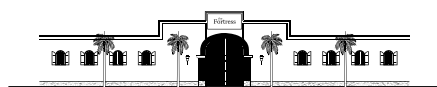




THE FORTRESS RESORT & SPA
SRI LANKA

A Spellbinding Experience.



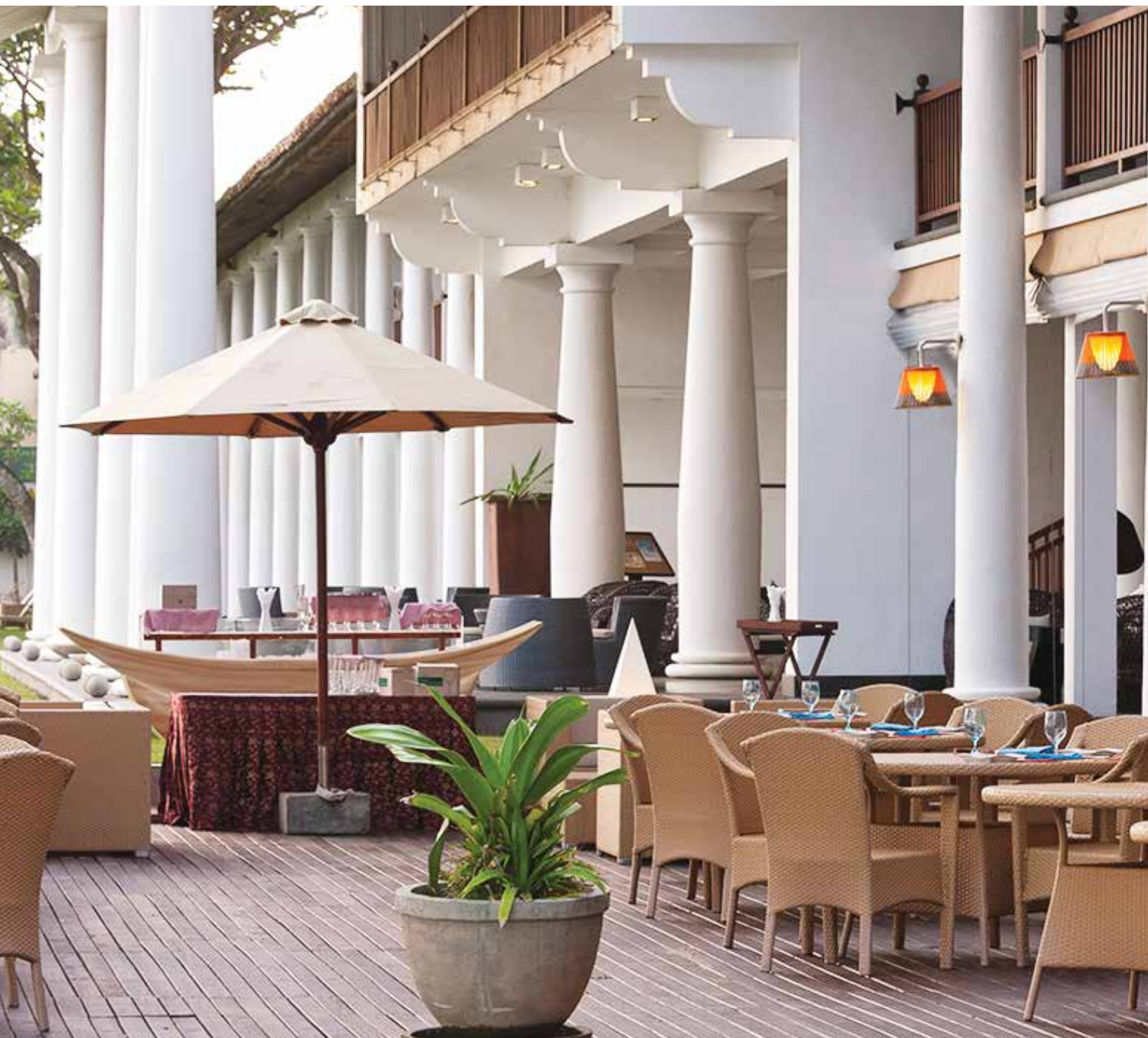
THE FORTRESS RESORT & SPA

SRI LANKA

The Fortress a modern and luxury 53 room boutique resort is located on the Southern shores of Sri Lanka, 14 kms away from the historic city of Galle, and 2 kms away from the Koggala Airstrip, a convenient connection for Air Taxi services or private air transfer to & from the Colombo International Airport. Styled after Galle's powerful ancient Dutch Fort, blending the country's Dutch and Portuguese influences with Sri Lankan motifs and indigenous furnishings to echo the historic days of Old Ceylon, the resort features six distinct styles of guest rooms and residences.

Contents

Hotel at a Glance	04
Awards and Recognition	06
In celebration of 9 years of continuous hospitality	08
Financial Highlights.....	10
Chairman's Review	14
CEO's Review of Operations	22
Board of Directors.....	34
Management Discussion & Analysis.....	42
Sustainability Report.....	60
Risk Management.....	80
Annual Report of the Board of Directors on the Affairs of the Company	85
Corporate Governance	88
Statement of Directors Responsibilities.....	99
Remuneration Committee Report	100
Audit Committee Report	101
Independent Auditors' Report.....	105
Statement of Profit or Loss and Other Comprehensive Income	106
Statement of Financial Position	107
Statement of Changes in Equity	108
Statement of Cash Flows	109
Notes to the Financial Statements.....	111
Five Year Summary - Group.....	140
Group Value Added Statement	141
Shareholder Information.....	142
Notice of Annual General Meeting	144
Notes.....	145
Form of Proxy.....	147
Corporate Information	Inner Back Cover





A Spellbinding Experience.

The Fortress encompasses the true characteristics of an immaculate hotel. The stylistic flourishes, the unrivaled elegance, the distinctive and superior service and that magic that leaves our diverse clientele spellbound.

The year under review has seen your outstanding hotel endure formidable hardships and challenges.

Despite increasing competition and tourism impacted by the international socio-political climate we have ascertained our growth and maintained that our trajectory of solidarity is unhindered.

The future and impending days ahead look rife with positivity and promising return. We only need rely on our instincts, experience and penchant for innovation.

We offer a perfect escape in a perfect haven in paradise.

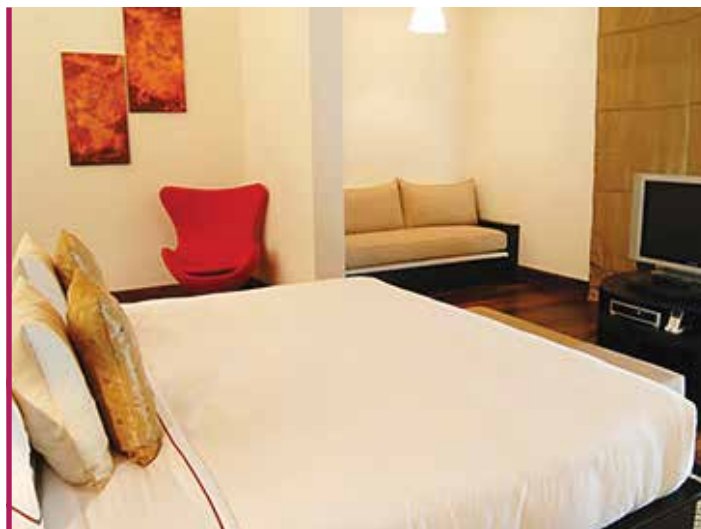
Hotel at a Glance

- 11 Fortress Rooms
- 22 Ocean Rooms
- 12 Beach Rooms
- 04 Beach Splash Rooms
- 02 Loft Rooms
- 02 Fortress Residence

Offering guests unparalleled comfort and opulence encompassed in a classically designed property along with a team of professionals set on delivering the highest levels of service. We invite you to unfold memorable experiences with us.

There are 53 rooms in this regal edifice and every one of them faces the sea. That's just one of the many delights you'll discover with us.

Elegance and charm in the design and ambience, modern amenities, luxurious comfort and impeccable service, all make a stay with us a classical, yet contemporary experience.





Awards and Recognition



World Luxury Hotel Awards 2015 – Continental Award Winner of the Indian Ocean Best Luxury Spa Hotel

The World Luxury Spa Awards reward service excellence within the Luxury Spa Industry. Raising awareness within a highly competitive industry, maintaining the highest standards and building staff-moral is our main aim.



Crowns for Food Hygiene

The Crowns for Food Hygiene scheme is to continuously enhance food hygiene standards in the food handling establishments in Sri Lanka through the use of a public-private partnership scheme designed, based on international best practices.



International Hotel Awards 2016/2017 and International Five Star Hotel Standards in association with Rolls Royce Motor Cars

Winner of Best Small Hotels in Sri Lanka



- Trip Advisor Travellers' Choice - Top Hotels in Sri Lanka
- Trip Advisor Travellers' Choice - Top Hotels for Romance Sri Lanka
- Trip Advisor Travellers' Choice - Top Hotels for Exceptional Service – Sri Lanka



Wellness & SPA Europe Certificate

The Wellness & SPA Europe Certificate is awarded to specially selected and applying wellness hotels which fulfill the criteria and quality standards set by the European Audit Institute Wellness & SPA. The hotels must at least provide a 4**** Superior-Standard as well as an entire Wellness/ SPA- conception within the hotel. Best service quality as well as highest internal and external facility standards together with certified and trained staff, are basic requirements as well as being one of the leading hotels in the area!



Gold Meddle Winner

Bocuse d' Or Sri Lanka 2015.

In celebration of 9 years of continuous hospitality

The intrinsic value of a hotel is measured by the number of repeat guests it can boast of. About 30% of guests return to The Fortress Resort & Spa, beguiled by the hypnotic appeal of this beautifully appointed deluxe facility that offers an inimitable service provided by a dedicated staff, world-class dining, and exceptional amenities within an atmosphere of privacy and seclusion.

As The Fortress Resort & Spa celebrates 9 years of service excellence in the hospitality industry, we asked 9 repeat guests why they keep coming back...
... and they said...



"We have visited the hotel between 15 and 20 times, for its location, quality of food and rooms. The rooms have comfortable beds, are soundproof and have blackout blinds, all very elementary but important. The location is stunning – most of the hotels are right on a very busy road. But here, because guest accommodation is on the opposite side, we are not disturbed by traffic unlike most other hotels in the vicinity. The atmosphere here is quiet and tranquil.

It is a very positive experience from the moment you arrive. They have high staff retention so you see familiar faces who are very friendly. These are not put-on smiles. Even the head chef and the kitchen staff are always ready to come up for a chat, and are willing to turn out traditional Sri Lankan family-style fare for us, not just western food. The hotel is also in constant maintenance, so we know it is of a good standard. All we need to do is jump on a plane and come here, and we know we'll have a good holiday." – **Kelvin Stark**

"We have stayed at the Fortress seven times and we keep coming back..... I have travelled the world, stayed at some amazing places but in the Fortress we feel we have found a place we like to think of as our second home, in Sri Lanka. The quality of the hotel, the rooms, the amazing staff, the beautiful location and the tranquility we experience when we walk through those majestic front gates is something truly special.

We often wonder when we book our next trip whether we will find that things have changed or that standards have dropped. Its a credit to the team who work at The Fortress that this has never happened, and we are already looking forward to booking our next trip in 2017.

I have worked in the service industry my whole life and if I could bottle the essence of what makes the Fortress so special I would be a very successful man. Well done Fortress!" – **Michael Hobbs**



"We have now stayed at The Fortress six times over the past four years – including three visits at New Year time when the hotel is working at full capacity. Each visit we have enjoyed more than the last and we cannot wait to return once again.

The staff are all warm and caring and offer a great welcome – especially to returning guests. The location with that view of the sea across the gardens is wonderful. To be able to wake each morning in a fabulous beach room and walk straight down to the ocean is something special. Added to all these are a great choice of food and wines. What more could one want for a restful and relaxing vacations." – **Jon Steward and Michael James**

"This is our 4th visit and we are very happy with our visit. All the staff make us feel very welcome and we hope to set in again in the future."- **Michael William Balshaw**

"We have visited Sri Lanka 7 times, and stayed at The Fortress four times, and always seem to enjoy The Fortress the most. You feel very very welcome when you return. Our reasons for staying – the excellent staff who are friendly and helpful, the food is good, and the accommodation is also good. We enjoy the ground floor rooms with their views of the pool and garden. The hotel is a nice size and has a very relaxed atmosphere

Sri Lanka is a beautiful island with a good mix of beaches, culture and lovely upcountry scenery. It is ideal for holidaying and chilling out on the beach. We stay an average of 1 – 2 weeks and have also recommended the hotel to friends of ours. Its greatest strength is a very well trained team. They are delightful." - **Michael and Catherine Balshaw**



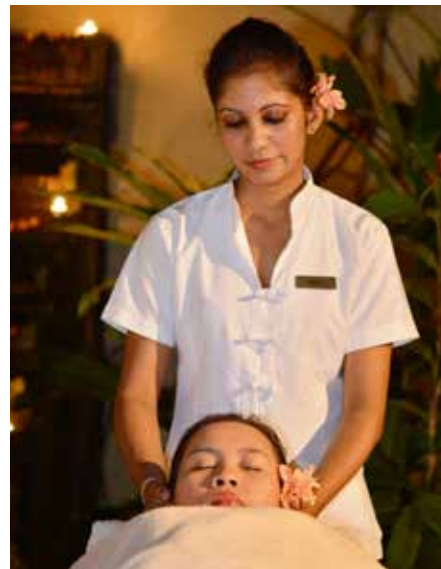
"I always have a very enjoyable stay at the Fortress. The hotel is wonderful, the staff superb, the welcome and hospitality the best." - **Anne Town** (on her 30th visit to the hotel.)

"We will be returning to The Fortress for our fourth consecutive time in December. The hotel is one of the finest properties in the world, set in a magnificent location with excellent accommodation and facilities. We particularly like the beach rooms which enable you to view almost every part of the landscape, with magnificent waves, trees and gardens in full view.

A main reason that we return to The Fortress is the quality of staff. The same staff are there year after year and they get to know the guests and share time with their customers, making all the guests feel hugely welcome.

Another main attraction is the standard of the restaurants. The food is of the finest quality with great variety, taste and choice.

We have stayed at many other hotels in Sri Lanka but The Fortress is by far our most favourite and we wish the team continued success in the future." - **Peter Cussins**



"The staff and quality of the room was exceptional. The location is amazing. Lovely. Smiling, friendly faces of the staff were very nice to experience on our special holiday. All the staff seemed very well trained. We look forward to returning. We would like to compliment you on the quality of your staff. This is our second visit and without exception we have found everyone to be cheerful, friendly, helpful, efficient and completely professional. We have had yet another wonderful holiday with you." - **Martin Brewster**

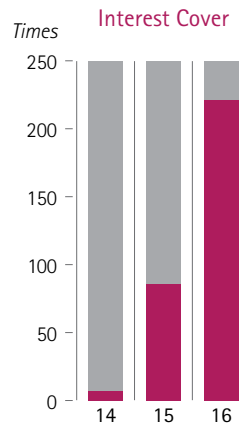
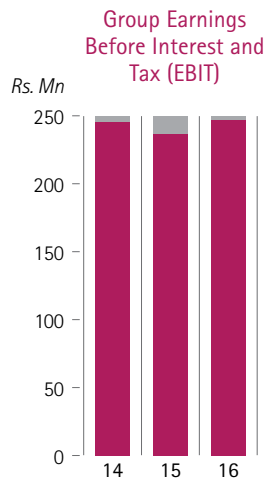
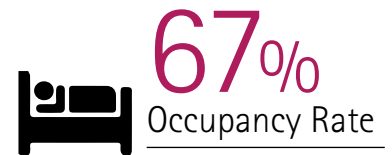
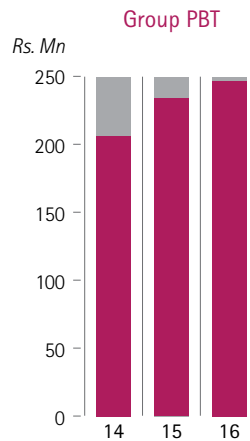
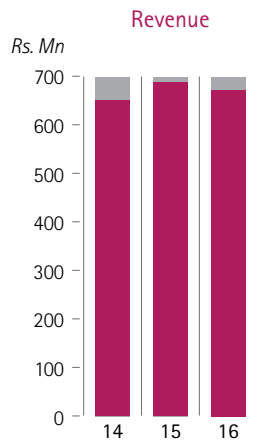


The difference between a satisfied customer and a loyal customer is the first might return to your hotel again and might refer others, while the loyal customer will return again and will tell others about your hotel and its service." - **Dr. John Haganon**

'Ways to Identify and Build Repeat Guests'

Financial Highlights

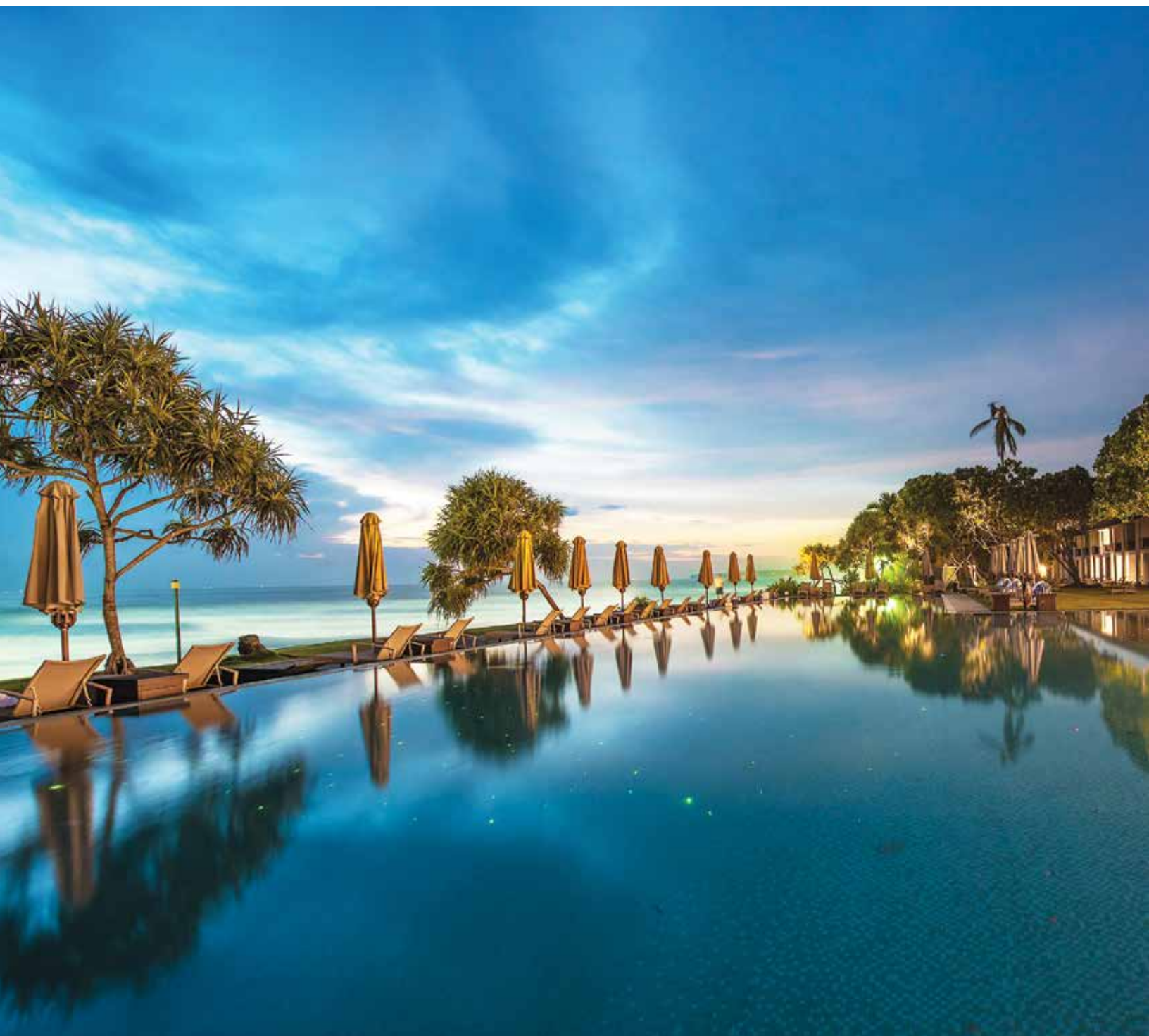
Year Ended 31 st March		2016	2015	2014	2013
Earnings Highlights and Ratios					
Revenue	Rs'000	672,479	686,977	650,526	577,724
Earnings before interest and tax (EBIT)	Rs'000	247,578	236,856	246,240	214,158
Group profit before tax (PBT)	Rs'000	246,452	234,060	206,995	161,735
Group profit after tax (PAT)	Rs'000	187,419	189,407	176,678	153,635
Group profit attributable to the Shareholders	Rs'000	187,419	189,407	176,678	153,635
Earnings per share (EPS)	Rs.	1.69	1.71	1.60	1.39
EPS Growth	%	-1	7	15	83
Interest cover	No of times	220	85	6	4
Return on Equity	%	13	13	15	15
Pre - tax ROCE	%	16	16	14	10
Balance Sheet highlights and Ratios					
Total assets	Rs'000	1,638,870	1,534,317	1,397,195	1,490,715
Total debt	Rs'000	6,447	16,110	70,697	374,808
Total Shareholder's funds	Rs'000	1,480,699	1,404,167	1,214,760	1,308,082
No. of shares in issue	Number	110,886,684	110,886,684	110,886,684	110,886,684
Net assets per share	Rs.	13.35	12.66	10.95	9.36
Debt/Equity	%	0.44	1.15	6	36
Debt/Total assets	%	0	1	5	25
Market / Shareholder information					
Market price of share as at 31 st March	Rs.	13.00	15.20	13.30	17.20
Market capitalisation	Rs'000	1,441,527	1,685,478	1,474,793	1,907,251
Price earnings ratio	No of times	7.69	8.90	8.35	12.41
Operational information					
Average occupancy	%	67	71	72	66
Number of room nights sold	Room nights	12,902	13,703	13,974	12,681
Room revenue	Rs'000	433,652	441,183	409,210	358,711
Average room rate (ARR)	Rs.	33,606	32,191	29,284	28,287
Revenue per occupied room	Rs.	56,617	50,126	48,525	45,558
Net profit per room	Rs'000	3,536	3,574	3,334	2,899



Rs.672Mn
Group Revenue

Rs.187Mn
Group Profit After Tax







A Mesmerizing View

Be swept away by the magic of your lush, breathtaking surroundings... a spectacular view guaranteed to give you peace of mind.

Chairman's Review



// I am very pleased to report that, for the first time in our nine year history, we paid our Shareholders a dividend of 10%, during the year under review.



It gives me great pleasure to present to you, our valued Shareholders, The Fortress Resorts PLC Annual Report and Statement of Account for the year ended 31 March 2016. I trust this Report gives you an in-depth understanding of the stakeholder- centric approach adopted and the activities undertaken during the year under review, which have been built on the principles of good governance, ethics and sustainable development.

This was a year of substantial progress, in which we continued to maintain a position of leadership as a premier luxury resort, and saw us consolidate our priorities for the development and long-term future of The Fortress Resort and Spa. I am very pleased to report that, for the first time in our nine year history, we paid our Shareholders a dividend of 10%, during the year under review.

The signature style of your hotel is that it offers a spellbinding experience that whisks the guests to a haven of peace and tranquility that charms and captivates, and ensures not only that their time with us is memorable, but also that they keep coming back for more. We understand that every customer has their own definition of value, and it is to the credit of our staff that they are well able to carry out the hotel's sincere commitment to meeting those preferences and needs.

From inception, your hotel created a paradigm shift away from the limited choices available at the time and from which tourists were forced to choose, despite the fact that these may not necessarily have been what they were looking for. This was seen as a revolutionary move, and the many international accolades received over the years confirm the success of this approach.

We received a host of awards this year too, for the excellence of the service provided by our invaluable staff, the inimitable quality of our facility, and the many luxurious amenities provided that go towards creating an unforgettable guest experience.

Awards Received

Award Name	Received for	Award valid for	International / Local
Trip Advisor Travellers' Choice	Top Hotels in Sri Lanka	2015 / 2016	International
Trip Advisor Travellers' Choice	Top Hotels for Romance – Sri Lanka	2015 / 2016	International
Trip Advisor Travellers' Choice	Top Hotels for Exceptional Service – Sri Lanka	2015 / 2016	International
Crowns for Food Hygiene	Food Hygiene	02 June 2015	Local
Bocuse d'Or Sri Lanka 2015	Gold Medal Winner	2015/2016	Local
World Luxury Hotel Awards 2015	Continental Award Winner of the Indian Ocean for Best Luxury Spa Hotel	2015 / 2016	International

Award Name	Received for	Award valid for	International / Local
World Luxury Hotel Awards 2015	Winner of Best Luxury Boutique Hotel in Sri Lanka	2015 / 2016	International
International Hotel Awards 2016/2017 and International Five Star Hotel Standards in association with Rolls Royce Motor Cars	Winner of Best Small Hotel in Sri Lanka	2016/2017	International

Yet, the year under review was not without its challenges, which we shall discuss against the backdrop of the global economic activity that took place during the year, which had a direct bearing on our occupancy and profits.

Global Overview

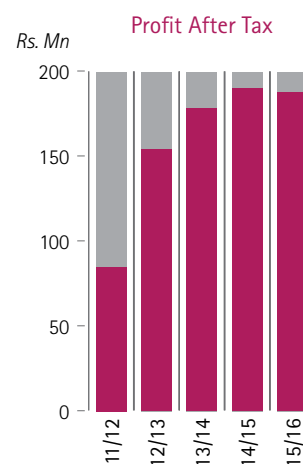
The year under review saw a shifting of the ground beneath the global economy, with uncertainty and pessimism continuing to dominate the economic and business landscape, legacies of the previous year. Global economic activity continued to be marked by weak capital flows, low trade volumes and tumbling prices of oil and other commodities. This, according to IMF statistics, resulted in the global economy growing at a tepid pace of 3.1 percent, revised downwards by 0.7 percentage points from 2015 projections. The weak performance of major emerging market economies due mainly to plummeting commodity prices, was the main dampener of economic activity globally.

The slump in commodity prices had winners and losers. On the one hand, oil exporting countries like Russia and the OPEC, which rely heavily on oil revenues to finance their economy, were badly affected by oil prices

which fell by 67 per cent. On the other hand, fuel importing economies like Japan, China and India gained from considerable cost savings on import bills, which boosted household purchasing power, business profits and export trade.

Emerging markets and developing economies grew by only 4 percent in 2015, the lowest since the 2008 financial crisis. Most emerging economies, especially the Brics countries, struggled against global headwinds driven by China's economic slowdown, Brazil's recession, and South Africa's economic deceleration, that is, all BRICS countries except India.

China experienced the slowest growth in 25 years, with its stock market crashing several times during the year, as it shifted focus from investment-led growth to consumer-led growth. This painful slowdown in growth concerned investors, as the country was seen as being a driver of global economic growth, and sent out signals that the transition was not to be a smooth one. A weakened China pushed down global commodity prices, which put the economies of commodity exporters in distress.



Rs.187Mn
Group Profit After Tax

Chairman's Review Contd.

China's slowdown had a domino effect on Brazil's economy, which is already bowed down from recession caused by political uncertainty amid fallout from the Petrobras investigation added to rising inflation and drought.

Cheaper Oil weighed heavily on the growth of Russia, one of the world's largest oil producers, which decreased substantially, by 3.7% during the year. The lower oil prices were exacerbated by a depreciated Ruble, international sanctions and structural weaknesses which had repercussions in a steep deterioration in domestic demand.

The South African economy emulated the region's lackluster performance, weighed down as it was by lower commodity prices which necessitated higher borrowings to offset shortfalls in commodity exports.

//
Despite its uneven growth during the year, the U.S. was the fastest-growing among the developed economies, recording a growth of 2.4%



India was the one bright spot on the BRIC landscape. The country grew at its fastest pace since 2010 and ended the year on a high note, overtaking China to become the world's fastest growing major economy during the year. The lower prices of oil imports on which India relies heavily, gave the economy a boost, as did lower commodity prices that helped improve corporate profits and domestic purchasing power.

The performance of advanced economies was also less dynamic than expected. Britain experienced deceleration during the year, although it did grow faster than most other G7 economies over this period. This growth was due to increased purchasing power fueled by low global commodity prices, low inflation and improved employment opportunities. Still, the growth pace of the country was only 2.2%, which is the same rate as in 2013, but well below the 2.9% growth of 2014.

Despite its uneven growth during the year, the U.S. was the fastest-growing among the developed economies, recording a growth of 2.4%. However, the tightening of the US monetary policy late in the year in order to stabilise the economy, could give rise to some volatility in global financial markets during 2016.

Economic growth in the Euro area was hampered by the Greek economy, which has been in meltdown since the start of the debt crisis in the previous decade, and continued to shrink following market uncertainty that sparked speculation of the country's exit from the EU. Greece is unlikely to record positive growth rates in the next few years without a substantial reduction of its crushing debt burden.

Key issues that revolved around money and migrants continued to plague the Middle East. Low prices of oil, internal conflicts, as well as the global economic slowdown have kept

economic growth in the Middle East and North Africa stagnating for the third consecutive year, at 2.8% in 2015. The twin blows of low oil prices and civil war have hurt the economies of Syria, Libya, Yemen and Iraq. Civil war resulted in the mass displacement of about 15 million people, many of them fleeing to neighboring countries Lebanon and Jordan which are already burdened with disruptions to regional trade caused by the wars.

Unrest in the Middle East resulted in the influx of refugees to the European Union as well, which presents enormous challenges to the absorption capacities of Europe's labour markets and political systems, and could create situations of social ostracism and fiscal costs in the long term.

Asia's growth improved as a result of stronger labour markets and increases in disposable income brought about by lower commodity prices, along with the gradual recovery of major advanced economies. Growth in South Asia, in particular, which recorded 7 percent, was one of the few sunny spots in an otherwise gloomy landscape for emerging and developing economies. As the region has relatively little trade exposure to the major emerging markets, it was not affected significantly by their growth slump, and as a net importer of oil, benefited from lower global energy prices.

Japan's economic expansion was derailed in 2015, mainly due to a sharp decrease in demand from China, Japan's largest trading partner as a result of that country's economic slump, sudden appreciation of the yen as investors turned to the currency as a safe haven against emerging market risk, as well as the sluggish consumption of other Asian countries which were also experiencing slow growth.

Growth Projections

Projections for world economic growth are estimated at 3.4 percent in 2016 and at 3.6 percent in 2017. Global activity is also predicted to pick up slowly and gradually, especially in developing and emerging markets. Overall forecasts for global growth have been revised downward by 0.2 percentage points for both 2016 and 2017.

Emerging Europe is projected to continue growing at a broadly steady pace, albeit with some slowing in 2016.

Russia, which continues to adjust to low oil prices and western sanctions, is expected to remain in recession in 2016.

The modest recovery in advanced economies is expected to continue, albeit at a slow pace.

The growth scenario for developing and emerging market economies is diverse but challenging. The re-balancing of the Chinese economy, lower commodity prices, and strains in some large emerging market economies will continue to weigh on growth prospects in 2016 and 2017. The projected pickup in growth in the next two years primarily reflects forecasts of a gradual improvement of growth rates in countries currently in economic distress, notably Brazil, Russia, as well as some countries in the Middle East, though even this projected partial recovery could be offset by new economic or political tremours.

India is forecasted to grow at a faster 7.8 percent.

Growth in China is expected to slow to 6.3 percent in 2016 and 6.0 percent in 2017, primarily reflecting weaker investment growth as the economy continues to re-balance. India and the rest of emerging Asia are generally projected to continue growing at a robust pace,

although with some countries facing strong headwinds from China's economic re-balancing and the global manufacturing weakness.

Higher growth is projected for the Middle East, but lower oil prices, and in some cases geopolitical tensions and domestic strife, continue to weigh on the outlook.

Most countries in sub-Saharan Africa will grow gradually during the next few years, but with lower commodity prices, to rates that are lower than those seen over the past decade.

