



**MAHAWELI REACH**  
SRI LANKA

OUR WORLD REVOLVES AROUND YOURS

ANNUAL REPORT 2011 - 2012



The Ehala or Golden Shower tree.

A sensuous cascade of colour and fragrance.

A vibrant symbol of hospitality and prosperity.

A perfect combination of beauty and value.

Like us.

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## V I S I O N

To make ourselves the cynosure of the industry,  
through dedication that goes above and beyond  
the boundaries of duty.

## M I S S I O N

To foster continuing excellence in service  
through the nurturing of teamwork and total  
commitment among our staff,  
thus inspiring them to reach greater heights.





I made my life my monument.  
-Ben Johnson-

It is with great sadness that we mark the passing of our Founder Director and Chairperson the late Mrs. L.R. Panabokke in April 2012.

The journey of this company which now spans nearly four decades was embarked upon by her together with our Founder, her late husband Mr. Atul Panabokke, when they took those first steps into uncharted waters by setting up a four roomed guest house in a then fledgling tourism industry. They undertook this venture despite having no formal training in the field but with a true entrepreneurial spirit which they nurtured with hard work and their strong belief in the strength of family and committing wholeheartedly towards its success.

It was under her stewardship that the Mahaweli Reach continued on its path of development after the passing of our Founder. Under her guidance, her sons Jayantha and Mohan were able to realize the historic milestone of making the Mahaweli Reach the first five star hotel in Kandy and subsequently in creating a strategic partnership with the Universal Group, one of the largest hotel operators in the Maldives.

The spirit of family, tradition and values which is embodied in the culture of this organisation was inspired and molded by her. Through her exemplary conduct she instilled in everyone who associated her, the value of honesty, integrity and an unwavering work ethic which have been the cornerstones upon which this company has been built.

The innate sense of warm hospitality which she extended to all those who crossed her threshold irrespective of caste or creed is the example by which the service standards of hospitality from the heart, have been fashioned at Mahaweli Reach and it is this unique quality of heartfelt attentiveness and ability to anticipate the needs of a guest that the hotel tries to inculcate into its employees. Her contribution towards the development of the "Mahaweli Reach" brand is immeasurable as it is intrinsically linked with these values and actions.

Her indomitable courage, spirit and positive attitude has helped to keep the company on a steady path of progress even in the face of severe adversity and her inspirational presence and warm smile will be greatly missed by all those who had the opportunity to associate this remarkable lady.

The profound impact she has had not just on her family and colleagues but on the community as a whole is to be appreciated and respected. Her philanthropic acts and kindness have been a boon to so many.

The void created by her passing will be hard to fill but her memory and legacy lives on in the strong principles and ethics upon which the Mahaweli Reach has been founded and there is no doubt that the values these founders passed on will serve to ensure that the company keeps growing from strength to strength.

It has been said, "Don't live down to expectations. Go out there and do something remarkable." (Wendy Wasserstein), and she certainly did.

May she attain early Nibbana.





## STAR AWARDS 2011



*(Mr. Jayantha Panabokke, Managing Director, Mahaweli Reach Hotels PLC receiving the Award from Hon. Tikiri Kobbekaduwa, Governor of the Central Province)*

The Mahaweli Reach Hotel was the recipient of a premier award for large scale businesses in the services category at the recently concluded Star Awards 2011 conducted by the Ministry of Industries of the Central Province for businesses that have demonstrated excellence whilst contributing to the economic progress of the region.

It is one of the highest accolades presented to entrepreneurs of the region in recognition of the business practices adopted by them. This award is all the more significant in view of the fact that Mahaweli Reach is an indigenous brand which continuously strives for excellence in service standards and has always promoted the rich cultural heritage of the Central Province and in particular one of its most enduring traditions, hospitality.

While Mahaweli Reach Hotel celebrates this award, it will continue its quest to remain an organisation which follows international best practices while staying true to its Sri Lankan roots and one which continues to be innovative and provides the best products, services and opportunities to its clients, employees and other stakeholders.

