



**EVOLUTION IS A  
CONSTANT IN A  
WORLD OF  
CHANGE**

**Hotel Developers (Lanka) PLC**  
Annual Report 2013/2014



# EVOLUTION IS A CONSTANT IN A WORLD OF CHANGE



The Hospitality Trade is an industry that continuously grows, advances and evolves. The standards perpetually change, expectations grow parallelly. It is with unmatched pride that we; Hotel Developers (Lanka) PLC ensue to progress as a fully owned Government entity as the owners of Hilton Colombo; one of the most respected and renowned Hotels in the country.

The standards of Hilton Colombo have always been held in high esteem by a loyal and devoted customer base. The refurbishments will ascertain that with these ardent times of change it is only natural and inevitable that the standards should augment and we are privileged to play a hand in the development of Hilton Colombo.

The future looks brighter and more lucrative as we aspire to renew a monumental Hotel in the country. The world is evolving and the hospitality trade develops frequently and we wish to contribute to this positive change, to satisfy our existing clientele while expanding our target base with advancements that will ascertain Hilton Colombo is a globally recognised and acknowledged beacon of hospitality.

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# FINANCIAL HIGHLIGHTS

	2013/2014	2012/2013
Room Revenue (Rs. '000)	1,221,396	1,578,528
F& B Revenue (Rs. '000)	1,219,088	1,394,265
Other Revenue (Rs. '000)	100,329	138,211
Total Revenue (Rs. '000)	2,540,813	3,111,004
Gross Profit Margin (%)	81.43	82.99
Profit/(Loss) before Tax (Rs. '000)	253,127	757,470
Profit After Tax (Rs. '000)	191,813	689,134
Earning/(Loss) Per Share (Rs.)	0.16	15.24
Average Room Rate	18,572	17,940
Long Term Interest Bearing Borrowings (Rs. '000)	-	3,099,195
Total Equity (Rs. '000)	13,437,388	10,908,522
Debt/Equity (%)	11.00	38.00
Total Assets (Rs. '000)	14,895,268	15,000,560
Debt/Total Assets (%)	4.00	21.00
Current Assets (Rs. '000)	2,155,725	2,223,137
Current Liabilities (Rs. '000)	959,662	495,046
Current Ratio (times)	2.25	4.49
Quick Assets Ratio (times)	2.20	4.37

# CHAIRMAN'S MESSAGE



THIS IS THE FIRST TIME THIS COMPANY HAS BEEN ABLE TO REPAY A SIGNIFICANT SLICE OF ITS LIABILITIES AND WE ARE CONFIDENT, THAT IN THE NEXT FEW YEARS, OUR STRATEGY WOULD BE FRUITFUL FOR US TO TURN IN A CLEAN BALANCE SHEET.



## Dear Stakeholder,

The financial year ended on 31 March 2014 was a landmark and we at Hotel Developers (Lanka) PLC have been writing new chapters. We have been taking advantage of the very promising milieu that's unfolding in the hospitality industry around us, augmented by the Government of Sri Lanka's unwavering focus on developing the hospitality industry into a strong foreign exchange revenue earner, placing it among the Economic Hub Vision concept for 2015. The country has benefited immensely from an unprecedented growth in tourist arrivals, immense investment in infrastructure and a concerted effort in improving prevalent quality and standards.

Being an international hotel chain, the demands on us are high; we must not only maintain the standards and quality expected of us on a global scale but we must also ensure that those standards are never compromised. But it is also these demands that create a landscape for us to continue evolving, constantly improving and ensuring that our guests are served beyond their expectations.

Our ability to sustain the leadership in the international five star hotel arena in Sri Lanka is that we recognise expectations of our growing clientele, knowing full well that the landscape in which we operate is also attracting competition that includes world renowned international hotel chains. The next three years will see Sri Lanka's

city hotel arena replete with some exceptional global chains, who will all infuse global best practices, internationally stringent standards and constant innovation to stay alive in the world's fastest growing industry.

It is in this evolving scenario, that I'm pleased to bring to you the Annual Report and Statement of Accounts for the year ended 31st March 2014, which showcases the performance of your Company as well as the ensuing plans in an industry that's showing immense promise.

## Economic Performance in a Nutshell

While we are operating in an industry that has often been touted as the world's fastest growing, the global economy in general didn't do justice to what was expected of it, especially the advanced economies, which used to herald the bulk of travelers. This even echoed on emerging and developing markets which took on a hue of consolidation, rather than aggressive growth, prompting only a 3% global growth by the end of 2013. Advanced economies fell short of its growth forecast of 1.4%.

## The Hospitality Industry in Perspective

By arrivals however, France had 85 million arrivals in 2013 according to the UN World Tourism Organisation. USA drew 69.8 million visitors, and Spain followed with 60.7 million. They are the top three ranked destinations, with China, Italy, Turkey, Germany, the UK, the Russian Federation and Thailand, by far making the most progress

to climb five positions to make it to the top ten, coming into the top ten rankings in 2013. By receipts however, the USA gained much vigour remaining at the top spot gaining US \$140 Bn, while Spain, France, China and Macau raked in receipts as the top five countries. The others in the top ten are Italy, Thailand, Germany, the UK and Hong Kong.

The long term outlook for the global industry is promising, with international tourist arrivals expected to increase by 3.3% YoY, reaching 1.8 Bn by 2030, based on the UNWTO's Tourism Towards 2030 long term forecast. Arrivals in emerging destinations are expected to increase at twice the rate (4.4%) as those of advanced economies, which the latter is based at 2.2% YoY. The market share of emerging economies which was 30% in 1980, will touch 57% by 2030, which is equivalent to over 1 billion international tourist arrivals.

The Sri Lanka Tourism Development Authority reports that earnings in Sri Lanka's tourism sector has kept pace with the impressive arrival growth pattern, gaining full momentum to reach the ambitious figure of 2.5 million tourist arrivals by 2016.

Tourist arrivals to Sri Lanka rose by 14.3% to 103,175 in June, bringing the first half haul to 727,353, up by 25% from a year earlier. Indications are that the country will achieve the targeted tourist arrivals figure of 1.5 million by

# CHAIRMAN'S MESSAGE CONTD.

end 2014. Earnings from tourism recorded an impressive growth of 35.8% to US dollars 901.8 million during the first five 5 months of 2014.

This can now be mapped safely into a paradigm where earnings could reach the US \$2 Bn mark by end 2014.

It is vital to note that the hotel sector has contributed approximately 65% of all these earnings and sub-sectors including travel agencies, banks and shops registered to accept foreign currency contributing the balance.

## Hotel Developers Showcases Strength in Evolution

Having operated in a milieu where war and its impending fallouts pounded the country's tourism industry continually, the extraordinary steps taken by the Government of Sri Lanka led by His Excellency the President Mahinda Rajapaksa to ensure peace and in tandem, create an optimistic outlook that would drive the country's development has been the panacea for that three decade long war that kept the country's development at bay.

The tourism industry, having faced one of its most cataclysmic eras, is now poised for a well deserved chapter of extraordinary growth. While the state has been intent on ensuring that the country's infrastructure would facilitate its Economic Hub Vision which includes six key industries including the tourism sector, the

hospitality industry has begun to expressly infuse considerable investment in readiness to meet the ambitious goals it believes it can surely surpass.

For HDL, our own goals have been set. We are the axis upon which we can continue to introduce and improve on the international quality, standards, best practices and product offerings that a global chain of our stature can imbue. This meant that the Company had to embark on several initiatives that would ensure that our Hotel would be ready to take charge of the ensuing paradigm that we see emerging.

The US \$35 Mn refurbishment programme is thus designed to provide contemporary luxury that lives upto the standards desired of a hotel of our stature, while also remaining mindful of the competition emerging in the market. Another positive dynamic emanating from the refurbishment is the significant fillip we will gain to the projected revenue in 2015/16, as well as the value addition we gain from adding H Honours, the global Hilton Loyalty programme, into our list of value added services.

It is pertinent to note, that our strategic plan has been conceptualised for the medium to long term, aligned to the hotel being sustainable and retaining its continuous leadership in the leisure market, despite the stringent competition we are bound to see in the next three years in the city hotel space.

HDL in itself is emerging from an era where under the 'Revival of Underperforming & Underutilized Assets Act No 43 of 2011', post several years of being a loss making entity, we have now showcased an amazing successful turnaround by donning the crown of becoming a profit making entity from 2012/13 onwards. In that year we made a profit of Rs 689 Mn, while this year, our profit is notched at Rs. 192 Million, given that we made a significant achievement of repaying a loan of Rs 1 Bn. This is the first time this Company has been able to repay a significant slice of its liabilities and we are confident, that in the next few years, our strategy would be fruitful for us to turn in a clean balance sheet.

Our impressive performance these last two years has certainly augmented stakeholder confidence, primarily among our shareholders. This unwavering focus on ensuring a solid financial foundation which would project sustained financial stability and a business constructed on a transparent, accountable well governed entity, has also seen a successive conversion of the balance debt of Rs 2.35 Bn into equity in 2014. This thus, gives us a robust balance sheet which augurs well for our journey ahead, envisaging a positive outlook in 2015.

**HDL IN ITSELF IS EMERGING FROM AN ERA WHERE UNDER THE 'REVIVAL OF UNDERPERFORMING & UNDERUTILIZED ASSETS ACT NO 43 OF 2011', POST SEVERAL YEARS OF BEING A LOSS MAKING ENTITY, WE HAVE NOW SHOWCASED AN AMAZING SUCCESSFUL TURNAROUND BY DONNING THE CROWN OF BECOMING A PROFIT MAKING ENTITY FROM 2012/13 ONWARDS.**

**Appreciations**

While thanking the Government of Sri Lanka for steadfastly retaining a singular focus in developing an enabling environment for the hospitality industry to operate, I'm specifically thankful to the President of Sri Lanka who is also the Minister of Finance & Planning, the Secretary to the Treasury under whose purview we operate and the Minister of Economic Development and officials of Sri Lanka Tourism and germane authorities, who are always on hand for constant guidance and support.

My Board of Directors have made the journey in this constant evolution one that is exciting, mapping strategies that will help us move into an era of high competition but exciting innovation. I'm appreciative of the continuous consultation they extend to me in enabling me to spearhead HDL effectively. We are extremely cognizant of maintaining a milieu that goes beyond compliance and hence value transparency, accountability and governance, ensuring that we conform to the rules of the Colombo Stock Exchange and relevant accounting standards as stipulated by the Institute of Chartered Accountants of Sri Lanka

To each of our guests who remain the nucleus to our success, it is you who help us reach the impossible and to each of you, my warm appreciation. Similarly, our stakeholders have remained a constant, despite chapters in the Company being written and rewritten. Your

confidence in us has given us the impetus to look at the future, well assured that we are able to make this journey with strength and prowess. Our valued business partners, community and industry peers, we recognise that we are fortunate to operate in an environment that allows us to learn from each other, while contributing our optimum to ensure a win-win relationship.

We are undoubtedly writing a new chapter in our Company's history. The upgrading and refurbishment of the Hilton will cement our position as a leader in the global hospitality chain, where we set the benchmarks for an industry that is now burgeoning. We are the champions of evolution, because HDL has been tasked with playing a pivotal role in optimising economic development within the equation of maximising revenue from foreign exchange and ensuring that Team HDL will truly be an empowered team that are tasked with setting industry standards. We will introduce best practices through world class talent and skill as well as innovate product offerings in a milieu of service excellence that will make us unique. We are now evolving, stepping confidently into a journey that has now begun.



**T. Nadesan**  
Chairman

11th August 2014





# BOARD OF DIRECTORS





# BOARD OF DIRECTORS CONTD.

1

## Mr. Thirukumar Nadesan

BA (Hon) - UK  
(Chairman)

Mr. Thirukumar Nadesan holds a B.A. (Hon.) Degree in Business Studies at the University of Middlesex, United Kingdom. He has served in the capacity of Vice-President at the American Express Bank in Colombo from 1980 to 1989 and thereafter held the position of Group Director at the Maharaja Organization.

Mr. Nadesan has been a freelance Business/ Investment Consultant for many reputed companies since 2001 to date.

Currently he holds Directorship at Lighthouse Hotels PLC and Lanka Hotels and Residencies (Pvt) Ltd. (owning Company of Sheraton Hotel Colombo).

2

## Dr. Tissa Wickramasuriya

M.B.,B.S., M.Comm.H., D.T.M. & H.  
Diploma in Management Studies  
(Director)

Dr. Tissa Wickramasuriya was the Medical Director of Asiri Surgical Hospital PLC.

He has served as a Member of the Sri Lanka Medical Council from 2005 to 2010, and prior to that has held Senior Management positions in the Ministries of Health of Jamaica, Barbados, and St. Kitts & Nevis. He has also been on the Academic Staff of the Faculty of Medical Sciences, University of the West Indies, Cave Hill Campus, Barbados, for over 12 years.

3

## Mr. Kosala Wickramanayake

BS (USA)  
(Director)

Kosala Wickramanayake is Immediate Past President of the Federation of Chambers of Commerce and Industry in Sri Lanka (FCCISL) and the Vice President of the SAARC Chamber of Commerce and Industry.

Kosala also holds several key positions in commercial organisations including CEO of Kosala Enterprises Ltd; and Director of Sterling Jersey Ltd., Airport and Aviation Authority Services Ltd

Earlier, he served as Director of Lankaputhra Development Bank, SME Bank, and the Sri Lanka Tourist Board. Sri Lanka Standards Institution, the Sri Lanka Convention Bureau.

He was President of the Sri Lanka Chamber of Small Industry, and the American Alumni Association.

Working with State agencies and commercial organisations, he has served as a catalyst to encourage SMEs development. He has 40 years experience in import/export and manufacturing.

Kosala is a graduate in Economics and Business Management from the USA.

4

**Mr. Mahinda Siriwardana**

BA (Special) in Economics, Post Graduate Diploma in Development Economics & MA in Economics

*(Director)*

Mr. Mahinda Siriwardana is presently serving as Director General, Department of Fiscal Policy, Ministry of Finance & Planning. He joined the Ministry of Finance & Planning in the year 2010, with the experience of over 20 years at the Central Bank of Sri Lanka, where he was an Additional Director of the Economic Research Department.

He currently serves as a Member of the Board of Directors of Export Development Board (EDB) and Sri Lanka Export Credit Insurance Corporation (SLECIC) as well.

Mr. Siriwardana holds a Bachelor of Arts (BA) Degree in Economics from the University of Kelaniya, and a Master of Arts (MA) Degree in Economics and a Postgraduate Diploma in Economic Development from the Vanderbilt University, USA.

5

**Mr. Nihal Jayawardene P. C.**

LLM (Lon.)

*(Director)*

Mr. Nihal Jayawardene holds a Masters Degree in Public International Law by University College London, specializing in the area of Air and Space Law. Mr. Jayawardene served as a member of the board of the Civil Aviation Authority of Sri Lanka until July 2013.

He also functioned as a member of the Team of Legal Consultants to the Public Enterprises Reform Commission from 1996. In April 2003 he became the Leader of this Team of Legal Consultants and served in that capacity until his retirement from Public Service in May 2005.