Performance of the Sri Lankan Economy

As major industrial economies made a weak recovery and China set out to rebalance its economy to alleviate its woes, growth slowed in many developing countries in Asia. Sri Lanka was no exception. The relief to the balance of payment expected with the decline in global oil prices did not take place because the lower international commodity prices prompted Sri Lankans to expand domestic consumption rather than increase investment. The positive impact of lowered international commodity prices on the trade balance was also offset by low demand for the two main commodities – tea and rubber – that make up 14 per cent of Sri Lankan exports, and the slow pickup of manufacturing exports due to the slow growth in international trade. The declining demand for textiles and garment exports to the European Union, a main export destination because of continued weakness in the Eurozone, added to a ban on seafood exports imposed by the European Union, also reduced export volumes and increased the trade deficit. These imbalances put pressure on the interest rates to increase and the exchange rate to depreciate, which slowed overall growth in the economy.



Lower oil prices meant less prosperity in the oil countries, which reflected in less demand for additional overseas labour and the consequent result of lower remittance flows to Sri Lanka in 2015.



Lower oil prices meant less prosperity in the oil countries, which reflected in less demand for additional overseas labour and the consequent result of lower remittance flows to Sri Lanka in 2015, one of the country's largest foreign exchange earners. This contributed to widen the balance of payments deficit, which, in turn, put pressure on the exchange rate to depreciate. This prompted the Central Bank, in September 2015, to allow the LKR to float towards a more market determined value, and the LKR depreciated against the USD by approximately 9% during the latter half of 2015, with the LKR-USD exchange rate ending the year at 144.1, compared to 131.9 at end- 2014. The LKR also depreciated against the Sterling Pound by approximately 4%, but appreciated by 2% against the Euro during the year.

The Presidential and Parliamentary elections held in January and August also slowed economic activity and investment, as investors adopted a 'wait and see' attitude. All this resulted in Sri Lanka recording a growth of

Chairman's Review Contd.

4.8% during 2015, a marginal decrease from the 4.9% growth in 2014. Agriculture (which grew by 5.5%) and services (a growth of 5.3%) were the main drivers of growth. Growth in industry was much weaker, at 3%.

Sri Lanka's economic growth in the last decade led to improved prosperity and a decline in poverty, and the country met most of its MDG targets for 2015. These are some of the criteria that qualified the country to enjoy middle-income status. But Sri Lanka is not out of the woods yet, and faces many challenges brought on by the demands of this new positioning. Structural changes are necessary to move away from its agriculture-focused development model to a more industrialised one that will accommodate greater diversification and increased productivity, as well as improve service delivery systems especially in the education and healthcare systems. The economy must also be opened up to international trade and investment if the country has attained middle income status. The present coalition government now in place is cognisant of this, and plans to boost economic growth through creation of an export-focused knowledge- based social market economy. Plans are on board to construct a Western Region Megapolis, on the lines of Singapore, in the western province, to promote economic growth, also specially designated areas for business and technology development will be reserved islandwide for various sectors. Plans are also on board to also construct tourist zones in a planned manner. These projects will contribute substantially to the country's overall infrastructure development and growth.

The new government has ushered in a measure of stability essential for the socio-economic progress of the country, and set the pace for steady economic growth to build capacities, promote macroeconomic stability and boost growth, with an economic reform agenda that addresses key areas of concern. Tax reform is one of the many areas that are being looked at, as the government realises the need to increase tax revenues that have been declining over the past 20 years, and make public finance sustainable once more. Restructuring cash strapped state owned enterprises is another area targeted to reduce fiscal risk, increase transparency and promote commercial business.

Earnings from tourism saw a 14.0% growth, which was one of the brightest spots in Sri Lanka's performance during the year. Tourism brought in US\$ 2,981 million in 2015, and reached the target of 1.8 million arrivals for 2015.

Although oil prices are 50 percent lower than in July 2014, domestic factors in the country could contribute to increase inflation in 2016 higher than in 2015. A depreciating currency and possible increase in the interest rate could curb demand and keep inflation under control, but at a higher level than in 2015. In view of this scenario, a situation of slower growth is predicted over the next few years, and the government is presented with the challenge of realigning fiscal policy to place the country on a sustainable growth track.

Global Tourism

The current UNWTO World Tourism Barometer confirms that tourist arrivals grew by a record 4.4% in 2015 to reach 1,184 million. About 50 million more tourists (overnight visitors) travelled to destinations around the world during the year under review, when compared with the previous year's figures. Individual destinations saw mixed results due to exchange rate fluctuations, and lower prices of oil and other commodities.

// Earnings from tourism saw a 14% growth, which was one of the brightest spots in Sri Lanka's performance during the year. Tourism brought in US\$ 2,981 million in 2015, and reached the target of 1.8 million arrivals for 2015. //

Europe, the Americas and Asia and the Pacific all recorded similar growth in tourist arrivals during the year, of around 5%. Arrivals to the Middle East came in at a lesser 3% while the limited data available for Africa estimates a decrease of about 3% in that continent, due mostly to the weak performance of North Africa, which accounts for over a third of the arrivals in the region.

Europe led growth in absolute and relative terms supported by a weaker euro against the US dollar and other main currencies, while Asia and the Pacific reported uneven results across destinations, and in the Americas, appreciation of the US dollar stimulated outbound travel from the United States, benefiting the Caribbean and Central America, both of which recorded growth of 7%.

The UNWTO Confidence Index remains largely positive for 2016, although at a slightly lower level when compared to the previous two years. Basing its projections on current trends, the UNWTO estimates international tourist arrivals to grow by about 4% worldwide.

China, the USA and the UK led outbound travel growth in 2015. Among the world's top source markets, China continues to lead global outbound travel to Asian destinations such as Japan and Thailand, as well as the United States and various European destinations.

By contrast, the previously dynamic markets of Russian and Brazil declined significantly, reflecting the economic constraints in both countries and the depreciation of the Rouble and the Real against almost all other currencies.

As for the traditional advanced economy source markets, expenditure from the United States and the United Kingdom at 9% and 6% respectively, was boosted by a strong currency and rebounding economy. Spending from

Germany, Italy and Australia grew at the slower rate of 2%, while demand from Canada and France was rather weak.

Growth in 2016 is expected to be strongest in Asia and the Pacific and the Americas, followed by Europe. Projections for Africa and the Middle East are also positive but with a larger degree of uncertainty and volatility.

Sri Lanka Tourism

The tourism industry in Sri Lanka is now on a growth trajectory. The World Travel and Tourism Council (WITC), estimates that the direct and total contribution of Sri Lanka's travel and tourism sector to GDP and employment is much higher than the World and Asia Pacific averages. This augurs well for the further growth and development of the industry in Sri Lanka.

It is encouraging to note that the government is keenly committed to growing the sector, and has set out a strategic direction for attaining its sustainable development in the near future. The Budget Proposals of 2016 introduced a comprehensive policy framework for developing tourism, which Sri Lanka Tourism consolidated with a broad Strategic Marketing Plan for 2016 that lays the foundation for developing tourism well into the future. The Strategy positions Sri Lanka as a sought after premier tourist destination and plans to uplift the country's brand value to USD 80 million through tactical marketing campaigns.

We are greatly encouraged by the development plans undertaken by the Sri Lanka Tourism Promotion Bureau and the Ministry of Tourism, and envisage improvements to the hotel's occupancy and revenues once these have been realised. As a premier facility that embodies the essence of true hospitality, we are confident that we have the wherewithal to be at the vanguard of these new initiatives to build a sustainable sector that will, one day, be the top foreign exchange earner for the country.

//

We are greatly encouraged by the development plans undertaken by the Sri Lanka Tourism Promotion Bureau and the Ministry of Tourism, and envisage improvements to the hotel's occupancy and revenues once these have been realised.

//

Chairman's Review Contd.

Your Hotel's Performance

Despite Sri Lanka reporting a 20% growth in tourist arrivals in 2015/16, The Fortress Resort & Spa fell short of its target by 4% in occupancy compared to the previous year. This was common for major hotels in the country, mainly due to new entrants to the market, and caused a drop in hotel revenues by 1.8% compared to the previous year.

The hotel's margins were affected by the country's economic uncertainty during the first few months of the financial year accompanied by changes in fiscal policies, which resulted in substantial increases in the cost of imports of consumable goods. There was some relief from the depreciation of exchange rates especially with the USD, which contributed towards increasing our revenues in the USD currency markets, but these gains were insufficient to offset the escalating costs of essential goods. Reduced oil prices and removal of the fuel surcharge on electricity also had significant impacts on the hotel's performance.

Corporate Developments During the Period

I am pleased and proud to state that The Fortress Resorts PLC declared and paid its first ever dividend in December 2015. This was a milestone event for the Company in the year under review. In Rupee terms, we distributed Rs. 110.8 million (as a 10% dividend), more than 50% of our earnings in the year 2015/16.

Future Outlook

The Sri Lanka Tourism Promotion Bureau estimates that Sri Lanka will host more than 2.2 million tourists in 2016. This requires more and better facilities to meet burgeoning market needs, which the hotel industry at present is unable to provide. This translates to about 10,000 to 20,000 more hotel rooms that will be needed on an urgent basis to accommodate the substantial increase in inflow over the coming months.

The Fortress Resort and Spa is preparing well ahead to meet this surging growth in arrivals. The Board has been looking at growth strategies for the Company and we are ready to take up the challenge of expanding into more areas of hospitality. We have already completed feasibility studies on possible new projects that may be undertaken in the near future. Initially, we are looking at constructing a 65 bed roomed facility in Mirissa, similar to our Koggala property. Mirissa is fast becoming one of the most popular areas for top end tourists. International hotel brand Marriot will open its doors in adjoining Weligama in the coming year, so Mirissa has tremendous potential as a prime tourist location that should be accessed at the right time, for its prospects as a renowned paradise for whale watching, surfing and other water sports.

We have also begun an extensive refurbishment programme to further upgrade areas of the hotel, specifically the guest rooms, restaurants and bar. Interior designers are already at work on the plans. The upgrades will include replacement of lobby and restaurant furniture with designer brands like 'Dedon'; renovation of the wooden floors in the guest rooms; new sound systems and makeup mirrors in the guest rooms. Some of these items have been already completed and installed.

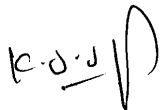
// I am confident that these initiatives will give us an even greater competitive edge and serve to entice and entrance larger numbers of high net worth clients to our lavishly appointed private ocean retreat, and other facilities we plan to open in the near future. //

I am confident that these initiatives will give us an even greater competitive edge and serve to entice and entrance larger numbers of high net worth clients to our lavishly appointed private ocean retreat, and other facilities we plan to open in the near future.

I take this opportunity to reiterate our commitment to continue maintaining our exceptionally high standards in service and facilities, and wish to state that we will always strive for perfection in all the areas of our operations.

All in all, it has been a good year, with many milestones achieved despite the difficult environment, but we could not have achieved them without our many partners.

I thank my Board of Directors for their invaluable support and direction which has equipped us to meet the challenges and recognise the opportunities of the past year. I extend my special thanks to our Managing Director Sumith Adihetty and Director/General Manager Jan van Twest for their strategic direction and initiatives that have contributed in no small measure to the hotel's phenomenal success. To my staff, I am deeply appreciative of your loyal service over the years, and continue to count on you to extend the same standards of professionalism that have made our facility and service the unique and unforgettable experience that enthralls our guests and has them coming back for more. To our customers, I express my deep appreciation for your loyalty as well as continuing to push the bar higher, which has motivated us to give of our best. Please be assured that we will continue to surprise and delight you with new and better product offerings. To our Shareholders, my most sincere thanks for being our support throughout the years. We are pleased to partner you as we move forward to meet the fresh challenges that the next year will bring.



Dhammika Perera
Chairman

12 May 2016
Colombo

CEO's Review of Operations



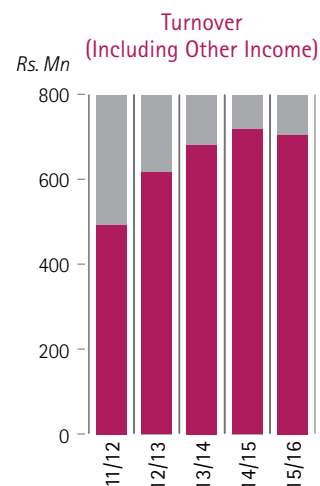
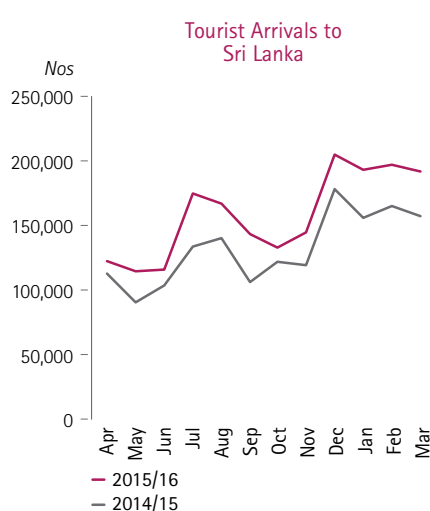
// The fixed deposit base was Rs. 405 million by end- March 2015 and increased substantially by about 36% to stand at Rs. 550 million as at end- March 2016. This enabled the Company maintain healthy cash flows throughout the financial year. //

The year has been difficult but steady in terms of revenue and returns. We paid the first dividend to our Shareholders after almost nine years in operation. This was a landmark achievement for the Company during the year under review.

Also in the year under review, 1,904,360 tourists arrived in the country, an increase of 20% when compared to the previous year's figure of 1,584,490 arrivals. But this increase did not cause an appreciable upsurge in business at your hotel. Due to competition, attributed to the arrival of new entrants to the market in both the formal as well as informal sectors, added to the opening up of the island's East coast to tourism, your Company did not reach targeted occupancy and revenues, especially in the first half of the current financial year. We experienced an almost 4% drop in occupancy during that period when compared to the previous year and ended the year with 67% occupancy, against 71% occupancy reported in the previous financial year. As a result, your hotel's operational revenue saw a marginal drop of 1.8% to Rs. 703 million when compared with the previous year's figure of Rs. 716 million. But interest income in the current year showed a rapid rise of 100% to Rs. 41.9 million, compared to the previous year's figure of Rs. 21 million. This was even after paying Rs. 110.8 million to Shareholders as an interim dividend. Carefully analysing and investing the additional funds at the right time for the right rate of returns, was the key factor to achieving this extremely satisfactory outcome. These additional funds also served to maintain profitability at the same levels as that of the previous year, despite the negative growth of 4% in occupancy during 2015/2016.

The fixed deposit base was Rs. 405 million by end- March 2015 and increased substantially by about 36% to stand at Rs. 550 million as at end- March 2016. This enabled the Company to maintain healthy cash flows throughout the financial year, which was a remarkable achievement in the face of the many challenges experienced in the market.

I am proud to say that the financial performance in 2015/2016 enabled your Company to post a net profit after tax of Rs. 187.4 million, which was a marginal drop of 1% compared to the corresponding figure of Rs. 189.4 million in the previous year. It is noteworthy to mention that despite the drop of 4% in overall occupancy, we were able to come closer to last year profitability



figures due to efficient and effective management initiatives adopted throughout the financial year.

Earnings per share

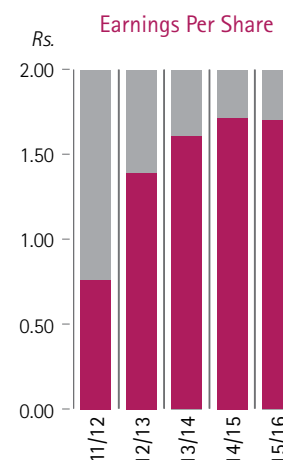
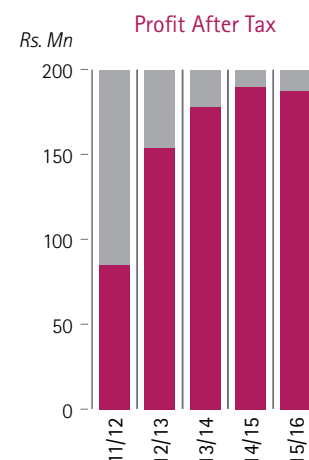
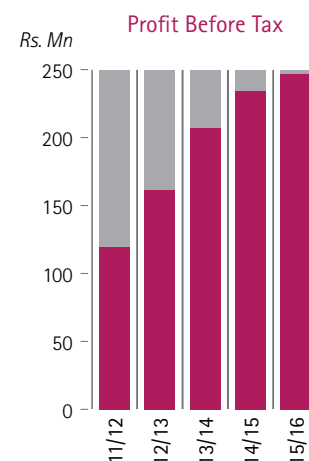
As a direct impact of marginally reduced PAT, your earnings per share has come down from Rs. 1.71 per share to Rs. 1.69 per share in the current year. Dividend per share was Rs. 1 from the no DPS scenario of the previous year.

The downturn in results during the first half of the year when compared with the same period during the previous financial year, saw only 4,931 room nights sold in the first six months of the current year as against 5,874 room nights sold in the first six months of the previous financial year, a drop of almost 16% in occupancy. This caused a corresponding drop in revenue to Rs. 32 million, a 12 % decrease when compared with revenues in the first half of the preceding financial year.

This compelled the hotel to re-visit our sales and marketing strategies in the latter part of the year, and introduce strategies to maximise these revenues. We were successful in limiting expenditure in certain areas of sales and marketing, which resulted in a saving of 15% over the previous year's figures, of almost Rs. 4.5 million. This year's total spends on sales and marketing was Rs. 27 million, while Rs. 32.2 million was spent in the previous year. This was despite the fact of attended all major tourism fairs like ITB, ILTM, SLH during the year, investing in advertising in the local and foreign media, and going in for web marketing and development. We also engaged with foreign tour operators to advertise our facility in their brochures, and were successful in negotiating better promotional rates for the brochures.

The position improved considerably in the latter half of the financial year, especially in the four-month period between December 15 and March

	Room nights 2015/2016	Room nights 2014 / 2015	Guest nights 2015/2016	Guest nights 2014 / 2015
April	1156	1385	2308	2770
May	527	816	994	1576
June	430	615	831	1176
July	800	1051	1594	2058
August	1080	1205	2141	2389
September	938	802	1800	1617
October	931	1093	1948	2186
November	1063	1117	2051	2167
December	1501	1390	3147	2773
January	1501	1469	3031	2934
February	1467	1408	2937	2773
March	1508	1352	2630	2615
Total	12902	13703	25412	27034
	67%	71%		

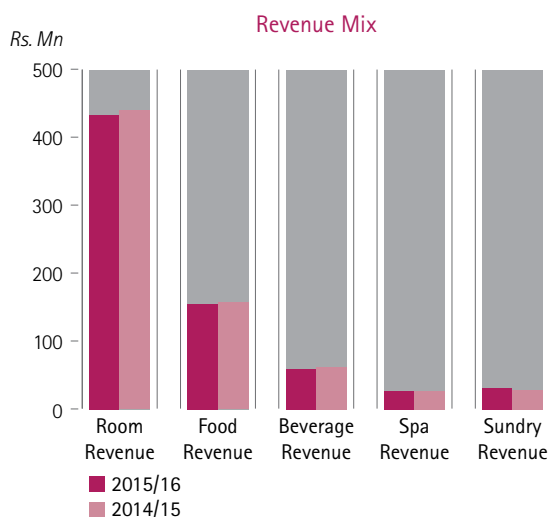


CEO's Review of Operations Contd.

16, during which time we successfully achieved aggressive occupancy levels and sold 5,977 room nights out of the total 6,466 room nights available. This meant that your hotel was running at above 92% occupancy levels throughout the last 4 months of the financial year. At the end of 2015/16 year, the hotel sold a total of 12,902 room nights, which was a reduction of 801 room nights when compared to the previous financial year. The occupancy rate was 67%, at year – end, compared to the average occupancy rate of 71% achieved in the same period of the previous financial year.

Occupancy was a challenge throughout the year, and the 4% reduction in overall occupancy adversely affected all major revenue streams. We were fortunate, however, that revenues earned in the latter part of the financial year closed the gap experienced in the first six months. It is noteworthy to mention here that all staff put in their best efforts to end the financial year with results favourable to the Company.

Revenue	2015 / 2016 Rs.	2014 / 2015 Rs.	Change %
Room Revenue	433,651,638	441,182,931	1.7% negative
Food & Beverage Revenue	213,047,190	218,437,239	2.5% negative
Spa Revenue	25,780,168	27,356,394	5.5% negative
Sundry Revenue	30,887,371	29,494,829	4.7% positive
Total Revenue	703,366,367	716,471,393	1.8% negative
Interest Income	41,981,404	21,037,610	100% positive



Expenditure

All expenditure areas, except energy costs, showed increases when compared to the costs during the previous financial year. The depreciation of the Rupee adversely affected all imports and increased, direct costs substantially. However, despite these increases, we were able to maintain hotel costs at

an acceptable level throughout the financial year because of prudent cost management, the advantages of which are seen in the cost reduction in sales and marketing and maintenance areas .

The cost of goods sold came down by Rs 7.45 million during the year when compared to the previous year, but we were able to maintain the same COGS/Sales ratio as the previous year's ratio. As a result of this, the GP ratio stood at 74% with no change from the GP ratio of the previous financial year.

Staff costs also showed an increase to acceptable levels, mainly due to annual salary increments and rises in other staff related items such as meals, uniforms and accommodation etc. Staff payroll costs increased by 19% over the previous year, and total staff related costs stood at Rs 113 million during the year as against Rs 95 million in 2014/2015. The company spent Rs. 14.7 million on staff meals, uniforms and accommodation, a deduction of 4.5 % when compared to the previous year's cost of Rs, 15.4 million. The payroll cost was at Rs, 81.8 million in the financial year compared to the cost of Rs 72.7 million reported in the last year. Annual increases granted in April 2015 were reflected throughout the financial year, and the percentage increases in salaries were also reflected in increased EPF and ETF contributions.

Repair and Maintenance (R & M) played a key role this year, but we were able to contain expenditure at last year's levels even after implementing an intensive R & M programme. The R & M cost was Rs, 28 million in the year under review, as against Rs, 29.3 million in the previous financial year.

As is the usual practice each year, the room care programme was implemented in the months of May and June, and was completed before the commencement of the peak season.

We renovated and further upgraded all guest rooms and public areas, cut and painted the wooden floors of the guest rooms, and cut and polished all room furniture as well as replaced cushions in the furniture of the restaurant and public area. We also re-fabricated 10 wardrobes in the guest rooms. Most of these tasks were carried out by our in-house maintenance staff which enabled us to have better control over R & M expenditure during this year when compared to the previous year.

Your hotel was also compelled to expend a substantial amount of money on R & M work on kitchen and laundry equipment. More expenditure was incurred on repairs to air conditioning and electrical equipment as well, this year than during the previous year.

The main area in which expenditure was less than in the previous year was in the energy bill. The price reductions in diesel and electricity in the last quarter of the 2014/2015 financial year had a positive effect on the expenditure on electricity, fuel and gas in the current year. The hotel incurred Rs. 53.1 million in this area during the last year which came down to Rs. 42.5 million during the year under review, a saving of almost 16%. This is mainly due to the various energy saving initiatives adopted by the hotel to curtail costs, in addition to the price reductions gained from the main energy sources.

When making purchases we carefully study price movements and make the right product purchases at the right price at the right time. We believe in paying our suppliers on time, which ensures that we are kept well stocked with the best items that money can buy.

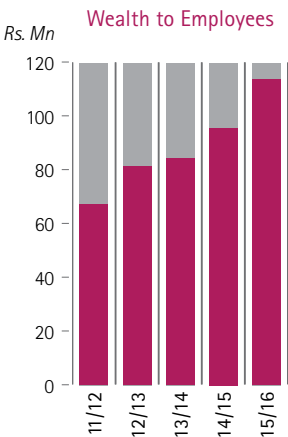
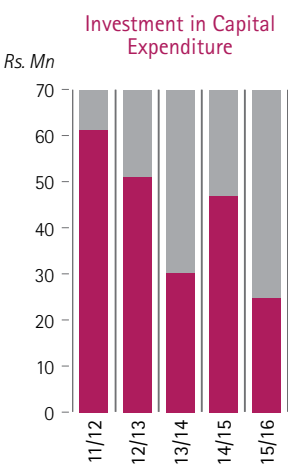
Tourist Arrivals to Sri Lanka

The hotel is geared to meet the diverse requirements of a wide range of guests from around the world, and prides itself on catering to a mix of nationalities, not to their tastes in cuisine, but also in terms of their cultural requirements.

The opening up of market opportunities in South East and East Asia brought in a more diversified customer base. Whereas the highest percentage of visitors is usually from Britain, other nationalities like the Taiwanese and Chinese are now taking advantage of the opening up of the market.

Tourists from Britain clocked in the highest number of 5,425 room nights during the financial year, which brought in a total revenue of Rs 327.8 million. Sri Lankans were the next highest occupants, recording a total stay of 1,329 nights at a total spend of Rs. 51.8 million. Germans came in third, staying at the hotel for 1,085 room nights that brought in total returns of Rs. 52 million. Other continentals, from France, Austria, Switzerland, the Netherlands, Belgium and Italy, stayed a total of 1,192 room nights and brought in an accumulated revenue of Rs 75.8 million. The hotel is much more in continental markets now following the devaluation of the Rouble and the increase in value of the American, Australian and Swiss currencies. In the East European market, Russia in particular is proving to be lucrative. The hotel hosts many Russian guests from late December to mid-January due to the celebration of the Russian Christmas a fortnight after the traditional Christmas celebrations. This year, Russians occupied the hotel for 204 room nights and spent a total of Rs. 16.1 million. Americans stayed at the hotel for 571 nights and spent a total of Rs. 36 million.

We observed immense potential in the Chinese and Indian markets based on feedback received from Chinese operators in Shanghai, who supported our proposals for accessing their markets. The



Tourists from Britain clocked in the highest number of 5,425 room nights during the financial year, which brought in a total revenue of Rs 327.8 million.

CEO's Review of Operations Contd.

Chinese stayed 513 room nights during the financial year, while Indians stayed 401 nights, which brought in revenues of Rs 28.1 million and Rs. 25.1 million respectively during the year. A double digit increase is envisaged from the Chinese market during the coming year. Although there is concern that the growth in demand in the Chinese and Indian mass market may not significantly impact our performance as those segments favour mainly budget hotels, we are optimistic of being able to attract their high net worth clientele who choose star class holidays by the beach.

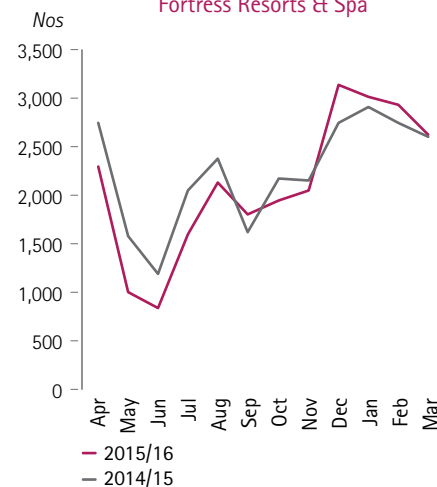
Tourist arrivals and occupancy at The Fortress Resort & Spa – the comparison between the current and previous financial years are given in the table below.

	2015 / 2016 Current year			2014 / 2015 Last year		
	Room nights	Guest nights	Occupancy %	Room nights	Guest nights	Occupancy %
April	1156	2308	73%	1385	2770	87%
May	527	994	32%	816	1576	50%
June	430	831	27%	615	1176	39%
July	800	1594	49%	1051	2058	64%
August	1080	2141	66%	1205	2389	73%
September	938	1800	59%	802	1617	50%
October	931	1948	57%	1093	2186	67%
November	1063	2051	67%	1117	2167	70%
December	1501	3147	91%	1390	2773	85%
January	1501	3031	91%	1469	2934	89%
February	1467	2937	95%	1408	2773	95%
March	1508	2630	92%	1352	2615	82%
Total	12902	25412	67%	13703	27034	71%

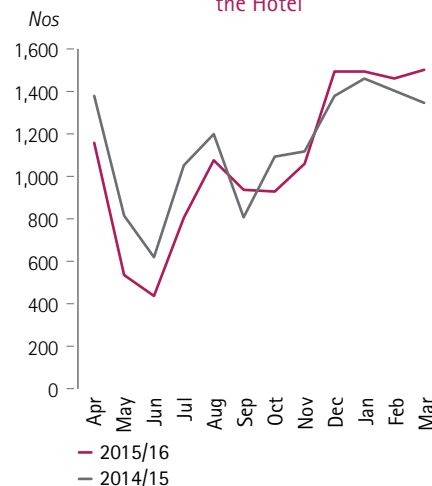
Comparison between tourist arrivals to Sri Lanka in 2015/16 and tourist arrivals in 2014/15

	2014 / 2015	2015 / 2016	Change %
April	112,631	122,217	8.5
May	90,046	113,529	26.1
June	103,175	115,467	11.9
July	133,971	175,804	31.2
August	140,319	166,610	18.7

Tourist Arrivals to the Fortress Resorts & Spa



Room Nights Sold in the Hotel



Comparison between tourist arrivals to Sri Lanka in 2015/16 and tourist arrivals in 2014/15 Contd.

	2014 / 2015	2015 / 2016	Change %
September	105,535	143,374	35.9
October	121,576	132,280	8.8
November	119,727	144,147	20.4
December	178,672	206,114	15.4
January	156,246	194,280	24.3
February	165,541	197,697	19.4
March	157,051	192,841	19.06
Total	1,584,490	1,904,360	20%

Opportunities

We are constantly on a quest for new markets, and one of the most effective means of sourcing them is by attending numerous international travel and tourism fairs.

Participation in trade fairs and events during 2015/2016

Fair / Summit	2015/2016	Type of event	Marketing / Branding
Arabian Travel Market	4 – 7 May 2015	Trade Fair	Marketing
ILTM Asia	1-4 June 2015	Trade Fair	Branding
Kuoni Holiday Experience Fair		Workshop	Branding
World Travel Market	2-5 November 2015	Trade Fair	Marketing
World Travel Market World Wellness Lounge	4-5 November 2015	Trade Fair	Branding
DER Touristik Summer Lights Event	6-9 November 2015	Travel Trade Exhibition	Branding
ILTM Cannes	30 Nov - 03 Dec 2015	Trade Fair	Branding
ITB Berlin	9-13 March 2016	Trade Fair	Marketing

Valuing Our People

We believe that it is our people whose expertise drives the brand excellence that places our property among the top hotels in the country, and probably among the best in the region. They are the Company's most valuable asset. Every milestone achieved can be attributed to their dynamism, motivation and absolute commitment, directed and supervised by the senior management.

With the hospitality industry in Sri Lanka expanding much faster than anticipated, one of the greatest challenges faced today is the lack of skilled and competent personnel who are committed to remaining with the industry long- term. Your hotel took on this challenge and designed our HR strategy to attract and retain the cream of talent in the hospitality industry, by investing in two vital areas – remuneration and training. We set the industry benchmark for the highest staff rewards and remuneration, coupled with a range of other fringe benefits, which has kept our staff turnover ratio to one of the lowest in the industry. We have been paying the industry's best service charge throughout. The distribution of wealth to our employees was Rs. 113 million, during the year. The Company spent Rs, 2.5 million on surgical and hospitalisation insurance during the financial year, compared to Rs, 2.2 million spent in the previous year. The value of insurance benefits obtained by staff and their families was Rs. 2.6 million during the year, and Rs, 2.3 million during the previous year.

Our staff retention is very high not only because of the remuneration alone, but also because of the many initiatives introduced to value their contribution and appreciate their worth. This has reaped rich dividends in forging their long-term loyalty to the Company.

Guest expectations are high, and staff must have the discernment to understand, adapt to, and meet these expectations. In view of this, training and development plays a key role in our HR culture. We introduce training initiatives that focus on bridging any perceived gaps that may emerge from time to time. While we realise that the results of training and development may not immediately impact real- time operations, our outstanding record in customer service confirms the speed and efficiency with which our staff has absorbed

CEO's Review of Operations Contd.

and applied the trainings received. Each year, about 15 high performing staff are selected to fine-tune their hospitality skills with a foreign training company invited to Sri Lanka to train them on hospitality and service standards.