## NOTICE OF MEETING

**NOTICE IS HEREBY GIVEN** that the Thirty Eighth Annual General Meeting of the shareholders of **MAHAWELI REACH HOTELS PLC** will be held at the registered office of the Company, No. 35, P. B. A. Weerakoon Mawatha, Kandy, at 11.00 a. m. on 17<sup>th</sup> September 2012 for the following purposes.

1. To consider and adopt the Report of the Directors and the Statement of Accounts for the year ended 31<sup>st</sup> March 2012 and the Report of the Auditors thereon.
2. To re-elect Mr. Ali Nooradeen who retires by rotation at the Annual General Meeting, a Director
3. To re-elect Mr. Mohamed Mahir who retires by rotation at the Annual General Meeting, a Director
4. To re-elect Mr. Jayampathy Charitha Ratwatte who retires by rotation at the Annual General Meeting, a Director
5. To re-elect Mr. Rienzie Theobald Wijetilleke who retires by rotation at the Annual General Meeting, a Director
6. To re-elect Mr. R. T. Molligoda who attained the age of seventy five years and the Company has received special notice of intention in compliance with Law, relating to his re-election.
7. To re-elect Mr. K. M. Panabokke who was appointed to the Board since the last Annual General Meeting and retires in terms of the Articles of Association of the Company, a Director
8. To re-elect Mr. R. Seevaratnam who was appointed to the Board since the last Annual General Meeting and retires in terms of the Articles of Association of the Company, a Director.
9. To authorise the Board of Directors to determine contributions to charities and other donations.
10. To re-appoint Messrs. HLB Edirisinghe & Co. as Auditors and authorise the Directors to determine their remuneration.

By Order of the Board

BUSINESSMATE (Pvt.) Ltd.,  
Secretaries  
23<sup>rd</sup> August 2012

Colombo

### Notes:

1. A member entitled to attend and vote at the above mentioned meeting is entitled to appoint a proxy who need not also be a member.
2. The completed form of proxy should be deposited at the registered office of the Company at No. 35, P. B. A. Weerakoon Mawatha, Kandy, not less than 48 hours before the time fixed for the Meeting.
3. A form of Proxy is attached to the Report.







Set amidst lush gardens



Celebrate in style



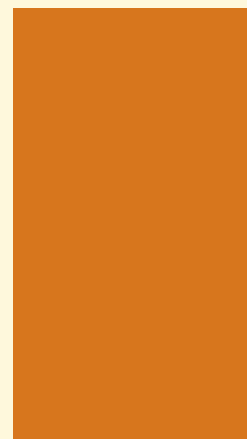
Unwind in tranquility



Relax in comfort



Elegance







Exquisite delicacies



Enchanting evenings



Fine dining



Carefree afternoons



Inviting and alluring



### Our People

Hospitality is very much a people's business where the customers' needs must be anticipated and met and this is only possible through the maintenance of exceptionally high service standards delivered by people who strongly believe in excellence.

At Mahaweli Reach we are constantly striving to retain our position as market leaders. In view of the increased competition, diverse challenges, emerging opportunities and new trends which we are encountering now, it is imperative that we adapt to this ever-changing environment at the same pace and to achieve this, it is necessary to develop innovative and dynamic thinking and strategies. The success of the company will depend not only on the conventional factors but also the attitude of our people and in order to nurture a team of dedicated personnel who are committed towards the realization of the vision of the company. It is essential for the organisation to also broaden its focus on its human capital and invest in them.

### Policy

We have blended values, ethics, processes and standards to form an organisational unit which is committed, efficient and productive as it is our conviction that the development of our personnel in a value-based environment will encourage a collective commitment towards performance with distinction. The team has a healthy mix of youth and experience as it is our policy that a combination of new talent and experience hones their natural abilities and efficacy of the organisation, while bringing the best results as proven processes are carried on with new ideas and suggestions helping to add improvements.