As recognition of his significant contribution in the drafting process of the Company Law reforms he was appointed as a Member of the Company Law Advisory Commission in August 1998 in which capacity he continued to serve till December 2008.

He is presently functioning as an Independent Director of Peoples Leasing & Finance PLC and he has served as a Director of Milco (Private) Limited, and as a Director and the founder Chairman of Lanka Sathosa Limited.

# ADVISOR TO THE BOARD



## **Mr. V. Kanagasabapathy**

MPA (HARVARD), FCA, FPFA, FCMA, FMAAT  
*Advisor to the Board*

Mr. V. Kanagasabapathy holds a Master's Degree in Public Administration from Harvard University, U.S.A. and is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, Association of Public Finance Accountants, Institute of Certified Management Accountants of Sri Lanka and Association of Accounting Technicians of Sri Lanka.

He is presently the Advisor, Hotel Developers (Lanka) PLC (Fully owned Government Company owning Hilton Colombo). He is also the President of the Association of Public Finance Accountants, the public sector wing of the Institute of Chartered Accountants of Sri Lanka.

He serves as a Chairman of the Public Sector Accounting Standards Committee and has been appointed as the member of the Governmental and Public Sector Enterprise Accounting Committee of the South Asian Federation of Accountants.

He has been a Council Member of the Institute of Chartered Accountants of Sri Lanka and Past President of the Institute of Public Finance and Development Accountancy of Sri Lanka.

Mr. Kanagasabapathy was the Financial Management Advisor to the Ministry of Finance & Planning and Senior Financial Consultant of the Academy of Financial Studies. He has over forty years of service in the public sector in several senior capacities such as Assistant Director/ Deputy Director/ Director/ Additional Director General/ Director General in the Treasury Departments and Financial Management Reform Coordinator in the Ministry of Finance & Planning.

He served as a member of the Board of Bank of Ceylon as an Alternate Director to the Ex officio Director on the Board from 2006 to 2013. He was also a Director of People's Bank, Merchant Bank of Sri Lanka, State Mortgage & Investment Bank and several other Public Enterprises. He has also served as a Director/Financial Consultant of the Associated Newspapers of Ceylon Limited.

# MANAGEMENT TEAM



# MANAGEMENT TEAM CONTD...

1

## Mr. Sudarshan Sri Rayen

MBA, B.Sc (Hons), FCCA, ACMA  
*(Chief Financial Officer)*

Mr. Sudarshan Sri Rayen holds a Masters Degree in Business Administration from the University of Colombo and a Bachelors Degree with Honours in Physical Science from the University of Peradeniya.

He is also a Fellow Member of the Chartered Association of Certified Accountants - UK and an Associate Member of the Chartered Institute of Management Accountants - UK.

He has been with the Company since December 1987.

2

## Mr. Shamahil Mohideen

ACMA - UK  
*(Chief Operating Officer)*

Mr. Shamahil Mohideen was appointed as Chief Operating Officer in May 2013. He is an associate of the Chartered Institute of Management Accountants (CIMA UK). His post qualifying experience spans almost 20 years in the field of management and finance serving in managerial positions in several leading corporation in Sri Lanka and overseas. Prior to joining HDL, he has served as finance director in a group of companies owned by a leading blue chip company in Sri Lanka for the last 9 years.

3

## Mr. Jude Wickramaratne

*(Accountant)*

Mr. Jude Wickramaratne is a passed finalist of Chartered Institute of Management Accountants - UK. He counts 5 years of experience in the field of accounting and joined the Company in October 2012.



# MANAGEMENT DISCUSSION AND ANALYSIS

**DURING THE FINANCIAL YEAR 2013/14 HDL INITIATED AN EXTENSIVE REFURBISHMENT PROGRAMME OF THE HILTON COLOMBO FOR THE FIRST TIME SINCE ITS INCEPTION IN 1987 AT A COST OF US \$ 35 MN**

## **Global economy**

The current financial year continued to see sluggish growth of the global economy that expanded by a low 3% by end 2013, with advanced economies falling short of the growth forecast of 1.4%, to stall at 1.3%. Emerging markets and developing economies too, sustained slower growth at 4.7% from last year's 4.9%. While the US economy edged downwards to 1.9% from the previous year's 2.8% growth rate, the Eurozone showed some promise by leaving behind its years of negative growth to climb up to 0.4%. The UK's easy credit conditions and improved confidence expanded growth to 1.7% and Japan, which decided to practice its 'Abenomics' philosophy, boosted economic growth by 1.7%. Russia, South Africa and Mexico substantially weakened, although the Middle Eastern and North African regions posted 2.4% growth. Latin American and Caribbean regions notched 2.6% growth rates, while China and India both continued steady growth of 7.7% and 4.4% respectively. Both China and India, although somewhat subdued compared to forecasts a few years ago, remain stable, which augurs well for the South Asian region.

## **The Global Hospitality Industry**

International tourist arrivals globally grew by 5% in 2013, which was a record achievement, given that it had already topped the 1 billion mark in 2012 and now reached 1,087 million

by end 2013. It was Asia and the Pacific regions that recorded the strongest growth with a 6% increase in arrivals, while Europe and Africa, both reflective of improving economies, showcased 5% growth, with Europe maintaining its stance as the most visited region in the world. International travellers into America saw only a 3% growth, reflective of a yet slow spending trend among travellers, while the Middle East sadly echoed its constant woes of conflict, unrest and wars and hence, remained flat, despite having some highly attractive destinations. According to the United Nation's World Tourism Organisation's (UNWTO) World Tourism Barometer, demand for international tourism in the first four months of 2014 grew by 5%, seeing some 317 million tourists, which is 14 million more than in the same period of 2013, well above the long term trend projected by the UNWTO which was 3.8%.

Another interesting paradigm that has emerged in the last year is that China has consolidated its position as the number one tourism source market in the world, seeing a spend of US \$129 Bn on international tourism. This is a significant portion of the international tourism receipts of US \$1,159 Bn worldwide in 2013, an increase from US \$1,078 Bn in 2012. In fact, in the first quarter of 2014, the strongest growth has been registered in the Asia and the Pacific with the sub-regions of Northern Europe, Southern and Mediterranean Europe, North Africa and South Asia, all growing

about 8%, being the star performers. This also points towards good growth prospects for Asia and the Pacific which forecasts a growth of about 5% to 6% and Africa about 4% to 6%. Expectations are that between the peak season of May to August, over 460 million tourists will travel abroad, accounting for 41% of all international tourist arrivals registered in one year.

### Sri Lankan Economy

Despite sluggish progress of the global economy, with global GDP growth contracting from 3.2% in 2012 to 3.0% in 2013, the Sri Lankan economy accelerated its rate of growth from 6.3% in 2012, to 7.3% by the end of 2013. The services sector saw a robust growth of 6.4% from 4.6%. Continuing on this positive note, despite a significant upward adjustment to domestic energy prices, the rate of inflation remained stable at single digit level. Headline inflation was 4.7% year-on-year and 6.9% on an annual average basis. The industrial sector expanded by 9.9% during the year, compared to the 10.3% growth rate of 2012, while the agriculture sector recorded a growth rate of 4.7%, against 5.2% in the previous year. A significant improvement was seen in the trade balance, with exports recording a growth of 6.4% in 2013, and import expenditure declining by 6.2%. The overall balance of the BOP recorded a surplus of US\$ 985 million in 2013, compared to a surplus of US\$ 151 million

recorded in 2012. The positive economic outlook is expected to be sustained in 2014, with economic growth projected to reach 7.8% and then to enter a higher growth path of over 8% in the medium term. This expansion is expected to be broad based with all major sectors, contributing positively in the coming years.

### Tourism Industry

Tourist arrivals to Sri Lanka in 2013 exceeded the UNWTO tourist growth estimate of 6% for the Asia Pacific region and the 5% growth projection for the entire world, by recording a year-on-year growth of 26.7%. Total arrivals topped 1.27 million tourists, increasing the earnings from tourism to US dollars 1.7 billion. This growth surpassed achievements made in 2012 for the second consecutive year, despite the unfavourable global environment. The hotels and restaurants industry meanwhile, saw a 22.3% growth during 2013, compared to the 20.2% growth recorded in 2012. The Commonwealth Heads of Government Meeting (CHOGM), which was held for the first time in Sri Lanka also gave a rare opportunity for the country to reposition itself as a major tourist destination for future industry growth. The tourism industry maintained its growth momentum during the first quarter of 2014 that saw a 24.8% growth compared to the same period in 2013 with 421,501 arrivals.

### Sri Lanka Tourist Arrivals

Arrivals from all regions of the world saw an increase in 2013 to Sri Lanka. Tourist numbers from South Asia increased by 31%, while arrivals from Western Europe increased by 11%, to contribute to the overall 26.7% growth.

During the first three months of 2014, arrivals continued to increase, with tourists from Western Europe increasing by 12.6% and Middle Eastern visitors climbing by 18.8%. The number of East Asian visitors increasing by 53.0%, with China recording a 127.8% growth.

An interesting trend that has emerged in Sri Lanka, is that upto 2011, foreign guests staying at supplementary establishments grew at a phenomenal rate of 80%, while the formal sector grew by 21%. However, from 2013, this trend indicated signs of reversing, tipping the scale towards a more balanced accommodation pattern. Both sectors are now showing a healthy increase, 34.8% YoY in the star classified hotels and 22.5% in supplementary establishments, which points to rapid growth in both the formal and information sectors, auguring well for the country's ambitions of becoming a preferred destination in Asia.

In 2013, the formal sector had a total of 16,223 rooms, which is a 10.3% overall increase, given that 26 new hotels were added into the

# MANAGEMENT DISCUSSION AND ANALYSIS **CONTD...**

landscape during this period. Supplementary accommodation rooms increased from 5,895 in 2010 to 7,373 in 2013, increasing 25% with 158 new supplementary accommodation establishments commissioned during this period.

## Historic performance of the Company

Incorporated on 15th March 1983 HDL was listed in the Colombo Stock Exchange in 1984. The Company owns and operates the Hilton Colombo, which is a 382 room hotel. Despite the many financial challenges and external disruptions to tourism since its inception 31 years ago, the Hilton Colombo has continued to perform well, maintaining comparatively high occupancy rates.

The financial performance of Hotel Developers (Lanka) PLC since commencement of commercial operations in 1987, continued to be poor, mainly due to the significant amount of debt on its balance sheet. The bulk of the debt was a loan facility obtained from the Government to settle previous liabilities owed to the Mitsui & Co. Ltd and Taisei Corporation. This was due to the Government issuing an unconditional demand guarantee to the Japanese investors, (who were also the hotel's contractors) Mitsui and Co. Ltd. and Taisei Corporation to finance the construction of the hotel.

The appreciation of the Japanese Yen caused the Company liabilities to balloon. Rising interest rates payments were exacerbated by the ten fold expansion of the original Rs. 1.3 Bn. Loan, to Rs. 13 Bn, due to the depreciation of the rupee against the Japanese Yen. This situation made it impossible for HDL to repay as well as service the loan. These financial difficulties were further exacerbated by the adverse impacts on the tourism industry due to 30 years of war.

Since 2011 the Company's balance sheet was restructured under the "Revival of Under performing & Underutilised Assets Act No 43" of November 2011, that resulted in the conversion of 80% of the Government loan, into equity in 2012, thus enabling an interest saving of Rs. 1.1 Bn for the Company. The conversion into equity reduced the loan from Rs. 12.1 Bn. to Rs. 3.1 Bn. thereby enabling a significant reduction in HDL's future finance costs. Moreover, HDL was also able to repay Rs. 1 Bn. in June 2013 to the Treasury, as part settlement of a long standing Government loan of Rs. 3.1 Bn. Considering the Company's performance and the capital commitment for refurbishment, the Government agreed to convert the balance loan together with interest amounting to Rs. 2,350 Mn as at 31/12/2013, which has strengthened the Company Balance Sheet further.

Since the end of the war in May 2009, the Company's revenue has shown significant growth with its top line increasing by 30% on average over the past 4 years.

## Performance in 2013/14

During the financial year 2013/14 HDL initiated an extensive refurbishment programme of the Hilton Colombo for the first time since its inception in 1987 at a cost of US \$ 35 Mn, of which US \$ 27 Mn was sourced through a syndicated bank loan and the balance from the internally generated resources of the Company. Once completed, the refurbishment will see the introduction of new amenities and modernisation of current facilities with design and layouts increasing room key for suites, meeting rooms and banquet facilities, gym and spa facilities to the hotel premises, in accordance with Hilton international brand standards, with a focus on efficient utilisation of space and upgrading and raising overall comfort levels across the board. We believe the enhanced amenities would increase the Hilton's international competitiveness, as tourism continues to grow in Sri Lanka.

This stronger financial position was supported by sustained growth in revenues and profitability enabled to successfully turnaround the Company from its continuous loss making situation to a profit making situation and for the first time in the history of the Company to repay Rs. 1 Billion of the Government loan in June 2013. Continuing from the previous financial year, HDL continued with the profitable situation although there has been a decline owing to the drop in occupancy due to the decision taken to close the hotel in December 2013, which also resulted in the Airline Crews moving out to the other competitor hotels. This resulted in a drop in occupancy of around 15%-20%. As a result, the profit after tax declined from Rs. 516 Mn in 2012/13 to Rs. 192 Mn in 2013/14 reflecting a decline of 63%. The Profit after tax for 2012/13 of Rs. 689 Mn included an interest write back of Rs. 173 Mn on the Government loan due to conversion into Equity.

Gross Revenues saw an 18% decrease over the previous year to reach Rs. 2,540 Mn from Rs. 3,111 Mn, due to the drop in occupancy levels.

Total operating costs that stood at Rs. 2,392 Mn in the 2012/13 financial year has come down to Rs. 2,280 Mn with the reduction in occupancy.

The Company's long term finance costs declined from Rs. 347 Mn. in the previous financial year to Rs. 251 Mn resulting in a saving of Rs. 96 Mn. This significant reduction is due to the Government loan repayment of Rs. 1 Bn in June 2013 and the conversion of the balance loan outstanding as at 31st December 2013 into equity.

The current year saw the Company's net asset value reach Rs. 13 Bn with the conversion of the balance loan in to equity reflecting an improvement of 23% against the previous year. Cash surplus in financial assets remain unchanged of Rs 2.2 Bn during the year under review.

### **CHOGM November 2013**

Hilton Colombo was one of the two hotels selected to host the Heads of State who attended CHOGM in November 2013.

Hilton Colombo had 16 Heads of State and eight others who were heads of delegations.

### **Outlook**

The HDL is now on a growth path supported by improved financial health and an improved external environment of rising tourist arrivals. The extensive renovations will also contribute towards firmly anchoring the Hilton Colombo as a high end tourism product, on par with the international image of the Hilton brand. In this scenario the Company can confidently look towards growth prospects in the future as the Sri Lankan economy shifts gears into a higher growth trajectory.





# CORPORATE GOVERNANCE

## THE BOARD HAS INTRODUCED ADEQUATE INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS TO SAFEGUARD THE SHAREHOLDER INVESTMENTS AND THE COMPANY'S ASSETS.