We invested a total of Rs. 4.6 million this year (Rs. 0.2 million in the previous year) on training and development initiatives conducted by both local as well as international industry experts. We invested in classes on training in the English language for about fifty frontline staff, conducted by the British Council, which clocked a total of fifty training hours at an investment of Rs. 2.0 million. A further Rs. 1.5 million was infused into a refresher training programme for butlers conducted by the Australian Butlers Academy. A training programme for reservations staff on online revenue management was conducted by E cornel USA, market leaders in this area of expertise, at a spend of Rs. 0.7 million. The two staff trained in reservations obtained their diplomas during the year.

We keep the bar raised by evaluating our staff annually on their performance, through a formal and comprehensive evaluation process. Information from client satisfaction surveys and guest feedback reports are also used to evaluate frontline staff.

We have a transparent culture in recruitment, practice no discrimination in gender, religion, culture and age, and follow all relevant labour dictates detailed by the hospitality industry, the Ministry of Tourism and the International Labour Organisation.

All staff are Sri Lankans, and most have received an initial training at a reputed hotel. About 70% of our staff are recruited from the surrounding Galle, Weligama and Koggala areas, which is one more way in which we seek to uplift the lifestyles of the communities around us.

The management is committed to creating better working standards, and continuously upgrade the working environment for our employees. We rigorously follow the best Industry labour standards at all the times and support industry best past practices by hearing employee grievances, discouraging bribing and corruption, as well as creating opportunities for our employees to climb the corporate ladder when opportunities arise.

We are confident that we now have the best possible team in place to provide the service excellence that is the hallmark of our success culture.

We have always encouraged a knowledge culture, and continue to support our team to build on their talents, develop their skills and upgrade their knowledge in diverse areas. The knowledge gained adds value to what they deliver in terms of personal improvement, improvements in their place of work, and enhancement of their contribution to the nation. Employees are also encouraged to share their learnings and thereby contribute to knowledge creation, innovation, which ultimately contributes to the competitive advantage of the Company.

Within this knowledge culture, our staff is motivated to continuously assess themselves, their units, and their organisation, and look for ways in which to improve. After every important activity or event, we review assignments, identify successes and failures, and seek ways in which to perform better the next time around. This approach to capturing learnings from experience builds knowledge that can then be used to streamline operations and improve processes.

Timeliness is another standard by which we live. We believe in meeting all our commitments in a

prompt and timely manner, pay the staff salaries, payments to suppliers or to other stakeholders.

Sustainable Practices

The hospitality industry utilises high energy, but is becoming increasingly conscious of its role in practicing environmentally friendly initiatives that present our stakeholders with a greener brand of tourism. As a leading hospitality player in Sri Lanka, we have taken our role of being environmentally conscious seriously, and have instituted numerous initiatives during the year to reduce our carbon footprint.

One of the most significant milestones on our green calendar this year is our organic home garden begun during the year. The hotel leased an acre of land from the Board of Investment (BOI) to plant the garden, and has since grown assorted fruits and vegetables, in addition to the coconut cultivation which was there at the time of the lease.

We produce our own compost. At the initial stages, we hired a competent agriculturalist from the area to train the hotel's gardeners to cultivate the home garden produce organically, completely without additions of chemical fertiliser, weedicide or insecticide. The garden is now slowly but surely yielding organic fruit and vegetables that are being served to our guests. Although the yield is not large during this initial stage, we are confident that we will be able to reap substantial harvests in the years to come.

We incurred an overall expenditure of about Rs. 1 million to develop the garden with a drainage system and cultivation well to water the produce. The following table shows the success of the project.

Harvest From Organic Garden

April to March 2016	
Vegetables	626 kg
Fruits	426 kg
Total (Kg)	1,052 kg

We also harvested 4,200 coconuts during the year.

The solar power project launched in the previous year continues successfully and has helped us to substantially reduce diesel consumption in laundry by generating steam for the laundry through solar panels.

Diesel consumption for the boiler was 106,693 litres in 2015, which was brought down to 101,810 litres in the year under review.

We encourage not just our staff, but also our valued business partners, to introduce the three R's of the environment - Reduce, Reuse and Recycle in all stages of operations, as a sustainable green measure.

Our sustainability initiatives are based on long term results that will permeate to the communities around us, as we strongly believe in initiating the principles of sustainability throughout our areas of operation. By inviting those from the community to join our team, we ensure that economic and social upliftment takes place within the community and that lifestyles continue to be enhanced.

Corporate Social Responsibility

We have a symbiotic relationship with many people in the surrounding community. We provide the local tuk tuk drivers with substantial business from our guests who travel with them on city tours to Galle and its environs. Recorded business through the local trishaw association was Rs 7 million during

the year. We also purchase lotus flowers, organically- grown fruit as well as fish from the villages in the vicinity.

We have also launched a training programme for school leavers with an interest in pursuing a career in the hotel industry. These trainees were recruited through the National Apprentice Board (NAB) and receive a full year's training in their preferred areas. The hotel recruited 12 trainees in March 2016 under this programme at a total expenditure of close to Rs. 2 million annually for their allowances, meals, uniforms etc. We believe that this programme will benefit the hotel and hope to absorb them if their performance is on par with industry standards. This could be one means of solving the dearth of experienced staff in the leisure industry today.

We supply the Bona Vista Elders home in Galle with rejected linen items in good condition from our guest rooms. We gave a substantial stock of linen in usable condition last year, and the hotel also sponsored an almsgiving for elders of straitened means.

Employee volunteerism runs strong among staff, and we encourage them to take ownership of the projects we introduce to the community. These projects cover several areas of well-being including education, health and cultural awareness, details of which are found in the Sustainability Report.

Our Competitive Strategy

Well-planned and executed strategies and initiatives have achieved a number of notable accomplishments during the year, all of which were supported by increased revenues that stem from positive customer feedback.

Because we market a luxury brand with substantial value additions in terms of designer amenities, a cost leadership strategy is

//
Well-planned and executed strategies and initiatives have achieved a number of notable accomplishments during the year, all of which were supported by increased revenues that stem from positive customer feedback.

//
inappropriate. Instead, the management adopts a differentiation strategy based on the fact that the product we offer is perceived by our customers to be unique and better than those of our competitors. We do things differently in all aspects of our business, which is designed to attract a superior clientele willing to pay a premium price for an unforgettable brand experience.

Your hotel is all about sustainable luxury, and providing a meticulously crafted guest experience that is, at once, mystical, magical and bewitching. A small luxury hotel like ours is well positioned to provide this intimately personalised and memorable experience at every point of the guest's stay, which a larger hotel is able to offer only within the precincts of the guest's room: once he/she steps out into the anonymity of the large public areas, the guest is just one of the crowd.

CEO's Review of Operations Contd.

We have many competitive advantages that position us to offer a premium product.

Industry Experience

A key competitive advantage we enjoy is the extensive industry experience of our senior management, whose initiative and vision have moulded this star class facility into a class of its own.

Service

The premium service for which we are renowned is set in motion well before the guest's actual arrival. It begins at the time of making the reservation, when information on the guest is carefully researched, details compiled into a profile, and entered into our extensive database. A scanned photograph is then mailed to all the outlets, to enable guest recognition and greeting on arrival. The exclusive butler service available for the high end rooms fine-tunes the profile even further during the guest's stay, with more details of personal preferences. The guest's personal space and need for privacy, rest and relaxation is respected throughout this exercise.

Infrastructure

Infrastructure in the guest rooms also plays a major role in our competitive strategy. Our rooms are consistently maintained through our room care programme, and considerable effort and expense is put in each year during the off-peak period to ensure that room standards are kept high. The programme also identifies all defects on a daily basis and repairs are made swiftly and unobtrusively.

Products

Luxury guest amenities add further value to our luxury brand. Bulgari and Pecksniff toiletries comprise more than 85% of our amenities cost, and are imported directly from the manufacturer. Premium Frette branded bed linen, world renowned for its quality and comfort, are used in the guest

rooms. All cutlery and crockery are custom made. Rigorous quality checks by SLSI and the Ministry of Health are followed on all imports.

Location

The hotel has the advantage of its position in a prime seafront property, close to the historic city of Galle, and the Galle Fort which is a UNESCO world heritage site. Its environs provide guests with a variety of interests including bird watching and nature walks. Proximity to the Yala and Sinharaja wild life parks promotes eco tourism.

The opening of the Southern Expressway has more than halved transfer time to and from the airport to hotel, from 5 hours to 2 hours.

Cuisine

We have an established reputation for providing an eclectic array of fine cuisine to satisfy the most discerning palate. Our innovative menus are inspired by the bounty of the Indian Ocean, delectable fare from the hotel's own organic garden and village gardens in the vicinity, and paired with wines in ways that delight devotees of the ultimate gourmet experience. We are also equipped to handle the culinary preferences of guests who would rather order meals not featured on the menu, and cater to vegans, vegetarians and those with special food requirements.

Our focus on food safety promoted us to subscribe to the Scandinavian Five Crowns health and safety audit which takes place on a quarterly basis, and also introduces regular spot checks on the hotel food. All food items are prepared fresh with ingredients of the highest quality. All beef on the menu is imported.

Our Executive Sous Chef is competing for the prestigious Bocuse d'Or award presented by B International to the most promising young chef of the Asia-Pacific area, and travelled to Singapore to participate in the first leg of the competition.

// The hotel has the advantage of its position in a prime seafront property, close to the historic city of Galle, and the Galle Fort which is a UNESCO world heritage site. //

IT Infrastructure

The hotel generates almost a third of its total revenue through the web, on an advanced PMS (Property Management System) OPERA introduced in 2012. We are one of the first to adopt this advanced PMS and Opera Web Suite in the country, which has a realtime online payment gateway facility that enables clients to make their reservations and pay directly with the click of a mouse. With one of the world's most sophisticated IT systems in place for ease of operations, we maintain a fully integrated online booking system that is safe and secure.

Challenges

Occupancy, profitability and turnover remain challenges in an increasingly competitive environment. The year under review saw several hotels in the luxury brand category as well as some reputed international hotel chain brands enter the market. This resulted in fierce competition to maintain our position as a market leader on the Southern coastal belt of the island. In addition, many hotel developers capitalised on the opening up of the East coast and constructed new and star class facilities

that offered cheaper rates of stay and also had the advantage of less travel time from the capital city of Colombo.

We also face competition from small boutique hotels, several of them are owned in Sri Lanka by foreigners who market the properties in their own countries and regions.

The government needs to step up its monitoring of the formal and informal tourism sector which at present is unregulated, if we are to operate on a level playing field.

We may have to look at new communication methodologies and terminology to express our premium offerings, aligned with the new horizons we continue to pursue.

Thinking Ahead

The Fortress Resort & Spa has already begun formulating and implementing various plans and strategies, based on a careful analysis of the market and emerging trends, to capture niche markets. This process has begun already with marketing campaigns in France and Belgium, two markets we have hitherto not tapped.

We are looking at marketing ourselves in the off season of tourist arrivals and plan to provide value additions, especially in the overseas market. We prefer to offer value additions rather than offer discounts or participate in credit card promotions in order to preserve the distinction of our facility.

We also plan to enhance our concierge service to offer local tours to guests. We will be designing our own tour packages rather than using destination management companies, and will partner the Amaya Group of hotels for guests' accommodation during the tours.

We will develop our web presence further, to increase revenues. About 35% of current revenues come off the web, although we experience a 15% drop in our web sales during in the year, when compared with the previous year's figures. The hotel has trained two reservations staff on online revenue management and plans to utilise this proficiency to increase web revenue during the following year.

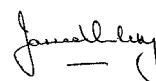
A niche market we are setting our sights on is wellness tourism, which is fast growing in popularity around the world. We are looking at increased emphasis on the spa, which occupies a relatively large area and offers a range of treatments. The spa accounts for about 12% of our profits and is already geared to provide the right products and therapies. We are exploring contracts with travel agencies to access this market, especially during the off season when occupancy is lower.

The year ahead will undoubtedly pose many challenges, especially from the perspective of global tourism, where the outlook is rather enigmatic and future trends cannot be predicted. The uncertainties of occupancy and markets will continue, exacerbated by the Euro area continuing to show little reversal in downturn, political instability in major markets including Russia and the Middle East, and limited spending power that continues to discourage major western markets including the UK.

We are now poised on the threshold of a new era in Sri Lanka tourism, as the country prepares to usher in a projected 2.2 million arrivals during the coming year. We are confident that we are well positioned to meet this influx and will continue to maintain our premier market position despite competition.

But we will not rest on our laurels and instead, will continue to pursue excellence in all areas of operations by raising the bar of hospitality even higher, to provide our guests with a spellbinding experience that will keep them enraptured.

In conclusion, I would like to express my appreciation to the Chairman and Board of Directors whose vision and acumen have been instrumental in guiding the Company and empowering us to excel, notwithstanding the market challenges.



Sumith Adihetty
Managing Director

12 May 2016
Colombo





*A Magical
Sanctuary for
Relax*

Be enchanted and enlivened by the comfort and majestic opulence we offer for perfect relaxation.

Board of Directors



Mr. Dhammika Perera
Chairman



Mr. Sumith Adhihetty
Managing Director



Mr. Nimal Perera
Alternate Director to Mr. P B Perera



Mr. C J Wickramasinghe
Director



Mr. Malik J Fernando
Director



Mr. Merril J Fernando
Director



Mr. Suranimala Senaratne
Director



Mr. L T Samarawickrama
Director



Mr. Lalit N de Silva Wijeyeratne
Director



Mr. Denesh Eric Silva
Director



Mr. Prashan Buddhika Perera
Director



Mr. H Somashantha
Alternate Director to Mr. LT Samarawickrema



Mr. Jan Peter Van Twest
Director



Mr. Chatura V Cabraal
Director



Ms. Kawshi Amarasinghe
Alternate Director to Mr. Dhammika Perera

Board of Directors Contd.

1. Mr. Dhammika Perera

Chairman

Mr. Dhammika Perera is the quintessential business leader, with interests in a variety of key industries including hydropower generation, manufacturing, hospitality, entertainment, banking and finance. He enriches the Board with over 28 years of experience in building formidable businesses through unmatched strategic foresight.

Mr. Perera is the Chairman of Sampath Bank PLC, Vallibel One PLC, Vallibel Power Erathna PLC, Royal Ceramics Lanka PLC, Delmege Limited and San Tan Beach Resorts Ltd. He is the Co-Chairman of Hayleys PLC, Deputy Chairman of Horana Plantations PLC and Lanka Tiles PLC. He also serves on the Boards of Vallibel Finance PLC, Lanka Ceramic PLC, Amaya Leisure PLC, Haycarb PLC, Hayleys MGT Knitting Mills PLC, Hotel Services Ceylon PLC, Dipped Products PLC and Hayleys Global Beverages (Pvt) Ltd.

He was the Chairman and Director General, Board of Investments, Sri Lanka, Secretary to the Ministry of Transport, Sri Lanka and member of the Board of Directors of Strategic Enterprise Management Agency (SEMA).

2. Mr. Nimal Perera

Alternate Director to Mr. P B Perera

In the Director panel since 2003, Mr. Nimal Perera serves on the Boards of Pan Asia Banking Corporation PLC, Lanka Tiles PLC, Lanka Walltiles PLC, Lanka Ceramics PLC, Horana Plantations PLC, Swisstek Ceylon PLC, Swisstek Aluminum Limited, Vallibel Plantations Limited, Uni Dil Packaging Limited, N P Capital Ltd. & N Capital (Pvt) Ltd. as The Chairman, Royal Ceramics Lanka PLC as The Managing Director, Vallibel One PLC as The Deputy Chairman, L B Finance PLC as an Executive Director and Vallibel Power Erathna PLC as an Alternate Director.

He is a Director of Hayleys PLC, Haycarb PLC, Thalawakele Tea Estates PLC, Hotel Services Ceylon PLC, Amaya Leisure PLC & Tangalla Bay Hotels Pvt Ltd.

He is a renowned business magnate, stock trader and Shareholder of many companies in the country.

3. Mr. Sumith Adhihetty

Managing Director

A well-known professional in the marketing field, he counts over 36 years of experience in the finance sector.

He serves on the Boards of Vallibel One PLC, Summer Season Residencies Ltd, Summer Season Ltd, La Forteresse (Private) Limited. He is also 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 Tours Limited and Security Ceylon (Pvt) Limited.

4. Mr. C J Wickramasinha

Director

Mr. Chandra J. Wickramasinha counts over 36 years experience in the leisure industry. He is the Founder Chairman of Connaissance de Ceylan (Pvt) Ltd, Maalu Maalu Resorts & Spa, Aliya Resort & Spa, Mount batten Bungalow and CDC Events and Travels. He is a Director of Hunas Falls Hotels PLC. He is also the Chairman of La Forteresse (Private) Limited.

Mr. Wickramasinha is a Board Member of Sri Lanka Tourism Development Authority (SLTDA). He is also the Founder President of Alliance Francaise de Kotte.

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).

Mr. Wickramasinha was awarded Silver in the National Entrepreneurs category in 1999, organised by the Federation of the Chamber of Commerce & Industry (FCCISL).

5. 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 also a Director of La Forteresse (Private) Limited.

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.

6. 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 also a Director of La Forteresse (Private) Limited.

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.

7. Mr. Suranimala Senaratne

Director

Mr. Suranimala Senaratne counts over 36 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 La Forteresse (Private) Limited.

8. Mr. L T Samarawickrama

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 specialised in Hotel designs and development, he has been responsible for the careful planning and execution of Amaya Resorts & Spas PLC refurbishment and rehabilitation programmes.

Director of Royal Ceramics Lanka PLC, Executive Director of Hayleys PLC and serves as the Managing Director of Amaya Leisure PLC, Hotel Services Ceylon PLC, Hunas Falls PLC and Sun Tan Beach Resorts Ltd, Kelani Valley Plantations PLC, Royal Porcelain (Private) Limited, Royal Ceramics Distributors (Pvt)Ltd, Rocell Bathware Limited, Culture Club Resorts(Pvt) Ltd and Kandyan Resorts (Pvt) Ltd.

9. 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 the Institute of Chartered Accountants of Sri Lanka and counts over thirty seven years' experience in Finance and General Management both in Sri Lanka and overseas.

He is presently a Director of DFCC Bank PLC, L B Finance PLC, Talawakelle Plantations PLC, Nuwara Eliya Hotels PLC, Rockland Distilleries (Pvt) Ltd, Hotel Services Ceylon PLC, Aitken Spence Plantation Managements PLC and Kelani Valley Plantations PLC. He is also a Member of the Quality Assurance Board of the Institute of Chartered Accountants of Sri Lanka.

He was the Group Finance Director of Richard Pieris PLC from January 1997 to June 2008 and also held Senior Management positions at Aitken Spence & Company, Brooke Bonds Ceylon Ltd., and Zambia Consolidated Copper Mines Ltd., and also served on the Board of Property Development PLC and was a Member of the Accounting Standards and Monitoring Board of Sri Lanka.

Board of Directors Contd.

10. Mr. Denesh Eric Silva

Director

A 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. He was awarded the Management Diploma in Hotel and Catering Operations with a Second Class Upper Division and is a Member of the Institute of Hospitality (UK).

He is a Director of Amaya Leisure PLC, Hotel Services Ceylon PLC, Maalu Maalu Resorts and Spa, Hunas Falls Hotels PLC, Delair Travels (Pvt) Ltd, Sun Tan Beach Resorts Ltd, Culture Club Resorts (Pvt) Ltd., and Kandyana Resorts (Pvt) Ltd

Mr Silva currently functions as the Head of the Marketing Sub-Committee and Committee Partner of the Hotels' Association of Sri Lanka. He is the immediate Past President and current Committee Member of the Travel Trade Sports Club, Vice Chairman of the Pacific Asia Travel Association-Sri Lanka Chapter and an active Member of SKAL International, Colombo. He is additionally an All Island Justice of the Peace.

11. Mr. Prashan Buddhika Perera

Director

Mr. Prashan Perera joined the Company as a Director on the 8th August 2012. He also serves on the Board of Vallibel Power Erathna PLC as a Director. He worked for the American Express – Head Office in New York, USA for one year and at present working for Ernst & Young in Singapore. He earned his Bachelor's Degree in Finance from the Bentley University of Boston, USA.

12. Mr. H Somashantha

Alternate Director to Mr. L T Samarawickrama

Mr. Hareesh 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 15 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. He serves as a Director of Hayleys MGT Knitting Mills PLC, Vallibel Power Erathna PLC, Royal Porcelain (Pvt) Ltd., Unidil Packaging (Pvt) Ltd., Ever Paint and Chemical Industries (Pvt) Ltd., and in several subsidiary companies in the Delmege Group. He is also an Alternate Director of Amaya Leisure PLC.

13. Mr. Jan Peter Van Twest

Director

Mr. Jan Van Twest counts over 36 years of experience in the hospitality industry in senior Management positions in Sri Lanka, Europe, Australasia and the South Pacific.

He graduated from the Ceylon Hotel School, Sri Lanka, in Hotel & Catering Operations and Advanced Hotel and Catering Operations from the Carl Duisburg Centre in Munich, Germany. He is a certified Hotel Trainer from Chamber of Commerce for Munich and Upper Bavaria. He is also a graduate of the Technical University of Munich.

He is presently, a Director of the Hunas Falls Hotels PLC and Hotel Services Ceylon PLC.

14. Mr. Chatura V Cabraal

Director

Mr. Chatura Vishvajit Cabraal is a Graduate (with Honors) in Mechanical Engineering with a focus in manufacturing and design from the Missouri University of Science and Technology. During his Bachelor's Degree, he paid special attention to Control Systems Engineering, Environmental Control and Engineering Statistics. These topics have been extensively applied in his functions as an Engineer in the Energy and Environment Division of Brandix Lanka Ltd. At Brandix, he has been closely associated with the analysis of new equipment for factories, renewable energy projects and sustainability reporting.

Prior to joining Brandix, he gained training as a Management Trainee with John Keells Hotel Management Services in the Projects and Engineering Department. Presently he is on the Boards of Kelani Valley Plantations PLC and Vallibel Power Erathna PLC.

15. Ms. Kawshi Amarasinghe

Alternate Director to Mr. Dhammika Perera

Ms. Kawshi Amarasinghe was appointed to the Board of The Fortress PLC as the Alternate Director to Mr. Dhammika Perera, Chairman, in November of 2015.

Presently, she is the Junior Assistant Manager, International Business Development and CSR, for Vallibel One PLC.

Previously, she was attached to the World Conference on Youth Secretariat, Ministry of Youth Affairs and Skills Development as the Manager.

She is a Bachelor of International Studies from the University of Queensland, Australia and she completed her Internship at the Department of Community Safety, Strategic Policy Division, Queensland Australia. She also holds a certificate in hotel revenue management from Cornell University USA. She specialised in international relations and French studies at the University of Lausanne in Switzerland. Ms. Amarasinghe also holds a Diploma in International Relations from Bandaranaike Center for International Studies Colombo 07.





*A Magical
Spa
Experience*

Be enraptured, be soothed with
an uncanny Spa experience like no
other.

Management Discussion & Analysis

Overview

Key Drivers, Challenges, Risks and Opportunities

2015 was a strong year for tourism and travel. The sector recorded robust performance for the sixth consecutive year with a growth of 3.1% over 2014 figures, despite health and security-related challenges. Tourism and travel contributed nearly 10% of global GDP this year, amounting to a massive US\$7.2 trillion.

According to UNWTO World Tourism Barometer, tourism in 2015 grew by 4.4% globally, to reach a total of 1,184 million international arrivals in 2015. This is marginally more than the 4.2% growth in 2014, because about 50 million more tourists travelled to international destinations in the current year when compared to 2014.

Other indicators are equally notable. Occupancy rates as well as room revenue were at a global high, with the exception of Asia Pacific and the Middle East. Worldwide air passenger traffic grew by 6.5%, the fastest since the post-financial crisis rebound in 2010 and well above the ten-year average annual growth of 5.5%.

Recent years have seen tourism and travel growing at a faster pace in GDP growth terms than both the wider economy as well as other key sectors. Significant sectors outperformed this year include the financial services, education and health care sectors. Direct GDP growth from tourism in 2015 outpaced economy-wide GDP growth in 127 of the 184 countries covered by the annual Economic Impact Research, which include Iceland, Japan, Mexico, New Zealand, Qatar, Saudi Arabia, Thailand, and Uganda.

The USA, UK and China led growth in arrivals during the year, with all world sub-regions experiencing GDP growth in tourism and travel in 2015. Southeast Asia achieved the strongest growth at 7.9%, ahead of South Asia's 7.4% and the Middle East at 5.9%, followed by the Caribbean (5.1%), Sub-Saharan Africa (3.3%), North America (3.1%), Europe (2.5%), Northeast Asia (2.1%), Latin America (1.5%) and North Africa (1.4%).

The sector faced challenges every year and this year was no exception. Volatile exchange rates, commodity and oil prices added to natural and manmade crises slowed outbound spending in line with sluggish overall world trade (6%) in 2015. Political and economic constraints in formerly dynamic markets like Brazil and Russia resulted in the depreciation of the Real and the Rouble against all major currencies, which substantially reduced outbound travel from those countries.

However, the economies of net oil and commodity importers in 2015 improved significantly due to falling commodity prices, which eased upward pressure on living costs, increased disposable household incomes and purchasing power, and lowered air fares. A main contributor to the surge in arrivals was lower air fares, which fell by about 5% due primarily to declining oil prices. Conversely, the downturn in oil prices caused contractions in the economies of net oil exporters, particularly Russia and the Middle East, and decreased commodity prices slowed down the economies of commodity exporting countries like Brazil and South Africa. The surge of the US dollar against other major currencies contributed to growth in the Americas, with United States outbound travel and tourism expenditure rising by 6.3% in 2015 as well as benefitted the Caribbean and Central America, both of which recorded growths of 7%.

But the strong dollar limited foreign travel into the U.S, which has put pressure on the country's economy.

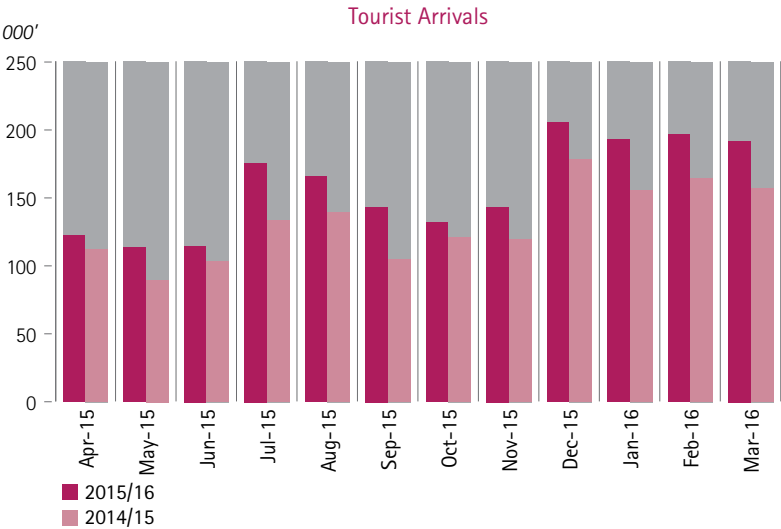
The growth in destinations of advanced economies was also more dynamic than expected. The Advance economies grew by 5%, marginally exceeding the 4% growth of emerging economies. Europe led growth in absolute and relative terms supported by a weaker euro against the US dollar and other main currencies, while Asia and the Pacific reported uneven results across destinations. Arrivals to the Middle East came in at a lesser 3% while the limited data available for Africa estimates a decrease of about 3% in that continent, due mostly to the weak performance of North Africa, which accounts for over a third of the arrivals in the region.

Although Asia was the fastest growing region in the world in terms of total GDP contribution to the tourism sector in the last decade, this growth slowed considerably in 2015 to 3.7%, from 6.7% in 2014. This was primarily due to weakness in Northeast Asia, despite the spectacular growth in outbound tourism from China in 2015, recorded at 67% for the year to September 2015. Chinese tourists seemed to prefer to travel outside the region, especially to countries which had relaxed visa restrictions. Europe received large numbers of Chinese visitors, as did UK and Germany, alongside emerging economies like Iceland. Australia and New Zealand also experienced strong growth from tourism in China. International arrivals to Japan were unaffected by the country's slump in economic growth caused by the economic woes of China, its largest trading partner. Japan's international arrivals surged by 47% in 2015, with international receipts growing by 36%.

The WTTC report shows that middle-class households and aging populations were the main contributors to the industry's growth. They have been taking advantage of the growing connectivity between destinations that makes travel more accessible and affordable. The rise in the world's middle-class population has changed the profile of the international traveller. They may not be very wealthy, but they do have disposable income to travel comfortably, and are growing increasingly selective in their choices of destination and facilities. Over 400 million people in emerging and developing countries are forecast to be upwardly mobile and join the middle class in the coming five years.

In terms of economic growth it should be noted that, despite the fact that the economies in some parts of the world, especially in the developing world in countries such as the United States, appear to be improving or at least not worsening, this trend may not hold for some emerging and developing economies. In the U.S. too, a low unemployment figure does not necessarily reflect a strong economy, but that millions of people have stopped actively looking for work. So low unemployment does not necessarily translate into the willingness on the part of the public to travel more.

Many economies may have improved considerably but growth is still subdued and unemployment remains one of the most pressing challenges. Tourism has the capacity to contribute even further to economic growth and job creation especially in developing regions. The sector is a key driver of employment around the world and this year supported about 284 million jobs, or 1 in 11 jobs globally. With more people travelling to more parts of the world, additional infrastructure is being built to accommodate their needs – more and better hotels, restaurants, leisure facilities like entertainment and sports, access roads, to name a few. This means that more people were employed to service the tourist. These jobs are directly or indirectly related to tourism and travel. A total of 7.2 million new jobs were also created as a result of direct, indirect and induced sector-related activity during the year, which includes 2.5 million new jobs created directly.



Its vast potential for rejuvenating the global economy has placed tourism high on the 2030 Agenda for Sustainable Development. In his message on World Tourism Day 2014, UN Secretary General Ban Ki-moon confirmed, 'Harnessing tourism's benefits will be critical to achieving the sustainable development goals and implementing the post-2015 development agenda.' In recognition of this capacity to contribute, directly or indirectly, to all of the goals, the UN has included tourism as targets in Goals 8, 12 and 14 of the Sustainable Development Goals (SDGs), in inclusive and sustainable economic growth, sustainable consumption and production, and the sustainable use of oceans and marine resources, respectively.

The robust results reflect the sector's resilience and ability to ride out market turbulence. This, coupled with continuous and sustained demand, make it a key driver of economic growth. That is not to say however, that unforeseen events had no impact on the sector's performance. The year saw a wave of terrorist attacks in many countries, including France, Egypt, Indonesia, Kenya, Nigeria, Thailand and Tunisia, coupled with health alerts on potential pandemics – Ebola, MERS and the most recent Zika virus, but although tourism to those countries fell in the short term, tourists travelled to alternate destinations.

Constraints

Issues of safety and security remain key priorities to address, as do several other issues that could derail the industry if not addressed. These include: Political instability. Now a major concern in Africa, Latin America, the Middle East, Europe, and North America. Latin America still suffers from high levels of crime and drug trafficking, in addition to political and economic instability has created wide-spread concern of the country's ability to gear itself to provide

Management Discussion & Analysis Contd.

the massive resources required for holding the Rio Olympics in the following year. Europe's refugee crisis is another issue that is threatening to destabilise economies.

Health

There is an interrelationship between travel and the spread of a pandemic. The Ebola case should put the tourism industry on notice as this is the first time in many decades when banning travel from one part of the world to another has been seriously discussed. The SARS scare should remind how a few stories in the media could wreak havoc on the viability of the industry. There is also the concern that an uneasy public may connect a health event with a potential act of terrorism. The anthrax episodes in Washington, DC is a case in point.

Fuel Costs

Tourism and travel depend heavily on the cost of fuel. As discussed, the recent fall in the price of fuel such as gasoline has reduced air fares, which was a major reason for higher arrivals globally. Fluctuating oil prices have also impacted the spending power of the countries, which ultimately have a bearing on their propensity to travel.

