling in legibly your full name address, by signing in the space provided. Please fill 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 08, Sri Lanka by 10.30 a.m. on 28th July 2013

3. Ifyou 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. Merril 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. P B Perera
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

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THE FORTRESS RESORT & SPA

SRI LANKA