The Board of Directors of Hotel Developers (Lanka) PLC is committed and takes responsibility in maintaining the highest standards of Corporate Governance in compliance with the Corporate Governance Rules of the Colombo Stock Exchange and the "Code of Best Practice on Corporate Governance" of the Institute of Chartered Accountants of Sri Lanka. The Board of Directors ensure that the Company's responsibility to uphold the highest standards of business integrity, ethical values, transparency and professionalism in all its activities are maintained.

### The Board of Directors

It is the responsibility of the Board of Directors to provide entrepreneurial leadership for the Company, formulate corporate strategic goals, values and standards, reviewing performance so that the Company could fulfill its obligations to its stakeholders. During the year ended 31st March 2014, the Executive Director, Mr V. Kanagasabapathy resigned from the Board of Directors on 19th February 2014 and Mr. K. M. M. Siriwardena Director General , Department of Fiscal Policy was appointed to the Board with effect from 19th February 2014. As at 31st March 2014 all the five Directors of the Company were Independent Non-Executive Directors as indicated below:

Mr T Nadesan	- Independent – Non Executive
Mr. K. M. M. Siriwardena	- Independent – Non Executive
Mr.Nihal Jayawardane P.C.	- Independent – Non Executive
Dr Tissa Wickramasuriya	- Independent – Non Executive
Mr. Kosala Wickramanayake	- Independent – Non Executive

During the year ended 31st March 2014 the Board met on twenty one (21) occasions and the number of meetings attended by the Directors is given below:

Name of Director	No of Meetings attended
Mr. T Nadesan	20
Mr. K. M. M. Siriwardena	03
Mr. Nihal Jayawardane P.C.	19
Dr. Tissa Wickramasuriya	19
Mr. Kosala Wickramanayake	17
Mr. V Kanagasabapathy	18

The Directors are provided with Monthly Accounts and Statutory Compliance Statements and all matters of importance are discussed and decisions are made at the Board Meetings. Further, Board Papers are submitted in advance on issues which require specific approval of the Board. Minutes of all Meetings are properly recorded and maintained by the Company Secretaries.

### Internal Controls and Risk Management

The Board has introduced adequate internal controls and risk management systems to safeguard shareholder investments and the Company's assets. The Board is fully aware that internal controls have inherent limitations and do not provide absolute assurance against fraud and error.

The Board of Directors reviewed the Monthly Accounts and performance of the Company against approved budgets on a regular basis.

### Audit Committee

The Board has constituted an Audit Committee which consists of the following two Independent, Non-Executive Directors and a member nominated by Institute of Chartered Accountants of Sri Lanka (ICASL).

Mr. Kosala Wickramanayake - Committee Chairman (Independent, Non-Executive Director)

Dr. Tissa Wickramasuriya - Committee Member (Independent, Non-Executive Director)

Mr. Asoka Jayasinghe - Committee Member (Member nominated by ICASL)

The Audit Committee scrutinise and analyse the Report on the Internal Controls of the Hotel Operations which is prepared by the Internal Auditors Ms. Ernst and Young and ensure application of strict control over the affairs of the Hotel and the Company. The Audit Committee makes recommendations to the Board on necessary improvements to the internal control systems of the Hotel/ Company. The Report of the Audit Committee is set out on page 49 of this report.

### Remuneration Committee

The Remuneration Committee of the Company during the year comprised of the following members:

Mr. Kosala Wickramanayake - Committee Chairman (Independent, Non-Executive Director)

Dr. Tissa Wickramasuriya - Committee Member (Independent, Non-Executive Director)

Mr. Nihal Jayawardene P.C - Committee Member (Independent, Non-Executive Director)

### Company Secretaries

Company Secretaries provide advice to the Board on matters relating to the Companies Act, the Colombo Stock Exchange regulations and other applicable rules and regulations in order to ensure that the Best Governance practices are adopted by the board and its Committees.

### Compliance with Legal Requirements

All Directors have access to the Financial and Management Information of the Company. The Directors make every endeavor to ensure that the Company Complies with Laws and Regulations and to exercise due diligence in managing the affairs of the Company. Additionally, checks and controls are in place to ensure that the policies of the Board are complied with.

As per Section 7.10 of the Listing Rules of the Colombo Stock Exchange the following disclosures are made accordingly and have complied with the Corporate Governance Rules during the period under review and are set out in the table below.

# CORPORATE GOVERNANCE CONTD...

Rule No.	Subject	Applicable Requirement	Compliance Status	Details
7.10.1	Non Executive Directors	At least 1/3 of the total number of Directors should be Non-Executive Directors.	Complied	All Five Directors are Non-Executive Directors.
7.10.2 (a) & (b)	Independent Directors	2 or 1/3 of Non-Executive Directors, which is higher should be independent.	Complied	All Five Directors are Independent Directors.
		Each Non-Executive Director should submit a declaration of independence/ Non independence in the prescribed format.	Complied	
7.10.3	Disclosure relating to Directors	Names of Independent Directors should be disclosed in the Annual Report.	Complied	Please refer to information pertaining to the Directors and Board Sub-Committees in the Annual Report.
7.10.5	Remuneration Committee	There shall be a Remuneration Committee comprising of a minimum of two independent Non-Executive Directors.	Complied	Please refer to information pertaining to the Directors and Board Sub-Committees in the Annual Report.
7.10.6	Audit Committee	The Company shall have an Audit Committee.	Complied	The Board has constituted an Audit Committee.
	7.10.6 (a) Composition of Audit Committee	Shall Comprise of Non-Executive Directors a majority of whom shall be independent.	Complied	Audit Committee which consists of two Independent, Non-Executive Directors and a member nominated by the Institute of Chartered Accountants of Sri Lanka (ICASL), all of whom are independent.
		The Chairman of the Audit Committee or one member should be a member of a professional accounting body.	Complied	One member of the Audit Committee is a member of a Professional Accounting Body.

## Other Policies and Practices

### Obtaining Independent Professional Advice

The Board in discharging its duties seeks independent professional advice from external parties when necessary, at the Company's expenses.

### Dedication to matters of the Board and the Company

The Board of Directors devote adequate time to the fulfillment of its duties and the Directors of the Company. The Board has delegated day to day operations of the Company to the Chief Executive Officer of the Company.

By Order of the Board  
Hotel Developers (Lanka) PLC



Kosala Wickramanayake  
Director



S S P Corporate Services (Private) Limited  
Secretaries

11th August 2014

# RISK MANAGEMENT

**BEING IN AN INDUSTRY WHICH IS DYNAMIC AND MORE VULNERABLE TO FREQUENT CHANGES IN THE GLOBAL AND LOCAL ENVIRONMENTS, INTENSIFIES THIS IMPORTANCE TO HILTON COLOMBO.**

The concept of risk is inevitable and inherent to businesses. Being in an industry which is dynamic and more vulnerable to frequent changes in the global and local environments, intensifies this importance to Hilton Colombo. The identification, analysis, evaluation and management of risks are thus integrated into the Hotel's strategic planning process as well as its governance framework.

## **Responsibility**

The responsibility for maintaining an effective system of internal control and risk management at Hilton Colombo lies with a Risk Management Team headed by the General Manager and comprising of Functional Heads of the Hotel. The process followed by the Team is as per the framework established by the Risk Management Division of Hilton Worldwide.

## **The Management Framework**

The team takes the responsibility for the early identification of potential risks through a variety of means such as intelligence gathering, quality audits, safety audits, internal audits and customer feedback and reports of incidents. The risks thus identified are then assessed by the team in terms of business impact, likelihood of occurrence and velocity. The product of these

risk rankings are tabulated in a risk grid that rates the risks on a scale of 'High to Insignificant' enabling the company to prioritise the risks and to plan out risk mitigation strategies classified as Preventive, Detective and Corrective action plans.

The Risk Management Team reviews the identified risks on a quarterly basis and the assigned risk owners are responsible for the implementation of any mitigatory action. The Risk Review is also on the agenda of Risk Management meetings.

Risk Category & Description	Control Measures and Action Plans to Mitigate Risks
<b>Technology &amp; Information Risk</b>	
Risk of failure of electronic systems and inadequacy of information systems (IS).	<p>Implementation of a fully integrated, property management, material management, Point of Sales and financial information systems, to ensure a seamless flow of information and operational efficiency.</p> <p>Continuous improvement of the Disaster Recovery Plan to address risks in the event of a disruption to the system.</p> <p>The IT Division has implemented controls to safeguard the computer installations of the hotel to reduce downtime and ensure continuity of operation.</p> <p>Continuous review of the network protection process is carried out to ensure the security and integrity of information.</p>
<b>Gaps in Internal Process &amp; Procedures</b>	
The risk of financial loss, breakdown in Controls and disruption of business.	<p>Clearly defined systems &amp; procedures are in place to ensure compliance with internal controls which are periodically reviewed to ensure continued effectiveness.</p> <p>An external Audit Team from Hilton Worldwide carries out regular reviews and reports on the adequacy and effectiveness of these systems and the levels of compliance.</p>
Significant losses of property and equipment due to natural or man-made disasters.	Adequacy of insurance covers are reviewed regularly and updated when necessary. Crisis management and business recovery plans have been adopted to safeguard the assets and enable speedy recovery and these are reviewed periodically.
<b>Credit Risk</b>	
Exposure and losses due to default by debtors.	<p>Credit policy and stringent controls are in place to mitigate the impact of default. Credit limits are reviewed on a regular basis.</p> <p>Debtor balances are constantly monitored and reviewed with collection targets, and progressive action is taken as required.</p>
<b>Liquidity Risk</b>	
Inability to meet financial commitments on due dates.	Regular review mechanisms are in place to monitor the performance of the company against approved budget targets, to achieve a balance between liquidity and profitability. Capital investments are planned so as not to adversely impact Cash Flows and the Gearing of the Company.

# RISK MANAGEMENT CONTD...

The Hilton Colombo confirms that a process for identifying, evaluating and managing significant risks that endanger the achievement of the strategic plan of the Hotel has been in place throughout the year and this process is in accordance with the guidelines set out by Hilton Worldwide of USA. Industry Best practices and Potential Financial Risks in compliance with the Sri Lanka Accounting Standards (LKASs and SLFRSs) are taken into account. The Risk Management Team has reviewed the Business Risk Management process by the Hotel and notes that the risk management exercises have been conducted effectively.

For the financial year ending 2013/14, below are some of the key items included in the risk register of the Hilton Colombo along with the status and action plan for each.

Risk Category & Description	Control Measures and Action Plans to Mitigate Risks
<b>Operational Risks</b>	
<b>Competitive Risk</b>	
Reduction in market share, failure to be competitive resulting in lower occupancy and room rates.	<ul style="list-style-type: none"> <li>• Strict adherence to service standards to ensure superior quality in service delivery and value for money.</li> <li>• Upgrading and enhancing facilities and services.</li> <li>• Reviewing and monitoring adherence to Brand Standards and Standard Operational Procedures (SOP).</li> <li>• Anticipating competitor strategies and new entrants to the market and formulating strategies accordingly.</li> <li>• Constant creativity and innovation in products and services.</li> <li>• Continuous review of guest feedback and prompt responses to address issues in order to create customer delight.</li> </ul>
<b>Brand Image &amp; Reputational Risk</b>	
Any event or action that may cause material damage to the brand and reputation of the company.	<ul style="list-style-type: none"> <li>• Conduct regular brand audits and mystery audits for guests' feedback on both facilities and services.</li> <li>• Compliance with environmental, health &amp; safety best practices by obtaining HACCP and other quality standards certification.</li> <li>• Benchmarking industry best practices in terms of both product and service.</li> <li>• Ensuring key managerial positions are held by suitably qualified and trained staff with sufficient experience in the hotel industry.</li> <li>• Innovative service delivery in keeping with the brand promise.</li> <li>• Responsible corporate citizenship through CSR initiatives.</li> </ul>

Risk Category & Description	Control Measures and Action Plans to Mitigate Risks
<b>Human Resources Risk</b>	
<p>Risk of losing key personnel and skilled staff; inappropriate labour action.</p>	<ul style="list-style-type: none"> <li>• Structured training programmes, cross exposure training opportunities arising from the performance appraisal process.</li> <li>• Emphasis on good employer-employee relationships, employee welfare and effective and open communication with the labour union to achieve win-win outcomes.</li> <li>• Fostering a spirit of unity and self belonging via the organisation of associate gatherings, outings, family get-together and religious events.</li> </ul>
<p>Risk of injuries/health hazards to employees due to possibility of exposure to hazardous work conditions / chemicals.</p>	<p>Strict adherence to lay down safety standards and procedures.</p>

# SUSTAINABILITY REPORT

**WE ARE PART OF A GLOBAL HOTEL CHAIN THAT HAS FOR DECADES BEEN RECOGNISED AS A LEADER IN SERVICE EXCELLENCE, MAKING OUR BRAND VALUES AND SERVICE DELIVERY INTEGRAL TO OUR STAKEHOLDERS.**

We are in the business of service; that's the axis upon which we have built our business and the foundation upon which our success is constructed. This unique brand of service is a Hilton constant. We are part of a global hotel chain that has for decades been recognised as a leader in service excellence, making our brand values and service delivery integral to our stakeholders. At the same time, we know we operate in a milieu that is continually transforming, underpinning the fact that evolution is a constant and very centric to the ultimate delivery of our brand promise. This brand promise does not however simply extend to our guests alone, but across the board to those discerning stakeholders who recognise quality and standards and expect us to exceed their lofty expectations.

The Hilton brand promise is an envisaged expectation by each of our stakeholders, whether it is our highly driven team who are the conduit that deliver that promise and are at the heart of the evolution that has been imperative since our inception or our valued business partners whose unwavering need to work with us in solidifying a win-win partnership or our investors, who have been the key drivers in giving us the impetus to continually strive towards goals that are ambitious. These stakeholder segments remain the trusses to ensuring the Hilton's sustainability. However, within the stakeholder

equation, we are very cognizant of the Hilton's responsibility towards the communities we work in and to the environment, as we realise and acknowledge that as an industry steward, there's an inextricably intertwined responsibility that we have in uplifting our community and preserving and conserving the environment.

This means that each of the decisions we take and the impact it has on each of our stakeholders and the environment must be analysed in totality before we embark on any initiative, ensuring that our actions must also be of benefit to the community and environment. This also permeates an understanding among us that while we must evolve with the continually higher demands of quality, service and innovation that is expected of us, as a corporate steward, this evolution must be responsible to permeating that shared value through our business and society.

## **Vision**

To fill the earth with the light and warmth of hospitality.

"Hilton Worldwide Team Members find ways to extend their daily work towards a higher purpose. In doing so, they inevitably create shared value both for our business and society.

This concept is core to how we operate as a global hospitality leader; when we create value for our business and society, we contribute to these issues in a way that is sustainable into the future, and we inevitably impact an issue that is far greater than our own business.”