Visa Restrictions

Many developed countries impose high visa fees and strict visa conditions for travellers especially from developing countries. Close to 18% of tourists were able to travel to a destination without a visa in 2015, while another 15% received a visa on arrival and 6% were able to obtain e-Visas.

Cybercrimes

This has become a major global issue. Credit cards could be stolen and used. Cyber-attacks and privacy issues are major concerns as large corporations such as hotel chains and airlines are vulnerable to online infiltration and attack.

The Cost of Credit

Because the main travelling segment is middle class and make the bulk of purchases for expendable items on credit, changes in interest rates will influence their purchase decisions. They usually travel on a specific budget, which means that they may tend to hold back on what they consider luxury items if there is a major rise in taxes or other costs.

Poor Customer Service

The travelling public is learning to demand more and seek alternatives to those businesses that provide poor customer service. Unfortunately, the "getting there" has become part of the "being there," and airlines head the list in poor customer service. Other parts of the tourism industry should also reconsider the quality of the service they provide. For instance, hotels that charge for water or Internet services may cease to be popular when there are better alternate accommodation options available.

Dearth of Skilled Labor

Tourism needs people who are inspired and well trained. Yet, too few people in the industry speak multiple languages or are proficient in computer skills. This lack of education creates lost opportunities and the inability to adapt to new challenges. Many front line workers have low levels of job loyalty and change jobs frequently for better prospects within the industry. This high turnover

makes training difficult and information inculcated is usually lost on departure. To make matters even more challenging, these are often the people with whom visitors mostly come into contact with.

Over regulation of the industry due to short sighted policies and directives imposed by governments puts tourism in jeopardy.

Poor infrastructure. Substandard sanitation, water and other amenities, or overpaying for amenities loses tourism business.

Financial conditions. Ups and downs of the financial markets impact tourism. When the stock markets tend to rise, people feel wealthier and are more willing to spend money on leisure activities.

These concerns confirm the fact that the collective capacities of governments in tourist destinations must focus on measures to promote safe, secure and seamless travel in the future. One way forward is to include tourism administrations in national security planning, structures and procedures, not only to ensure that the sector's exposure to threats is minimised but also to step up the sector's ability to support security and facilitation.

The new heights reached in international tourism underscores the sector's invaluable role in contributing to economic growth and job creation in many parts of the world. It is therefore critical for countries to promote policies that foster the continued growth of tourism, including travel facilitation, human resources development and sustainability.

Prospects for 2016

The UNWTO Confidence Index remains largely positive for 2016, though at a slightly lower level when compared to the previous two years. Based on this outlook and the current trend,

UNWTO forecasts the growth of international tourist arrivals by 4% worldwide in 2016, and that this growth will outpace global economic growth.

Forecasts predict that the sector will achieve a growth of 3.3% in 2016, a marginal increase of 0.5% over the 2.8% growth in the current year. This is driven by improved household purchasing power due to the low oil prices expected to persist throughout 2016 as well, which will enable lower air fares to spur continued growth in international arrivals. However, low oil prices will have an adverse impact on oil exporting countries which will lead to volatility in markets and weaker economic performance in these countries, which will adversely affect tourism.

All major components of the tourism and travel sector are expected to grow faster in 2016 than in 2015. Investment is forecast to grow by 4.7%, domestic and international tourism and travel spend is forecast to grow by 3.3% and 3.0% respectively.

The strength of the US dollar relative to other currencies will continue to influence travel trends in 2016, and all other economies with currencies pegged to the US dollar including destinations like Hong Kong, Qatar, Saudi Arabia and the UAE, will remain relatively more expensive tourism destinations. But the strong currency will increase the international purchasing power of their citizens. Key destination markets for US travellers, including the Americas and Europe, will continue to enjoy the largest benefit as tourists seek more affordable travel options.

Tourist Receipts of the top six destinations (2012 – 2018 US \$ Billions)

Country	Receipts 2012	Rank	Receipts 2015	Rank	Receipts 2018 ***	Rank
United States	163.2	1	184.8	1	208.1	2
China	50.0	2	64.8	3	77.5	3
Macau SAR	43.7	3	109.5	2	269.9	1
Australia	31.5	4	41.5	5	53.7	5
Hong Kong SAR	31.2	5	42.0	4	46.6	6
Thailand	30.1	6	40.9	6	55.4	4

*** 2018 figures are estimated.

All regions are expected to experience growth in direct tourism and travel in GDP terms in 2016, except Latin America (-0.5%) due mainly to the performance of Brazil which is Latin America's largest economy and accounts for about half of the country's tourism and travel GDP. Brazil is expected to continue to experience political and economic upheaval and dampen prospects for the region as a whole. However, destinations like Chile and Colombia are expected to gain from Brazil's weaknesses, and are predicted to grow substantially in 2016.

Asia and the Pacific are predicted to record the highest growth in tourism, of between 4% and 5%, alongside the Americas (+4% to +5%), followed closely by Europe (+3.5% to +4.5%). The projections for Africa (+2% to 5%) and the Middle East (+2% to +5%) are positive, but there could be more uncertainty and prove volatile.

Regional Prospects

Tourism growth prospects in the region look bright over the next few years. Visitor arrivals to the Asia Pacific region are forecast to grow at an average annual rate of 6.2% between 2014 and 2018 to reach 660 million by 2018.

Northeast Asia will maintain its dominant position in the inbound market of the Asia Pacific, but its market share will fall from 51% in 2012 to 48% by 2018 due to the expansion of Southeast Asia.

Hong Kong SAR is predicted to surpass the USA to be the second largest inbound destination in Asia Pacific in 2017.

India is forecast to grow at a robust pace of 7.8 percent. The country grew at its fastest pace since 2010, overtaking China to become the world's fastest growing major economy in 2015. The country's new-found prosperity was fuelled by lower prices of oil imports on which India relies heavily, on and lower commodity prices that helped improve corporate profits and increase domestic disposable income. This has prompted more Indians to seek travel opportunities not only within the region but also in developed countries that have less stringent visa regulations.

Growth in China is expected to slow to 6.3 percent in 2016 and 6.0 percent in 2017, primarily reflecting weaker investment growth as the economy continues to re-balance. Some countries in the region will face strong headwinds from China's economic re-balancing. Despite the economic downturn, China's potential for outbound travel has increased.

Management Discussion & Analysis Contd.

Top Five Fastest Growing Nations in Tourism in Asia

Country	AAGR % 2014 - 2018	AAGR % 2008 - 2012	AAGR % 2008 - 2018
Thailand	27.5%	11.2%	18.5%
Myanmar	17.7%	32.4%	25.5%
Cambodia	13.2%	15.7%	15.1%
Bhutan	12.9%	12.3%	11.7%
Lao PDR	11.6%	17.7%	15.7%

International Visitor Arrivals to Southeast Asia

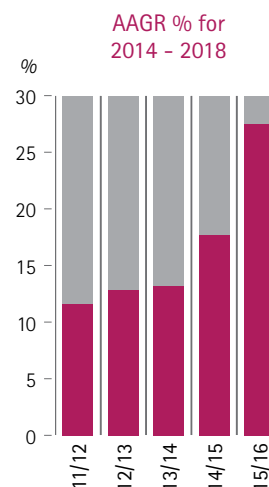
Year	Arrivals (Mn)
2012	88
2013	97
2014	105
2015	115
2016	128
2017	147
2018	173

*** 2016, 2017 and 2018 figures are estimated

International Visitor Arrivals (Millions)

Year	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand
2012	3.6	7.9	3.3	25.0	0.6	4.1	14.5	22.3
2013	4.3	8.3	3.9	26.2	0.8	4.4	15.6	26.5
2014	5.0	8.7	4.6	26.9	1.0	4.5	16.1	30.1
2015	5.7	9.1	5.3	27.7	1.2	4.8	16.7	36.0
2016	6.5	9.6	5.9	28.7	1.4	5.0	17.4	44.9
2017	7.4	10.0	6.6	29.7	1.6	5.3	18.0	58.5
2018	8.2	10.7	7.2	30.7	1.9	5.5	18.7	79.6

*** 2016, 2017 and 2018 figures are estimated



Sri Lanka Initiatives and Challenges

Tourist arrivals reached an all-time high of 1,798,380, close on target to the 1.8 million arrivals planned for 2015. According to the Sri Lanka Tourism Development Authority, earnings from tourism saw a 17.8% growth during the year under review and brought in US\$ 2,981 million. According to the World Travel and Tourism Council (WITC), the direct and total contribution of the country's tourism and travel sector to GDP and employment is much higher than the World and Asia Pacific averages.

Tourist Arrivals to Sri Lanka in 2015 / 2016 compared to the 2014 / 2015

	2015 / 2016	2014 / 2015	Change %
April	122,217	112,631	9%
May	113,529	90,046	26%
June	115,467	103,175	12%
July	175,804	133,971	31%
August	166,610	140,319	19%
September	143,374	105,535	36%
October	132,280	121,576	9%
November	144,147	119,727	20%
December	206,114	178,672	15%
January	194,280	156,246	24%
February	197,697	165,541	19%
March	192,841	157,051	23%
Total	1,904,360	1,584,490	20%

Sri Lanka has been classified as the most competitive geographical area in the Asia/ Australia/ Oceania region. This is a step in the right direction for further growth and development of the industry in Sri Lanka, and should be capitalised on in the coming years to lure the higher end tourist to the country.

The country continues to showcase its presence at international travel fairs and exhibitions, and also works on destination marketing in countries which have a high potential for tourism. The government is keenly committed to growing the industry, and has set out a strategic direction for attaining its sustainable development in the near future. The Sri Lanka Promotions Strategy 2015 was introduced during the year with public-private partnership, and incorporates new thinking by key industry professionals to grow tourism in Sri Lanka. The Strategy targets a record 2.5 tourist arrivals in future years.

Political and economic constraints in formerly dynamic markets like Brazil and Russia resulted in the depreciation of the Real and the Rouble against all major currencies, which substantially reduced outbound travel from those countries.

Management Discussion & Analysis Contd.

Although Sri Lanka embarked on an aggressive expansion and refurbishment plan for its 'Destination Sri Lanka' campaign, the country still lacks the necessary infrastructure to accommodate an excess of arrivals. The Sri Lanka Tourism Promotion Bureau estimates that Sri Lanka will host about 2.2 million tourists in 2016, but the sector is presently under-equipped to meet between 10,000 and 20,000 additional rooms that this increased inflow would need.

Despite the significant growth in tourist arrivals during the year under review, the average occupancies in the major hotel companies recorded a marginal drop compared to the previous year. The newly opened hotels in both the formal as well as informal sectors are mainly responsible for this drop.

One of the biggest challenges faced by the industry is that although registered hotel properties in the country number less than 400, the statistics of private sector hotel booking companies confirm the presence of over 2,600 unregistered hotels and guest houses, which are massive 2,200 unregulated properties. Lack of a regulatory mechanism for the industry poses a serious threat to the sustainable and efficient use of resources and leads to negative social, environmental and cultural consequences that could jeopardise the future of tourism in the country.

Growth in tourist arrivals to Sri Lanka (Last four financial periods)

Year	Number of tourist arrivals	YOY Growth
2012/2013	1,082,799	14%
2013/2014	1,358,335	25%
2014/2015	1,584,490	17%
2015/2016	1,904,360	20%

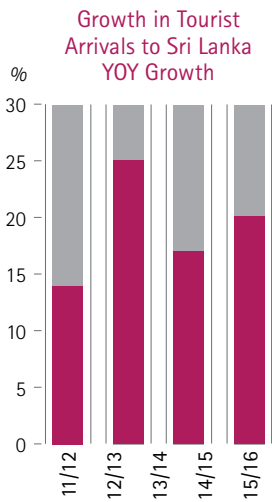
It is imperative that the government takes steps to regulate the sector, as sustainable tourism practiced by a handful of hotel operators will not have the desired impact. Infrastructure also needs to be stepped up urgently if the country is to benefit from the positive fallout of this sector which, if adequately regulated and equipped, could well be an answer to Sri Lanka's economic woes.

The Company

Overview

Performance and methodology, key areas of focus in the future

The Fortress Resort & Spa positions itself as an exclusive small luxury hotel that offers the discerning traveller a uniquely personalised and memorable guest experience that inspires him to re-visit the hotel to experience more of the same. This service mantra is based on the principle that every customer has their own unique definition of value, and is carried out by a highly trained staff schooled in the secrets of providing this authentic experience. The value that the hotel places on its guests is translated into product offerings of the highest quality, which range from renowned international brands in room amenities to select furniture and furnishings throughout the facility.



The hotel has also established a reputation for providing an eclectic array of cuisine that satisfies the most discerning palate, and prides itself on its innovative menus inspired by the bounty of the Indian Ocean and garnished with delectable fare from the hotel's own organic garden and village gardens in the vicinity. Its team of well trained and experienced chefs are also equipped to meet the culinary preferences of guests whose meal preferences extend to fare not featured on the menu, and are adept at catering to vegans, vegetarians as well as those with special food requirements.

The fact that the hotel's Executive Sous Chef was awarded the gold medal at the Bocuse d'OR' culinary art competition conducted by Bocuse d'OR' Sri Lanka, surpassing all major star class hotels in the country, confirms the superiority of its cuisine. The Sous Chef participated in the first leg of the international competition in Singapore in April 2016, held to select the most promising young chef of the Asia-Pacific area. The finalists from the competition in Singapore will travel to Lyon, France, to with each other for the prestigious title. The Company is investing close on Rs. 3 million for training and preparation work on this.

The fact that the hotel has a high percentage of repeat guests, some of whose comments are recorded elsewhere in this Annual Report, confirms the success of its facilities.

All departments of the hotel are committed to improving service levels in order to keep service and product offerings at the highest standards. Corrective measures are taken immediately wherever necessary to bridge perceived gaps and address weaknesses. Training and development is seen as being a mandatory requirement for delivering goals.

Revenue

The year under review was a challenging one, which posed difficult market conditions. Competition increased, especially from new entrants in both the formal as well as informal sectors, more so after the opening up of the East coast of the country which saw new and star class facilities offering cheaper accommodation. This resulted in occupancy falling below targeted levels, from a budgeted 72% occupancy to only 67% at the end of the financial year. The depreciation of the LKR was another key factor that eroded revenue, as the hotel depends heavily on luxury imports to maintain the quality and comfort of the property. These factors resulted in a drop in revenue in all divisions save sundry revenues.

Area	15 / 16 Actual Rs.	15 /16 Budget Rs.	14/15 Actual Rs.
Accommodation revenue	433,651,638	459,084,254	441,182,931
Food revenue	154,471,103	174,256,132	157,492,613
Beverage revenue	58,576,084	62,161,471	60,944,625
Spa revenue	25,780,168	28,031,139	27,356,394
Sundry revenue	30,887,371	29,308,575	28,952,799
Total revenue	703,366,367	752,841,571	715,929,363

A marginal increase was observed in the average room rate (ARR) of 4%, but the hotel failed to achieve forecast room revenues due to the 4% drop in occupancy which impacted room revenues. The increase of 2% above projected figures can be attributed to the support generated from online booking agents, whose rates are usually higher than those of tour operators. Therefore, the ARR recorded through the online systems was Rs. 37,547 (US \$ 264), which is 9% higher than the regular ARR. The increase in ARR generated through this stream was by Rs. 580 per room night, a 1.6 % increase against last year's recorded online ARR.

ARR generated from local DMCs also increased, by 3%, from Rs. 38,385 to Rs. 39,536, the UK market being the primary contributor, which was a 8% increase, from Rs. 26,796 to Rs 28,830.

Unexpectedly, the Eurozone showed positive growth after several years, and brought in a total room revenue of Rs. 23 million compared to the previous year's figure of Rs. 21 million, an increase of almost 10%. Tourists from Britain clocked in the highest number of 5,425 room nights, Germans stayed at the hotel for 1,085 room nights, and other continentals from France, Austria, Switzerland, the Netherlands, Belgium and Italy, stayed a total of 1,192 room nights. The hotel is now much more in continental markets following the devaluation of the Rouble and the increase in value of the American, Australian and Swiss currencies, and is projecting higher growth from this segment in the coming years. The opening up of the market saw a more diversified customer base from South East and East Asia as well. In the East European market, Russia in particular proved lucrative. The hotel hosted many Russian guests from late December to mid -January due to the celebration of the Russian

Management Discussion & Analysis Contd.

Christmas a fortnight after the traditional Christmas celebrations. Russians occupied the hotel for 204 room nights this year, and Americans stayed 571 nights.

Area	15 /16 Actual	15 / 16 Budget	14/15 Actual Rs.
Rooms Division			
Occupancy	67%	72%	71%
Room nights sold	12,902	13,960	13,705
Average room rate (ARR) Rs,	33,609	32,886	32,191
Average room rate (ARR) \$	242	238	248
Room revenue Rs,	433,651,638	459,084,254	441,182,931

Performance During the Year

Heavy competition provided by the massive and unregulated development of the informal sector in the area was the main drop in occupancy and revenues during the year. However, despite a drop of 4% in occupancy during the year when compared with the previous year, the Company was able to successfully maintain last year's profitability levels due to a commendable increase in financial income which helped bridge the gap.

The Company recorded profit before tax (PBT) of Rs. 246.45 million and profit after tax (PAT) of Rs. 187.42 million during the year, as against Rs. 234.06 million and Rs. 189.82 million respectively recorded in 2014/15, which was a satisfactory increase of 5% in PBT and a marginal drop of 1.26 percent in PAT when compared with previous year's figures. This commendable situation was mainly due to a 100% growth in finance income, from Rs. 21 million in 2014/2015 to Rs. 42 million in 2015/2016.

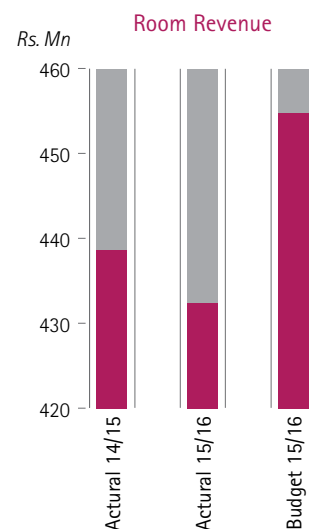
The Company paid its first dividend (10%) to Shareholders during the year, after nine years in business. The total amount paid out was Rs. 110.8 million, more than 50% of the profits earned during the year.

Analysis of Financial Position

The financial position of the Company is strengthening year by year, after a decline of some years previously. The asset base is monitored regularly to ensure that it generates sufficient earnings for the Company. The Company has now reached a situation of no debt in the statement of financial position, which confirms its ability to continue operations into the foreseeable future and hence, endorses adoption of the concept of a going concern.

Review of Assets

The Company's asset base increased from Rs. 1,534.23 million in 2014/15 to Rs. 1,638.87 million in 2015/16, recording a growth of 6.82 percent. This increase was due to the rise in short term investments by 35.80 percent to Rs. 550 million in 2015/16 from Rs. 405 million in 2014/15.



The rise in interest earning assets by 35.80 percent during the year has helped increase the total asset base of the Company by 6.82 percent. Fixed assets declined in 2015/16 by Rs. 75.04 million against 2014/15, mainly due to the depreciation charge of Rs. 98 million during the year.

Asset deployment and composition

Composition of assets (Rs. million)	2015 / 16		2014 / 15	
	Amount	Composition (%)	Amount	Composition (%)
Property , Plant & Equipment	968.65	59.10	1,043.69	68.02
Intangible Assets	3.62	0.22	3.57	0.23
Inventories	18.98	1.16	18.20	1.19
Trade and Other Receivables	37.37	2.28	44.17	2.88
Advances and Prepayments	30.37	1.85	16.23	1.06
Income Tax Receivables	0.14		0.14	
Short Term Deposits	475.77	29.03	105.00	6.84
Cash and Bank Balances	103.97	6.34	303.30	19.77
Total Assets	1,638.87	100.00	1,534.31	100.00

Fixed assets represent the higher composition in the asset base which is the norm for the hospitality industry. The hotel building, along with fixtures, fittings, plant and machinery, and electrical equipment, comprises a major part of this. During the year, the Company invested Rs. 25.30 million in fixed assets to further upgrade guest facilities and raise service standards even higher.

Short term deposits showed dramatic increases over the past year as we converted most of our deposits from a three month period to six months. We also utilised the excess cash to invest in short term deposits during the year. Cash and Cash equivalents showed a decrease over last year since we rescheduled three month maturity deposits to six month maturity deposits.

Trade and other receivables came down to Rs. 37.37 million in 2015/16, from Rs. 44.17 million in 2014/15, with a 15 percent reduction when compared to last year. This was mainly due to strong controls on the collection and recovery of debts.

Inventories did not show significant increases over the past year, which indicates efficiency in inventory management.

Advances and prepayments went up to Rs. 30.37 million in 2015/16, from Rs. 16.23 million in 2014/15. The main cause for this is the advanced payments made to some suppliers in the latter part of the financial year for importing new furniture as part of the renovation programme for next year.

Tourists from Britain clocked in the highest number of 5,425 room nights, Germans stayed at the hotel for 1,085 room nights, and other continentals from France, Austria, Switzerland, the Netherlands, Belgium and Italy, stayed a total of 1,192 room nights.

Management Discussion & Analysis Contd.

Review of Liabilities

Total liabilities increased to Rs. 158.17 million, from Rs. 130.15 million during the last financial year. This was an increase of 21 percent which amounted to Rs. 28.02 million. This rise was due to increases in the expenditure on trade and other payables plus taxes over the previous year's figures, by Rs. 13.97 million and Rs. 14.98 million respectively.

Interest bearing loans and borrowings decreased to Rs. 6.45 million from Rs. 16.11 million in the last year. These borrowings represent finance lease liabilities to the banks obtained to finance guest transport vehicles. These liabilities will be fully paid off during the coming financial year.

Review of Equity

Equity (Rs. Million)	2015/16	2014/15	Change	Change (%)
Stated capital	1,108.87	1,108.87	-	-
Retained earnings	371.83	295.30	76.53	25.92
Total	1,480.70	1,404.17	76.53	5.45

The Company continues to be well capitalised, with total Shareholders' funds growing by 5.45 percent during 2015/16 to reach Rs. 1,480.70 million, compared to last year's Rs. 1,404.17 million. The Company's strong profit generation strengthened the Shareholders' funds.

The stated capital of the Company at the end of the financial year was Rs. 1,108.87 million, represented by 110,886,684 ordinary shares. The Company did not carry out any share issues during the year.

Retained earnings were Rs. 371.83 million and grew by a significant 26 percent when compared to last year's figure of Rs. 295.30 million. The current retained earnings are after paying Rs. 110.8 million as interim dividend to the Shareholders in December 2015. This dramatic growth in retained earnings was mainly due to the moderate growth in profits.

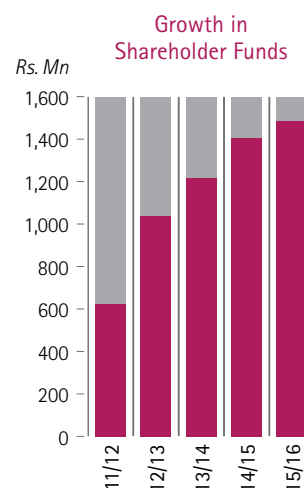
Equity (Rs. Million)	2015/16	2014/15	2013/14	2012/13	2011/12
Stated capital	1,108.87	1,108.87	1,108.87	1,108.87	1,108.87
Retained earnings	371.83	295.30	105.89	(70.78)	(484.99)
Total	1,480.70	1,404.17	1,214.76	1,038.09	623.88

Analysis on Statement of Cash Flows

As at 31 March 2016, the balance of favourable cash and cash equivalents stood at Rs. 99.99 million, compared to Rs. 299.65 million during the past year. Deposits matured in less than 3 months in the last year were converted to 6 month maturity deposits during the current year, so the balance in cash and cash equivalents during the year under review showed a lesser figure when compared to the previous year's figures.



Retained earnings were Rs. 371.83 million and grew by a significant 26 percent when compared to last year's figure of Rs. 295.30 million. The current retained earnings are after paying Rs. 110.8 million as interim dividend to the Shareholders in December 2015.



Cash Flows from Operating Activities

Net cash flows from operating activities amounted to Rs. 276.16 million, compared to last year's net cash inflow of Rs. 289.15 million.

Cash Flows from Investing Activities

This has shown a negative movement to Rs. 354.95 million from a positive flow of Rs. 47.82 million in the last year. The main reason for this was due to net movements of Rs. 360 million in investments during the year under review.

Cash Flows from Financing Activities

Net cash flows used in financing activities went up to Rs. 120.86 million in 2015/16, against Rs. 56.37 million in the last year. The dividend payment of Rs. 110.8 million led to this significant variance in financing activities during the year.

Direct Economic Value Generated and Distributed

The following table indicates wealth generated from the Company's activities and its distribution among key stakeholders.

Item	2015/16 Rs. Million	2014/15 Rs. Million
Direct economic value generated		
Revenue	672.48	686.98
Economic Value Distributed		
Operating cost	272.47	289.77
Employee wages and benefit	113.05	94.70
Payment to providers of capital	110.89	-
Payment to government	58.69	44.23
Economic value retained	117.38	258.28

// The company continues to be well capitalised, with total shareholders' funds growing by 5.45 percent during 2015/16 to reach Rs. 1,480.70 million, compared to last year's Rs. 1,404.17 million. The company's strong profit generation strengthened shareholders' funds.



Management Discussion & Analysis Contd.

Significant Key Performance Indicators related to Departmental Performance

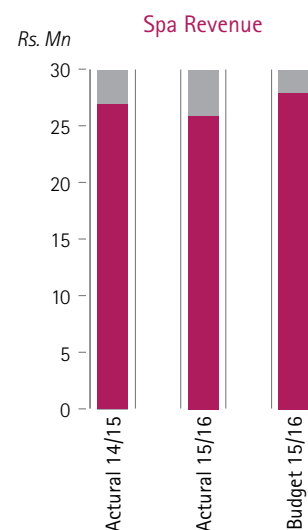
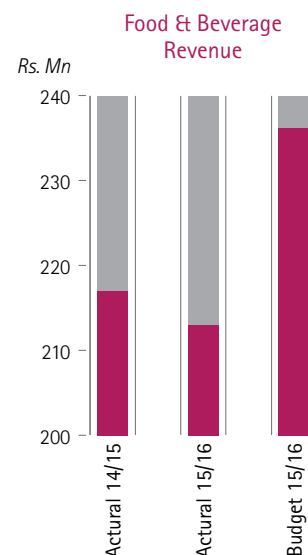
The F&B segment, despite the lower occupancy and lesser guest count this year, increased by 7%, with per room night F&B revenue also increasing by a marginal 3.6 %. This healthy revenue is due to the hotel's innovative offerings and the service excellence of the F&B staff, but the pressure of escalating prices had a cascading impact on F&B revenues as well.

Area	15 / 16 Actual	15 / 16 Budget	14/15 Actual
Food & Beverage			
Number of Guests	25,080	27,917	27,018
Number of Room Nights	12,902	13,960	13,705
Food & Beverage Revenue Rs.	213,047,190	236,417,603	218,437,238
F & B Revenue per Guest Rs.	8,495	8,469	7,919
F & B Revenue per Occupied Room Rs.	16,511	16,935	15,939

The Spa is one of the best in the locality, with superior facilities and a highly trained spa team. The drop in occupancy also impacted this decline in revenue against forecasts. Spa revenue per guest showed a marginal increase of 2%, from Rs. 1,028 from the previous year's Rs. 1,012, and spa revenue per occupied room also increased to Rs. 1,998, from Rs. 1,996 in the previous year. Spa revenue did not meet forecast figures due to the somewhat challenging conditions, but it is noteworthy to mention that the spa successfully maintained a satisfactory capture ratio, despite the 1% drop due to less occupancy.

Area	15 / 16 Actual	15 / 16 Budget	14/15 Actual Rs.
Spa			
Number of Guests in the Hotel	25,080	27,917	27,018
Number of Guests in the Spa	2,699	2,800	3,262
Capture Ratio	11%	10%	12%
Spa Revenue Rs.	25,780,168	28,031,139	27,356,394
Spa Revenue per Guest Rs.	1,028	1,004	1,012
Spa Revenue per Occupied Room Rs.	1,998	2,008	1,996

Excursions and transfers did not perform as well as in the previous year, and saw a drop of 21% as a result of increased market competition and the advent of luxury bus transportation for leisure activities.



Wedding revenues did fall short of budgeted figures, but this was experienced by nearly all resort properties in the country due to the stringent procedures for foreigners who travel to Sri Lanka for their weddings. Given the government's past promotional campaigns to position the country as a wedding destination, this change in regulation needs to be re-looked at if the industry is to capitalise on this lucrative business segment.

Laundry income showed a significant increase of 129% against the budget, to Rs. 4.9 million in the current year, from 0.7 million in the previous year, which was a 115% increase against last year's revenue. This increase was due to laundry services provided to guests staying at neighbouring villas, a hitherto unnoticed market that was successfully accessed during the year under review.

Boutique shop revenues were also below par, and experienced an almost 26% drop against the budget and a 20% drop compared to last year's sales. The main reasons for this shortfall was the loss in occupancy and competition from major shops in the vicinity.

Area	15 /16 Actual Rs.	15 /16 Budget Rs.	14/15 Actual Rs.
Sundry Revenues			
Rent Income	5,783,784	5,745,550	5,745,550
Excursions & Transfers	9,692,362	12,670,567	12,308,942
Weddings (Guest Weddings)	1,288,034	2,478,088	2,673,636
Laundry Income	7,232,027	3,157,612	3,364,000
Boutique Shop	2,722,886	3,674,296	3,431,681
Others	4,168,278	957,325	1,477,809

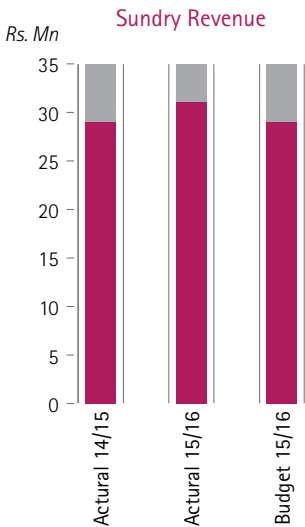
Key Areas of Focus

The Room Care Programme has been very effective, and all rooms are repaired and refurbished during off peak periods to ensure maintenance of their exceptional quality. Room care is also an ongoing process and is carried out unobtrusively even during the guest's stay, to ensure maximum standards of quality and comfort.

To maintain its reputation of luxury and elegance, the hotel continues to invest in the property to enhance guest facilities. Rs 25 million was spent for the purpose this year. Next year, the interiors of the guest rooms will be upgraded at an investment of Rs. 150 million, while an additional Rs. 30 million has been budgeted for repairs and maintenance.

The Teppanyaki dining concept was introduced to the recently launched New Heat restaurant, which is fast becoming a popular choice among in-house as well as outside guests.

The hotel maintains its competitive edge in service excellence because of the skill and competencies of its team. These skills are continuously fine-tuned and upgraded to be on par with the best levels



Management Discussion & Analysis Contd.

of service in the industry. One of the unique aspects of the authentic guest experience provided, is the butler service for high end rooms. The butlers received a refresher course this year from the prestigious Australian Butler Academy to fine-tune their skills, at an investment of Rs 1.4 million. Communication skills in English were also enhanced during the year, with an effective English Language programme conducted by the British Council at a total investment of Rs 1.5 million.

Methodology for Assessment

The hotel follows the methodology of the Balanced Scorecard, which identifies opportunities for improved performance using continuous feedback on key business processes and external outcomes. This forms the blueprint for mapping its strategic outlook. The Balanced Scorecard looks not only on quantitative elements arising from lessons learnt, but also considers processes, customers and human resources for building a holistic organisation.

The table below gives the Company's strategic outlook based on the Balanced Scorecard, which identifies the four- pronged strategy of financial, internal business, customer and learning and growth.