### Challenges

One of the key challenges faced by the company and the industry as a whole is finding and retaining skilled personnel. The lean time experienced by the industry in the past resulted in fewer skilled persons being available for employment in Sri Lanka as many did not consider employment in the industry to be a viable option. The exponential growth in the industry has also resulted in higher demand. As such the development, growth and retention of talent within the organisation and the search for new talent are vital for the continued growth of the company.

With the evolution of the industry, the opportunities created for movement of staff within the industry has also posed an obstacle to the organisation as retention of trained staff is becoming increasingly challenging.

### Training & Development

We have focused on continuous training and development through internal and external trainers in operational and classroom settings in our bid to improve service standards, product knowledge, proficiency in English and other foreign languages and the overall development of the individual personalities. Multi-skilled personnel are encouraged through cross functional training and team building exercises which promote innovation. The interactive methods used not only facilitate the development of the employees' skill levels but also inculcate the values, spirit and culture of the organisation.

The company conducts continuous training programmes to improve English proficiency, knowledge on food safety methods and health and safety initiatives such as first aid and firefighting.

### Welfare

While the company undertakes different types of training for the staff to improve their skill levels and also impart knowledge of new trends and standards in the industry, we also recognise that the organisation has to take into consideration the welfare of our team members during times of greater economic stress and have devised attractive benefits for the staff which are performance oriented to develop a mutually beneficial balance. Measures are also in place to provide assistance during times of personal strife. Exceptional performers are recognised and rewarded accordingly.

The company encourages healthy dialog and maintains an open door policy. We advocate the sharing of opinions, ideas and suggestions which is an integral part of the company culture.

### Priorities

The ability to identify the right talent, attract, recruit, develop and retain these talents are top priorities for the organisation and we endeavor to formulate the best possible strategies in this respect, as we are confident that our human capital is one of our greatest assets.



## CORPORATE GOVERNANCE

Mahaweli Reach Hotels PLC (MRH) continues to be committed to conducting the Company's business ethically and in accordance with high standards of Corporate Governance.

The Board has appointed Mahaweli Hotel Management Services Pvt. Ltd. as the managing agent of the Hotel.

We set out below the Corporate Governance practices adopted and practiced by MRH against the background of the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and the Rules set out in Section 7 of the Listing Rules of the Colombo Stock Exchange.

### BOARD OF DIRECTORS

Executive Directors:

Mrs. L. R. Panabokke (Chairperson) and Mr. J. A. Panabokke (Managing Director).

Non-Executive Directors:

Mr. M. U. Maniku, Mr. A. U. Maniku, Dr. I. U. Maniku, Mr. A. M. Didi, Mr. A. Nooradeen, Mr. M. Mahir and Mr. W. P. Hettiaratchi.

Non-Executive Independent Directors:

Mr. J. C. Ratwatte, Mr. R. T. Wijetilleke, Mr. R. T. Molligoda and Mr. A. N. Esufally

The Board meets quarterly as a matter of routine. During the year under review, the Board met on four occasions. The attendance at these meetings was:

Mrs. L. R. Panabokke (Alternate Director: Mr. K. M. Panabokke)	- Executive Director	- 2/4
Mr. J. A. Panabokke	- Executive Director	- 4/4
Mr. R. T. Molligoda	- Independent Non-Executive Director	- 4/4
Mr. A. N. Esufally	- Independent Non-Executive Director	- 1/4
Mr. M. U. Maniku	- Non-Executive Director	-
Mr. A. U. Maniku	- Non-Executive Director	-
Dr. I. U. Maniku	- Non-Executive Director	-
Mr. A. M. Didi	- Non-Executive Director	-
Mr. W. P. Hettiaratchi	- Non-Executive Director	- 3/4
Mr. A. Nooradeen	- Non-Executive Director	-
Mr. M. Mahir	- Non-Executive Director	-
Mr. J. C. Ratwatte	- Independent Non-Executive Director	- 3/4
Mr. R. T. Wijetilleke	- Independent Non-Executive Director	- 4/4

### Responsibilities:

The directors of the Company are responsible for the formulation of Company policy and overall business strategy. The implementation of policy and strategy is done in a framework that requires compliance with applicable laws and regulations as well as establishing the best practices in dealing with employees, customers, suppliers and the community at large.