### Being part of an International Chain

Being a part of a global family can be very exciting as it enables us to think and act aligned to a larger mindset where our brand of care and respect for our stakeholders will always be positioned on a global platform. For HDL, this is the differentiating feature in ensuring a sustainable well managed going concern. Given that we are engaged in the hospitality industry, guest and service orientation is quintessential to our existence and as our vision intones, it is our responsibility to fill the earth with light and warmth of hospitality and this is what we do best. And using this as our founding tenet, we have been driven to establish a CSR mission that truly espouses our thoughts and ideas that speaks of sustainability in its most genuine context.

### CSR Mission

To harness our passion and expertise to address the social, economic and sustainability issues that impact our business and are important to the communities where we live, work and travel.

This passion that we possess is inherent and the expertise we have amassed within our team is the premium ingredient that gives us the edge in corporate stewardship. We encourage an open and informal culture in our working environment, which includes a first name policy and a non-hierarchical milieu reflective of the Hilton Worldwide precept to foster and nurture team spirit and camaraderie, which naturally permeates in the high levels of service quality that seals our leadership. Therefore we welcome a significant percentage of repeat customers who we are able to enumerate through the Hilton Worldwide loyalty programme, Hhonours, giving the added benefits of earning points, while enjoying that signature Hilton hospitality available at 4100 properties worldwide.

The satisfaction gauge is further entrenched through SALT, the satisfaction and loyalty tracking survey online which enables us to quantify and qualify customer experiences through a ten point rating system. The ratings and feedback received through this survey is an apt barometer for us to continually improve our product, service quality and innovate ideas that guests suggest, while also instituting proactive measures for improvement when any facet is flagged as unsatisfactory or not meeting customer expectations. The response to any complaint is at a timeline of 24 hours and has to be adhered to very stringently in accordance with stipulations laid down by Hilton Worldwide.

### The Structure Driving CSR

Conceptualised three years ago, the Blue Energy Team is expressly the platform upon which the unique Hilton spirit sits strongly upon. This Team, which gains the fullest support of the General Manager, spearheads the four areas of Community Relations, Team Relations, Guest Relations and Sustainability.

The Blue Energy Team is reflective of the strength of the Hilton corporate colour echoing the unique energy force inherent among the Hilton team. It is interesting that the Blue Energy Team was the result of a global team initiative spearheaded by the Listen and Learn Team, whose enthusiasm in nurturing brand values, brand promise and brand delivery in a sustainable context formed the core of the ultimate Blue Energy concept. The four key areas coming under the umbrella of the Blue Energy Team therefore is integral to sustainable development and each Hilton property around the world, has one.

Each of the four key areas is championed by a team member who leads a twenty member cross functional management team is tasked primarily to ensure that the Hilton values of hospitality, integrity, leadership, teamwork and ownership remain at the heart of our business. The team meets once a month.

# SUSTAINABILITY REPORT CONTD...

## Economic Impact

Our industry leadership is manifold and is designed to permeate our knowledge, expertise and competencies among our stakeholders, which will ultimately reflect on the economic development of the nation.

## Sharing knowledge and skills

Knowledge permeation thus remains integral to ensuring that the industry is impacted positively by our presence. This has led us to recruit approximately fifty students from hotel schools across the island twice a year, enabling them to follow an intense training and development programme spanning six months, giving them in-depth knowledge in various operational departments including Food & Beverage, Housekeeping and Front Office.

We have also extended our knowledge permeation for Kitchen Apprentices, in collaboration with the National Apprentice & Industrial Training Authority (NAITA). This comprehensive three year programme for aspiring chefs was initiated in 1988 where systematic and professional training covering both theory and practice is extended to the participants in all the different kitchens at the Hilton Colombo, gaining knowledge in various culinary skills including international cuisine such as Chinese, Italian and Sri Lankan. Since the inception of this programme, over one hundred

competent chefs are now gainfully employed both nationally and internationally in star-class properties.

## Governance & Risk Management

While the full governance and risk management report is found elsewhere in this Annual Report, it should be emphasised that given our global presence, Hilton Colombo adheres very strictly to a culture of stringent compliance as is required by Hilton Worldwide. In addition, we also comply with Sri Lankan diktats that require compliance to ensure transparency, accountability, trust, ethics and sincerity of action. Given below are snapshots of some initiatives that have an impact on the Company's sustainability.

- Conduct of mandatory online training courses for team members on Code of Conduct which lead to adherence of business ethics, global citizenship, etc.
- Stringent compliance with Sri Lanka Accounting Standards (LKAs and SLFRSs).
- Implementation of a contingency plan for IT recovery.
- Compliance with Hilton Worldwide International Brand Service Standards.
- Conduct of regular (bi-annual) audits to ensure maintenance and adherence to brand standards.

- Implementation of regular training programmes for the team.
- Compliance with safety and best practices as required of our HACCP certification.

## Investor Relations

Hilton Worldwide is one of the largest and fastest growing hospitality companies in the world, with more than 4,100 hotels, resorts and timeshare properties comprising of more than 685,000 rooms in 92 countries and territories. In nearly a century since our founding, we have defined the hospitality industry and established a portfolio of 11 world-class brands, including the flagship full-service Hilton Hotels & Resorts brand, which is the most recognised hotel brand in the world. Our premier brand portfolio also includes the luxury hotel brands; the Waldorf Astoria Hotels & Resorts and Conrad Hotels & Resorts, full-service hotel brands Curio - A Collection by Hilton, Double Tree by Hilton and Embassy Suites Hotels. In addition, within this extensive portfolio is the focused-service hotel brands Hilton Garden Inn, Hampton Inn, Homewood Suites by Hilton and Home2 Suites by Hilton, as well as the timeshare brand Hilton Grand Vacations (HGV).

There are more than 300,000 team members serving in Hilton properties and corporate offices around the world, while HHonors, the award winning customer loyalty programme encompasses an approximate 40 million

membership. Hilton HHonors contributes over 40% of folio charges worldwide.

Given the global stature of our brand and the values and promise it denotes, investors around the world have been aptly rewarded, both in a quantifiable sense as well as the honour that is bestowed in being a part of this brand. Hilton Colombo meanwhile retains a loyal investor portfolio which is reflective of the strong relationship we have nurtured with this stakeholder segment and intend to ensure that by transforming this property into a profit making entity from the last two years onwards and in astutely cleaning the balance sheet systematically, our investors would be unequivocally rewarded sooner rather than later.

### Valued Business Partners

Hilton Colombo adheres to a Hilton Worldwide Purchasing Policy and maintains transparent relationships with all suppliers. Purchase requests are made through an automated system, where necessary approvals are implemented via the system itself. The entire process works on a transparent accountable base where if a request for a particular item is raised in the system, the Purchasing Department calls for quotations. A minimum of three quotations is required. Our suppliers who are valued business partners in our sustainability journey, must be compliant with required specifications, ensure

value for money and be a reliable supplier assuring a quality product. These form the main criteria in this partnership. The best supplier with justifiable reasons will receive the order and/or contract after necessary approvals.

### Accolades and Standards

- Recertification of the ISO 22000 Food Safety Management System until 2017 by SGS Lanka Pvt Ltd.
- A+ Award at the Food Safety Excellence High Achievers Awards 2013 by the Colombo Municipal Council.

### Social Impact

Being an organisation that is founded by people who are passionate about people, we are very cognizant of the impact our decisions have on the people who work with us, for us and around us. This means that our team has the ownership to imbue our vision on each stakeholder segment, permeating our values to our community in order that the community becomes sustainable due to our presence among them.

### Our People

The Team of Hilton Colombo is passionate about what they do. This passion drives them to reach new heights in service excellence, ensuring that our special brand of care and respect is

imbued into our unique service persona. We acknowledge very strongly that it is our team who are the custodians of our vision and it is they who are responsible to drive it to fruition. We know that our team lives and breathes our values and it is this that remains the primary reason for an impressive number of repeat guests who have become loyal customers of the Hilton Colombo. The knowledge gaining culture which makes them passionate and enables our team to reach beyond horizons has seen our team have an unprecedented commitment and attention to detail that ensures that guest expectations are continually exceeded.

It is this culture that has inspired the inherent passion which we call, 'Blue Energy'. It is imperative that each of our team members embodies the quintessence of Blue Energy, making it their very own quest to make each stakeholder's experience with Hilton Colombo special, embodying the concept of Hilton Colombo being their home away from home.

Our people process begins at recruitment. This initial identification of the ideal team member who will not only fit into our winning culture but also add value with their individualism and personality into our global brand is based on comprehensive criteria collated into a blend of international standards, a global culture and

# SUSTAINABILITY REPORT CONTD...

local convention. Hilton Colombo is linked to the Hilton Worldwide's global recruitment portal Taleo, which raises all recruitment requisitions to the system and is posted online after a requisite approval.

Based on the standardised set of guidelines, the Hilton Colombo seeks and recruits individuals who would be invaluable assets to the global brand, possessing germane experience and qualifications. This is further augmented with recruits who have a positive attitude, compatibility with the Hilton values and are culture and able to thrive in a service environment.

A structured Job Grade System is also well integrated into our HR recruitment process which is an avenue that creates awareness among team members of the opportunities available both vertically and horizontally across the organisation.

A comprehensive handbook which details the Hilton Colombo's HR policies and procedures are given to each new recruit, while an orientation programme ensures that all new recruits are given a comprehensive introduction to ensure they fit into the Hotel's culture and are well versed with the Company's values and expectations.

Retention is also a key factor in our success formula. This stems from the emphasis we employ in recruiting the right person for the right job, which naturally permeates retention of the best among the best in the industry. Our competitive remuneration package, learning and developmental opportunities including overseas cross exposures and the unique culture of the Hilton Colombo created through Blue Energy, all contribute impressively towards a low attrition within the Hotel's HR strategy.

## Human Resources

The Human Resources vision of the Hilton Colombo is 'To become the Employer of Choice in Sri Lanka', while our mission is 'To become an HR business partner, adding value to the business through HR Leadership, Learning & Development, Performance Management, Team Member Engagement and Retention.

Aligned to the Company's strategic plan, Hilton Colombo develops an annual Human Capital Plan, wherein the strategic objectives are initiated under SMART Action Plans in the following categories:

1. Learning & Development
2. Team Member Retention
3. Performance Management
4. Compensation & Benefits
5. Team Members' Engagement
6. HR Administration

The uniqueness of the Hilton family is derived from the fact that we encompass diverse cultures serving diverse guests. We seek to understand our global communities, while developing culture, talent and marketplace strategies that foster a work environment of inclusiveness. This also means that our team is expected to possess the highest standards of integrity, ethics and service excellence. Given that Hilton Colombo's team of nearly 700 dynamic motivated individuals hail from all parts of the country, each contributing their own thought processes, individualism, experience and personalities into this global mix, we are well aware that we contribute significantly to the global success factor of Hilton Worldwide which thrives within the concept of there being unity in diversity. The advantage of having access to all these multiple nationalities also gives us an edge wherein we have access to adding to our team, in order to maximise the opportunities we have within a competitive industry. This has led us to employ two expatriate chefs from England and India, who are now firmly entrenched in augmenting our mix of offerings.

"Learning & Development – Key to our success"  
We believe strongly in optimising the knowledge levels of our impressive team as it is our constant thirst for knowledge that enables us to remain ahead of the intense competition and deliver service levels beyond expectation.

This lifelong learning process begins at orientation, when upon recruitment, team members participate in a comprehensive first day welcome programme, standardised across all Hilton Hotels but with some features customised to local requirements. The progressive learning and development milieu then moves on to offer team members a diverse array of learning and development opportunities throughout their careers at Hilton Colombo, designed to empower these individuals to achieve their career goals, while contributing their maximum to the Hilton Colombo's goals and ambitions.

The comprehensive HR processes enables the HR Department to identify individual learning and development needs based on competencies, capabilities, knowledge levels, skills and talent, aligning them to the business requirements, goals and objectives of the Company. These training opportunities therefore could range from the simple preparation of a salad to Management Development Programmes conceptualised to groom team members with leadership abilities for upward mobility, including progress towards senior management or General Manager positions.

On par with global standards, all team members of the Hilton Colombo are granted access to the Hilton Online University. This is an online training platform comprising of thousands

of programmes which can be accessed by logging into the system and undertaking various courses and training programmes which add significant value to individual career goals. Courses are assigned based on developmental needs and operational requirements as well as Hilton International standards.

Our comprehensive Performance Development Reviews which reviews employee performance across the organisation on a structured non-ambiguous platform, ensures that meritocracy and transparency are inextricably blended into the ultimate progression and succession plan for any team member. When team members are recommended for promotions, structured assessments are conducted to evaluate suitability of the candidate for the position at hand. Progression at Hilton Colombo also relies on the team members leadership qualities, competencies, capabilities, observed future potential and current performance.

### Work-life Balance

Strongly believing that good work-life balance is centric to retention and motivation, the HR Department in collaboration with the Blue Energy Team facilitates numerous initiatives that would ensure an astute maintenance of work-life balance. The in-house team restaurant, dormitory, recreation room and lockers are facilities that have been introduced over the

years but are periodically upgraded to ensure that facilities are functional and on par with the team's expectations.

In addition, the Blue Energy Committee also organises a slew of activities to foster unity, camaraderie and team spirit among the Hilton Colombo Family. These include the annual team party, children's party, quarterly Blue Energy Awards and New Year celebrations.

### Operational Health & Safety

We retain an excessively compliant Operational Health & Safety accent at Hilton Colombo to ensure that each of our stakeholders who enter our property are assured of serving or being served within a safe, healthy and clean environment devoid of any foreseeable dangers. An in-house medical clinic manned by an experienced doctor and relevant medical team is available at the hotel five days a week, while a resident nurse adds to the medical services available.

All team members undergo basic fire safety training at orientation, while this training is refreshed annually to empower our team to handle emergencies with apt knowledge and expertise. The Hilton Colombo also possesses an Emergency Response Team, selected from among candidates picked from all departments, who receive comprehensive

# SUSTAINABILITY REPORT CONTD...

training on extensive safety procedures including advanced fire fighting, first aid and CPR. They are trained to take complete ownership of any emergency situation. In addition, it is pertinent to note that all Heads of Departments, Duty Managers and members of the ERT team undergo expansive training in crisis management.

Operational Health & Safety training also takes precedence within our safety calendar, where relevant team members who are trained are also provided with the requisite safety equipment and tools including goggles, masks, boots and gloves, to ensure optimum protection and compliance.

Given that Hilton Colombo is a certified ISO 22000 entity in Food Safety Management, our emphasis in fully complying to food hygiene standards is critical. Our infrastructure is continually evaluated and training imparted to the team to ensure absolute compliance. Regular medical examinations are conducted as well, while relevant vaccinations are given to all food handlers.

## Our Community

Based on the three primary platforms of empowering the differently able, health and community development, Hilton Colombo is very emphatic about uplifting the communities

around us, ensuring that our intervention is constructed on the strong truss of sustainable development. This means that our team is continually engaged with our community throughout the course of the projects and beyond, where building long term sustainable relationships with our communities for a fruitful win-win relationship is the ultimate goal.

Hence, each of our projects involve an analytical discussion process wherein teams driving these projects under the leadership of the Blue Energy Team headed by the General Manager would study the benefits and advantages that would ensue for the community through our intervention, working out ways that would maximise these benefits in a sustainable context to the beneficiaries of these projects and also enabling our team to gain the most out of their volunteerism in engaging proactively with the community.