Financial Perspective	Internal Business Perspective	Customer Perspective	Learning & Growth Perspective
<ul style="list-style-type: none">• Increase Revenue• Trim Cost Structure• Mitigate the Cost of Funds• Enhance Profitability• Strengthen Balance Sheet• Create Shareholder Value	<ul style="list-style-type: none">• Improve Employee Productivity• Strengthen Performance based Recognition and Reward system• Greater Prominence in Web Marketing• Enhance Sustainable Measures• Compliance to Best Corporate Governance practices	<ul style="list-style-type: none">• Grow Global Reach• Increase Market Share• Ensure Customer Satisfaction• Grow Brand Image	<ul style="list-style-type: none">• Enhance Skills & Talents• Improve the Learning Culture• Grow Human Capital

The methodology enables the hotel to do an internal business analysis of strengths and weaknesses to devise the strategy that will meet its goals.

Undisputable strengths include a strong brand image built on a solid financial reputation. The accolades of the large numbers of repeat customers and the skills and dynamism of its staff are also strengths that we will continue to build on.

Weaknesses focused on include staff turnover, which is common in the highly competitive hospitality industry. Region and local competition will intensify in the next few years, which places pressure on staff retention. A better web and social media presence is also vital to capitalise on strengths. Added to this is the lack of resources to push the 3R concept further, the need to further reduce the hotel's carbon footprint as well as a lack of global certifications to add more emphasis to its green philosophy.

The volatility of the forex market is another factor the hotel will need to contend with, when budgeting for food and materials.

There are, however many opportunities that could offset these threats – a resilient Sri Lankan economy; the government's support of the industry; the positive growth in tourism and travel in the global economy; the presence of new emerging markets like China and India which have vast potential for tapping; new niche markets like wellness that provide potential for access. These, then, could position the hotel as a key earner of valuable foreign exchange, a creator of much needed jobs, and contributor to vital infrastructure.

Strategies for Future Success

From a financial perspective, The Fortress Resort & Spa has targeted to achieve Rs. 225 million as its bottom line next year, while continuing to maintain product and service levels. Several strategies are in place to achieve this target.

The country is poised on the threshold of a new era in tourism as it prepares to welcome a projected 2.2 million arrivals during the coming year. The hotel has in place carefully designed strategies to absorb the high net worth

customer from this influx, and will continue to maintain the hotel in its premier market position as offering sustainable luxury to the customer who is well prepared to pay for the experience.

The hotel has in place people and business strategies devised to achieve its short to medium and long- term goals.

Its people strategy is based on retaining and strengthening its existing customer base, keeping in mind that the traveller of tomorrow will be more discerning, more demanding, and willing and able to try new experiences. The hotel's people strategy in terms of staff retention is based on continuing to maintain its position among the industry's best in terms of remuneration, rewards and personal and professional training.

The hotel has introduced the strategy of training school leavers on hotel management to bridge perceived gaps in the employment market which faces a dearth of trained staff in the industry. This will continue.

Business strategy includes new approaches to access niche markets, as well as to expand business to new venture in other localities, while pursuing prudent initiatives to manage costs and minimise waste.

A massive renovation programme will be undertaken next year, to substantially upgrade guest rooms to a level over and above industry expectations. Guest room furniture will be replaced with designer items and various other enhancements will be effected to provide the guest with the luxury and comfort they come for. This will give the hotel the competitive advantage in the present competitive climate.

The hotel will further develop its online presence in the short term. The hotel generates about a third of its revenue through the web, and steps have already been taken to capitalise on this. A training programme on online revenue management was conducted for reservations staff by E cornel University USA, at a cost of Rs. 0.7 million, and two staff trained in reservations obtained their diplomas during the year.

Additional theme nights will be implemented in the F & B area, which are both instructive and entertaining to guests, and have huge potential for promoting the country.

Longer term strategies, too will include further expansion into new markets, while seeking alternative methods to reduce cost moving towards implementing strategies to introduce renewable resources into the business, reduce the hotel's carbon footprint and set the benchmark for green tourism.

The hotel will continue to invest in the brand in the future, to reinforce its attractiveness to the high end market segment and stay abreast of new innovations in the industry. Based on presently available facts and figures, the Company is confident of its high potential to contribute to the industry's growth well into the future.

// From a financial perspective, The Fortress Resort & Spa has targeted to achieve Rs. 225 million as its bottom line next year, while continuing to maintain product and service levels. Several strategies are in place to achieve this target. //





*A Romantic
Getaway*

An idyllic and charming abode
simply perfect for all your
romantic endeavors.

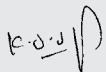
Sustainability Report

This report details the diverse ways in which we harness our strengths to deliver sustainable growth for the long term progress and development of the hotel and its stakeholders.

Managing our triple bottom-line, better known as working with the impacts of people, profits and planet, is an integral part of who we are and what we do. The Fortress Resort & Spa is committed to the principle of sustainable development which, as defined by the World Council for Economic Development, "meets the needs of the present without compromising the ability of future generations to meet their own needs." We follow best practices on key issues like social equity (addressing poverty, community issues and health), economic efficiency (promoting innovation, prosperity and productivity in all aspects of our operations), as well as support the well-being of the environment (introducing initiatives that mitigate the effects of climate change).

We have an iconic brand. Although this is only our third Sustainability Report, we have been introducing sustainable initiatives to all areas of our operations since our inception nine years ago, at a time when many other hotels hesitated to transition into eco-friendly practices due to perceived increases in capital costs, regardless of the long-term returns on investment. But our hotel sought, and continues to seek, new and innovative ways in which to reduce our environmental footprint, while creating value for all stakeholders. This has had significant impact on the functional as well as operational areas of the hotel - the front office, reservations, housekeeping, food and beverage, catering, engineering and HR.

This 'People, Planet and Profit' approach to doing business has prompted us to look beyond the narrow confines of profitability and reach out in support of the people and the planet. But we cannot underplay the benefits that introducing sustainable practices to our business have had on our bottomline returns, which have had a positive effect on our topline as well. Our commitment to sustainability has given us the competitive edge, increased market share, and brought us more like-minded partners who prefer doing business with 'green' organisations like ours. This translates into substantial increases in Shareholder value. So, adopting sustainable business practices is a win-win situation all round.

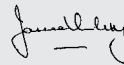


Dhammika Perera

The negative Impacts of human activities are seen at every turn, and as one of the world's largest industries, the hospitality industry is a key contributor to these problems. We must manage the environmental impacts of our actions while we continue to run a profitable business in line with the principles of environmental stewardship which will be of benefit to society. This is defined as sustainable hospitality management, a precept we rigorously follow. As an industry leader, we are committed to proactively pursue sustainable initiatives that endorse our reputation as an ethical and responsible corporate citizen who leads by example.

The hospitality industry has been undergoing significant changes during the recent past, as our guests, staff and suppliers are becoming more conscious of the importance of sustainable practices in all aspects of their lives. Until recently, many hotels hesitated to transition to more eco-friendly practices because of perceived increases in capital costs, despite its long ranging benefits. However, some green initiatives do not require high capital infusions, yet yield benefits that are over and above the initial outlay cost for instance. The year under review was a landmark year for the hotel because, in addition to many other green initiatives introduced, we started our first organic vegetable garden, which generates its own compost to fertilise the produce grown. The garden has now begun to feed our guests with its first yields of fruit and vegetables, and we are confident of a plentiful harvest in the years to come.

Today, more hotels in Sri Lanka as well as in other parts of the world are going green, and see the benefits of these practices in the short as well as long term. As a property that has been in the vanguard of this initiative, we commend their decision and have no hesitation in reiterating that sustainable business practices are the way forward to a productive and profitable future.



Sumith Adhihetty

Company and Report Overview – Content, Scope and Boundary, Approach to Sustainability, Report Content

This is the third Sustainability Report of The Fortress Resort & Spa. The report contains Standard Disclosures from the GRI G4 Sustainability Reporting Guidelines and covers data and initiatives carried out in the year ending 31 March 2016.

Company profile data reflects figures at the end of the financial year of 31 March 2016. Content and figures referenced in the Annual Report and Financial Statements have been externally assured by a third-party auditor.

Scope & Boundary

In the financial year under review, The Fortress Resort & Spa has selected 3.1 Level A GRI performance indicators on the basis of materiality for reporting purposes. These indicators cover economic, environmental and social performance during 2015/ 2016. The report covers the Company (The Fortress Resorts PLC), and its wholly owned subsidiary Company 'La Fortresse (Private) Limited,' which are the legally constituted entities for which the Company is accountable.

Our Approach

Sustainability, to us, is about integrating social, environmental and economic concerns into our values and operations in a transparent manner that ensures we are fully accountable for what we do.

Our blueprint for sustainability guides us on how we live out our mission, care for our staff and guests, invest in our communities, and minimise our impact on the planet. With these guiding principles, we evolved our approach to more effectively address some of the greatest risks to our environment and our people which, ultimately, influences the continuity of our business.

Terminology

As used in this report, the terms "The Fortress" "The Hotel," "The Company" "The Property" "The Facility" "We," "Our," and similar terms are used for convenience to refer The Fortress Resort & Spa, Koggala.

Company Profile

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 2016 comprise of the Company and its fully owned subsidiary "La Fortresse (Private) Limited" (together referred to as "the Group"). The Company has invested in its fully owned Subsidiary Company.

//
Managing our triple bottom-line, better known as working with the impacts of people, profits and planet, is an integral part of who we are and what we do.
//

Sustainability Report Contd.

Awards and Recognition

Our professionalism in all areas of the hospitality industry was validated this year too with the awarding of many local and international awards for the service excellence of our staff, the diverse areas of hospitality, and the stylish comfort and luxurious amenities provided in our star class facility which have contributed to an unforgettable guest experience and resulted in a high percentage of repeat guests and positive guest feedback. We do not rest on our laurels however, but continue to raise the bar of excellence to attain new heights of achievement.

Recognitions for Outstanding Instances of Exceptional Customer Service

Award Name	Received for	Award valid for	International / Local
Trip Advisor Travellers' Choice	Top Hotels in Sri Lanka	2015 / 2016	International
Trip Advisor Travellers' Choice	Top Hotels for Romance – Sri Lanka	2015 / 2016	International
Trip Advisor Travellers' Choice	Top Hotels for Exceptional Service – Sri Lanka	2015 / 2016	International
Crowns for Food Hygiene	Food Hygiene	02 June 2015	Local
Bocuse d'Or Sri Lanka 2015	Gold Medal Winner	2015/2016	Local
World Luxury Hotel Awards 2015	Continental Award Winner of the Indian Ocean for Best Luxury Spa Hotel	2015 / 2016	International
World Luxury Hotel Awards 2015	Winner of Best Luxury Boutique Hotel in Sri Lanka	2015 / 2016	International
International Hotel Awards 2016/2017 and International Five Star Hotel Standards in association with Rolls Royce Motor Cars	Winner of Best Small Hotel in Sri Lanka	2016/2017	International

Financial Capital

Economic Impact

In the highly competitive operating environment of today, the Company achieves profitability with transparent accounting procedures, strict cost management, risk prevention and controls, and by maintaining stable profitability levels throughout the period.

The year under review for The Fortress resorts PLC. was a difficult one, as the Company found it a challenge to sustain profitability at last year's levels due to the stiff market competition and adverse economic conditions that slowed growth industry-wide. Net profit before tax saw a moderate growth of 5% against the previous year, but profit after tax dropped by 1% against the previous year's figures. The higher tax rate applied (28%) on interest income and the dividend tax of 10% caused a significant increase of Rs, 14.46 million in income tax, which reduced profit after tax by Rs, 2 million against the previous year's figures.

Changes of Key Income Statement Items

Indicator (Rs. million)	2015/16	2014/15	Increase / Decrease	Variance
	Rs. Mn	Rs. Mn	Rs. Mn	%
Turnover	672.48	686.98	(14.50)	(2)
Sundry Income	30.89	29.49	1.40	4.7
Total Operating Income	703.37	716.47	(13.10)	(1.8)
Total Operating Expenses	498.84	503.44	4.60	1
Finance Income	41.98	21.04	20.94	99.5
Profit Before Tax	246.45	234.06	12.39	5.3
Income Tax	58.70	44.23	14.47	33
Profit After Tax	187.75	189.82	(2.07)	(1.0)
Total Comprehensive Income	187.42	189.40	(1.98)	(1.0)

Turnover dropped by Rs, 14.5 million as a direct result of the 4% drop in occupancy compared to the previous year. Corresponding departmental revenues also fell short of the previous year's figures due to this decline.

However, sundry income bypassed last year's figure due to a 100% increase in outside laundry revenues against the previous year. This is an indication of the competition created by neighboring small hotels who maintained good occupancy compared to their performance during the previous year.

Finance income also showed a 100% increase against the previous year, with some positive movements in the FD rates along with our deposit base increase of 36%, from Rs. 405 million last year to Rs, 550 million in the year end under review.

Income tax paid to the government increased by 33% against the previous year as a result of the dividend tax payment of Rs. 15 million. During the year under review, the Company made its first ever payment of a 10% dividend to Shareholders of the Company after 9 years in business. This was a remarkable achievement for the Company. We distributed Rs. 110.8 million to our Shareholders, which was more than 50% of our net earnings during the year under review.

The year under review for The Fortress resorts PLC, was a difficult one, as the Company found it a challenge to sustain profitability at last year's levels due to the stiff market competition and adverse economic conditions that slowed growth industry-wide.

Sustainability Report Contd.

Operating Expenses (Excluding Cost of Sales)

Indicator (Rs. million)	2015/16 Rs. Mn	2014/15 Rs. Mn	Increase / Decrease Rs. Mn	Variance %
Personnel expenses	113.05	94.70	18.35	19.37
Depreciation of Property, Plant and Equipment	98.69	106.01	(7.32)	(6.9)
Amortisation of intangible assets	1.83	1.58	0.25	15.8
Other operating expenses	102.28	112.13	(9.85)	(8.78)
Total operating expenses	315.85	314.42	1.43	0.50

The increase in operating expenses to Rs. 315.85 million in 2015/16 from Rs. 314.42 million. 2014/15 a growth of just 0.50 percent in 2015/16 was due to increased personnel costs. The Company continued to invest in staff while exerting strict controls and monitors on other expense areas. As a result, depreciation and other expense areas recorded an aggressive decrease compared to the previous year's figures.

Personnel expenses grew by 19.37 percent to Rs. 113.05 million, driven largely by annual salary increments and staff training costs.

The Company exercised strict cost management and controls throughout the year under review and continued to boost its operating efficiency through better supplier evaluation processes, and by closely observing market data movements during the year under review. This strategy had a positive fallout, with a record 8.78 percent decline in other operating expense areas against last year's figure of Rs. 112.13 million. The main reduction in costs came from decreased expenses in sales and marketing, which reduced during the year to Rs. 27.72 million, from last year's Rs. 32.25 million.

Profitability

The Company continued its growth momentum and recorded commendable profit before tax of Rs. 246.45 million and profit after tax of Rs. 187.42 million for the financial year 2015/16, over Rs. 234.06 million and Rs. 189.42 million respectively recorded in 2014/15. The Company was able to record a handsome growth of 5 percent in profit before tax in 2015/16 following a marginal drop of 1 percent in the profit after tax recorded in the current year when compared with the figures of the previous year. This was clearly reflecting in the income tax area, and the Rs. 15 million paid as dividend tax was reflected in the consolidated statement of comprehensive income.

Overall profits were supported by strong returns on our low-risk portfolio of investments, which grew this year by an impressive 100 percent to Rs. 41.98 million over the previous year's figure of Rs. 21.03 million.

For the year ended 31 March 2016, the company recorded a ROA and ROE of 19.28 percent and 12.66 percent against 18.09 and 13.49 percent respectively in the previous year. It is notable that the Company is performing at better ROA in 2015/16 when compared to last year, with a marginal drop in ROE in 2015/16 against last year.

Ethical Conduct, Integrity and Human Rights

We hold ourselves accountable for actions carried out in the course of business. Ethical behavior is core to our commitment to promoting a sustainable and responsible business. Ethics guides all our business decisions and the manner in which we approach technological advances.

Key areas in which we pursue ethical conduct throughout our operations include the use and safeguarding of Company assets and data, integrity of all financial reporting, product quality, safety and environmental matters, protection of intellectual property, as well as in our interactions with governments and competitors. All employees are also required to comply with applicable laws and standards for legal obligations, ethics and business conduct. We view whistle blowing as a positive act that makes a valuable contribution to the Company's ethical conduct of business, and promotes efficiency and long-term success. Our whistle blowing policy addresses employee concerns, and encourages them to expose irregularities and uncover malpractices in an atmosphere of confidentiality.

We are also aware of the fact that we may be challenged by new ethical concerns which may arise as we pursue and enter new markets and offer new and even more innovative products and services.

Stakeholder Engagement

Engaging our stakeholder in dialogue is key to finding out what social and environmental issues matter most to them and is imperative for improving our own decision-making and accountability.

Our commitment to engaging with our stakeholders enables us to secure strong returns on investment across the board as well

as attract and retain our valued customers, discerning business partners and talented employees.

We presently engage with our stakeholder groups in the following ways:

	Stakeholder	Importance	Engagement	Frequency	Topics
Keep Satisfied	Customers	Being the main contributors to revenue generation and long term viability of our business, we maintain a continuous dialogue with our guests to ensure optimisation of customer satisfaction.	Foreign trade fairs Guest reviews (Trip Advisor) Company website Social media Guest comment cards Advertising and promotions.	Regularly	Customer satisfaction Complaints Payment reminders Awareness on new products.
	Employees	Our team remains our greatest asset; we encourage a culture that fosters their growth aligned with our business vision and goals.	Investment in training & development Employee recognition and rewards Performance evaluation Internal communication, i.e. meetings, circulars.	Regularly	Work Performance Remuneration Retirement Benefits Training Employee Welfare Grievances Career opportunities.
	Communities	We promote responsible tourism and maintain strong bonds with the local communities, i.e. interaction with local produce farmers, three wheeler drivers, arts & cultural performers etc.	CSR programmes, i.e. Community related activities Sponsorships Arts and cultural activities Educational programmes.	Regularly	Opportunities to supply produce for the resort Opportunities to supply services Career opportunities.
	Business Partners	Local and international tour operators facilitate business, which encourages us to foster strong relationships with these groups.	Foreign trade fairs Reviews Company website Social media Advertising and promotions.	Regularly	Customer satisfaction Complaints Payment reminders Awareness on new products.
Key Player	Shareholders	Pivotal to the sustainability of the Company, we engage in strong dialogue with our Shareholders, communicating regularly with them to keep them a brief of operations, decisions, events and performance.	Annual Report Annual General Meeting Quarterly Statements Financial disclosures to the CSE Market Reports Press Releases.	Annually Bi-annually/ Quarterly As and when needed	Operations & sustainability Performance Profitability/ Dividends Future plans.

Sustainability Report Contd.

	Stakeholder	Importance	Engagement	Frequency	Topics
Keep Informed	Legal and Regulatory Bodies	With the aim of good governance and prudence, we comply stringently to the regulatory frameworks instituted periodically	Holding membership and participation at meetings and discussions held by regulatory and authority bodies including Inland Revenue Department, Securities & Exchange Commission and Colombo Stock Exchange, Ceylon Chamber of Commerce Employers' Federation of Ceylon Tourist Hotels Association of Sri Lanka. Sri Lanka Tourist Development Authority Periodic disclosure	As and when needed	Compliance with regulations Clarifications on rules Social Affairs
Keep Informed	Sri Lanka Government	The Sri Lankan Government demarcates the regulatory boundaries within which we operate.	Discussions Periodic Disclosures	As and when needed	Taxation
Minimum Effort	General/ Public and Media	These groups exert an influence which is often underestimated. We engage and disseminate information to the public and media in order to maintain and enhance our image and reputation.	CSR programmes, i.e. Community related activities Media Conferences Networking Social Media Periodic Disclosures	As and when needed	Performance of the Company Future plans Community needs

Challenges, Risks and Opportunities

The world has transformed dramatically over the past decade, and tourism is now the world's third largest economic activity (next to oil and automobiles). But the industry faces many complex challenges today, and some of the issues that affected the industry two decades earlier have still to be resolved. Demographics are changing, travel patterns are fluid, and economic conditions are growing more and more volatile. Health and safety concerns such as pandemics and terrorism have increased risk.

Analysis of tourist international arrivals and spending patterns indicate that tourism products and services must be tailored to the needs of the highly competitive marketplace if Sri Lanka is to be positioned as a prime tourist destination. Accessing of niche markets and specific strategies to position the industry within those niches will have to be undertaken by both public and private sector stakeholders in the tourist industry. It is noteworthy to mention here that The Fortress Resort & Spa has a well-planned strategy already in place to maximise on this potential, which has already reaped rich rewards.

The following SWOT analysis gives an overall picture of the issues faced by the hospitality industry today:

Indicator	Challenge	Opportunity	Risk
Economic	<ul style="list-style-type: none"> • Lingering recession in Europe • The slow pace of infrastructure development not meeting industry demand • Inflation experienced due to depreciation of LKR against US dollar • Regional and short haul travel becoming popular 	<ul style="list-style-type: none"> • Growth in international tourist arrivals • Improved business culture in Sri Lanka • Concentration on more lucrative niche markets 	<ul style="list-style-type: none"> • Persistent economic recession in Europe can hinder expected growth in tourism • Increase in cost structure due to inflation and changes in market dynamics
Environmental	<ul style="list-style-type: none"> • Striking a balance between business profitability growth and sustainable growth • Consumers seeking more green tourism initiatives • Travellers looking for more meaningful experiences • Increased industry benchmarks on green products 	<ul style="list-style-type: none"> • Improving and extending the product content and supply chains that are aligned with sustainable tourism • Diversify product portfolio to capitalise on Sri Lanka's rich bio diversity • Obtain accreditation from global tourism industry, certification bodies for sustainable management and growth, eg: -Green Globe 	<ul style="list-style-type: none"> • Damage to marine and terrestrial wildlife habitats and wildlife due to over-visitation • Shoreline erosion resulting from excessive usage of boats • Unsustainable use of local natural resources for construction of tourism facilities
Social	<ul style="list-style-type: none"> • Lack of skilled personnel due to competition • General tendency in Sri Lanka to perceive tourism and related activities as having solely negative impacts on society 	<ul style="list-style-type: none"> • Rural community participation through projects aimed at developing the livelihood of rural communities • Create opportunity for rural communities to engage in tourist related activities to enhance their earning capacity • Provide formal training to rural communities and encourage them to join the industry by opening up job opportunities • Promote responsible tourism 	<ul style="list-style-type: none"> • Negative impact on cultural norms due to increased numbers of tourists being unaware and/or insensitive to local customs, conventions and traditions • Increased influx of tourists may trigger potential threats to local communities eg: -STDs, drugs

Focus and Performance

In our aim to be the acknowledged industry leader in promoting sustainable business practices, we continually validate our social license by ensuring that our behaviours and actions are in line with our values. As a responsible steward of the environment, we continuously challenge our way of thinking, and assess the areas in which we could have the most impact.

Our property continues to explore avenues through which we could effectively manage waste, reduce effluence, and improve the environment with sustainable practices. The year introduced a number of new initiatives, which add to the many ongoing 'green projects' implemented over the past years.

Sustainability Report Contd.

Green Tourism for Future Sustainability

The property focuses on the concept of green tourism across the board, and complies with all environmental dictates. It is of note that we have never been fined or levied any monetary or non-monetary sanctions for non-compliance with any environmental laws or regulations in Sri Lanka.

Green tourism is about being an environmentally friendly tourist or providing environmentally friendly tourist services. The green tourism concept has four components.

Natural Capital

Tourism is, arguably, one of the industries closest to communities, nature and the environment, and therefore, has much to gain or lose, depending on its approach to social responsibility and environmental stewardship. In its day to day activities, the industry lives, breathes and sustains itself on the surrounding natural and social resources, so to ensure that the advantages we gain from these resources are developed, improved, and sustained for the future use of the planet, by minimising our carbon footprint wherever we go and in whatever we do.

Taking the necessary steps to use the natural resources on which our hotel depends, more carefully and efficiently, helps manage operating costs and ensures the long-term sustainability of our business.

One of the most significant milestones on our green calendar was the organic home garden begun during the financial year, which was designed entirely on an organic concept. The hotel leased an acre of coconut land from the BOI, constructed a well and drainage system and started cultivating a variety of fruit and vegetables. This was in addition to the coconut cultivation present at the time of leasing the land. At the initial stages, the regional agricultural officer trained two hotel gardeners in organic gardening. Compost made from mulch is used for fertilising the plants, no synthetic fertilisers and pesticides are used.

A total of about Rs, 1 million was spent on developing the infrastructure, including the well and drainage system. The garden is now producing slowly but surely and the harvest of organic fruit and vegetables appear on the guests' menu. About 4,200 coconuts were also harvested during the year. Although quantities are low at present, the hotel is confident of reaping a substantial yield in years to come.

Harvest from April 2015 to March 2016

Vegetables	626 kg
Fruits	426 kg
Total (Kg)	1,052 kg

The solar power project launched during the previous financial year continues, and has been greatly instrumental in reducing the volume of diesel consumed by the laundry. Steam for the laundry is generated using solar power panels.



organic fruit and vegetable garden cultivated by the hotel



Diesel consumption	2015 / 2016 (Litres)	2014 / 2015 (Litres)
For Boiler	101,810	106,693

We practice the 3 Rs - Reduce Reuse and Recycle in every area of our operations, to prevent wastage and pollution as well as conserve scarce natural resources. We inculcate the importance of this practice not only to our staff but to our business partners as well, and encourage them to continue this initiative as a sustainable green measure.

Energy Consumption

The hospitality industry is one of the highest users of energy. We are conscious of the fact that as a responsible corporate steward, we are obliged to source and implement initiatives to reduce energy consumption and the impact of our carbon footprint. Accordingly, we spread our energy requirements among a variety of sources to optimise energy efficiency, and use a combination of electricity, LP gas and diesel to meet our power requirements, with electricity heading the list.

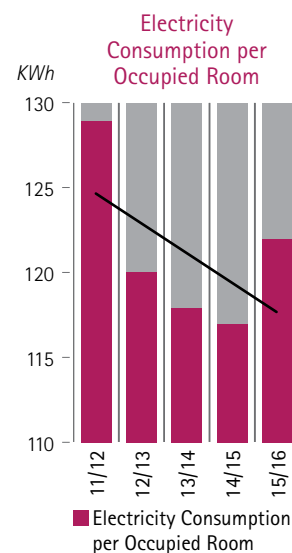
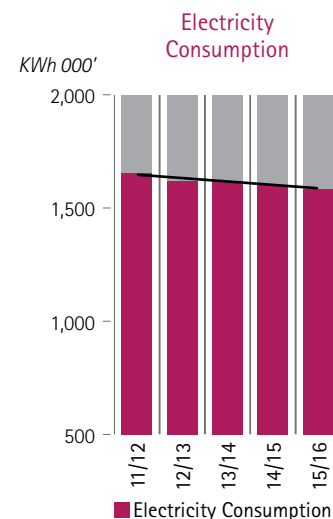
Electricity

The hotel implemented an electricity consumption control measurement system four years ago. Electricity consumption is monitored daily by the maintenance department and reported to the senior management.

Year	Electricity units (Kwh)	Consumption per occupied room (Kwh)
2011 / 2012	1,642,105	129
2012 / 2013	1,620,130	120
2013 / 2014	1,618,923	118
2014 / 2015	1,604,901	117
2015 / 2016	1,575,808	122

Lighting and cooling systems consume over 70% of the total electrical units. It is therefore imperative that their usage is monitored and consumption reduced wherever possible. We have introduced a range of energy efficient solutions to manage and control our electricity consumption and have also educated our staff on the importance of habitual energy saving practices in all areas of their lives. Among the energy saving practices we have introduced to our business are:

- Using dimming regulators wherever possible.
- Using skylights to optimise use of natural lighting.
- Sourcing new energy efficient equipment to support the central air conditioning system, which has resulted in a dramatic reduction in the number of electricity units consumed.
- Installing energy efficient LED lighting, which has resulted in a substantial reduction in the units consumed when compared with high energy consuming incandescent bulbs.



Sustainability Report Contd.

We have, over the years, made significant efforts to reduce consumption of LP Gas used mainly in the kitchen, and reduced wastage, by introducing newer technology and investing in a more energy efficient heating process to minimise the usage of LP gas. This initiative proved a great success.

Reduction in the Consumption of Diesel and LP gas over the past five years

Diesel

Year	Total Diesel consumption (litres)	Consumption per occupied room (litres)
2011 / 2012	124,391	10
2012 / 2013	122,541	09
2013 / 2014	120,612	08
2014 / 2015	116,206	08
2015 / 2016	114,108	08

LP Gas

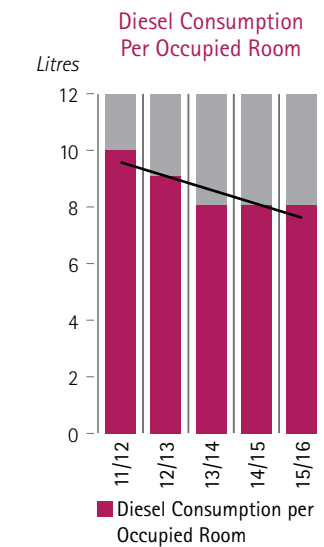
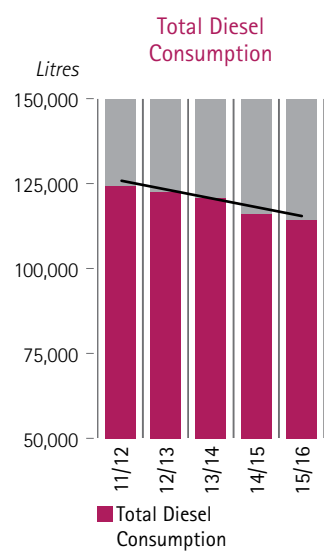
Year	Total LP Gas consumption (Kg)	Consumption per occupied room (Kg)
2011 / 2012	14,059	1.11
2012 / 2013	13,198	0.98
2013 / 2014	13,117	0.95
2014 / 2015	12,819	0.93
2015 / 2016	11,620	0.90

Efficient Effluent and Waste Management Practices

We understand that waste management has environmental, economic, and health impacts on the communities in which we operate. We are focusing on reducing waste materials that our hotels send to landfills, and look for opportunities to use resources more efficiently, reduce costs and benefit our communities.

Solid waste is sorted, separated, and plastic and glass is sent for external recycling. Wet waste, which is primarily food waste, is supplied to a local farm as animal feed. The balance food waste is used for composting and converting to carbonic fertiliser for agriculture and farming purposes. Both processes have been outsourced to an external contractor within the community and have been very successful because they not only promote recycling, but also engage the local community and generate employment.

We realise that water is a critical and fast depleting resource essential to the sustaining of all life. For the hospitality industry in particular, clean water is vital for people and ecosystems on which the sustainability of the industry depends.



We are engaged in an initiative that gives back more water than we consume, with a state-of-the-art water treatment system and sewerage treatment plant. Sewage water is recycled through the water treatment system and channeled for use in the garden, which has resulted in considerable savings in fresh water that would otherwise have had to be used for gardening purposes. This has substantially reduced our water bills as well as significantly limited wastage and consumption of precious water resources. The hotel used 420,000 litres of recycled water during this financial year. Despite increased and regular watering of the garden during the drought period in the latter part of the year, we were able to reduce consumption of the city water supply by 1.23 percent. We are now engaged in refining the quality of water generated from the treatment system in order to enable its re-use across a broader range of operations.

We have also eliminated unnecessary water usage by managing water wastage more sustainably within the hotel. All public washrooms are equipped with motion sensors, while all key areas have independent water meters which enable us to monitor water use in each area. Any irregularities are promptly investigated and action taken to solve the problem.