The annual capital expenditure budgets, non-budgeted capital expenditure and the annual budgeted operating statements require Board approval. The Board meets regularly to review performance and forecasts against budget so as to take decisions in the best interests of the Company. Directors' Interests in contracts are regularly disclosed and such disclosure pertaining to year ended 31/03/2012 can be seen on page 23 in the Directors' Report.



The Board is responsible to ensure that adequate systems of internal controls to safeguard the assets of the Company are in place and proper records are maintained. However, any system can ensure only reasonable but not absolute assurance that errors and irregularities are prevented or detected within a reasonable time frame.

### **Managing Director**

The Managing Director is responsible for the efficient conduct of Board meetings. The Managing Director maintains close contact with all Directors, and holds informal meetings with Non-Executive Directors as and when necessary.

### **Board Balance**

The composition of the Executive and Non-Executive Directors (the latter are over one third of the total number of Directors) satisfies the requirements laid down in the Listing Rules of the Colombo Stock Exchange. The Board has determined that four Non-Executive Directors satisfy the criteria for "Independence" set out in the Listing Rules.

Of these 4 directors, Mr. R. T. Molligoda and Mr. A. N. Esufally have been directors of the Company for a period in excess of 10 years and have shareholdings of 1.33% and 0.7% respectively. However, it is the opinion of the Board that these factors do not impair their ability to act independently and that their experience and expertise is of great value to the Company.

### **Company Secretary**

The services and advice of the Company Secretary are made available to Directors as necessary. The Company Secretary keeps the Board informed of new laws, regulations and requirements coming into effect which are relevant to them as individual Directors and collectively to the Board.

### **Financial Acumen**

The board includes two Senior Chartered Accountants who possess the necessary knowledge and competence to offer the Board guidance on matters of finance.

### **Supply of information**

Directors are provided with quarterly reports on performance, other reports and documents as and when necessary. The Managing Director ensures all Directors are adequately briefed on issues arising at meetings.

### **Appointment to the Board**

The board as a whole decides on the appointment of Directors.

### **Re-election of Directors**

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

The Articles call for one third of the Directors in office to retire at each Annual General Meeting. The Directors who retire are those who have served for the longest period after their appointment / re-appointment. Retiring Directors are generally eligible for re-election.

The Managing Director does not retire by rotation.

### **Remuneration Committee**

The Company has its own Remuneration Committee. The Committee consists of three Independent Non-Executive Directors.

#### **Members of the Remuneration Committee**

		<b>Attendance</b>
Mr. J. C. Ratwatte (Chairman)	- Independent Non-Executive Director	- -
Mr. R. T. Wijetilleke	- Independent Non-Executive Director	- 1/1
Mr. R. T. Molligoda	- Independent Non-Executive Director	- 1/1

The Remuneration Committee shall recommend the remuneration payable to Executive Directors and Chief Executive Office to the board. The Remuneration Committee report appears on page 26

### **Constructive use of the Annual General Meeting**

The active participation of shareholders at the Annual General Meeting (AGM) is encouraged. The Board believes the AGM is a means of continuing effective dialogue with shareholders.





The Board offers clarifications and responds to concerns shareholders have over the content of the Annual Report as well as other matters which are important to them. The AGM is also used to adopt the financial statements for the year.

### Communication with Shareholders

Shareholders are provided with Quarterly Financial Statements and the Annual Report, which the company considers as its principal communication with them and other stakeholders. These reports are also provided to the Colombo Stock Exchange.

Shareholders may bring up concerns they have, either with the Chairman, Managing Director or the Secretaries of the Company as appropriate. The Company maintains an appropriate dialogue with them.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Board places great emphasis on complete disclosure of financial and non-financial information within the bounds of commercial reality and on the adoption of sound reporting practices. Financial information is disclosed in accordance with the Sri Lanka Accounting Standards. Revisions to existing accounting standards and adoption of new standards are carefully monitored.