## Empowering the Differently Able

### Deaf & Blind School Celebrations

In order to develop social skills of children who are visually challenged and those with impaired hearing, Hilton Colombo organised Easter celebrations for the children of the Deaf & Blind School, giving them an opportunity to engage in fun activities and showcase hidden talents enjoying time with team members. We also invited these students to be a part of the Hilton

Colombo's signature event at Christmas which is the lighting of the Christmas tree, organising refreshments, games and prizes to augment and share the spirit of Christmas among these differently able children.

### AIDEX Sports Festival for the Specially Able

This annual sports festival organised for the Specially Able, saw Hilton Colombo support this event by providing snack packs for participants, in a bid to empower those who are specially able to showcase their sporting prowess.

### Sunshine Games for the Differently Able

It was indeed rewarding for our team members to be a part of the annual Sunshine Games by sponsoring lunch for the 750 differently able children participating in this widely popular sporting activity for the differently gifted.

### White Cane Fund Raising Project - Car Wash

A car wash was organised to raise funds for the annual International White Cane Day which is the signature calendar event for the Welfare Society of the Blind. The funds collected through the volunteerism of our team funded the purchase of 100 white canes for use by the visually challenged.

## Health

### Blood Donation Campaign

In conjunction with the National Blood Bank, Hilton Colombo organised a blood donation campaign within the hotel premises which saw more than 80 team members donate blood. Blood donations are considered a meritorious act in Sri Lankan culture given that blood is a lifeline for those who are facing life and death situations.



### New Medical Equipment

Believing strongly that a healthy nation etches the path for a well developed country, Hilton Colombo was instrumental in presenting LKR 100,000 to the Colombo National Hospital, which is the largest state hospital in the country. It offers free medical care to anyone who requires medical attention irrespective of nationality, religion or ethnicity and this donation was towards the purchase of vital medical equipment required to impart more contemporary care to patients.



# SUSTAINABILITY REPORT CONTD...

## Community Development

### Room To Read

Based on the commitment made by Hilton Worldwide, Hilton Colombo presented US \$2,500 towards Room To Read, which is a global organisation committed to promoting and encouraging the habit of reading among primary school children living in nations that have little access to education and hence, may never be able to read or write. The Hilton Colombo donation went towards opening a library for an economically challenged school in the Puttalam District. Given that over 60 million primary school children worldwide face this predicament and based on the fact that Room to Read believes that all children, regardless of gender or background, have a right to education, Hilton Colombo is totally committed to empowering children through this lifelong gift through which they will be able to realise their full potential.

### Elder's Day Celebrations

Very cognizant that elders must be empowered to enjoy life to its fullest in their twilight years, Hilton Colombo organised an annual tea party for the inmates of the Mallika Home for the Elders, commemorating International Elders' Day. Provided with refreshments and entertainment, it was indeed fulfilling to see the elders enjoy the day, dancing and singing as well.

## Other Community Engagements

Our team members' volunteerism begins at the point of identification of each project and spans coordination, preparation and eventual execution of the entire project. In most projects, Hilton Colombo ensures that the relationship we forge with each of these community segments is a long term one and our engagement with them continues year on year founding a stronger sustainable platform in our community engagement.

The Company also took the initiative to distribute Television sets which were replaced under the Refurbishment program to Orphanages, Elders' Homes and Cancer Rehabilitation Centres.

## Environmental Impact

Hilton Colombo remains very cognizant of the responsibilities that come with our lofty status as an industry leader and corporate steward. While we strive to adhere to the triple bottom line reporting concept prevalent throughout the Group, our focus on the three aspects of economic, social and environmental impacts remain well grounded and emphatic on translation into real time positive impact. This has led us to be focused on not only the economic benefits that could be derived from our business operations, but also the sustainable development we permeate socially and the

responsibility that we are bestowed with in ensuring that we take our task as a custodian of the environment very seriously.

Our environmental initiatives are founded on various green strategies employed by Hilton Worldwide, while also instituting environmental initiatives via attitudinal changes, systems and operational processes to reduce our carbon footprint.

### Light Stay – Hilton Worldwide Green Initiative

LightStay is a unique tool used to measure sustainability performance, where Hilton Worldwide calculates and analyses the Company's aggregate sustainability performance across more than 200 indicators. It measures multiple utility and operational metrics including energy, water, carbon, paper product usage, waste, chemical storage, air quality and transportation.

### Celebrating Earth Hour 2014

By switching off power for one hour from 8.30 pm to 9.30 pm in celebrating Earth Hour 2014, Hilton Colombo was able to create awareness of the importance of energy conservation, while also notching a significant positive towards our carbon footprint. By celebrating earth hour, not only were the guests within the hotel and our team members aware of the need for energy

conservation, but it also brought into focus the fact that prudent use of energy is each individual's responsibility, which in the larger scheme of things, does have a significant positive impact on energy usage.

### Prudent Energy Management

A complete overhaul of the mechanical and engineering plant is envisaged in the refurbishment that is currently underway in the hotel, which will undoubtedly impact our energy usage and quantitatively and qualitatively herald a drastic reduction in energy consumption.





# FINANCIAL INFORMATION

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# ANNUAL REPORT OF THE DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Directors of Hotel Developers (Lanka) PLC are pleased to present their Report and the Audited Financial Statements of the Company for the year ended 31 March, 2014.

## 1. Review of the Year

Review of the Company business and its performance during the year, with comments on financial results and future strategic developments, are contained in the Chairmen's statement. (Page 04)

## 2. The Principal Activity

The principal activity of the Company is to carry on the business of proprietors and operators of Hilton Colombo.

## 3. Financial Statement

The Financial Statements of the Company are given on page 50 to 81.

## 4. Going Concern

The Directors are satisfied that the Company has adequate resources to continue its operations in the foreseeable future. The financial statements of the Company have accordingly been prepared on a going concern basis.

## 5. Auditors Report

The Auditors Report on the Financial Statements of the Company is given on page 50.

## 6. Accounting Policy

The significant accounting policies adopted in the Preparation of the Financial Statements are given in Note 04 on page 59.

## 7. Taxation

Provision for taxation has been computed at the rates given in Note 10 to the financial statements.

## 8. Dividends

The Directors do not recommend a dividend on ordinary shares for the year ended 31 March 2014.

## 9. Board of Directors

The Directors of the Company as at 31 March 2013 were:

Mr. T Nadesan - Chairman

Mr. K. M. M. Siriwardana

Mr. Nihal Jayawardane P.C.

Dr. Tissa Wickramasuriya

Mr. Kosala Wickramanayake

Mr. K. M. M. Siriwardana, Director General - Department of Fiscal Policy, was appointed to the Board of Directors of the Company on 19th February 2014 in place of Mr. V. Kanagasabapathy. A resolution re-electing Dr. Tissa Wickramasuriya, who is over 70 years and retires in terms of section 210 of the Companies Act No. 07 of 2007 will be proposed at the Annual General Meeting.

## 10. Interest Register

The Directors have made general disclosures as provided for in Section 192 (2) of the Companies Act No. 7 of 2007. Arising from this, details of contracts in which they have an interest if any are disclosed in Note 35 to the Financial Statements.

## 11. Remuneration of the Directors

The remuneration and other benefit of Directors during the accounting period are as follows;

Director's emoluments Rs. 9,196,429/-

# ANNUAL REPORT OF THE DIRECTORS ON THE AFFAIRS OF THE COMPANY CONTD...

## 12. Directors Interest/ Related Party Transactions

The above details are contained in Note 35 to the financial statements. The Directors have no direct or indirect interest in any contracts or proposed contracts with the Company other than those disclosed.

## 13. Payments to Auditors

The amount paid or payable to the Auditors for the year ended 31st March 2014 is Rs. 2,391,000.

## 14. Donations

The Company has made donations amounting to Rs. 180,000 during the year ended 31st March, 2014.

## 15. Corporate Governance

The Company has put in place systems and procedures to ensure the implementation of sound Corporate Governance Principles. An overview of such practices adopted within the Company is given on pages 24 to 27 of the Annual Report.

## 16. Audit Committee

The Audit Committee of the Company during the year comprised of the following members:

Mr. Kosala Wickramanayake - Chairman  
Dr. T Wickramasuriya  
Mr. Asoka Jayasinghe

The report of the Audit Committee is given on page 49 of the Annual Report.

## 17. Remuneration Committee

The Remuneration Committee of the Company during the year comprised of the following members:

Mr. Kosala Wickramanayake- Chairman  
Mr. Nihal Jayawardane P.C.  
Dr. Tissa Wickramasuriya

## 18. Capital Expenditure

The details of material capital commitments are given in Note 33 to the Financial Statements.

## 19. Property, Plant and Equipment

The details of the property, plant and equipment are given in Note 12 to the Financial Statements.

## 20. Stated Capital

The Stated Capital of the Company as at 31st March 2014 was Rs. 18,116,157,180/- representing 1,811,615,718 ordinary shares.

## 21. 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 its state of affairs. The Directors are of the view that these financial statements have been prepared in conformity with the Sri Lanka Accounting Standards and the Companies Act No. 07 of 2007. The Directors are accordingly satisfied that the financial statements presented herein give a true and fair view of the state of affairs of the Company and the group as at 31st March 2014 and the profit for the year then ended.

## 22. Statutory Payments

The Directors are satisfied that to the best of their knowledge and belief, all statutory payments due to the Government and to the employees of the Company have been made up to date.

## 23. Post Balance Sheet Events

No events have occurred after the balance sheet date which would require adjustments to or disclosure in the Accounts, other than those given in Note 32 to the Accounts.

## 24. Auditors

The Directors recommend that Messrs. SJMS Associates, Chartered Accountants be re-appointed as the Auditors of the Company for the ensuing year. A resolution relating to their re-appointment and authorising the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

## 25. Notice of Meeting

Notice of Meeting relating to the Annual General Meeting of the Company is given on page 82 of the Annual Report.

By Order of the Board of  
Hotel Developers (Lanka) PLC



Dr. Tissa Wickramasuriya  
Director



S S P Corporate Services (Private) Limited  
Company Secretaries



Mr. Kosala Wickramanayake  
Director

11th August 2014  
Colombo

## DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Company's Financial Statements for the year ended 31st March, 2014 have been prepared and presented in conformity with the requirements of the Sri Lanka Accounting standards, the Listing Rules of the Colombo Stock Exchange & the Companies Act No. 7 of 2007.

These Financial statements present a true and fair view of the operations and the position of the Company for the year under review.

The Directors have put in place systems and procedures which enable adequate information to be captured, and which facilitate the maintenance of accurate records.

Appropriate accounting policies have been adopted.

Internal controls have been implemented.

The Directors believe that they have taken all reasonable steps to safeguard the assets of the Company, to ensure the integrity, accuracy and safeguarding of operational data, and to prevent and detect fraud and other irregularities.

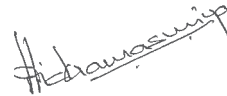
The Directors also confirm to the best of their knowledge that all taxes, duties and levies payable by the Company as at the Balance Sheet date have been paid or where relevant provided for.

M/s. SJMS Associates, the Auditors have examined the financial and other records of the Company. Their opinion is given in the Independent Auditor's Report.

On behalf of the Board



**Kosala Wickremanayake**  
*Director*



**Dr. Tissa Wickramasuriya**  
*Director*

11th August 2014  
Colombo

# REPORT OF THE AUDIT COMMITTEE

## Role of the Audit Committee

Audit Committee being the Sub-Committee of the Board of Directors empowered among other things to examine any matters relating to the financial affairs of the Company, to review and monitor the financial reporting.

The Audit Committee acts as an effective forum in assisting the Board of Directors in discharging their responsibilities on ensuring the quality of financial reporting relating to;

1. Integrity of Company Financial Statement and the Company system of Internal Auditing and Financial Controls.
2. Performance of Internal Auditors.
3. Annual Independent Audit of Company's Financial Statement.
4. Impartial review of the reports of internal and external audits and taking into consideration findings and recommendations.
5. Compliance by the Company with statutory requirements.
6. Adherence to the decisions of the Board of Directors.

## Composition of the Audit Committee

Audit Committee comprises of two Independent Non-Executive Directors and a Nominee from the Institute of Chartered Accountants of Sri Lanka (ICASL) as follows;

- (a) Mr. Kosala Wickremanayake – Committee Chairman (Independent Non-Executive Director).
- (b) Dr. Tissa Wickremasuriya – Committee Member (Independent Non-Executive Director).
- (c) Mr. Asoka Jayasinghe – Committee Member (Nominated by ICASL) while Mr. Asoka Jayasinghe is a Fellow Member of the ICASL the other two Members are professionals having a wealth of experience.

During the year, the Audit Committee had 4 meetings and reviewed the following;

## Annual Financial Statements

Reviewed the Annual Financial Statements together with the Auditor's Report before recommending the same to the Board for approval.

## Compliance

Assisted the Board in ensuring compliance with the Sri Lanka Accounting Standards and other regulatory requirements pertaining to financial reporting.

## Internal Audit

Reviewed the Internal Audit Reports submitted by M/s. Ernst & Young and followed up the recommendations for corrective measures.

## External Audit

It has also reviewed the progress of the Audit carried out by External Auditors by M/s. SJMS Associates and resolved audit related issues with them.



Kosala Wickremanayake  
*Chairman - Audit Committee*

11th August 2014  
Colombo

# INDEPENDENT AUDITOR'S REPORT

# .SJMS.

A S S O C I A T E S  
Independent Correspondent Firm to  
Deloitte Touche Tohmatsu

SJMS Associates  
Chartered Accountants  
No. 02, Castle Lane,  
Colombo 04, Sri Lanka.  
Tel: +94(11) 2580409, 2503262  
Fax: +94(11) 2582452

Restructure & Corporate Recovery  
Tel: 5364293, 5444420 Fax: 5364295  
E-mail: sjmsa@sjmsassociates.com  
Website: www.sjmsassociates.lk

## To the Shareholders of Hotel Developers (Lanka) PLC Report on Financial Statements

We have audited the accompanying financial statements of Hotel Developers (Lanka) PLC, which comprise the statement of financial position as at 31st March 2014, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

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

### Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of financial statements.

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

### Opinion

In our opinion, the company maintained proper accounting records for the year ended 31st March 2014, and the financial statements give a true and fair view of the company's state of affairs as at 31st March 2014 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

In our opinion, these financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.