Year	Total water consumption (litres)	Consumption per occupied room (litres)
2011 / 2012	26,763,000	2,110
2012 / 2013	25,424,000	1,889
2013 / 2014	24,683,000	1,797
2014 / 2015	24,329,000	1,775
2015 / 2016	24,030,320	1,862

Human Capital

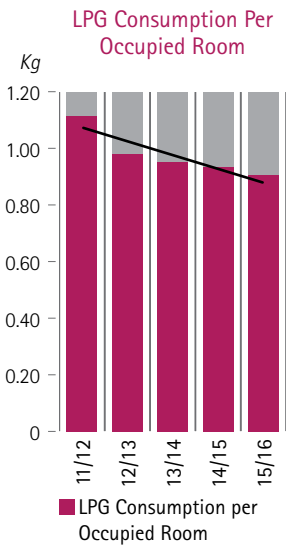
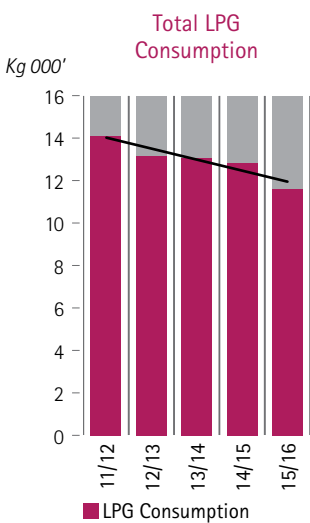
Caring for people is at the heart of everything we do. We are committed to making a difference in the lives of the people we touch each day, and this begins with care and concern for the health, safety and development of our staff. We value the uniqueness of their ideas, perspectives, talents and contributions and strive to ensure that they have fair, safe and sustainable working conditions.

Recruitment Strategy

Rapid industry growth competes for the skills and expertise within the industry. With the expansion of the hospitality industry in Sri Lanka over the past decade, the industry faces a dearth of competent personnel committed to remaining long-term with the industry.

We designed our HR strategy to attract and retain the best of the best in the industry, by investing in the two vital areas of remuneration and training. We lead the hotel industry in providing the highest staff rewards and remuneration, coupled with a range of other fringe benefits. This has kept our staff turnover to less than 6% over the past five years, one of the lowest in the industry.

All staff are Sri Lankans, and most have received their initial training at a reputed local hotel. About 70% of staff is recruited from the surrounding Galle and Weligama areas, which is one more way in which we uplift the lifestyles of the communities around us.



Sustainability Report Contd.

Recruitment policy

We invest in tomorrow by developing a diverse, inclusive and talented workforce that takes forward our values and behaviors that drive sustainability. A business with genuine diversity of thoughts and ideas is vital for future growth and expansion. We promote an environment where our people feel valued and respected and where all employees are treated fairly and equally.

Our recruitment policy is transparent, and practices no discrimination in gender, religion, or ethnicity. We follow all relevant labour laws as dictated by the Ministry of Tourism and the International Labour Organisation (ILO).

We discourage child labour or the employment of children for labour, and do not partner with stakeholders who fail to comply with these principles. We go a step further in this area by actively campaigning against child labour and the employment of children in neighbouring hotels, villas and in the surrounding community.

The management is committed to creating even better working conditions, and continuously upgrade the working environment for our employees. We support industry best past practices by hearing employee grievances, discourage bribing and corruption, as well as create opportunities for our employees to climb the corporate ladder when opportunities arise.

Remuneration and Benefits

Providing our staff with the best remuneration and benefits in the industry and investing substantially in their personal and professional growth has been the key to our success in attracting and retaining the cream of industry talent.

We have been paying the industry's best service charge throughout. We also provide meals and accommodation free of charge, and daily medical care by an in house doctor, in addition to medical insurance and uniforms. These benefits provide staff with a positive working environment that motivates and inspires them to give their best.

As an industry best practice, the Company also provides annual medical checkups for all food and beverage handlers.

Staff Meals	2015 / 2016	2014 / 2015 Rs
Expenditure	12,617,602	13,328,570

The total distribution of wealth to our employees during the year was Rs. 113 million.



Annual Staff Trip to Sigiriya



Staff New Year Celebrations



Staff New Year Celebrations

Average Earnings Per Permanent Staff Member Per Month

Year	2015 / 2016	2014/ 2015
Average monthly salary per staff member	20,200.00	19,100.00
Average monthly service charge per staff member	27,450.00	27,300.00
Total earnings per staff member per month	47,650.00	46,400.00

Medical insurance benefits

We provide surgical and hospitalisation insurance cover for all permanent staff and their families. We spent Rs. 2.6 million on surgical and hospitalisation insurance for staff and their families during the financial year, and added 13 new members to the policy, which is reflected in the 23% increase in expenditure.

Expenditure on Staff Medical Insurance

Year	2015 / 2016	2014/ 2015
Amount spent on the policy (Rs)	2,425,158	1,935,230
Number of Staff Members entitled	154	141
Average spend per staff member (Rs)	15,748	13,725

Year	2015/ 2016	2014/ 2015
Value of the benefit obtained (Rs.)	2,257,300	1,617,026
Number of staff members obtaining insurance benefits	59	41
Average benefit per staff member (Rs.)	38,259	39,440

Health and Safety (H & S)

We have the best H & S standards in the industry, and a team of functional managers regularly monitor and reports any lapses in the system. All applicable occupational health and safety laws, and internal standards and procedures are complied with, and we provide ongoing health and safety training and other relevant initiatives for employees throughout the hotel. We supply all necessary safety equipment and accessories for hotel maintenance staff and other operational departments whenever necessary. Fire training programmes conducted by highly skilled fire trainers from the Sri Lanka Air Force are also held annually for all staff. The Company spent a total of Rs. 0.6 million for training on health and safety during the year under review.

Our Hotel insurance cover also compensates staff in the event of any health or safety issue faced while at work. During the year, the hotel spent Rs. 91,000 as premium on workman compensation insurance valued at Rs. 75 million, which covers most potential accidents to staff while on duty.

The management is committed to creating even better working conditions, and continuously upgrade the working environment for our employees. We support industry best past practices by hearing employee grievances, discourage bribing and corruption, as well as create opportunities for our employees to climb the corporate ladder when opportunities arise.

Sustainability Report Contd.

Staff Welfare Events

Team spirit is fostered through numerous events organised by the hotel's Welfare Society. These events include the annual family trip and festivities at Christmas and the April New Year.

Welfare events	2015 / 2016 (Rs.)	2014 / 2015 (Rs.)
Amount spent on staff trip	589,700.00	375,000.00
Amount spent on staff party	472,281.00	371,500.00
Total	1,061,981.00	746,500.00

Training and Development

We develop our staff to reach their highest potential by providing them with robust training opportunities. We provide industry- specific learning as well as initiatives that contribute to their personal development. Our training initiatives focus on bridging any perceived gaps that may emerge from time to time.

We invested a total of Rs. 4.6 million this year on training and development initiatives conducted by both local as well as international industry experts.

Internal Training

To equip staff with the skills to communicate effectively with our diverse international guests, classes in the English language, as the international link language, were conducted for selected staff by the British Council. The programme was successfully completed in May 2015, and a total of 2500 lecture hours were clocked at an investment of Rs 2.0 million.

A similar programme was conducted earlier for 240 lecture hours at an investment of Rs 250,000. The success of these language trainings have prompted us to invest in more such training initiatives in the coming year.

External Training

A further Rs. 1.5 million was infused into a refresher training programme for 13 butlers conducted in June 2015 by the Australian Butlers Academy.

A training programme for reservations staff on online revenue management was also conducted, by E cornel USA, market leaders in this area of expertise, at a spend of Rs. 0.7 million. The two staff trained in reservations obtained their diplomas during the year.

Assessments and Progression Policy

We keep our staff loyal and committed with many initiatives introduced to value their contribution and appreciate their worth.

This year, we paid two months' salary as an ex-gratia payment for permanent staff and one and a half month's salary for those on contract and probation.



Refresher Course on Butler Training conducted by the Australian Butlers Academy



Supporting for the Bona Vista Women Rehabilitation Centere

Ex Gratia Payment	2015 / 2016 Rs.	2014 / 2015 Rs.
All Staff Members	8,452,642	7,606,241

We keep the bar raised by evaluating our staff annually on their performance, through a formal and comprehensive evaluation process. Information from client satisfaction surveys and guest feedback reports is also used to evaluate frontline staff.

These initiatives have ensured that we now have on board a team of loyal and dedicated staff, schooled in the secrets of providing an authentic and memorable guest experience.

Developing Communities

We believe that a genuine commitment to care is integral to our overarching goal to be the preferred hotel to all our stakeholders, and have made it our mission to make a difference in the lives of the people around us. We turned social challenges into business opportunities by working collaboratively with surrounding communities to support local projects and initiatives that have resulted in stimulating local economic growth.

Fishing is the main livelihood of the communities on the Southern coastal belt on which the hotel is based. These communities live and work in sub-standard conditions with the meagre income earned from the produce of the sea. Having nurtured strong relationships with the communities in our vicinity, we provide them with additional avenues of income that have uplifted their living standards and provide them with the dignity of labour.

Promoting and Sustaining Small Industries in the Community

We have a symbiotic relationship with our communities, based on mutual trust and respect. We promote and sustain small local

industries, which have gained popularity among our guests.

Fruit and Vegetable Farmers

Most of our fruit and vegetable requirements are met by suppliers in the surrounding communities. We purchase organic fruit and vegetables wherever possible to ensure that we maintain the highest standards of sustainability in cuisine. We paid Rs. 3.8 million and Rs. 6.3 million respectively during the year to farmers who supplied fruit and vegetables to the hotel.

Dairy industry

The hospitality industry has a high demand for dairy products. We forged relationships with dairy farmers in the community to supply fresh milk and other dairy products at a total value of Rs. 2.9 million during the year.

Bee's honey, Kitul and Jaggery farmers

These organic products are sourced from micro entrepreneurs who work from home, which ensures the farmers a regular income and sustained livelihoods. We purchased bee's honey, honeycombs and jaggery valued at Rs. 0.4 million from suppliers from the surrounding community during the year.

Horticulture

We use fresh flowers throughout our facility, sourced both from horticulturalists up-country as well as from suppliers living in the vicinity. These floral arrangements are displayed in public areas and guest rooms as well as at events held throughout our property. We spent Rs. 0.9 million on the purchase of water lilies, which, as the national flower of Sri Lanka, takes pride of place in the floral displays. These purchases sustain the livelihoods of small-scale water lily suppliers. An additional Rs. 0.7 million was spent on small-scale farmers engaged in horticulture up-country.

// To equip staff with the skills to communicate effectively with our diverse international guests, classes in the English language, as the international link language, were conducted for selected staff by the British Council. //

Sustainability Report Contd.

Handicrafts

To promote and create demand for Sri Lanka's high quality handicrafts, we continue to support local craftsmen by purchasing their wares to both resell at our boutique as well as present to guests as tokens of appreciation. We also promote these industries among guests, with specially organised tours and handicraft workshops. In addition, we commission local craftsmen to create handmade products branded with the hotel's logo for purchase at our boutique outlet. The hotel's boutique sells a wide arrays of exquisitely carved local products that include indigenous handicrafts, paintings, reedware and other handcrafted products supplied by local artisans, which represent many generations of skilled craftsmanship, for purchase by in-house guests and visitors.

Guests who host their wedding at our hotel are gifted with a stilt fisherman handcrafted in wood which represents the stilt fishing that is a livelihood in Koggala and its environs. We commissioned local craftsmen to produce 250 carved stilt fishermen at a total of value Rs. 0.3 million during the financial year. During the Christmas and New Year festivals, 250 pieces of these carved works of art were presented to resident guests as a goodwill gesture.

Revenue Distributed to Craftsmen in the Community:

Artists	Revenue Distributed in 15/16 Rs.	Revenue Distributed in 14/15 Rs.
Handicrafts	878,803.00	669,915.00
Paintings	1,778,650.00	2,918,200.00
Reed ware	9,100.00	265,505.00
Others	2,582,971.00	3,533,111.00
Total	5,189,524.00	7,386,732.00

Tour Operators and Local Guides

An initiative that partners drivers of tuk tuks of the Taxi Drivers Association established in the area, promotes a safe, convenient and cost-effective means of transportation for our guests to explore the attractions of surrounding cities and villages. We engage the services of local tour guides and area residents who are tuk tuk operators, to provide our guests with an easily accessible and affordable option for local travel, under the supervision and coordination of the hotel staff.

Revenue contributed by the hotel to the Taxi Drivers Association during the two years since the agreement was implemented:

Year	2015/ 2016	2014/ 2015
Number of hires given	2,282	2,687
Revenue Recorded (Rs.)	6,912,600.00	6,404,000.00

Guests are also given the freedom to negotiate independently with the Association to arrange tours to any site or location they may wish to visit. This significant additional income has not been quantified and is not reflected in the table above.

Skills Development

Education is the basis of sustainable development. Our internship programme creates value for the youth in our community by empowering them to develop their skills and competencies for use in the hospitality trade and related industries. These skills equip them with a host of benefits that include confidence, self- esteem and independence, which serve to access broader career options.

On an agreement with the Sri Lanka Institute of Tourism & Hotel Management (SLITHM) and the National Apprentice Board (NAB), we provided six students from SLITHM with full-time internship for six months during the financial year. Internships were provided for a further fifteen trainees from NAB during the year, which helped meet their criteria for a full time training period of three years, and enabled them to obtain the relevant certification. The trainees were provided with meals, accommodation, uniforms and an attractive monthly allowance during their apprenticeship. On successful completion of their apprenticeship with us, the SLITHM and NAB graduates are given the option of pursuing contractual employment with the hotel.

Presentation of School Books

The children of our staff were presented with gift vouchers to purchase school books, under the FRP Future Learners Programme. We invested Rs. 0.4 million on the initiative this year, which is an increase over last year's Rs. 0.3 million.

Promoting Cultural Awareness

Culture is important to sustainable development, and it is imperative that the rich heritage of a culture like ours is preserved and promoted. Our guests are a willing audience, interested in engaging with our culture and its values, and one of the most visual expression of our culture is through dance and other arts.

Traditional dance events and cultural shows are held weekly for the entertainment of the guests, which utilise the talents of dance troupes in nearby communities. Theme nights are also held to promote ancient art forms. This is an enjoyable and learning experience for our guests, some of who invite the troupes to perform in their own countries. Local performers are also hired for special events. Local troupes who performed in our property during the year earned an income of Rs. 0.9 million from the hotel.



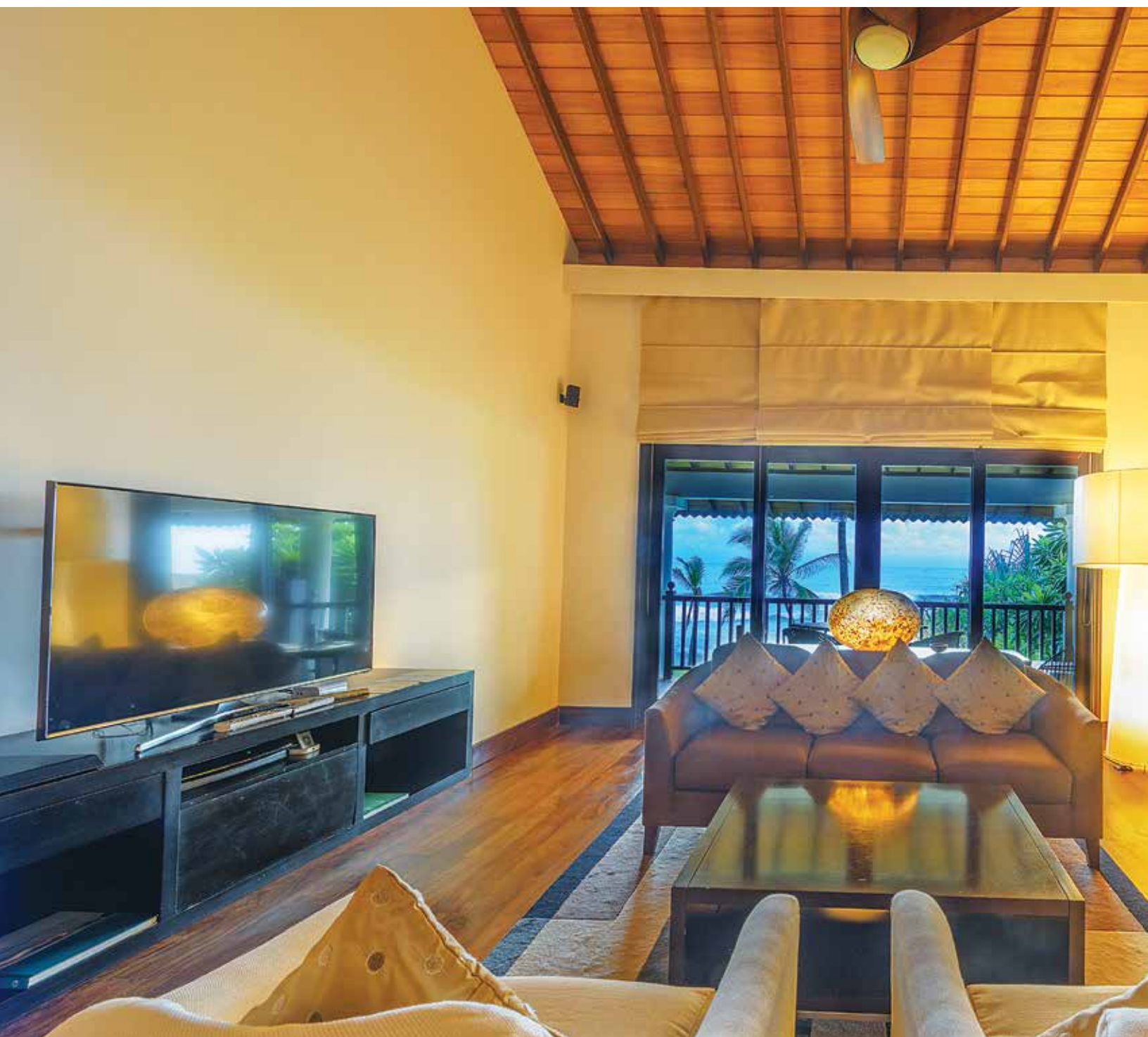
Cultural Performance in the Sri Lankan night

Support to Elders' Home

Last year, the hotel entered into an understanding to support the Bona Vista elder's home located in close proximity to the hotel, in the Unawatuna area. The home houses about thirty residents in the evening of their lives. In addition to donations and almsgivings, we supply the home with hotel linen that has not outlived its use.

Our Commitment to Sustainability

We are committed to develop and support a responsible and sustainable industry that is economically viable, meets the needs of society, conserves the environment and preserves the cultural heritage it depends on. We are confident that if we continue to follow these tenets of adaptive management and sustainability, our business will grow and deliver benefits to current and future generations.





Unadulterated
Bliss

Experience the bliss of our state of the art rooms, promising every conceivable amenity... luxury and comfort that's unparalleled.

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 Financial Controller, 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 based on customer insight surveys and assessments. Those risks having a catastrophic impact on the organisation, 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.

Identified 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 organisational 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. This growth rate was static up to 2015 and 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 2015 was the shift in global travel generating markets from the West to the East and internal clashes in Syria and France. Unpredictable events such as economic meltdown in Turkey and the political issues in the Middle East, adversely affected both inbound and outbound travel globally.

Although a sharp depreciation of the Sri Lankan Rupee against the US Dollar took place towards the first quarter of the financial year 15/16 remaining throughout the financial year 15/16 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 below.

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.	<ul style="list-style-type: none"> 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. Obtained crowns for food hygiene in 2015 and continuing the same for the future. Introduced all inclusive concept for certain markets such as UK, Europe & Web.
Business Risk		
The inability of the Hotel to achieve its business objectives.	<p>Adverse impact on planed profitability and cash flows.</p> <p>Availability of affordable credit</p> <p>Increase in operating and assets replacement costs due to fluctuation in exchange rates.</p>	<ul style="list-style-type: none"> Corporate plans are formulated on 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 in the hotel level. Ongoing review of cost and expenditure by operational and finance staff to determine appropriate revision of rates and tariffs.
Statutory & Legal Risk		
<p>Implications that arise due to non-compliance with regulatory requirements.</p> <p>Risk of litigations from guests, customers, suppliers, associates and regulatory authorities.</p>	<p>Loss which may arise due to non-compliance with statutes.</p> <p>Enhanced incidence and potential exposure due to proposed legislation</p> <p>Loss arising from flawed contracts</p>	<ul style="list-style-type: none"> Statutory returns including taxes are regularly monitored, reviewed and scrutinised 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.	<p>Amplified negative impact on revenue streams during the off peak season.</p> <p>Lower room rates and lower growth prospects.</p>	<ul style="list-style-type: none"> • Expansion of distribution channels through digitised web and direct marketing strategies. • Participation in global and regional tourism promotional events in potential and emerging markets like China and India. • 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.	<p>Cost over runs and loss of earnings due to delays.</p> <p>Exposure to risk of repetitive nature.</p>	<ul style="list-style-type: none"> • 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.	<ul style="list-style-type: none"> • 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. • Monitoring of customer service index reports on regular basis to see whether any lapses arise in facilities and service areas.

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.	<p>Decline in customer base, loss of market share, market penetration and ability to develop the business.</p> <p>Inability to maintain room rate differentiation and competitive advantage.</p> <p>Erosion in confidence may damage sustainability of hotel business.</p>	<p>Although same factors are beyond its control, the hotel adopts the following approaches to mitigate this risk.</p> <ul style="list-style-type: none"> • 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.	<p>Inability to maintain quality standards and meet guest expectations.</p> <p>Higher operational cost and loss of business.</p>	<ul style="list-style-type: none"> • Identification of talent pool for succession planning. • Structured Training arising from performance appraisal process. • Developing a spirit of unity by organising 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.	<p>Adverse impact on efficiency of operations, guest satisfaction and loss of competitive advantage.</p> <p>Additional investment in new technologies/systems to remain competitive.</p>	<ul style="list-style-type: none"> • The IT division of the hotel has implemented procedures to safeguard the computer installations of the hotel to ensure the continuity of operations. • Reservation and property management system upgraded for greater alignment with business needs to make it easier to respond to changes in business strategy. • Business continuity and disaster recovery plans have been place in line in case for any emergency situations. Developed plans are already submitted to the internal auditors for their review.

Risk Management Contd.

Risk category and description	Potential Impact	Control measures and action plans to mitigate risk.
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.	<ul style="list-style-type: none"> 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.
Financial Risk		
Financing and Interest Rate Risk		
Inability to satisfy debt repayment covenants and secure financing for proposed investments.	Higher finance cost. Loss of reputation.	<ul style="list-style-type: none"> The hotel maintains a balance between continuity and flexibility of funding using in-domestic borrowings.
Credit Risk		
Exposure of default by debtors particularly overseas partners.	Loss of profits and higher working capital requirement.	<ul style="list-style-type: none"> 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 wherever 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.	<ul style="list-style-type: none"> 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.

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 2016.

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 provides lodging, food, beverage and other hospitality involving related services.

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

Financial Statements

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

Auditors' Report

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

Accounting Policies

The 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 111 to 139 which are consistent with those of the previous year.

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 Directors

Mr. J A S S Adhihetty - Managing Director
Mr. Jan P Van Twest - Director / General Manager

Non-Executive Directors

Mr Dhammika Perera - Chairman
(Alternate Director Ms. Kawshi Amarasinghe)
Mr W A C J Wickramasinha* - Director
Mr Malik J Fernando - Director
Mr Merrill J Fernando - Director
Mr S Senaratne* - Director
Mr L T Samarawickrama - Director
(Alternate Director - Mr H Somasantha)
Mr L N de S Wijeyeratne* - Director
Mr D E Silva - Director
Mr Prashan B Perera - Director
(Alternate Director - Mr. W D N H Perera)
Mr Chatura V Cabraal* - Director
*Independent Non-Executive Directors

During the year under review Ms. Kawshi Amarasinghe was appointed as the Alternate Director to Mr. Dhammika Perera on the 16th November 2015. Consequent to Sections 210

and 211 of the Companies Act, Mr. Merrill J Fernando was appointed as a Director at the previous Annual General Meeting held on the 29th June 2015.

In terms of Article 84 of the Articles of Association Messrs Malik J Fernando, D E Silva and P B Perera retire by rotation and being eligible are being recommended by the Board for re-election at the forthcoming Annual General Meeting.

Mr. Merrill J Fernando, who is over 70 years of age, offers himself for re-appointment as a Director in pursuance of Section 211 of the Companies Act with the recommendation of the Directors. A resolution proposing the re-appointment of Mr. Merrill J Fernando, who is 86 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 placed 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 W A C J Wickramasinha - Chairman
Mr J A S S Adhihetty - Managing Director
Mr Malik J Fernando - Director
Mr Merrill J Fernando - Director
Mr S Senaratne - Director
Mr L T Samarawickrama - Director
Mr G A R D Prasanna - Director

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 22 to the Financial Statements.

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

Directors' Remuneration

The Directors remuneration is disclosed under Key Management Personnel of the Company in Note No 22.2 to the Financial Statement. 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 2016 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 2016 are as follows:

	Shareholding as at 31/03/2016	Shareholding as at 31/03/2015
Mr.Dhammika Perera	10,329,317	10,329,317
Mr. J A S S Adhihetty	13,741	13,741
Mr. W D N H Perera (Alternate Director to Mr. P B Perera)	89	89
Mr.W A C J Wickramasinha*	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	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	500	500
Mr. Jan Van Twest	Nil	Nil
Mr. C V Cabraal*	Nil	Nil
Ms. Kawshi Aramasinghe (Alternate Director to Mr. Dhammika Perera)	Nil	Nil

* Independent Non-Executive Directors

Messrs Dhammika Perera, J A S S Adhihetty, W D N H Perera (who is an Alternate Director to Mr. P B Perera) and L N de S Wijeyeratne are Directors of L B Finance PLC, which held 4,051,100 shares as at 31st March 2016.

Messrs Dhammika Perera and W D N H Perera (who is an Alternate Director to Mr. P B Perera) are Directors of Royal Ceramics Lanka PLC which held 336,100 shares as at 31st March 2016.

Messrs Dhammika Perera, W D N H Perera (who is an Alternate Director to Mr. P B Perera) and J A S S Adhihetty are Directors of Vallibel One PLC which held 19,977,345 as at 31st March 2016.

Messrs Merril J Fernando and Malik J Fernando are Directors of MJF Holdings Limited, which held 28,616,411 shares as at 31st March 2016

Mr. Dhammika Perera is also a Director of Vallibel Leisure (Private) limited which held 24,417,932 shares as at 31st March 2016.

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 142 and 143.

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.210, 000/= is payable by the Company to the Auditors as Audit Fees (Group -Rs 785,000/=) for the year under review.

The Auditors have also provided non-Audit services and the fee payable therefore amounts to Rs.55, 000/= (Group - Rs. 153,560/=) for the year under review.

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

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

Donations

The Company did not make any donations during the year under review. (The donations made by the subsidiary amounted to Rs. 149,660/=)

Dividend

The Directors do not recommend the payment of a final 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 14 and Risk Management Practices on page 80 to 84 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

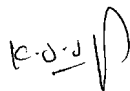
statutory dues as were due and payable by the Company as at the Balance Sheet date have been paid or, where relevant provided for.

Annual General Meeting

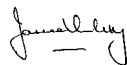
The Annual General Meeting will be held on 28th June 2016 at 9.00 a.m. at the Auditorium of the L B Finance PLC, Corporate Office, No.20, Dharmapala Mawatha, Colombo 03

The notice of the Annual General Meeting appears on page 144.

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



Dhammika Perera
Chairman



Sumith Adhihetty
Managing Director



Anusha Wijesekara
P W Corporate Secretarial (Pvt) Ltd
Secretaries

12 May 2016
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 consist 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 of Twelve (12) members (of whom two are executive directors), Ten (10) Directors including the Chairman are Non-Executive Directors.

The names of the Directors who served during the year under review are given on page 85.

The Board has determined that one third of the Non-Executive Directors, namely four Directors are 'independent' as per the Listing Rules of the Colombo Stock Exchange; such Directors being Mr W A C J Wickramasinha, Mr S Senaratne, Mr L N de S Wijeyeratne and Mr C V Cabraal.

In determining the Directors' independence, the Board decided that Messrs C J Wickramasinha and S Senaratne, who are Non-Executive Directors of Amaya Leisure PLC (Amaya) in which five (5) Directors (and an Alternate Director) of the Company are Directors and collectively have a significant shareholding, shall nevertheless be treated as Independent Directors, on the basis that these Directorships and shareholdings in Amaya do not compromise the independence and objectivity of the said Directors in discharging the functions as Independent Directors.

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 Dhammika 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 2016, four (04) meetings of the Board were held. The attendance at the meetings were :

Name of Director	Executive/Non-Executive/ Independent Non-Executive	Attendance
Mr. Dhammika Perera	Non-Executive	01/04
Mr. J A S S Adhihetty	Executive	04/04
Mr. W A C J Wickramasinha	Independent Non-Executive	01/04
Mr. L T Samarawickrama (Alternate Director : Mr Hareesh Somasanthan)	Non-Executive	02/04
Mr. Malik J Fernando	Non-Executive	00/04
Mr. Merrill J Fernando	Non-Executive	00/04
Mr. S Senaratne	Independent Non-Executive	00/04
Mr L N de Silva Wijeyeratne	Independent Non-Executive	02/04
Mr. Denesh E Silva	Non-Executive	02/04
Mr. Hareesh Somasanthan (Alternate Director to L T Samarawickrama)		02/04
Mr. W D N H Perera (Alternate to Mr. P B Perera)		00/04
Mr. Jan Van Twest	Executive	04/04
Mr. C V Cabraal	Independent/Non-Executive	03/04
Ms. Kawshi Amarasinghe (Alternate Director to Mr. Dhammika Perera appointed on 16/11/2015)		01/01

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, approval 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 three Sub Committees the Audit Committee, Remuneration Committee and the related Party Transaction Review 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. W A C J Wickramasinha is the Chairman of the Remuneration Committee and Mr. S Senaratne and Mr. Malik J Fernando are Members.

The Remuneration Committee is required to make its recommendations on Executive Directors' 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.

Related Party Transaction Review Committee

The Related Party Transaction Review Committee consists of three (3) directors. Mr. L N de S Wijeyeratne is the Chairman of the

Committee and Mr. J A S S Adhihetty and Mr. L T Samarawickrama are members.

The committee has evaluated all the significant related party transactions and all such transactions are disclosed under Note 22 of the Audited Financial Statements. Fixed deposits held with related entities are invested at open market interest rates prevailed at the time of deposit.

The Management

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

Financial Reporting

The Board aims to provide and present a balanced assessment of the Company's position and prospects in compliance with the 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 99 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.

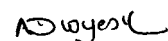
Auditors

Messrs Ernst &Young, Chartered Accountants act as Independent 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
12 May 2016

Corporate Governance Contd.

Adoption of Joint Code of Best Practice Checklist

☒ 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.	<input checked="" type="checkbox"/>	Corporate Governance.
7.10.2 (a)	Independent Directors.	Two or one third of Non-Executive Directors which ever is higher should be Independent.	<input checked="" type="checkbox"/>	Corporate Governance.
7.10.2 (b)	Independent Directors.	Each Non-Executive Director should submit a declaration of Independence, non independence in the prescribe format.	<input checked="" type="checkbox"/>	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.	<input checked="" type="checkbox"/>	Corporate Governance.
7.10.3 (b)	Disclosure relating to Directors.	The basis for Board to determine a Director as independent, if specified criteria for independence is not met.	<input checked="" type="checkbox"/>	Corporate Governance.
7.10.3 (c)	Disclosure relating to Directors.	A brief resume of each Director should be included in the Annual Report including the areas of expertise.	<input checked="" type="checkbox"/>	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.	<input checked="" type="checkbox"/>	Corporate Governance and Bpard of directors (profile) section in the AR.
7.10.5	Remuneration Committee.	A Listed company shall have a Remuneration Committee.	<input checked="" type="checkbox"/>	Corporate Governance.
7.10.5 (a)	Composition of Remuneration Committee.	Shall comprise of Non-Excutive Directors a majority of whom will be independent.	<input checked="" type="checkbox"/>	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.	<input checked="" type="checkbox"/>	Corporate Governance.
7.10.5 (c)	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. (b) Aggregated remuneration paid to NED/NID/ID. (d) Statement of remuneration committee.	<input checked="" type="checkbox"/>	Corporate Governance and the Board Committee Reports.