SJMS Associates  
Chartered Accountants

11th August 2014  
Colombo

P. E. A. Jayewickreme, M. B. Ismail, Ms. A. M. J. Patrick, T. Krishnakumar, Ms. S. L. Jayasuriya, D. S. W. Andradi,  
G. J. David, Ms. F. M. Marikkar, Ms. M. S. J. Henry, Ms. A. U. M. Keppetipola, R. H. M. Minfay, Ms. S. Y. Kodagoda

# STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31ST MARCH 2014

	Note	2013/2014 Rs. '000	Restated 2012/2013 Rs. '000
Revenue	5	2,540,813	3,111,004
Cost of sales		(471,945)	(529,155)
Gross profit		2,068,869	2,581,849
Investment income	6	261,709	170,874
Other gains and losses	7	55,516	214,362
Administrative expenses		(1,516,498)	(1,568,713)
Other expenses		(291,572)	(293,938)
Finance costs	8	(324,895)	(346,965)
Profit/ (loss) before taxation	9	253,129	757,470
Income tax expense	10	(61,398)	(68,336)
Profit for the year		191,731	689,134
<b>Other comprehensive income</b>			
Actuarial loss on employee benefit obligations		(2,253)	(7,173)
Other comprehensive income/ (expense) for the year, net of tax		(2,253)	(7,173)
<b>Total comprehensive income/ (expense) for the year</b>		<b>189,479</b>	<b>681,961</b>
Earning/ (loss) per share - Basic	11	0.16	15.24

The accounting policies and notes from 01 to 36 form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

## AS AT 31ST MARCH 2014

	Note	31.03.2014 Rs. '000	Restated 31.03.2013 Rs. '000
<b>Assets</b>			
<b>Non-current Assets</b>			
Property, plant & equipment	12	5,325,231	5,461,628
Leasehold land	13	6,875,682	6,946,389
Capital work-in-progress		233,961	38,959
Non-current financial assets	14	304,669	330,449
		<b>12,739,543</b>	<b>12,777,425</b>
<b>Current Assets</b>			
Inventories	15	44,062	60,740
Trade and other receivables	16	100,746	157,861
Amounts due from Related Party	17	4,881	1,114
Other assets	18	108,238	112,354
Current financial assets	19	1,857,010	1,762,421
Cash and bank balances		40,787	128,647
		<b>2,155,725</b>	<b>2,223,136</b>
<b>Total Assets</b>		<b>14,895,268</b>	<b>15,000,561</b>
<b>Equity and Liabilities</b>			
<b>Shareholders' Equity</b>			
Stated capital	20	18,116,157	452,261
Shares to be allotted	21	2,350,300	17,663,896
Reserves	22	301,378	304,491
Accumulated loss		(7,330,528)	(7,523,120)
<b>Total Equity</b>		<b>13,437,306</b>	<b>10,897,528</b>


	Note	31.03.2014 Rs. '000	Restated 31.03.2013 Rs. '000
<b>Non-current Liabilities</b>			
Interest bearing loans and borrowings	23	-	3,099,195
Retirement benefit obligations	24	106,179	103,377
Deferred tax liability	25	392,038	405,416
		498,217	3,607,987
<b>Current Liabilities</b>			
Trade and other payables	26	281,346	357,473
Amounts due to related party	27	15,415	41,691
Income tax payable	28	10,833	70,253
Bank overdraft		652,150	25,629
<b>Total Current Liabilities</b>		959,745	495,045
<b>Total Liabilities</b>		1,457,962	4,103,033
<b>Total Equity and Liabilities</b>		14,895,268	15,000,561

I certify that these financial statements comply with the requirements of the Companies Act No. 07 of 2007.

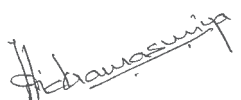


**Sudarshan Sri Rayen**  
Head of Finance

The Board of Directors are responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the Board on 11th August 2014.



**Kosala Wickremanayake**  
Director



**Dr. Tissa Wickramasuriya**  
Director

The accounting policies and notes from 01 to 36 form an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31ST MARCH 2014

	Shares to be allotted Rs. '000	Stated Capital Rs. '000	Furniture, Fittings & Equipment Replacement Reserves Rs. '000	Accumulated Loss Rs. '000	Total Rs. '000
Balance as at 01st April 2012	5,331,948	452,261	458,093	(8,358,684)	(2,116,382)
Profit for the year	-	-	-	689,134	689,134
Leased hold land value converted to equity (Note 20)	7,000,000	-	-	-	7,000,000
MOF loan converted to equity (Note 20)	5,331,948	-	-	-	5,331,948
<b>Other comprehensive income</b>					
Actuarial gain/(loss) on employee benefit obligations, net of taxes - restated	-	-	-	(7,173)	(7,173)
Amounts transferred from FF&E reserve	-	-	(251,900)	251,900	-
Replacement of furniture, fittings and equipment reserve	-	-	(42,719)	42,719	-
Transfer to furniture, fittings & equipment replacement reserve	-	-	141,017	(141,017)	-
<b>Balance as at 31st March 2013</b>	<b>17,663,896</b>	<b>452,261</b>	<b>304,491</b>	<b>(7,523,120)</b>	<b>10,897,527</b>
Profit for the year	-	-	-	191,731	191,731
<b>Other comprehensive income</b>					
Actuarial gain/(loss) on employee benefit obligations, net of taxes - restated	-	-	-	(2,253)	(2,253)
Replacement of furniture, fittings & equipment	-	-	(121,740)	121,740	-
Transfer to Furniture, fittings & equipment	-	-	118,626	(118,626)	-
Shares allotted	(17,663,896)	17,663,896	-	-	-
MOF loan converted to equity	2,350,300	-	-	-	2,350,300
<b>Balance as at 31st March 2014</b>	<b>2,350,300</b>	<b>18,116,157</b>	<b>301,378</b>	<b>(7,330,528)</b>	<b>13,437,306</b>

The accounting policies and notes from 01 to 36 form an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

## YEAR ENDED 31ST MARCH 2014

	2013/2014 Rs. '000	2012/2013 Rs. '000
Profit/(loss) before taxation	253,129	757,470
<b>Adjustment for</b>		
Depreciation and amortisation	327,934	359,379
Write back of loan interest	-	(173,321)
WHT written off	-	2,616
Provision for defined benefit plans	20,088	18,241
Interest expenses	324,877	346,949
Profit on sale of property, plant & equipment	(2,710)	-
Interest income	(261,709)	(170,875)
Operating profit before working capital changes	661,610	1,140,459
(Increase)/ decrease in inventories	16,678	(5,945)
(Increase)/ decrease in receivables	57,115	345
Increase/decrease in amounts due to related parties	30,043	30,470
(Increase)/ decrease in other assets	4,115	(26,389)
Increase/ (decrease) in trade & other payables	(76,127)	(98,055)
Cash generated from operations	633,348	1,040,885
Tax paid	(134,195)	(25,931)
Payment of retirement benefit plans	(19,538)	(8,892)
Net cash generated from operating activities	479,614	1,006,062

## STATEMENT OF CASH FLOWS CONTD...

YEAR ENDED 31ST MARCH 2014

	2013/2014 Rs. '000	2012/2013 Rs. '000
<b>Cash Flows from Investing Activities</b>		
Purchase of property, plant & equipment	(120,830)	(56,799)
Investment in capital work-in-progress	(195,002)	(10,755)
Proceeds from sale of property, plant & equipment	2,710	-
Investments in financial assets	(68,809)	(1,003,185)
Interest income	261,709	170,875
Net cash used in investing activities	(120,223)	(899,864)
<b>Cash Flows from Financing Activities</b>		
Repayment of interest bearing loans	(1,073,773)	(35,384)
Net cash used in financing activities	(1,073,773)	(35,384)
Net increase/(decrease) in cash & cash equivalents	(714,381)	70,813
Cash & cash equivalents at the beginning of the year (Note 29.1)	103,018	32,205
<b>Cash &amp; cash equivalents at the end of the year (Note 29.2)</b>	<b>(611,363)</b>	<b>103,018</b>

The accounting policies and notes from 01 to 36 form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## YEAR ENDED 31ST MARCH 2014

### 1. Corporate Information

#### 1.1 General

Hotel Developers (Lanka) PLC is a limited liability company incorporated and domiciled in Sri Lanka. The registered office and the principal place of business of the company is located at No. 02, Sir Chittampalam Gardiner Mawatha, Colombo 2.

#### 1.2 Principal Activities and Nature of Operations

Hotel Developers (Lanka) PLC is engaged in the business of hospitality trade, owning Hilton Colombo Hotel.

#### 1.3 Date of Authorisation for Issue

The financial statements were authorised for issue by the Board of Directors on 11th August 2014.

### 2. Basis of Preparation

#### 2.1. Statement of Compliance

The financial statements of the company (statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows together with accounting policies and notes) are prepared in accordance with Sri Lanka Accounting Standards, commonly referred to as SLFRS as issued by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007.

#### 2.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following material item in the statement of financial position:

- liability of defined benefit obligation is recognised as the present value of the defined benefit obligation.

#### 2.3 Functional and Presentation Currency

The financial statements are presented in Sri Lankan Rupees, which is the Company's functional currency and presentational currency. All financial information presented in Sri Lanka Rupees is rounded to the nearest rupee unless otherwise stated.

#### 2.4 Comparative Information

The accounting policies have been consistently applied by the Company with those of the previous financial year in accordance with LKAS 01 - presentation of financial statements.

#### 2.5 Materiality & Aggregation

In compliance with LKAS 01 on presentation of financial statements, each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or functions too are presented separately, if they are material.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

## YEAR ENDED 31ST MARCH 2014

### 3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements requires the application of certain critical accounting assumptions relating to the future. Further, it requires the management of the Company to make judgments, estimates and assumptions that affect the reported amounts of income, 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 in future periods. Hence, actual experience and results may differ from these judgments and estimates.

In the process of applying the company's accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognised in the financial statements:

#### a) Taxation

The Company is subject to income taxes and other taxes including value added taxation and nations building tax. Significant judgment was required to determine the total provision for current, deferred and other taxes pending the issue of tax guidelines on the treatment of the adoption of SLFRS in the financial statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

The Company recognised assets and liabilities for current, deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income, deferred and tax amounts in the period in which the determination is made.

#### b) Useful Life-time of the Property, Plant and Equipment

The Company reviews the residual values, useful lives and methods of depreciation of assets as at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

#### c) Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. Therefore, the financial statements continue to be prepared on the going concern basis.

#### d) Impairment Losses on Financial Assets

The company assesses at each reporting date or more frequently to determine whether there is any objective evidence whether an impairment loss should be recorded in the statement of comprehensive income.

#### e) Defined Benefit Plans

The cost of defined benefit plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, etc. Due to the complexity of the valuation, the underlying assumptions and their 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 yield of Sri Lanka Government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rates of the Company.

#### **4. Summary of Significant Accounting Policies**

The significant accounting policies applied by the Company in preparation of its financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

##### **4.1 Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

###### **a) Services**

Revenue from rendering of services is recognised in the accounting period in which the services are rendered or performed.

###### **b) Rooms and Outlet Revenue**

Room revenue is recognised on the rooms occupied on a daily basis and food and beverage revenue is accounted for at the time of sale.

###### **c) Interest**

Interest income is recognised using the Effective Interest Rate (EIR) method.

###### **d) Rental Income**

Rental income is recognised on accrual basis.

##### **4.2 Expenditure Recognition**

Expenses are recognised in the statement of comprehensive income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in running the business and in maintaining property, plant and equipment in a state of efficiency has been charged to the statement of comprehensive income.

For the purpose of presentation of the statement of comprehensive income, the "function of expenses" method has been adopted, on the basis that it presents fairly the elements of the Company's performance.

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in the statement of comprehensive income.

##### **4.3 Taxation**

###### **4.3.1 Current Tax**

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date.

###### **4.3.2 Deferred Tax**

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

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

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

## YEAR ENDED 31ST MARCH 2014

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent 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 is probable that future taxable profit will allow the deferred tax asset to be recovered.

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

#### 4.4 Non-financial Asset

##### 4.4.1 Property, Plant and Equipment

###### a) Recognition and Measurement

Property, plant & equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 16 - property, plant & equipment. Initially property and equipment are measured at cost.

###### Cost Model

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

###### Subsequent Cost

Subsequent expenditure incurred for the purpose of acquiring, extending, or improving assets of a permanent nature by means of which to carry on the business or to increase the earning capacity of the business is treated as capital expenditure and such expenses are recognised in the carrying amount of an asset. The costs associated with day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income as incurred.

###### Depreciation

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is charged from the date of purchase to the date of disposal on prorata basis. The rates of depreciations based on the estimated useful lives are as follows:

Category of asset	%
Buildings	2.5
Plant and machinery	7.5
Refrigerators & kitchen equipment	7.5
Computers & televisions	20
Motor vehicles	25
Furniture, fittings & equipment	10
Other facilities	20

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

###### De-recognition

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'other operating income' in the statement of comprehensive income in the year the asset is derecognised.

##### 4.4.2 Impairment of Non-Financial Assets

The Company 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 Company estimates the asset's recoverable amount.

#### 4.5 Prepaid Lease Rental

The leasehold land is being amortised on an equal annual basis over 99 years, which is the period of the lease. The amortisation commenced from June 2012.

#### 4.6 Inventories

Inventories are valued at the lower of cost and estimated net realisable value, after making due allowances for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for cost of realisation and/ or cost of conversion from their existing state to saleable condition.

The cost of each category of inventory is determined on the weighted average basis.

#### 4.7 Financial Assets – Recognition and Measurement

##### 4.7.1 Initial Recognition

All financial assets are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time-frame generally established by regulation or convention in the market place.

##### 4.7.2 Initial Measurement

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value including transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

##### 4.7.3 Subsequent Measurement

The Company subsequently measures non-derivative financial assets categorising them into the categories of financial assets at fair value through profit or loss, held-to maturity investments, loans and receivables and available-for-sale financial assets.

##### a) Financial Assets at Fair Value Through Profit or Loss (FVTPL)

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss.

##### b) Held-to-Maturity Financial Investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity. Subsequent to initial measurement, held to maturity financial investments are measured at amortised cost using the Effective Interest Rate (EIR), less impairment.

##### c) Loans and Receivables

Loans & receivables include non- derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Company intends to sell immediately or in the near term and those that the Company, upon initial recognition, designates as at fair value through profit or loss.
- Those that the Company, upon initial recognition, designates as available for sale.
- Those for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, loans and receivables are subsequently measured at amortised cost using the EIR method less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in 'impairment gain/ (loss) on loans and receivables'.

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

## YEAR ENDED 31ST MARCH 2014

The Company may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held-for-trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss. Where the loan, on drawdown, is expected to be retained by the Company, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss.

### d) Available-for-Sale Financial Investments

Available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. The Company has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are measured at fair value. Unrealised gains and losses are recognised directly in equity (other comprehensive income) in the "available-for-sale reserve". When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognised in the statement of comprehensive income in other operating income.

### 4.7.4 Reclassification of Financial Assets

The Company may reclassify non-derivative financial assets other than those designated at FVTPL upon initial recognition, in certain circumstances:

- Out of the held-for-trading category and into the available for sale, loans and receivables, or held-to-maturity categories.
- Out of the 'available-for-sale' category and into the 'loans and receivables', 'held for trading category' or 'held-to-maturity'.  
Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost. For a financial asset reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference

between the new amortised cost and the expected cash flow is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the statement of comprehensive income statement.

- Out of the 'held-for-trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of the management, and is determined on an instrument by instrument basis.

### 4.7.5 De-recognition of Financial Assets

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and 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 Company's continuing involvement in the asset. In that case, the Company 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 Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

#### **4.7.6 Identification, Measurement and Assessment of Impairment**

At each reporting date the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

The Company writes off loans and advances and investment securities when they are determined to be uncollectible.

#### **4.8 Cash and Bank Balances**

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

#### **4.9 Stated Capital**

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments.

#### **4.10 Retirement Benefit Obligations**

##### **4.10.1 Defined Benefit Plan – Gratuity**

The liability recognised in the statement of financial position represents the present value of the defined benefit obligation at the reporting date estimated based on actuarial valuation using the projected unit credit method. The actuarial valuations involve making assumptions about discount rates and future salary increases. A defined benefit obligation is highly sensitive to changes in these assumptions. These benefits are not externally funded.

The Company recognises all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income.

However, as per the Payment of Gratuity Act No. 12 of 1983, the liability to pay gratuity arises only on completion of 5 years of continued service.

##### **4.10.2 Defined Contribution Plan**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the statement of comprehensive income as in the periods during which services are rendered by employees.

##### **a) Employees' Provident Fund**

The company and employees contribute 12% and 8% respectively on the salary of each employee to the approved Provident Fund.

##### **b) Employees' Trust Fund**

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund.

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

## YEAR ENDED 31ST MARCH 2014

### 4.11 Financial Liabilities

#### 4.11.1 Initial Recognition and Measurement

The Company classifies financial liabilities in to financial liabilities at Fair Value Through Profit or Loss (FVTPL) or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities.

The Company recognises financial liabilities in the statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

##### a) Financial Liability at FVTPL

Financial liabilities at FVTPL include financial liabilities held-for-trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, and changes there recognised in profit or loss.

Upon initial recognition, transaction costs are directly attributable to the acquisition are recognised in profit or loss as incurred. The criteria for designation of financial liabilities at FVTPL upon initial recognition are the same as those of financial assets at FVTPL.

##### b) Other Financial Liabilities

Other financial liabilities including deposits, debt issued by the Company and the other borrowed funds are initially measured at fair value less transaction cost that are directly attributable to the acquisition and subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

#### 4.11.2 De-recognition of Financial Liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. Where 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 a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

### 4.12 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and 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. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

### 4.13 Statement of Cash Flows

The cash flow statement has been prepared using the indirect method, as stipulated in LKAS 7- statement of cash flows. Cash and cash equivalents comprise of cash in hand, cash at bank and bank overdrafts.

### 4.14 Segmental Information

A Segment is a distinguishable component engaged in providing services and that is subject to risks and returns that are different to those of other segments. The Company does not have distinguishable components to be identified as a segment as all operations are treated as one segment.

#### **4.15 Standards Issued but not yet Effective**

Standards issued but not yet effective upto the date of issuance of the financial statements are set out below. The Company will adopt these standards when they become effective. Pending a detailed review, the financial impact is not reasonably estimated as at the date of publication of these financial statements.

SLFRS 9 - Financial instruments: classification and measurement

SLFRS 12 - Disclosure of interests in other entities

SLFRS 13 - Fair value measurement

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

YEAR ENDED 31ST MARCH 2014

	2013/2014 Rs. '000	2012/2013 Rs. '000
<b>5. Revenue</b>		
Room revenue	1,221,396	1,578,528
Food and beverage revenue	1,219,088	1,394,265
Other operating departments	100,329	138,211
	<b>2,540,813</b>	<b>3,111,004</b>
<b>6. Investment Income</b>		
Interest income - Loans and receivables		
Interest on treasury bills	21,972	111,245
Interest on staff loans	4	4
Interest on RFC accounts	5	3
Interest on fixed deposits (BOC)	210,625	4,276
Interest income on FF & E replacement reserve investment	29,102	55,346
	<b>261,709</b>	<b>170,874</b>
<b>7. Other Gains and Losses</b>		
Profit on disposal of plant & equipment	2,710	-
Shop rentals	38,811	34,650
Exchange gain	1,833	1,766
Loan Interest written back	-	173,321
Liabilities write-off	5,307	
Sundry income	6,855	3,971
Bank charges payable to MOF written-off	-	654
	<b>55,516</b>	<b>214,362</b>

	2013/2014 Rs. '000	2012/2013 Rs. '000
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## 8. Finance Costs

### Interest on long-term loans

- Ministry of Finance	251,105	346,609
- Bank of Ceylon	-	339
Overdraft interest	73,772	-
Bank charges	17	17
	<b>324,895</b>	<b>346,965</b>

## 9. Profit/ (loss) for the year

Profit/ (loss) for the year is stated after charging all expenses including the following:

Directors' emoluments	9,196	8,203
Auditors' remuneration - Company	591	488
- Colombo Hilton	1,800	1,044
Depreciation	327,934	359,379
Staff costs (including the following employee benefit plan costs)	322,712	317,430
- Defined benefit plan cost - Gratuity	22,341	18,001
- Defined contribution plan costs - EPF & ETF	33,041	30,895
Management fees	37,554	128,831
Group service & benefit charge - Hilton International	51,869	56,408
Legal fees	3,407	6,931
Allowance for bad & doubtful debts	10,695	1,792

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

## YEAR ENDED 31ST MARCH 2014

	2013/2014 Rs. '000	2012/2013 Rs. '000
<b>10. Income Tax Expense</b>		
Provision for the year (Note 10.1)	74,690	112,429
Under/(over) provision of previous years taxes/ adjustments for notional tax credits	85	(16,245)
Deferred tax income (Note 10.2)	(13,378)	(27,848)
	<b>61,398</b>	<b>68,336</b>

**10.1** A reconciliation between Taxable profit and Accounting Profit for the Years Ended 31st March 2014 and 31st March 2013 are as follows

	2013/2014 Rs. '000	2012/2013 Rs. '000
Accounting Profit Before Income Tax	253,129	757,470
Aggregate Disallowed Items	468,951	548,889
Aggregate Allowable Expense	(113,439)	(91,684)
Trading Profits and Other Sources of Income	(261,704)	(170,867)
Taxable Profit 12%	346,937	1,043,807
Other sources of Income Liabile @ 28%	261,699	170,867
Total Taxable Profit	608,636	1,214,675
Loss claimed	(213,022)	(425,135)
<b>Taxable Profit</b>	<b>395,614</b>	<b>789,540</b>
Statutory Tax Rate	12%	12%
	28%	28%
Taxable Profit	225,507	678,475
Taxable other source of Income Liabile	170,105	111,062
<b>Current Year Tax Expense</b>	<b>74,690</b>	<b>112,514</b>

	2013/2014 Rs. '000	2012/2013 Rs. '000
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## 10.2 Deferred tax

Deferred tax arising from:

- Origination and reversal of temporary difference (Note 25)	(13,377)	(27,848)
<b>Total deferred tax charge</b>	<b>(13,377)</b>	<b>(27,848)</b>

## 10.3 Tax losses carried forward

Tax losses brought forward	10,441,978	10,866,949
Tax losses set off in the current year	(193,050)	(424,971)
<b>Tax losses carried forward for future years</b>	<b>10,248,928</b>	<b>10,441,978</b>

## 11. Earning/ (Loss) Per Share - Basic

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

	2013/2014 Rs.	2012/2013 Rs.
Profit/ (loss) per ordinary share	0.16	15.24

<b>Amount used as the Numerator</b>	<b>Rs. '000</b>	<b>Rs. '000</b>
Profit/ (loss) attributable to the ordinary shareholders	191,731	689,134

<b>Amount Used as the Denominator</b>	<b>Nos. '000</b>	<b>Nos. '000</b>
Weighted average number of ordinary shares for the purpose of basic profit/ loss per share	1,177,651	45,226

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

## YEAR ENDED 31ST MARCH 2014

### 12. Property, Plant and Equipment

	Buildings on leasehold land Rs. '000	Plant & machinery Rs. '000	Hotel furniture & fittings Rs. '000	Motor vehicle Rs. '000	Refrigerator & kitchen equipment Rs. '000	Television & computers Rs. '000	Total Rs. '000
<b>Cost/ Revaluation</b>							
Balance as at 01st April 2012	6,622,272	454,247	1,006,964	80,054	355,433	194,758	8,713,729
Additions during the year	7,822	12,241	9,501	13,160	3,292	10,783	56,799
Balance as at 31st March 2013	6,630,094	466,488	1,016,466	93,215	358,725	205,541	8,770,529
Additions during the year	32,366	3,381	40,236	-	25,751	19,096	120,830
Disposals	-	-	-	(8,411)	-	-	(8,411)
<b>Balance as at 31st March 2014</b>	<b>6,662,460</b>	<b>469,869</b>	<b>1,056,702</b>	<b>84,803</b>	<b>384,476</b>	<b>224,637</b>	<b>8,882,948</b>
<b>Accumulated Depreciation</b>							
Balance as at 01st April 2012	1,330,825	376,954	836,663	28,999	249,244	180,448	3,003,133
Charge for the year	165,634	14,907	81,736	18,620	15,561	9,309	305,768
Balance as at 31st March 2013	1,496,459	391,861	918,399	47,620	264,805	189,757	3,308,901
Charge for the year	166,295	14,817	32,451	17,974	15,738	9,952	257,227
Disposals	-	-	-	(8,411)	-	-	(8,411)
<b>Balance as at 31st March 2014</b>	<b>1,662,754</b>	<b>406,678</b>	<b>950,850</b>	<b>57,182</b>	<b>280,543</b>	<b>199,709</b>	<b>3,557,717</b>
<b>Written Down Value</b>							
Balance as at 01st April 2012	5,291,448	77,293	170,302	51,055	106,189	14,310	5,710,596
Balance as at 31st March 2013	5,133,636	74,627	98,067	45,595	93,920	15,784	5,461,628
<b>Balance as at 31st March 2014</b>	<b>4,999,707</b>	<b>63,191</b>	<b>105,852</b>	<b>27,621</b>	<b>103,932</b>	<b>24,928</b>	<b>5,325,231</b>

Hotel Developers (Lanka) PLC has full possession and control of the property, plant & equipment of the hotel.

**12.2** A bridge was constructed in 1998 linking the World Trade Centre and Hilton Hotel at a cost of USD 360,000. Overseas Realty Ltd and Hilton International contributed US \$ 180,000 and US \$ 90,000 respectively, and the company contributed the balance amount. USD 90,000 incurred by the company has been capitalised in the financial statements under buildings.

**12.3** Property, plant & equipment at a cost of Rs. 1,387 Mn (2012/2013 - 959 Mn) have been fully depreciated and continue to be in use by the company.

	31.03.2014 Rs. '000	31.03.2013 Rs. '000
<b>13. Leasehold Land</b>		
Capitalised during the year	6,946,389	7,000,000
Amortisation during the year	(70,707)	(53,611)
	<b>6,875,682</b>	<b>6,946,389</b>

The leasehold land is for a period of 99 years effective from September 2012. The leasehold land value amounting to Rs. 7 Bn. has been capitalised to issue shares to the Government of Sri Lanka. Further, approval of the Cabinet of Ministers was granted on 3rd October 2012 to lease the land in which the Sport Complex is built for a period of 5 years on a rent free basis.

	31.03.2014 Rs. '000	31.03.2013 Rs. '000
<b>14. Non Current Financial Assets</b>		
Long-term investments		
Fixed and call deposits	96	118
Treasury bills repurchases	304,573	330,331
	<b>304,669</b>	<b>330,449</b>

Above balances are restricted in use and to be used for the replacement of furniture, fittings and equipment as per Article V Section 4 of the Management agreement and the letter of amendments entered into between Hilton International Co. USA and Hotel Developers (Lanka) PLC dated 18th October 2012.

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

YEAR ENDED 31ST MARCH 2014

	31.03.2014 Rs. '000	31.03.2013 Rs. '000
<b>15. Inventories</b>		
Food	14,333	12,599
Beverages	18,888	23,462
General stores	7,907	15,393
Engineering stores	2,934	9,285
	<b>44,062</b>	<b>60,740</b>
<b>16. Trade and Other Receivables</b>		
Trade receivables	121,291	179,736
Less: Impairment of debtors	(20,545)	(21,875)
	<b>100,746</b>	<b>158,861</b>
<b>17. Amounts Due from Related Party</b>		
Hilton Maldives - Group Hotel	601	601
Hilton Group PLC - Ultimate Parent	-	71
Hilton Singapore - Group Hotel	-	46
Hilton Colombo Residencies - Group Hotel	4,280	396
	<b>4,881</b>	<b>1,114</b>

	31.03.2014 Rs. '000	31.03.2013 Rs. '000
<b>18. Other Assets</b>		
Deposits, prepayments and advances	77,327	101,641
Other receivables	30,911	10,713
	<b>102,238</b>	<b>112,354</b>
<b>19. Current Financial Assets</b>		
Short-term investments		
Treasury bills	126,776	1,672,898
Fixed deposits	1,702,270	89,522
Call deposits	27,964	-
	<b>1,857,010</b>	<b>1,762,421</b>
<b>20. Stated Capital</b>		
<b>20.1 Issued and Fully Paid</b>		
1,811,615,718 ordinary shares	<b>18,116,157</b>	<b>452,261</b>

## 21. Shares to be Allotted

The Approval of the Cabinet of Ministers was granted on 22nd April 2014 to convert the balance loan due to the Government of Sri Lanka – Ministry of Finance amounting to Rs. 2,350,299,678/- as of 31st December 2013 into equity. This is shown as shares to be allotted in the financial statements as at 31st March 2014.

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

## YEAR ENDED 31ST MARCH 2014

	31.03.2014 Rs. '000	31.03.2013 Rs. '000
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### 22. Reserves

Furniture, fittings & equipment replacement reserve (Note 21.1)	301,378	304,491
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#### 22.1 Furniture, Fittings and Equipment Replacement Reserves

Balance at the beginning of the year	304,491	458,093
Add: Provision made during the year	118,626	141,017
Less: Amounts transferred to equity statement	-	(251,900)
Amounts utilised for purchase & replacement of furniture & fittings	(121,740)	(42,719)
<b>Balance at the end of the year</b>	<b>301,378</b>	<b>304,491</b>

An amount equivalent to USD 700,000 has been transferred to the furniture, fittings & equipment reserve during the year. Interest income earned from the above amounts to Rs. 26,192,005.76.

	Ministry of Finance	
	2014.03.31 Rs. '000	2013.303.31 Rs. '000

### 23. Interest Bearing Loans and Borrowings

Balance as at beginning of the year	3,099,195	8,257,854
Add: Interest on loans	251,105	346,609
Less: Converted to equity (Note 20)	(2,350,300)	(5,331,948)
Payments made during the year	(1,000,000)	-
Loan interest written off	-	(173,321)
<b>Balance as at the end of the year</b>	<b>-</b>	<b>3,099,195</b>

**23.1** The company had obtained loans from the Government of Sri Lanka (GoSL) to settle the loan payable to the Mitsui & Co Ltd and Taisei Corporation. Interest is payable to the Government of Sri Lanka, as per the settlement agreement dated 28th June 1995 at the average treasury bill rate on 30th June each year. As per the letter issued by the Ministry of Finance if the interest is not paid on due dates, it will be added to the capital outstanding. Loan has been fully settled as of 31st March 2014 by part cash settlement of Rs. 1,000,000,000 and balance capital and interest outstanding converted to equity during the year; pending share allotment as of the reporting date.