Rule No	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.6	Audit Committee	The Company shall have an Audit Committee	<input checked="" type="checkbox"/>	Corporate Governance/ Audit Committee Report.
7.10.6 (a)	Composition of an Audit Committee	Shall comprise of Non-Executive Directors and majority of whom should be independent.	<input checked="" type="checkbox"/>	Corporate Governance and the Board Committee Reports.
		Non-Executive Directors shall be appointed as the Chairman of the Audit Committee.	<input checked="" type="checkbox"/>	
		Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings.	<input checked="" type="checkbox"/>	
		The Chairman of the Audit Committee or one member should be a member of a professional accounting body.	<input checked="" type="checkbox"/>	
7.10.6 (b)	Audit Committee Functions	Should be as outlined in the Section 7 of the listing rules	<input checked="" type="checkbox"/>	
7.10.6 (c)	Disclosure in the Annual Report relating to Audit Committee.	a) Names of the Directors comprising the Audit Committee. b) The Audit Committee shall make a determination of the independence of the Auditors and disclose for such determination. c) The Annual Report Shall contain a Report of the Audit Committee setting out of the manner of compliance of the functions.	<input checked="" type="checkbox"/>	Corporate Governance and the Board Committee Reports.

Corporate Governance Contd.

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.	<input checked="" type="checkbox"/>	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.	<input checked="" type="checkbox"/>	
A.1.4	Company Secretary.	Ensure adherence to board procedures and applicable rules and regulations.	<input checked="" type="checkbox"/>	
		Procedure for Directors to access the services of the Company Secretary.	<input checked="" type="checkbox"/>	
A.1.5	Independent Judgement.	Directors should exercise independent judgement on issues of strategy, resources, performance and standards of business judgement.	<input checked="" type="checkbox"/>	
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.	<input checked="" type="checkbox"/>	
A.1.7	Training for Directors.	Directors should receive appropriate training , hone skills and expand knowledge to more effectively perform duties.	<input checked="" type="checkbox"/>	
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.	<input checked="" type="checkbox"/>	
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.	<input checked="" type="checkbox"/>	Corporate Governance.

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
A.4 DIRECTORS – Financial Acuman				
A.4	Possession of adequate financial acumen.	Board to ensure adequacy of financial acumen and knowledge within Board.	<input checked="" type="checkbox"/>	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.	<input checked="" type="checkbox"/>	Corporate Governance.
A.5.2	Proportion of Independent Directors.	Two or one third of the Non – Executive Directors should be independent.	<input checked="" type="checkbox"/>	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.	<input checked="" type="checkbox"/>	
A.5.4	Declaration of independence.	Non – Executive Directors should submit a signed and dated declaration of their independence / non – independence.	<input checked="" type="checkbox"/>	
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.	<input checked="" type="checkbox"/>	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	
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.	<input checked="" type="checkbox"/>	
A.5.9	Directors concerns to be recorded.	When matters are not unanimously resolved, the Directors are to ensure their concerns are recorded in Board minutes.	N / A	
A.6 DIRECTORS – Supply of information				
A.6.1	Provision of adequate information to Board.	Management to ensure the board is provided with timely and appropriate information.	<input checked="" type="checkbox"/>	Corporate Governance.

Corporate Governance Contd.

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
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.	<input checked="" type="checkbox"/>	
A.7 DIRECTORS - Appointment 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.	<input checked="" type="checkbox"/>	
A.7.2	Annual assessment of Board composition.	Nomination committee or Board should annually assess the composition of Board.	<input checked="" type="checkbox"/>	Corporate Governance.
A.7.3	Disclosure of new board appointments.	Profiles of new board appointments to be communicated to Shareholders.	<input checked="" type="checkbox"/>	
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.	<input checked="" type="checkbox"/>	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.	<input checked="" type="checkbox"/>	
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.	<input checked="" type="checkbox"/>	
A.9.2	Self evaluation of Board and Board Committees.	The Board should evaluate its performance and that of its committees annually.	<input checked="" type="checkbox"/>	
A.9.3	Declaration of basis of performance evaluation.	The Board should disclose how performance evaluations have been carried out.	<input checked="" type="checkbox"/>	
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.	<input checked="" type="checkbox"/>	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.	<input checked="" type="checkbox"/>	

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
A. 11.2	Evaluation of CEO performance.	The performance of the CEO should be evaluated by the Board at the end of the year.	<input checked="" type="checkbox"/>	
8.1 DIRECTORS REMUNERATION – Remuneration Procedure				
8.1.1	Appointment of Remuneration Committee.	Remuneration Committee of parent may function as such for the Company to make recommendations on Directors Remuneration.	<input checked="" type="checkbox"/>	
8.1.2	Composition of Remuneration Committee.	Board to appoint only Non – Executive Directors to serve on Remuneration Committee.	<input checked="" type="checkbox"/>	
8.1.3	Disclosure of members of Remuneration Committee.	The Annual Report should disclose the chairman and Directors who serve on the Remuneration Committee.	<input checked="" type="checkbox"/>	Corporate Governance.
8.1.4	Remuneration of Non – Executive Directors.	Board to determine the level of Remuneration of Non-Executive Directors.	<input checked="" type="checkbox"/>	
8.1.5	Access to professional advice.	Remuneration Committee should have access to professional advice in order to determine appropriate remuneration for Executive Directors.	<input checked="" type="checkbox"/>	
8.2 DIRECTORS REMUNERATION – Level and Make up of Remuneration				
8.2.1	Remuneration packages for Executive Directors.	Packages should be structured to attract, retain and motivate Executive Directors.	NA	
8.2.2	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	
8.2.3	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	
8.2.4	Performance related elements of remuneration.	Performance related elements of remuneration should be aligned with the interests of the Company.	<input checked="" type="checkbox"/>	
8.2.5	Share options.	Executive should not be offered at a discount.	NA	
8.2.6	Remuneration packages for Non – Executive Directors.	Should reflect time commitment and responsibilities of role and in line with existing market practice.	NA	
8.3 DIRECTORS REMUNERATION – Disclosure of Remuneration				
8.3	Disclosure of details of remuneration.	The Annual Report should disclose the remuneration paid to Directors.	<input checked="" type="checkbox"/>	Financial Statements note 22.2.

Corporate Governance Contd.

Code Ref.	Subject	Applicable Requirement	Adoption Status	Applicable Section in the Annual Report
C . 1 RELATIONS WITH SHAREHOLDERS – Constructive use and conduct of Annual General Meeting				
C.1.1	Proxy votes to be counted.	The Company should count and indicate the level of proxies lodged for and against in respect of each resolution.	<input checked="" type="checkbox"/>	
C.1.2	Separate resolutions.	Separate resolutions should be proposed for substantially separate issues.	<input checked="" type="checkbox"/>	Notice of Meeting.
C.1.3	Availability of Committee chairman at AGM.	The Chairman of Board committees should be available to answer any queries of AGM.	<input checked="" type="checkbox"/>	
C.1.4	Notice of AGM.	15 working days notice to be given to Shareholders.	<input checked="" type="checkbox"/>	Notice of Meeting.
C.1.5	Procedure for voting at meetings.	Company to circulate the procedure for voting with Notice of Meeting.	<input checked="" type="checkbox"/>	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.	<input checked="" type="checkbox"/>	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.	<input checked="" type="checkbox"/>	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.	<input checked="" type="checkbox"/>	Audit Committee Report.
		The Company has not contravened laws or regulations in conducting its activities.	<input checked="" type="checkbox"/>	Annual Report of the Board of Directors.
		Material interests in contracts have been declared by Directors.	<input checked="" type="checkbox"/>	Financial Statements.
		The Company has endeavoured to ensure equitable treatment of Shareholders.	<input checked="" type="checkbox"/>	Corporate Governance.
		That the business is a "going concern".	<input checked="" type="checkbox"/>	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.	<input checked="" type="checkbox"/>	Audit Committee Report, Risk Management.

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.	<input checked="" type="checkbox"/>	Respective responsibilities of Directors and Auditors.
D.1.4	Management Discussion and Analysis.	Annual Report to include section on Management Discussion and Analysis.	<input checked="" type="checkbox"/>	Management Discussion.
D.1.5	Going Concern.	Directors to substantiate and report that the business is a going concern or qualify accordingly.	<input checked="" type="checkbox"/>	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 falls below 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.	<input checked="" type="checkbox"/>	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.	<input checked="" type="checkbox"/>	Audit Committee Report.
		Audit Committee Chairman should be appointed by the Board.	<input checked="" type="checkbox"/>	
D.3.2	Duties of Audit Committee.	Should include .		
		Review of scope and results of audit and its effectiveness.	<input checked="" type="checkbox"/>	Corporate Governance.
		Independence and objectivity of the Auditors.	<input checked="" type="checkbox"/>	
D.3.3	Terms of Reference / Charter.	The Audit Committee should have written terms of reference which define the purpose of the Committee and its duties and responsibilities.	<input checked="" type="checkbox"/>	Corporate Governance.
D.3.4	Disclosures.	The Annual Report should disclose the names of Directors serving on the Audit Committee.	<input checked="" type="checkbox"/>	Corporate Governance / Audit Committee Report.
		The Audit Committee should determine the independence of the Auditors and disclose the basis of such determination.	<input checked="" type="checkbox"/>	Corporate Governance.

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.	<input checked="" type="checkbox"/>	
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.	<input checked="" type="checkbox"/>	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.	<input checked="" type="checkbox"/>	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.	<input checked="" type="checkbox"/>	Corporate Governance.
E.2	Evaluation of Governance Disclosures by institutional investors.	Institutional Investors should be encouraged to consider the relevant factors drawn to their attention with regard to board structure and composition.	<input checked="" type="checkbox"/>	
F. OTHER INVESTORS - Investment / Divestment decisions				
F.1	Individual Investors.	Individual Shareholders should be encouraged to carry out adequate analysis and seek professional advice when making their investment / divestment decisions.	<input checked="" type="checkbox"/>	Corporate Governance.
F.2.	Shareholder Voting.	Individual Shareholders should be encouraged to participate and exercise their voting rights.	<input checked="" type="checkbox"/>	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.

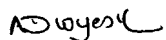
The Directors are also responsible to ensure that the financial statements comply with any regulations made under the Companies Act which specifies the form and content of group financial statements and any other requirements which apply to the Company's financial statements under any other law.

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 the review of the Company's Business Plan for the financial year 2016/2017, 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

May 12, 2016

Remuneration Committee Report

Composition

The remuneration committee consisted of three Non – Executive Directors, two of whom are Independent Directors. The following Directors serve on the committee:

Mr. W A C J Wickramasinha (Chairman)
Mr. S Senaratne
Mr. Malik J Fernando

Meetings

The committee meets as often as necessary to make recommendations on compensation structures and bonuses, increments and also on matters pertaining to recruitment of key management personal to ensure that the management and staff at all levels are adequately rewarded for their performance and commitment to the Company's goals on a competitive basis.

The Managing Director and Executive Director attend meetings of the committee by invitation and provide relevant information and their views to the committee for its deliberations, except when the Executive Director's remuneration packages and other matters relating to them are discussed.

Functions

The functions of the committee include making recommendations to the Board on the compensation and benefits of the Executive Director and key management personal. The primary objective of the remuneration policy of the Company is to attract and retain a highly qualified and experienced workforce and reward their performance commensurate with each employee's level of experience and contribution, bearing in mind the business performance and long term Shareholder return.

Directors' Remuneration

The total of Directors' remuneration paid during the year under review is set out in note 22.2 to the financial statements.



W A C J Wickramasinha
Chairman
Remuneration Committee

12 May 2016

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

Committee Composition, Meetings Held and Attendance

The Audit Committee consists of four members. The members of the Board appointed Audit Committee are;

Mr. L N De S Wijeyeratne - (Chairman)
Mr. S Senaratne
Mr. C J Wickramasinhe
Mr. Malik J Fernando

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

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 Managing Director, Director / General Manager & 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 four times in connection with the financial year ended 31st March 2016.

Activities Performed

- Reviewed the activities and financial affairs of the Company and its Subsidiary (Hotel), and the financial reporting system adopted in the preparation of quarterly and annual financial statements to ensure reliability of the process, appropriateness and consistency of accounting policies and methods adopted and that they facilitate compliance with the requirements of Sri Lanka Accounting standards (LKAS, SLFRS), the Companies Act No 7 of 2007 and other relevant statutory and regulatory requirements.
- Met the outsourced Internal Auditors to consider their reports, management responses and matters requiring follow up on the effectiveness of internal financial controls that have been designed to provide reasonable but not absolute assurance to the Directors that assets are safeguarded and that the financial reporting system can be relied upon in the preparation and presentation of the financial statements.
- Reviewed the quarterly and yearend financial statements and recommended their adoption to the Board.

- Reviewed the type and quantum of non-audit services provided by the external auditors to the Company to ensure that their independence as auditors has not been impaired.
- Reviewed the Company's compliance framework to determine that it provides reasonable assurance that all relevant laws, rules and regulations have been complied with.
- The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young be re-appointed as Auditors for the Financial Year ending 31st March 2017, subject to the approval of the Shareholders at the next Annual General Meeting.



L N de S Wijeyeratne (FCA)
Chairman
Audit Committee

12th May 2016





Be Wed in
Paradise

Your immaculate haven for
impeccable occasions.

Financial Reports

Independent Auditors' Report.....	105
Statement of Profit or Loss and Other Comprehensive Income	106
Statement of Financial Position	107
Statement of Changes in Equity	108
Statement of Cash Flows	109
Notes to the Financial Statements.....	111

Independent Auditors' Report



Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

TO THE SHAREHOLDERS OF THE FORTRESS RESORTS PLC AND ITS SUBSIDIARY

Report on the Financial Statements

We have audited the accompanying financial statements of The Fortress Resorts PLC, ("the Company"), and the consolidated financial statements of the Company and its subsidiary ("Group"), which comprise the statement of financial position as at March 31, 2016, and the statement of profit and loss and other comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those

standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

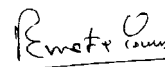
In our opinion, the consolidated financial statements give a true and fair view of the

financial position of the Group as at 31 March 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

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

- a) The basis of opinion, scope and limitations of the audit are as stated above.
- b) In our opinion:
 - we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.
 - The financial statements of the Company give a true and fair view of its financial position as at March 31, 2016, and of its profits and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, and
 - The financial statements of the Company, and the Group comply with the requirements of sections 151 and 153 of the Companies Act. No. 7 of 2007.


12 May 2016
Colombo

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

A member firm of Ernst & Young Global Limited

Statement of Profit or Loss and Other Comprehensive Income

		Group		Company	
		2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Year ended 31 March 2016	Note				
Revenue	4	672,478,996	686,976,564	-	-
Cost of Sales		(170,189,496)	(177,644,351)	-	-
Gross Profit		502,289,500	509,332,213	-	-
Other Income and Gains	5	30,887,371	29,494,829	135,001,350	117,000,000
Selling and Marketing Expenses		(27,725,300)	(32,257,766)	-	-
Administrative Expenses		(299,855,485)	(290,751,985)	(6,750,330)	(5,957,093)
Finance Cost	6.1	(1,125,592)	(2,795,087)	-	-
Finance Income	6.2	41,981,404	21,037,610	-	-
Profit before Tax	7	246,451,898	234,059,814	128,251,020	111,042,907
Income Tax Expenses	8	(58,697,621)	(44,234,927)	-	-
Profit for the year		187,754,277	189,824,887	128,251,020	111,042,907
Other Comprehensive Income/(Loss)					
Other comprehensive loss not to be reclassified to - profit or loss in subsequent periods					
Actuarial Loss on Defined Benefit Plan	19	(381,183)	(464,194)	-	-
Income Tax Effect		45,742	46,419	-	-
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		(335,441)	(417,775)	-	-
Other comprehensive loss for the year, net of tax		(335,441)	(417,775)	-	-
Total Comprehensive Income for the Year, net of tax		187,418,836	189,407,112	128,251,020	111,042,907
Basic Earnings per Share	9.1	1.69	1.71		
Dividend per Share	9.2	1.00	-	1.00	-

The Accounting Policies and Notes on pages 111 to 139 form an integral part of these Financial Statements

Statement of Financial Position

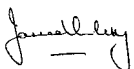
As at 31 March	Note	Group		Company	
		2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
ASSETS					
Non-Current Assets					
Property, Plant and Equipment	10	968,649,988	1,043,694,628	-	-
Investments in Subsidiary	11	-	-	1,000,009,990	1,000,009,990
Intangible Assets	12	3,626,151	3,571,572	-	-
		972,276,139	1,047,266,200	1,000,009,990	1,000,009,990
Current Assets					
Inventories	14	18,978,014	18,201,373	-	-
Trade and Other Receivables	15	37,369,283	44,176,721	110,254,895	92,822,724
Advances and Prepayments		30,373,862	16,230,436	-	-
Income Tax Receivables		137,474	137,474	137,473	137,474
Short Term Deposits	16	475,768,630	105,000,000	-	-
Cash and Bank Balances	17	103,967,060	303,304,528	16,763	35,352
		666,594,323	487,050,532	110,409,131	92,995,550
Total Assets		1,638,870,462	1,534,316,732	1,110,419,121	1,093,005,540
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
Accumulated Profit/(Losses)		371,832,564	295,300,412	1,250,836	(16,113,500)
Total Equity		1,480,699,404	1,404,167,252	1,110,117,676	1,092,753,340
Non-Current Liabilities					
Interest Bearing Loans and Borrowings	13.1	-	2,500,309	-	-
Retirement Benefit Obligation	19	10,404,171	8,833,085	-	-
Deferred Tax Liability	8.3	37,013,704	29,861,494	-	-
		47,417,875	41,194,888	-	-
Current Liabilities					
Trade and Other Payables	20	82,139,928	68,166,153	253,200	252,200
Income Tax Payables		22,165,778	7,179,624	-	-
Interest Bearing Loans and Borrowings	13.1	6,447,477	13,608,815	48,245	-
		110,753,183	88,954,592	301,445	252,200
Total Equity and Liabilities		1,638,870,462	1,534,316,732	1,110,419,121	1,093,005,540

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

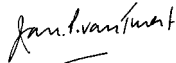


Financial Controller

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 111 to 139 form an integral part of these Financial Statements.

12 May 2016
Colombo

Statement of Changes in Equity

Year ended 31 March 2016

Group	Stated Capital	Accumulated Profit	Total
	Rs.	Rs.	Rs.
Balance as at 01 April 2014	1,108,866,840	105,893,300	1,214,760,140
Profit for the year	-	189,824,887	189,824,887
Other Comprehensive Income	-	(417,775)	(417,775)
Balance as at 31 March 2015	1,108,866,840	295,300,412	1,404,167,252
Profit for the year	-	187,754,277	187,754,277
Other Comprehensive Income	-	(335,441)	(335,441)
Dividends (Note 9.2)	-	(110,886,684)	(110,886,684)
Balance as at 31 March 2016	1,108,866,840	371,832,564	1,480,699,404

Company	Stated Capital	Accumulated Profit/(Loss)	Total
	Rs.	Rs.	Rs.
Balance as at 1 April 2014	1,108,866,840	(127,156,407)	981,710,433
Profit for the year	-	111,042,907	111,042,907
Balance as at 31 March 2015	1,108,866,840	(16,113,500)	1,092,753,340
Profit for the year	-	128,251,020	128,251,020
Dividends (Note 9.2)	-	(110,886,684)	(110,886,684)
Balance as at 31 March 2016	1,108,866,840	1,250,836	1,110,117,676

The Accounting Policies and Notes on pages 111 to 139 form an integral part of these Financial Statements.

Statement of Cash Flows

Year ended 31 March	Note	Group		Company	
		2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Cash Flows from/(used in) Operating Activities					
Profit/(Loss) before Tax		246,451,898	234,059,814	128,251,020	111,042,907
Adjustments for					
Depreciation		98,697,210	106,005,910	-	-
Amortisation	12	1,829,208	1,578,036	-	-
Finance Cost	6.1	1,125,592	2,795,087	-	-
Finance Income	6.2	(41,981,404)	(21,037,610)	-	-
Dividend Income	5	-	-	(135,001,350)	(117,000,000)
Loss/(Profit) on Disposal of Property, Plant and Equipment		631,942	(539,347)	-	-
Provision for Defined Benefit Obligation		3,028,072	2,448,617	-	-
Operating Profit/(Loss) before Working Capital Changes		309,782,519	325,310,506	(6,750,330)	(5,957,093)
(Increase)/Decrease in Inventories		(776,641)	(1,591,157)	-	-
(Increase)/Decrease in Trade and Other Receivables and Prepayments		(7,335,988)	13,026,322	(17,432,171)	(92,822,724)
Increase/(Decrease) in Trade and Other Payables		13,973,775	(213,054)	1,000	(18,220,975)
Cash Generated from/(used in) Operations		315,643,665	336,532,617	(24,181,501)	(117,000,792)
Finance Cost paid	6.1	(1,125,592)	(2,795,087)	-	-
Defined Benefit Obligation paid	19	(1,838,169)	(771,125)	-	-
Income Tax paid		(36,513,515)	(43,814,003)	-	-
Net Cash from/(used in) Operating Activities		276,166,388	289,152,402	(24,181,501)	(117,000,792)
Cash Flows from/(used in) Investing Activities					
Proceeds from Disposal of Property Plant and Equipment		1,203,780	2,491,643	-	-
Acquisition of Property, Plant and Equipment	10.4	(25,488,293)	(47,365,864)	-	-
Acquisition of Intangible Assets	12	(1,883,787)	-	-	-
Investment in Short-term deposits		(360,000,000)	70,000,000	-	-
Finance Income Received		31,212,774	22,700,639	-	-
Dividend Received		-	-	135,001,350	117,000,000
Net Cash from/(used in) Investing Activities		(354,955,525)	47,826,417	135,001,350	117,000,000

Statement of Cash Flows Contd.

Year ended 31 March	Note	Group		Company	
		2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Cash Flows from/(used in) Financing Activities					
Repayment of Bank Loans		-	(45,000,000)	-	-
Principal Payments under Finance Lease Liabilities	13.2	(9,975,098)	(11,368,992)	-	-
Dividend Paid	9.2	(110,886,684)	-	(110,886,684)	-
Net Cash from/(used in) Financing Activities		(120,861,781)	(56,368,992)	(110,886,684)	-
Net Increase/(Decrease) in Cash and Cash Equivalents		(199,650,921)	280,609,828	(66,835)	(792)
Cash and Cash Equivalents at the beginning of the year		299,647,362	19,037,534	35,352	36,144
Cash and Cash Equivalents at the end of the year	17	99,996,441	299,647,362	(31,483)	35,352

The Accounting Policies and Notes on pages 111 to 139 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

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, Sri Lanka.

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

The consolidated financial statements of The Fortress Resorts PLC and its subsidiary (collectively, the Group) for the year ended 31 March 2016 were authorised for issue in accordance with a resolution of the Directors on 12 May 2016.

1.1 Parent Entity and Ultimate Parent Entity

The Company does not have an identifiable Parent Company of its own.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

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 (SLAS) promulgated by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), and with the requirements of the Companies Act No. 7 of 2007.

The Financial Statements have been prepared on the historical cost basis. The consolidated financial statements are presented in Sri Lankan Rupees (Rs).

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

2.2 Basis of Consolidation

The consolidated financial statements comprise of the financial statements of the Group and its subsidiary as at 31 March 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Notes to the Financial Statements Contd.

2.2.1 Subsidiary

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

Subsidiary	2016	2015
La Forteresse (Private) Limited	100%	100%

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

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

2.3 Summary of Significant Accounting Policies

2.3.1 Current versus non-current classification

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

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading

- It is due to be settled within twelve months after the reporting period

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

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

2.3.2 Fair Value Measurement

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

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

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

2.3.3 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 specific recognition criteria described below must also be met before revenue is recognised.

Room revenue

Room revenue is recognised in 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, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of profit or loss.

Dividends

Dividends are recognised when the Group's right to receive the payment is established, which is generally when Shareholders approve the dividend.

Rental income

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

2.3.4 Taxation

Current Income Tax

Income tax expense comprises current and deferred tax. Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss.

Income Tax Exemptions and Concessionary Tax Rates

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 was taxed at concessionary rates up to 31 March 2015.

From 01 April 2015 onwards La Fortress (Private) Limited is liable to pay income tax at a rate of 12%.

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, associates 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.

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

Tax on Dividends

Tax withheld on dividend income from subsidiary is recognised as an expense in the consolidated statement of profit or loss 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.

2.3.5 Functional and Presentation Currency

The Group's Consolidated Financial Statements are presented in Sri Lanka Rupees (Rs), which is the functional and presentation currency of the Group.

i) Transactions and balances

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 statement of profit or loss.

Notes to the Financial Statements Contd.

2.3.6 Property, Plant and Equipment

Property, Plant and Equipment are stated at cost, net of accumulated depreciation and 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 statement of profit or loss as incurred.

Depreciation is recognised in the statement of profit or loss on a straight-line basis over the estimated useful lives of the assets, as follows:

Buildings on Leasehold Land – Hotel	over the balance lease period
Buildings on Leasehold Land – Administration	over the balance lease period
Plant and Equipment	10 years
Furniture and Fittings	6-10 years
Fixtures and Fittings	6-10 years
Computer Equipment	05 years
Telephone Equipment	04 years
Kitchen Equipment	04 years
Electrical Equipment	6-10 years
Linen and Furnishing	04 years
Crockery of Cutlery	04 years
Other Equipment	04 years
Air-conditioners	10 years
Motor Vehicles	05 years

An item of Property, Plant and Equipment and any 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 statement of profit or loss 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.

2.3.7 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 statement of profit or loss.

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 statement of profit or loss on a straight-line basis over the lease term.

2.3.8 Borrowing costs

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

2.3.9 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 intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period 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 are 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 statement of profit or loss 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.

2.3.10 Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement
Financial assets are classified, at initial

recognition, 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. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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.

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 statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

This category generally applies to trade and other receivables. For more information on receivables, refer to Note 15.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired or
- 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

Notes to the Financial Statements Contd.

of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred '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 observable data indicating 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 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 for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) 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. 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 write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade

and other payables and loans and borrowings including bank overdrafts.

Subsequent measurement

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

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

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

This category generally applies to interest-bearing loans and borrowings. For more information refer Note 15.

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 statement of profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to

offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.3.11 Inventories

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

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

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

2.3.12 Impairment of non- financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.3.13 Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise of cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

2.3.14 Provisions

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 recognised 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.

2.3.15 Post Employment Benefits

i) Defined Benefit Plan - Gratuity

Gratuity is a defined benefit plan. The Group is liable to pay gratuity in terms of relevant statute.

The Group measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan with the advice of an actuary every year using "Project Unit Credit Method". An actuarial valuation of the gratuity liability of the Company as at 31 March 2016 was undertaken by Actuarial and Management Consultants (Pvt) Ltd, a firm of professional

actuaries. The result of such valuation was incorporated in these Financial Statements.

The Group's accounting policy for defined benefit plans is to recognise actuarial gains and losses in the period in which they occur in full in Other Comprehensive Income (OCI). Current Service Cost and Interest Cost are recognized in the statement of profit or loss.

Further, this liability is not externally funded.

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

2.4 New and Amended Standards and Interpretations

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

(i) SLFRS 9 -Financial Instruments: Classification and Measurement

SLFRS 09 establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users for assessment of amount, timing and uncertainty of entity's future cash flows.

This standard is effective for annual periods beginning on or after 01 January 2018.

Notes to the Financial Statements Contd.

(ii) SLFRS 15 –Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. This standard is effective for the annual periods beginning on or after 01 January 2018.

None of these new standards and interpretations is expected to have a material effect on the Financial Statements of the Group. Pending the detailed review of such standards and interpretations, the extent of the impact has not been determined by the management.

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.

Other disclosures relating to the Group's exposure to risks and uncertainties include:

- Financial risk management and policies
Note 24
- Sensitivity analyses disclosures
Note 24
- Capital management
Note 24

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.

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.41, 916,608/- (2015 - Rs.

41,916,608/-). 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 8.3.1.

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. Future salary increases and pension increases are based on expected future inflation rates of the country.

Further details about the assumptions used are given in Note 19.

4. REVENUE

Year ended 31 March	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Revenue (Note 4.1)	672,478,996	686,976,564	-	-
	672,478,996	686,976,564	-	-
4.1 Revenue				
Apartment Revenue	433,651,638	441,182,931	-	-
Restaurant Sales	154,471,103	157,492,613	-	-
Bar Sales	58,576,087	60,944,626	-	-
Spa Income	25,780,168	27,356,394	-	-
	672,478,996	686,976,564	-	-

5. OTHER INCOME AND GAINS

	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Laundry Income	7,232,027	3,282,529	-	-
Transport Income	3,795,479	3,954,675	-	-
Excursions Income	5,896,883	8,354,266	-	-
Boutique Income	2,722,886	3,431,681	-	-
Sundry Income	5,456,312	4,186,781	-	-
Rental Income	5,783,784	5,745,550	-	-
Dividend Income	-	-	135,001,350	117,000,000
Profit on Disposal of Property, Plant and Equipment	-	539,347	-	-
	30,887,371	29,494,829	135,001,350	117,000,000

Notes to the Financial Statements Contd.

6. FINANCE COSTS AND INCOME

	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
6.1 Finance Costs				
Interest Expense on Bank Loans	-	192,437	-	-
Interest Expense on Bank Overdrafts	10,012	4,947	-	-
Finance Charges on Lease Liabilities	1,115,580	2,597,703	-	-
	1,125,592	2,795,087	-	-

	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
6.2 Finance Income				
Interest Income	41,981,404	21,037,610	-	-
	41,981,404	21,037,610	-	-

7. PROFIT BEFORE TAX

	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Stated after Charging				
Included in Cost of Sales				
Employees Benefits including the following	41,374,053	33,014,413	-	-
- Defined Benefit Plan Cost - Gratuity (included in Employee Benefits)	686,409	526,408	-	-
- Defined Contribution Plan Cost - EPF and ETF (included in Employee Benefits)	3,521,094	3,367,226	-	-
Depreciation	6,198,374	16,154,352	-	-
Included in Administrative Expense				
Employees Benefits including the following	71,678,827	61,691,123	-	-
- Defined Benefit Plan Cost - Gratuity (included in Employee Benefits)	2,341,663	1,922,209	-	-
- Defined Contribution Plan Cost - EPF and ETF (included in Employee Benefits)	6,612,260	5,621,734	-	-
Depreciation	92,498,836	89,851,558	-	-
Amortisation of Intangible Assets	1,829,208	1,578,036	-	-
Audit Fees	785,000	759,000	210,000	209,000
Charity and Donations	149,660	156,237	-	-
Land Rent	2,459,522	2,420,331	-	-
Loss on Disposal of Property, Plant and Equipment	631,942	-	-	-

7. PROFIT BEFORE TAX Contd.

	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Included in Selling and Marketing Expenses				
Advertising	3,917,481	8,204,235	-	-
Sales Promotion Expenses	17,035,206	16,596,202	-	-

8. INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31 March 2016 and 2015 are:

	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Statement of Profit or Loss				
Current Income Tax				
Current Income Tax Charge (Note 8.1)	35,933,881	27,742,066	-	-
Dividend Tax	15,000,150	13,000,000	-	-
Adjustments in respect of current income tax of previous year	635,423	(418,495)	-	-
	51,569,454	40,323,571	-	-
Deferred Tax				
Relating to origination and reversal of temporary differences (Note 8.3)	7,128,166	3,911,355	-	-
Income tax expense reported in the Statement of Profit or Loss	58,697,621	44,234,927	-	-
Statement of Other Comprehensive Income (OCI)				
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Deferred tax related to items recognised in OCI during in the year:				
Net gain on actuarial gains and losses	45,742	46,419	-	-
Deferred tax charged to OCI	45,742	46,419	-	-

Notes to the Financial Statements Contd.

8. INCOME TAX EXPENSE Contd.

8.1 A reconciliation of tax expense and the accounting profit multiplied by the statutory tax rate is as follows :

	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Taxable Profit/(Loss) from Business				
Accounting Profit/(Loss) before Income Tax	246,451,898	234,059,814	128,251,020	111,042,907
Disallowed Items	114,660,435	131,338,438	-	-
Allowed Items	(115,179,002)	(123,424,956)	-	-
Exempted Profit	-	-	(128,251,020)	(111,042,907)
Interest Income	(41,981,404)	(21,037,610)	-	-
Taxable Profit/(Loss) from Business	203,951,927	220,935,686	-	-
Other Sources of Income				
Gross Interest Income	41,981,404	21,037,610	-	-
Taxable Other Income	41,981,404	21,037,610	-	-
Total Statutory Income	245,933,331	241,973,296	-	-
Total Taxable Income	245,933,331	241,973,296	-	-
Income Tax @ 12% (2015 @ 10%)	24,179,088	21,851,536	-	-
Income Tax @ 28% (2015 @ 28%)	11,754,793	5,890,531	-	-
Current Income Tax Charge	35,933,881	27,742,066	-	-

	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
8.2 Tax Losses Utilized				
Tax Losses Brought Forward	41,916,608	41,916,608	41,916,608	41,916,608
Tax Losses Carried Forward	41,916,608	41,916,608	41,916,608	41,916,608

La Forteresse (Private) Limited

The profit and income from business of La Forteresse (Private) Limited is liable for income tax as stated in Note 2.3.4 of these Financial Statements.