	31.03.2014	2012/2013
	Rs. '000	Rs. '000

## 24. Retirement Benefit Obligations

Balance at the beginning of the year	103,377	86,855
Charge for the year	8,200	6,483
Recognition of transitional liability /(asset) and actuarial loss/(gain)	-	240
Loss/ (gain) arising from changes in the assumptions or due to (over)/under provisions in the previous years	2,253	7,173
Interest cost for the year	11,888	11,518
Payments made during the year	(19,538)	(8,892)
<b>Balance at the end of the year</b>	<b>106,179</b>	<b>103,377</b>

The retirement benefit obligation of the company is based on the actuarial valuation carried out by Messrs. Piyal S. Goonetilleke and Associates. The principal assumptions used in determining the cost of employee benefits were:

Discount rate	11.50%	11.5%
Future salary increase	12%	12%

### 24.1 Prior year error correction

Prior year error due to unrecognised actuarial losses due to changes in assumptions used to compute gratuity obligation as of 31st March 2013 amounting to Rs. 10,994,321 has been corrected by restating the other comprehensive income and retirement benefit obligation by the said amount. This has resulted in a decrease in total comprehensive income for the year 2012/13 and increase in retirement benefit obligation as of 31st March 2013.

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

## YEAR ENDED 31ST MARCH 2014

	31.03.2014 Rs. '000	2012/2013 Rs. '000
<b>25. Deferred Tax Liability</b>		
Balance at the beginning of the year	405,416	433,264
Deferred tax expense/(income)	(13,377)	(27,848)
<b>Balance at the end of the year</b>	<b>392,039</b>	<b>405,416</b>
<b>25.1 The closing deferred tax liability balance relates to the following:</b>		
Accelerated depreciation for tax purposes	608,780	620,501
Retirement benefit obligation	(12,741)	(11,086)
Deferred tax asset relating to utilisation of brought forward tax losses	(204,000)	(204,000)
	<b>392,039</b>	<b>405,415</b>
<b>26. Trade and Other Payables</b>		
Trade payables	60,882	60,356
Other payables	40,090	46,819
Accrued Telephone charges	17	-
Stamp duty on promissory notes	2,821	2,821
Sundry creditors and including accrued expenses	49,278	34,461
Management fee payable	4,493	36,368
Deposits payable	75,646	85,577
Other liabilities	12,377	69,787
Replacement of breakages	9,054	10,676
Statutory payables	26,687	52,298
	<b>281,346</b>	<b>399,164</b>

	31.03.2014 Rs. '000	2012/2013 Rs. '000
<b>27. Amounts Due to Related Parties</b>		
Hilton International Asia Pacific	11,622	34,161
Hilton International USA	3,793	7,531
	<b>15,415</b>	<b>41,691</b>
<b>28. Income Tax Liability</b>		
Opening Balance	70,253	-
Provision for the period	74,690	112,429
Previous year under provision	85	-
<b>Tax credit</b>		
Economic Service Charge	(7,252)	(8,892)
Withholding tax	(21,084)	(391)
Notional tax	(5,133)	(32,894)
Self assessment payment	(100,726)	-
<b>Balance at the end of the year</b>	<b>10,833</b>	<b>70,253</b>
<b>29. Notes to the Cash Flow Statement</b>		
<b>29.1 Cash and Cash Equivalents at the Beginning of the Year</b>		
Cash and bank balance	128,647	66,081
Bank overdraft	(25,629)	(33,876)
	<b>103,018</b>	<b>74,789</b>
<b>29.2 Cash and Cash Equivalents at the End of the Year</b>		
Cash in hand	40,787	128,647
Cash At bank	(652,150)	(25,629)
	<b>(611,363)</b>	<b>103,018</b>

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

## YEAR ENDED 31ST MARCH 2014

### 30. Analysis of financial instruments by measurement basis As at 31st March 2013

Financial assets by categories	Loans and Receivables at amortised cost	
	31.03.2014	31.03.2013
<b>Financial instruments in non-current assets</b>		
Other non-current financial assets	304,669	330,448
<b>Financial instruments in current assets</b>		
Trade and other receivables	106,891	158,975
Other assets	106,975	112,354
Amounts due from related party	4,881	1,114
Other current financial assets	1,857,010	1,762,421
Cash in hand and at bank	40,787	128,647
<b>Total</b>	<b>2,116,545</b>	<b>2,493,959</b>
<b>Financial liabilities by categories</b>		
		Financial liabilities measured at amortised cost
		31.03.2014
		31.03.2013
<b>Financial Instruments in current liabilities</b>		
Trade and other payables	281,346	399,164
Amounts due to related party	15,415	41,691
Bank overdrafts	652,150	25,629
<b>Total</b>	<b>948,911</b>	<b>424,793</b>

### 31. Financial Risk Management

The Company's activities are exposed to a variety of financial risks such as market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management process focuses on the unpredictability of financial risks and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is performed by the finance department under policies approved by the Board of Directors.

The principal financial instruments of the Company comprise of short term deposits, money market investments, and cash. The main purpose of these financial instruments is to raise and maintain liquidity for the Company's operations, and maximise returns on the Company's financial reserves. The Company has various other financial instruments such as trade receivables and trade payables which arise directly from its business activities.

#### a) Credit risk

Credit policy and stringent controls are in place to mitigate the impact of default. Credit limits are reviewed on a regular basis. Constant monitoring and review of debtor balances with collection targets and adapting progressive action.

#### b) Liquidity risk

Regular review mechanisms are in place to monitor the performance of the company against approved budget targets to achieve a balance between liquidity and profitability. Capital investments are planned so as not to adversely impact cash flows and gearing of the Company.

### 32. Events after the Reporting Date

The Cabinet approval was granted on 22nd April 2014 to converted balance Government loan outstanding as at 31st December 2013 amounting to Rs. 2,350,299,678/- into equity with view to further strengthen the capital structure of the company.

### 33. Commitments and Contingencies

There were no capital commitments or contingent liabilities that required disclosures in these financial statements other than the following:

**33.1** Hotel Developers (Lanka) PLC has not carried out any major refurbishment of the hotel since inception and a major refurbishment program has been planned. Accordingly Hilton Colombo will be undergoing major renovations from September 2014, Which will see improvement across the property including rooms, food and beverage outlets and meeting spaces. It has been estimated at US \$ 35 Mn & will be financed by USD loan Amounting to US\$ 27Mn and the balance from internally generated funds of US \$ 8 Mn.

# NOTES TO THE FINANCIAL STATEMENTS CONTD...

## YEAR ENDED 31ST MARCH 2014

### 34. Assets Pledged as Securities

The Company has pledged fixed deposits as security against an overdraft facility taken from the Bank of Ceylon Amounting to Rs. 1,040,000,000.

### 35. Related Party Disclosures

#### 35.1 Transaction with Key Management Personnel

Related Parties include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the company. Key management personnel include members of the Board of Directors of the Company.

Directors' emoluments paid during the year amount to Rs. 9,196,429/- (2012/2013 - Rs. 8,203,451/-).

Mr. Thirukumar Nadesan, Mr. Nihal Jayawardena P.C., Dr. Tissa Wickramasuriya, Mr. Kosala Wickramanayake and Mr. K. M. M. Siriwardane (effective from 19th February 2014 in place of Mr. V Kanagasabapathy) were nominated as the Directors by the Government of Sri Lanka. The Government of Sri Lanka presently hold 100% of the Ordinary Share Capital.

### 36. Pending litigation as of the reporting date

#### 36.1 H.C. (Civil) 1/98 (2) (Date of filing - 31.03.1998)

This case has been filed by Cornel & Co. Ltd., against Mitsui & Co. Ltd., Taisei Corporation and 9 other Defendants, including HDL (5th Respondent).

The Plaintiff filed action in the High Court of the Western Province and supported and obtained an Ex parte enjoining orders in terms of prayers (m) and (n) of the plaint, preventing the implementation of the Settlement Agreements.

This case has been laid by since 29.10.2003 pending a settlement (if any).

#### 36.2 D.C. Colombo Case No. 21819/MR

This action has been instituted by Mr. Nihal Sri Amarasekera for judgement against the 1st defendant, Mr. Gamini Lakshman Pieris for a sum of Rs. 35,938,000 and Rs. 36,071,000.

HDL is the 2nd defendant. The case has been laid by since 17th March 2004 pending a settlement (if any).

### **36.3 D.C. Colombo Case No. 15322/MR**

Date of Filing - 04/08/1994

HDL is the Plaintiff in this action. This action has been instituted for judgment against the Defendant Mr. Nihal Sri Amarasekera to recover a sum of Rs. 26,626,613.00 with legal interest thereon.

The case has been laid by since 28th February 2007 pending a settlement (if any).

### **36.4 D.C. Colombo Case No. 5095/SPL**

Date of Filing - 20/03/1998

This case has been filed by Cornel & Co. Ltd. against Mitsui & Co. Ltd., Taisei Corporation, Attorney-General, Nihal Amarasekera and HDL.

The Plaintiff has filed this matter alleging that the Defendants are acting against the rights of the Plaintiff contrary to the conditions in the Agreement entered into between the parties and the Government of Sri Lanka. Final relief prayed for is:

- i. A declaration that the said agreements are illegal and void
- ii. An interim injunction restraining the 1st, 2nd, 3rd, 4th and 5th Defendants from giving effect to any of the terms and conditions in the aforesaid agreement.

Hotel Developers Lanka PLC (HDL) is the 5th Respondent in this case. This case was dismissed on 26th May 2014. A notice of Appeal against the said order has been served by the plaintiff appellant.

# NOTICE OF MEETING

NOTICE is hereby given that the **ANNUAL GENERAL MEETING** of **HOTEL DEVELOPERS (LANKA) PLC** will be held at the at the Board Room of Hotel Developers (Lanka) PLC, No 2, Sir Chittampalam A. Gardiner Mawatha, Colombo 02 on **04th September 2014 AT 10.30 a.m.**

## Agenda

1. To pass the following resolution to accept the Notice of Meeting.

"RESOLVED that the Notice dated 29th August 2014 convening the Annual General Meeting of the Company be and is hereby accepted as a valid notice irrespective of the fact that the meeting has been called with shorter notice than that specified in the Articles of Association and in the Companies Act No. 07 of 2007".

2. To receive and consider the Annual Report of the Board of Directors, Statement of Account and the Balance Sheet of the Company for the year ended 31st March, 2014 together with the report of the Auditors thereon.
3. To pass the ordinary resolution set out below to re-elect Dr. Tissa Wickramasuriya who retires in terms of section 210 of the Companies Act No. 7 of 2007:

"RESOLVED that Dr. Tissa Wickramasuriya, who is 74 years be and is hereby re-elected as a Director of the Company and it is hereby declared as provided for in Section 211 of the Companies Act. No.07 of 2007 that the age limit of 70 years referred to in Section 210 of the said Companies Act shall not apply to. Dr. Tissa Wickramasuriya"

4. To re-appoint Messrs SJMS Associates, Chartered Accountants as the Auditors and to authorise the Directors to determine their remuneration.

By Order of the Board of Directors of  
**Hotel Developers (Lanka) PLC**



**S S P Corporate Services (Private) Limited**  
Secretaries

Colombo  
29th August 2014

## NOTE:

- A member of the Company is entitled to appoint a Proxy to attend and vote on his or her behalf.
- A Proxy need not be a member.
- A Proxy form which is enclosed should be deposited at the Registered Office of the Company not less than 48 hours before the meeting.

# FORM OF PROXY

I/We ..... of  
 ..... being a member/members of  
 Hotel Developers (Lanka) PLC hereby appoint: ..... of  
 ..... or failing him/her

Mr. T Nadesan	of Colombo failing him
Dr. T Wickramasuriya	of Colombo failing him
Mr. K. M. M. Siriwardana	of Colombo failing him
Mr. K V N Jayawardene	of Colombo failing him
Mr. K.Wickramanayake	

as my/our proxy to represent me/us to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on the 04th September 2014 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
1. To accept the Notice of Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
2. To receive and consider the Report of the Directors and the Statements of Accounts for the year ended 31st March 2014 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
3. To pass the ordinary resolution to re-elect Dr. Tissa Wickramasuriya as set out in the Notice of Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint the Auditors and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this ..... day of .....2014

..... Signature of the Shareholder

**Note:**

1. Instructions as to completion are noted on page 84.
2. A Proxy need not be a member of the Company.
3. Please mark "X" in appropriate cages to indicate your instructions as to voting.

#### Instructions as to Completion of Proxy

1. Kindly perfect the Form of Proxy by legibly filling your full name and address, signing in the space provided, and filling in the date of signature.
2. If the Proxy Form is signed by an Attorney, the relative Power of Attorney should also accompany the Proxy form for registration, if such Power of Attorney has not already been registered with the Company.
3. In the case of Company/Corporation, the Proxy must be filled and attested in the legally prescribed manner.
4. The completed Form of Proxy should be deposited at the office of the Secretaries, S S P Corporate Services (Private) Limited, No. 101, Inner Flower Road, Colombo 03, not less than 48 hours, before the Meeting.
5. A shareholder appointing a Proxy (other than a Director of the Company) to attend the meeting should indicate the Proxy holder's National Identity Card (NIC) number on the Form of Proxy and request the Proxy holder to bring his/her National Identity Card with him/her.

# CORPORATE INFORMATION

## **Name of the Company**

HOTEL DEVELOPERS (LANKA) PLC

## **Legal Form**

A Public Quoted Company with Limited Liability

## **Date of Incorporation**

15th March 1983

## **Company Registration No.**

PQ 143

## **Directors**

Mr. T. Nadesan

Mr. K. M. M. Siriwardana

Mr. K. V. Nihal Jayawardene P.C.

Dr. Tissa Wickramasuriya

Mr. Kosala Wickramanayake

## **Registered Office**

Hotel Developers (Lanka) PLC

C/o Hilton Colombo

No. 2, Sir Chittampalam A Gardiner Mawatha, Colombo 02.

Tel : + 94 11 2433435

Fax : + 94 11 2446545

E-mail : hdl\_hilton@sltnet.lk

Website : www.hoteldevelopers.lk

## **Secretaries and Registrars**

S S P Corporate Services (Private) Limited

No. 101, Inner Flower Road, Colombo 03.

## **Bankers**

Bank of Ceylon

Corporate Branch

No. 4, Bank of Ceylon Mawatha, Colombo 01.

Hongkong & Shanghai Banking Corporation Ltd.

No. 24, Sir Baron Jayathilaka Mawatha, Colombo 01.

## **Lawyers**

D.L. & F. De Saram

Attorneys-at-Law and Notaries Public

No. 47, Alexandra Place, Colombo 7.

## **Auditors**

M/s. SJMS Associates

Chartered Accountants

No. 02, Castle Lane, Colombo 04.



**Hilton**  
Colombo

**EVOLUTION IS A  
CONSTANT IN A  
WORLD OF  
CHANGE**

**Hotel Developers (Lanka) PLC**  
C/o Hilton Colombo  
No. 2, Sir Chittampalam A Gardiner Mawatha,  
Colombo 02.