8. INCOME TAX EXPENSE Contd.

8.3 Deferred Tax – Group

	Statement of Financial Position		Statement of Profit or Loss	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Deferred Tax Liability				
Capital Allowances for Tax purpose	38,262,205	30,768,170	7,494,035	4,102,472
	38,262,205	30,768,170	7,494,035	4,102,472
Deferred Tax Assets				
Retirement Benefit Obligation - Through Income Statement	(1,202,759)	(836,889)	(365,869)	(191,117)
Retirement Benefit Obligation - Through Other Comprehensive Income	(45,742)	(69,787)	-	-
	(1,248,500)	(906,676)	(365,869)	(191,117)
Deferred Taxation Charge/(Reversal)			7,128,166	3,911,355
Net Deferred Tax Liability	37,013,704	29,861,494		
8.3.1 Reconciliation of Deferred Tax Charge / (Reversal)				
Deferred Tax Charge reported in the Statement of Profit or Loss			7,128,166	3,911,355
Deferred Tax Charge reported in Other Comprehensive Income			(45,742)	(46,419)
			7,082,424	3,864,936

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. 41,916,608/- (2015 - Rs.41,916,608/-) which is available indefinitely for offsetting against future Statutory Income of the Company subject to a limit of 35% of Statutory Income in each year of assessment. A deferred tax asset amounting to Rs. 11,736,650/- (2015 - Rs.11,736,650/-) has not been recognised in respect of this tax loss and other temporary differences which has resulted deferred tax assets as it is anticipated that the deferred tax asset will not realise in the foreseeable future.

Notes to the Financial Statements Contd.

9. EARNINGS PER SHARE AND DIVIDEND PER SHARE

9.1 Earnings per Share

Basic earnings per share is calculated by dividing the net profit 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 per share computations.

Amounts used as the Numerator	Group	
	2016 Rs.	2015 Rs.
Profit attributable to Ordinary Shareholders for Basic Earnings per Share	187,754,277	189,824,887

Number of Ordinary Shares Used as the Denominator	Group	
	2016 Number	2015 Number
Weighted Average Number of Ordinary Shares applicable to Basic Earnings per Share	110,886,684	110,886,684
Earnings per Share (Rs.)	1.69	1.71

9.2 Dividend per Share-Group/ Company

	2016 Rs.	2015 Rs.
Dividend paid during the year	110,886,684	-
Dividend per Share (Rs.)	1.00	-

10. PROPERTY, PLANT AND EQUIPMENT – GROUP

10.1 Gross Carrying Amounts

	Balance As at 01.04.2015 Rs.	Additions/ Transfers Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2016 Rs.
At Cost				
Buildings on Leasehold Land - Hotel	919,935,051	442,657	-	920,377,707
- Administration	44,748,078	-	-	44,748,078
Plant and Equipment	17,208,833	711,588	-	17,920,421
Furniture and Fittings	116,405,868	2,193,706	(979,788)	117,619,787
Fixtures and Fittings	45,272,774	1,996,443	(148,100)	47,121,117
Computer Equipment	18,190,616	4,473,817	-	22,664,434
Telephone Equipment	1,873,901	31,057	(1,800)	1,903,159
Kitchen Equipment	49,335,221	725,229	(28,925)	50,031,526
Electrical Equipment	129,021,762	10,279,156	(661,028)	138,639,890
Linen and Furnishing	13,289,016	2,150,878	(1,939,217)	13,500,677
Cutlery and Crockery	16,163,206	1,044,851	(1,952,593)	15,255,464
Other Equipment	15,865,445	623,948	(62,020)	16,427,373
Air Conditioners	11,925,379	135,960	-	12,061,339
Motor Vehicles	1,357,143	679,000	20,423,184	22,459,327
	1,400,592,294	25,488,293	14,649,712	1,440,730,299
Assets on Finance Leases				
Motor Vehicles	44,510,406	-	(20,423,184)	24,087,222
	44,510,406	-	(20,423,184)	24,087,222
Total Gross Carrying Amount	1,445,102,700	25,488,293	(5,773,472)	1,464,817,521

Notes to the Financial Statements Contd.

10. PROPERTY, PLANT AND EQUIPMENT – GROUP Contd.

10.2 Depreciation

	Balance As at 01.04.2015 Rs.	Charge for the year/ Transfers Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2016 Rs.
At Cost				
Buildings on Leasehold Land - Hotel	106,531,534	27,193,448	-	133,724,982
- Administration	6,775,098	1,321,323	-	8,096,421
Plant and Equipment	11,022,034	2,798,650	-	13,820,684
Furniture and Fittings	66,231,826	18,022,053	(602,355)	83,651,524
Fixtures and Fittings	22,049,332	6,260,190	(117,250)	28,192,272
Computer Equipment	11,151,884	2,559,499	-	13,711,382
Telephone Equipment	1,717,593	70,174	(1,392)	1,786,376
Kitchen Equipment	40,074,771	4,735,677	(22,389)	44,788,060
Electrical Equipment	71,875,638	19,573,595	(485,152)	90,964,080
Linen and Furnishing	5,209,517	2,872,088	(1,517,853)	6,563,752
Cutlery and Crockery	13,187,846	1,461,608	(1,157,581)	13,491,873
Other Equipment	13,285,960	1,217,211	(33,778)	14,469,393
Air Conditioners	4,877,237	1,381,602	-	6,258,839
Motor Vehicles	497,622	5,145,456	8,493,457	14,136,535
	374,487,893	94,612,573	4,555,707	473,656,173
Assets on Finance Leases				
Motor Vehicles	26,920,179	4,084,637	(8,493,457)	22,511,359
	26,920,179	4,084,637	(8,493,457)	22,511,359
Total Depreciation	401,408,072	98,697,210	(3,937,750)	496,167,533

10. PROPERTY, PLANT AND EQUIPMENT – GROUP Contd.

10.3 Net Book Values

	2016 Rs.	2015 Rs.
At Cost		
Buildings on Leasehold Land - Hotel	786,652,725	813,403,516
- Administration	36,651,657	37,972,980
Plant and Equipment	4,099,737	6,186,799
Furniture and Fittings	33,968,263	50,174,042
Fixtures and Fittings	18,928,845	23,223,442
Computer Equipment	8,953,052	7,038,733
Telephone Equipment	116,783	156,308
Kitchen Equipment	5,243,466	9,260,450
Electrical Equipment	47,675,810	57,146,124
Linen and Furnishing	6,936,925	8,079,499
Cutlery and Crockery	1,763,591	2,975,360
Other Equipment	1,957,981	2,579,485
Air Conditioners	5,802,500	7,048,142
Motor Vehicles	8,322,793	859,521
	967,074,126	1,026,104,401
Assets on Finance Leases		
Motor Vehicles	1,575,862	17,590,227
Total Carrying Amount of Property, Plant and Equipment	968,649,988	1,043,694,628

10.4 During the financial year, the Group acquired Property, Plant and Equipment to the aggregate value of Rs. 25,488,293/- (2015 - Rs. 47,365,864/-). Cash payments amounting to Rs. 25,488,293/- (2015 - Rs. 47,365,864/-) 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.1,590,086/- (2015-Rs.1,558,908/-) and Rs.631,615/- (2015 - Rs. 219,615/-) per annum respectively.

Notes to the Financial Statements Contd.

11. INVESTMENT IN SUBSIDIARY – COMPANY/ GROUP

11.1 Non-Quoted Investments

	Cost			
	2016 %	2015 %	2016 Rs.	2015 Rs.
La Forteresse (Private) Limited	100%	100%	1,000,009,990	1,000,009,990

12. INTANGIBLE ASSETS – GROUP

12.1 Cost

	Balance As at 01.04.2015 Rs.	Additions Rs.	Disposals Rs.	Balance As at 31.03.2016 Rs.
Computer Software	7,890,182	1,883,787	-	9,773,969
	7,890,182	1,883,787	-	9,773,969

12.2 Amortisation

	Balance As at 01.04.2015 Rs.	Additions Rs.	Disposals Rs.	Balance As at 31.03.2016 Rs.
Computer Software	4,318,610	1,829,208	-	6,147,818
	4,318,610	1,829,208	-	6,147,818

12.3 Net Book Values

	2016 Rs.	2015 Rs.
Computer Software	3,626,151	3,571,572

12.4 Computer Software are amortised over 05 years

13. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES

13.1 Interest Bearing Loans and Borrowings

	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Current Interest Bearing Loans and Borrowings				
Bank Overdrafts (Note 17)	3,970,619	3,657,166	48,245	-
Obligation Under the Financial Lease (Note 13.2)	2,476,858	9,951,649	-	-
Total Current Interest Bearing Loans and Borrowings	6,447,477	13,608,815	48,245	-
Non Current Interest Bearing Loans and Borrowings	-	-		
Obligation Under the Financial Lease (Note 13.2)	-	2,500,309	-	-
Total Non Current Interest Bearing Loans and Borrowings	-	2,500,309	-	-

13.2 Finance Leases

	Balance As at 01.04.2015 Rs.	New Leases Obtained Rs.	Repayments Rs.	Balance As at 31.03.2016 Rs.
Pan Asia Banking Corporation PLC	12,400,401	-	(9,820,774)	2,579,625
Bank of Ceylon	1,269,906	-	(1,269,906)	-
Gross Liability	13,670,307	-	(11,090,680)	2,579,625
Finance Charges allocated to Future periods	(1,218,349)	-	1,115,582	(102,767)
Net Liability	12,451,958	-	(9,975,098)	2,476,858

	2016 Rs.	2015 Rs.
Current	2,476,858	9,951,649
Non Current	-	2,500,309
Total	2,476,858	12,451,958

* Note 21.4 provides the details of the above finance leases.

Notes to the Financial Statements Contd.

13. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES Contd.

13.3 Fair Values

The management assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

14. INVENTORIES - GROUP

	2016 Rs.	2015 Rs.
Food and Beverages	7,849,250	6,169,038
House Keeping and Maintenance	8,262,865	9,588,284
Others	2,865,898	2,444,052
	18,978,014	18,201,373

15. TRADE AND OTHER RECEIVABLES - GROUP

	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Trade Receivables	36,697,388	44,176,721	-	-
Other Receivables - Related Parties (Note 15.1)	-	-	110,254,895	92,822,724
Other Receivables - Other	671,895	-	-	-
	37,369,283	44,176,721	110,254,895	92,822,724

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

	Total Rs.	Neither 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.
2016	37,369,283	30,313,223	6,818,479	237,581	-	-	-
2015	44,176,721	10,617,217	21,953,033	10,473,235	1,133,236	-	-

15. TRADE AND OTHER RECEIVABLES – GROUP Contd.

Impairment of Debtors

- No any impairment provision has been accounted for Trade Receivables.
- Refer Note 24 on credit risk of Trade Receivables, which discuss how the Group measure credit quality of Trade Receivables that are neither past due nor impaired.

15.1 Other Receivables – Related Parties

Company	Relationship	2016 Rs.	2015 Rs.
La Forteresse (Private) Limited	Subsidiary Company	110,254,895	92,822,724

16. SHORT TERM DEPOSITS – GROUP

	2016 Rs.	2015 Rs.
Investments in Fixed Deposits	475,768,630	105,000,000

17. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

Components of Cash and Cash Equivalents	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Favorable Cash and Cash Equivalent Balances				
Cash and Bank Balances	18,967,060	8,157,507	16,763	35,352
Short term deposits with 3 months or before maturity	85,000,000	295,147,021	-	-
	103,967,060	303,304,528	16,763	35,352
Unfavorable Cash and Cash Equivalent Balances				
Bank Overdraft	(3,970,619)	(3,657,166)	(48,245)	-
Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement	99,996,441	299,647,362	(31,483)	35,352

Notes to the Financial Statements Contd.

18. STATED CAPITAL – COMPANY/ GROUP

	2016		2015	
	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

19. RETIREMENT BENEFIT OBLIGATION – GROUP

	2016 Rs.	2015 Rs.
Defined Benefit Obligation – Gratuity		
Defined benefit obligation at 1 April 2015	8,833,085	6,691,399
Current Service Cost	2,233,094	1,712,563
Interest Cost	794,978	736,054
Actuarial Loss	381,183	464,194
Benefits paid	(1,838,169)	(771,125)
Defined benefit obligation at 31 March 2016	10,404,171	8,833,085
The expenses are recognised in the following line items in the statement of profit and loss.		
Cost of Sales	686,409	526,408
Administrative Expenses	2,341,663	1,922,209
Other Comprehensive Income	381,183	464,194
	3,409,255	2,912,811

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.

19.2 The principle assumptions used were as follows,

	2016	2015
Discount Rate	9%	9%
Future Salary Increment Rate	7%	7%

19. RETIREMENT BENEFIT OBLIGATION – GROUP Contd.

19.3 Sensitivity of the principal assumptions used

	Expected Future Salaries		Discount Rate	
	1% increase Rs.	1% decrease Rs.	1% increase Rs.	1% decrease Rs.
2016				
Change in Present value of Defined Benefit Obligation	693,195	(605,978)	(559,596)	649,740
2015				
Change in Present value of Defined Benefit Obligation	699,613	(623,129)	(575,286)	655,812

19.4 The average duration of the defined benefit plan obligation at the end of the reporting period is 9 years.

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Trade Creditors	22,137,081	24,124,063	-	-
- Other	56,501,897	41,590,625	43,200	43,200
Accrued Expenses	3,500,949	2,451,465	210,000	209,000
	82,139,928	68,166,153	253,200	252,200

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

21. COMMITMENTS AND CONTINGENCIES

21.1 Capital Expenditure Commitments

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

21.2 Contingent Liabilities

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

Notes to the Financial Statements Contd.

21. COMMITMENTS AND CONTINGENCIES Contd.

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 01 August 2005 and ends on 31 July 2035. There is a possibility of extending the period for a further 10 years if the Group 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 28 January 2005 and ends on 27 January 2035. Rentals are been prefixed for the entire period and paid on yearly basis.

	2016 Rs.	2015 Rs.
Within one year	2,212,485	2,212,485
After one year but not more than five years	11,062,422	11,236,358
More than five years	42,223,215	44,810,890
	55,498,122	58,259,732

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:

	2016		2015	
	Minimum payments Rs.	Present value of payments (Note 13) Rs.	Minimum payments Rs.	Present value of payments (Note 13) Rs.
Within one year	2,579,625	2,476,858	11,067,230	9,951,649
After one year but not more than five years	-	-	2,603,077	2,500,309
Total minimum lease payments	2,579,625	2,476,858	13,670,307	12,451,958
Less amounts representing finance charges	(102,767)	-	(1,218,349)	-
Present value of minimum lease payments	2,476,858	2,476,858	12,451,958	12,451,958

22. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

22.1 Transactions with the Parent and Related Entities – Company

	Subsidiary Company	
	2016 Rs.	2015 Rs.
As at 1 April	92,822,724	(18,239,975)
Expenses Incurred on behalf of the Company	(6,750,330)	(5,937,301)
Cash Received	(110,818,850)	-
Dividends	135,001,350	117,000,000
As at 31 March	110,254,895	92,822,724
Included in		
Trade and Other Receivables	110,254,895	92,822,724

Subsidiary : La Forteresse (Private) Limited

22.2 Transactions with Key Management Personnel of the Company

The Key Management Personnel of the Company includes the Directors of the Company and Directors in Subsidiary.

22.2.1 Compensation to Key Management Personnel

Nature of transaction	2016 Rs.	2015 Rs.
Short Term Employment Benefits	9,030,000	8,805,000

Notes to the Financial Statements Contd.

22. RELATED PARTY DISCLOSURES Contd.

22.3 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		2016 Rs.	2015 Rs.
LB Finance PLC	Investment in Fixed Deposits	85,000,000	230,147,021
Vallible Finance PLC	Investment in Fixed Deposits	465,000,000	170,000,000
Pan Asia Banking Corporation PLC	Lease Rental Paid	(9,820,774)	(12,581,342)
Lease Payables as at 31 March		2,579,625	12,400,401

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.

23. EVENT OCCURRING AFTER THE REPORTING DATE

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

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise of 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 Board of Directors review and agree to 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.

The Group's financial instruments affected by market risk include loans and borrowings and deposits.

The sensitivity analyses in the following sections relate to the position as at 31 March in 2016 and 2015.

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

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Contd.

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.

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
2016		
Interest Bearing Loans and Borrowings	+/- 50	+/- 56,280
2015		
Interest Bearing Loans and Borrowings	+/- 50	+/- 139,755

The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

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"
2016	+/- 5%	+/- 27,799	+/- 24,463
2015	+/- 5%	+/- 25,113	+/- 22,602

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.

Notes to the Financial Statements Contd.

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Contd.

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 2016, the Group had 7 customers (2015: 6 customers) that owed the Group more than Rs 1 Million each and accounted for approximately 67% (2015: 57%) of all receivables owing.

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 Companies into homogenous Company's and assessed for impairment collectively. 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.

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 finance 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. 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.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to 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 negligible compared to other predominant currencies.

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

Year ended 31 March 2016	On demand Rs.	Less than 3 months Rs.	3 to 12 months Rs.	"1 to 5 years" Rs.	Total Rs.
Bank overdraft	3,970,619	-	-	-	3,970,619
Finance Leases	-	1,658,347	818,511	-	2,476,858
Trade and other payables	-	82,139,928	-	-	82,139,928
	3,970,619	83,798,275	818,511	-	88,587,405
Year ended 31 March 2015					
Bank overdraft	3,657,166	-	-	-	3,657,166
Finance Leases	-	2,739,614	7,212,035	2,500,309	12,451,958
Trade and other payables	-	68,379,207	-	-	68,379,207
	3,657,166	71,118,821	7,212,035	2,500,309	84,488,331

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES Contd.

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 the 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.

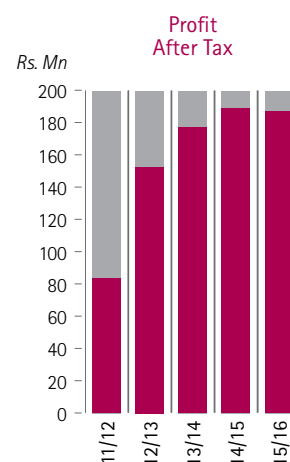
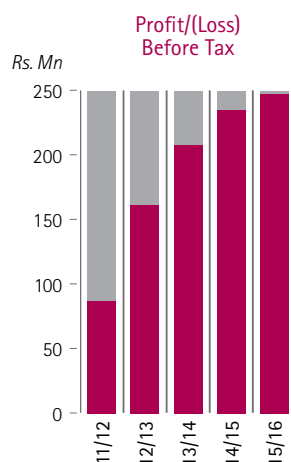
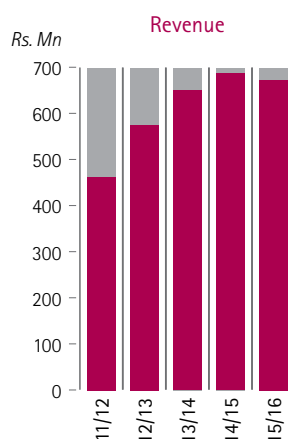
No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2016 and 2015.

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.

	2016 Rs.	2015 Rs.
Interest-bearing loans and borrowings (Note 13)	6,447,477	16,109,124
Trade and other payables (Note 20)	82,139,928	68,166,153
Less: cash and short-term deposits (Note 16/17)	(579,735,690)	(408,304,528)
Net debt	(491,148,285)	(324,029,251)
Equity	1,480,699,404	1,404,167,252
Total capital	1,480,699,404	1,404,167,252
Capital and net debt	1,392,111,999	1,329,843,625
Gearing ratio	6%	6%

Five Year Summery – Group

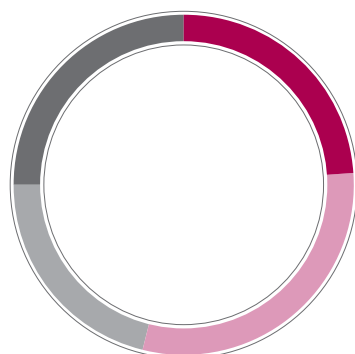
Year Ended 31 st March	2011 / 2012	2012 / 2013	2013 / 2014	2014 / 2015	2015 / 2016
<i>(Figures in Rs. 000 unless otherwise stated)</i>					
TRADING RESULTS					
Turnover (Gross)	464,306	577,724	650,526	686,977	672,479
Profit / (Loss) from operations	242,303	321,759	350,498	342,861	353,584
Depreciation	105,493	107,601	104,259	106,006	106,006
Interest	49,521	52,445	39,244	2,795	1,126
Profit / (Loss) before Tax	87,289	161,713	206,995	234,060	246,452
STATED CAPITAL & RESERVES					
Stated Capital	1,108,867	1,108,867	1,108,867	1,108,867	1,108,867
Revenue Reserves	(224,420)	(70,785)	105,893	295,300	371,832
Other Reserves	-	-	-	-	-
Shareholders' Funds / Net Assets	884,447	1,038,082	1,214,760	1,404,167	1,480,699
Long Term Loans / Deferred Liabilities	397,513	324,000	45,000	-	-
Capital Employed	1,281,960	1,362,082	1,259,760	1,404,167	1,480,699
ASSETS EMPLOYED					
Current Assets	148,543	304,569	287,758	487,051	666,594
Current Liabilities	120,826	126,420	137,295	88,955	110,753
Working Capital	27,717	178,149	150,463	398,096	555,841
Fixed Assets	1,241,359	1,186,146	1,109,437	1,047,266	972,276
Capital Employed	1,269,076	1,364,295	1,259,900	1,445,362	1,528,117
RATIO & STATISTICS					
Gearing (%)	31	24	4	-	-
Current Ratio	1.23	2.41	2.10	5.48	6.02
Earnings Per Share (Rs.)	0.76	1.39	1.59	1.71	1.69
Net Assets Per Share	7.98	9.36	10.95	12.66	13.35
Return On Capital Employed (ROCE) (%)	7	10	14	16	16
Return On Equity (%)	10	15	15	13	13
Debt to Total Assets (%)	29	22	3	-	-
Interest Cover (times)	2.76	4.08	6.27	85	220
Earnings Before Interest & Tax (EBIT)	136,810	214,158	246,239	236,855	247,578
Asset Turnover (%)	40	52	61	68	72



Group Value Added Statement

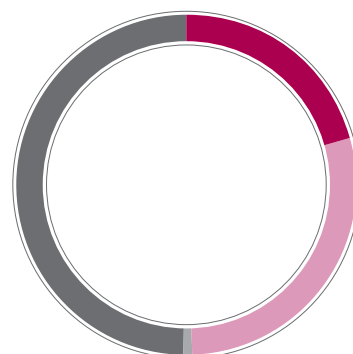
	Group		Company	
	2016 Rs. 000' s	2015 Rs. 000' s	2016 Rs. 000' s	2015 Rs. 000' s
Turnover Gross	817,710	846,355	-	-
Other Income Gross	79,416	57,250	135,001	117,000
Less : Cost of Material and Service bought in	(372,242)	(394,573)	(6,750)	(5,957)
	524,884	509,032	128,251	111,043
Value Allocated to Employees				
Salaries, Wages & other benefits	125,528	106,080	-	-
To Government				
VAT,TDL , NBT & Income Tax	157,916	146,201	-	-
To providers of Capital				
Dividend paid	110,886	-	-	-
Loan Interest	1,125	2,795	-	-
To Expansion & Growth				
Depreciation & Retained in business	129,429	253,956	128,251	111,043
	524,884	509,032	128,251	111,043

Value Addition 2016



Value Allocated to Employees	24%
To Government	30%
To providers of Capital	21%
To Expansion & Growth	25%

Value Addition 2015



Value Allocated to Employees	21%
To Government	29%
To providers of Capital	1%
To Expansion & Growth	50%

Shareholder Information

20 Major Shareholders of the Company as at 31st March 2016

	31st March 2016		31st March 2015	
	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	19,977,345	18.016	19,977,345	18.016
4 Mr Dhammika Perera	10,329,317	9.315	10,329,317	9.315
5 L B Finance PLC	4,051,100	3.653	4,051,100	3.653
6 Mr. Merril J Fernando	2,124,400	1.916	2,124,400	1.916
7 Bank of Ceylon No. 1 Account	1,461,100	1.318	1,461,100	1.318
8 Seylan Bank PLC/Jayantha Dewage	1,441,400	1.300	1,441,400	1.300
9 Pan Asia Banking Corporation PLC /Almar International (Pvt) Ltd	1,249,600	1.127	-	-
Almar International (Pvt) Ltd	-	-	1,249,600	1.127
10 Freudenberg Shipping Agencies Limited	1,047,658	0.945	935,539	0.844
11 Mrs N U D Ariyaratna	843,483	0.761	843,678	0.761
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 Mr. A.P.L. Fernando	560,006	0.505	520,758	0.470
15 Seylan Bank PLC/Bertram Manson Amarasekara	550,000	0.496	550,000	0.496
16 Dee Investments (Pvt) Ltd	394,375	0.356	394,375	0.356
17 Royal Ceramics Lanka PLC	336,100	0.303	336,100	0.303
18 Motor Service Station (Private) Ltd	301,320	0.272	-	-
19 Seylan Bank PLC/A.M. Nimesha Anuruddha Abeykoon	294,451	0.266	269,351	0.243
20 Mr. R Manoharan	291,000	0.262	291,000	0.262
	99,953,664	90.140	99,476,072	89.710
Others	10,933,020	9.860	11,410,612	10.290
Total	110,886,684	100.00	110,886,684	100.00

Share Distribution

Shareholding as at 31st March 2016

From	To	No of Holders	No of Shares	%
1	1,000	1,282	491,005	0.44
1,001	10,000	677	2,501,074	2.26
10,001	100,000	171	5,014,291	4.52
100,001	1,000,000	27	8,164,051	7.36
Over 1,000,000		10	94,716,263	85.42
		2,167	110,886,684	100.00

Categories of Shareholders

Local Individuals	2,006	24,163,707	21.79
Local Institutions	138	86,519,506	78.03
Foreign Individuals	23	203,471	0.18
Foreign Institutions	-	-	-
	2,167	110,886,684	100.00

Directors' and CEO's Shareholding as at 31st March 2016

	No. of Shares	%
Mr. Dhammika Perera	10,329,317	9.315%
Mr. J A S S Adhihetty	13,741	0.012%
Mr. Malik J Fernando	833,333	0.752%
Mr. Merrill J Fernando	2,124,400	1.916%
Mr. W A C J Wickramasinhe	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	-
Mr. D E Silva	500	0.000%
Mr. P B Perera	500	0.000%
Mr. Jan P Van Twest	Nil	-
Mr. C V Cabraal	Nil	-
Mr. H Somasanthan (Alternate Director to Mr. L T Samarawickrama)	Nil	-
Mr. W D N H Perera (Alternate Director to Mr. P B Perera)	89	0.000%
Ms. A.A.K.Amarasinghe (Alternate Director to Mr. Dhammika Perera) (Appointed on 16/11/2015)	Nil	-
Ms. M. H.S.M. Tissera (Alternate Director to Mr. Dhammika Perera) (Cessation on 16/11/2015)	Nil	-

Share Prices for the Year

	As at 31/03/2016	As at 31/03/2015
Market price per share		
Highest during the year	Rs. 19.00 (25-05-2015)	Rs. 21.00 (05-09-2014)
Lowest during the year	Rs. 12.00 (08-03-2016)	Rs. 13.00 (02-04-2014)
As at end of the year	Rs. 13.00	Rs. 15.20

Public Holding

Public Holding percentage as at 31st March 2016 – 18.172 %

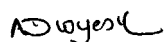
Number of Share Holders representing the above percentage – 2,151

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Thirty Second (32nd) 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 28th June 2016 at 9.00 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 2016 with the Report of the Auditors thereon.
2. To pass the ordinary resolution set out below to re-appoint Mr. Merrill J Fernando, who is 86 years of age, as a Director of the Company.
"IT IS HEREBY RESOLVED that Mr Merrill J Fernando who has attained the age of 86 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. D 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. P B Perera who retires by rotation pursuant to the provisions of Article 84 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 2017 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

At Colombo
12 May 2016

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 9.00 a.m. on 26th June 2016.

Notes

Notes

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. Dhammika Perera | or failing him* |
| Mr. J A S S Adhihetty | or failing him* |
| Mr. W A C J Wickramasinhe | or failing him* |
| Mr. Malik J Fernando | or failing him* |
| Mr. Merrill J Fernando | or failing him* |
| Mr. S Senaratne | or failing him* |
| Mr. L T Samarawickrama | or failing him* |
| Mr. L N De Silva Wijeyeratne | or failing him* |
| Mr. Denesh E Silva | or failing him* |
| Mr. P B Perera | or failing him* |
| Mr. Jan P Van Twest | or failing him* |
| Mr. Chatura V Cabraal | |

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 28th June 2016 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
1) To receive and consider the Report of the Directors, the Statement of Accounts for the year ended 31st March 2016 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2) To re-appoint Mr. Merrill J Fernando who is 86 years of age, as a Director of the Company pursuant to the provisions of the Companies Act No.7 of 2007.	<input type="checkbox"/>	<input type="checkbox"/>
3) To re-elect Mr. Malik J Fernando, who retires in terms of Article 84 of the Articles of Association as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4) To re-elect Mr. D E Silva, who retires in terms of Article 84 of the Articles of Association as a Director of the Company	<input type="checkbox"/>	<input type="checkbox"/>
5) To re-elect Mr. P B Perera, who retires in terms of Article 84 of the Articles of Association as a Director of the Company	<input type="checkbox"/>	<input type="checkbox"/>
6) To re-appoint Messrs Ernst & Young as Auditors and to authorise the Directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>
7) To authorise the Directors to determine donations for the year ending 31st March 2017 and up to the date of the next Annual General Meeting.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/our* hands thisday ofTwo Thousand and Sixteen

.....
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

Form of Proxy Contd.

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 9.00a.m. on 26th June 2016
3. If you wish to appoint a person other than the Chairman or a Director of the Company as your Proxy please insert the relevant details in the space provided (above the names of the Board of Directors) on the Proxy Form.
4. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should accompany the Form of Proxy for registration if such Power of Attorney has not already been registered with the Company.
5. If the appointer is a company / incorporated body this Form must be executed in accordance with the Articles of Association / Statute.

Corporate Information

Name of Company

The Fortress Resorts PLC

Company Registration No
PQ 207

Legal Form

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

Registered Office

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

Board of Directors

Mr. Dhammika Perera (Chairman)
(Alternate Director Ms. A A K Amarasinghe)
Mr. J A S S Adhihetty (Managing Director)
Mr. Malik J Fernando
Mr. Merrill J Fernando
Mr. W A C J Wickramasinhe
Mr. S Senaratne
Mr. L T Samarawickrama
(Alternate Director Mr. H Somasantha)
Mr. L N De Silva Wijeyeratne
Mr. D E Silva
Mr. P B Perera
(Alternate Director Mr. W D N H Perera)
Mr. Jan P Van Twest
Mr. C V Cabraal

Subsidiary Company

La Forteresse (Private) Limited

Hotel

The Fortress Resorts & Spa, Koggala
Telephone : 091 4389400
Fax : 091 4389458
Email: info@thefortress.lk

Secretaries

P W Corporate Secretarial (Pvt) Ltd.
No. 3 / 17, Kynsey Road,
Colombo 08.
Telephone: 011 4640360-3
Fax: 011 4740588
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
Sampath Bank PLC
Pan Asia Banking Corporation PLC



THE FORTRESS RESORT & SPA

SRI LANKA

www.thefortress.lk