The Statement of Directors' Responsibilities for the financial statements is given in page 14 of this report.

### Going Concern

The Directors, after conducting necessary inquiries and reviews, including reviews of the company budget for the ensuing year, capital expenditure requirements, future prospects and risks, cash flows and borrowing facilities, have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore, the going concern basis has been adopted in the preparation of the financial statements.

### Audit Committee

The Company constituted its own Audit Committee on the 26<sup>th</sup> of March 2009. The committee consists of two Independent Non-Executive Directors and one Non-Executive Director. The meetings were attended by the Managing Director and the Finance Officer by invitation when matters relating to the Company were taken up for discussion.

The committee has adopted a written Charter for the Audit Committee and the Internal Audit Charter. The Terms of reference of the Audit Committee are:

- (i) Ensuring the preparation, presentation and adequacy of disclosures in the financial statements, in accordance with Sri Lanka Accounting Standards.
- (ii) Ensuring the compliance with financial reporting requirements, information requirements of the Companies' Act and other relevant financial reporting related regulations and requirements.
- (iii) Overseeing the processes to ensure that the internal controls and risk management procedures are adequate, to meet the requirements of the Sri Lanka Auditing Standards.
- (iv) Assessment of the independence and performance of the external auditors.
- (v) To make recommendations to the board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors.

The Internal Auditors attended the meetings when their presence was deemed necessary.

The Committee reviewed the financial statements, internal control procedures, accounting policies, compliance with accounting standards, emerging accounting issues and other related functions that the Board required. It also reviewed the adequacy of systems for compliance with the relevant legal, regulatory and ethical requirements. Significant issues discussed by the Committee at the reviews were communicated by the Managing Director to the Board of Directors for their consideration and action.

The Audit Committee helps the Company to achieve a balance between conformity and performance.



## CORPORATE GOVERNANCE

### Members of the Audit Committee

Mr. R. T. Wijetilleke (Chairman)	- Independent Non-Executive Director	Attendance 4/4
Mr. J. C. Ratwatte	- Independent Non-Executive Director	3/4
Mr. W. P. Hettiaratchi	- NON-EXECUTIVE Director	3/4

The Audit Committee recommends the appointment and fees of the External Auditors, having considered their independence and performance.

The Audit Committee Report appears on Page 27

### Level of Compliance with the Listing Rules of the Colombo Stock Exchange

Level of Compliance with Section 7 of the Listing Rules of the Colombo Stock Exchange on Corporate Governance are given in the following table.

Rule No.	Subject	Applicable Requirement	Level of Compliance
7.10.1	Non-Executive Directors	At least one third of the total number of Directors should be Non-Executive Directors	Eleven of thirteen are Non-Executive Directors
7.10.2(a)	Independent Directors	Two or one third of Non-Executive Directors, whichever is higher should be Independent	Four of the eleven Non-Executive Directors are Independent.
7.10.2(b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence / non-independence in the prescribed format	Non-Executive Directors have submitted the declaration.
7.10.3(a)	Disclosure relating to Directors	Names of Independent Directors should be disclosed in the Annual Report	Please refer page 9
7.10.3(b)	Disclosure relating to Directors	The basis for the Board to determine a Director as independent, if specified criteria for independence is not met	Given in this report under the heading of Board Balance on page 10
7.10.3(c)	Disclosure relating to Directors	A brief resumé of each Director should be included in the Annual Report including the areas of expertise	Please refer Page 18 to 20
7.10.3(d)	Disclosure relating to Directors	Forthwith provide a brief resumé of new Directors appointed to the Board with details specified in 7.10.3(d) to the Exchange	Brief resumés of all Directors provided to the Exchange.
7.10.5	Remuneration Committee	A listed Company shall have a Remuneration Committee	Company has formed a Remuneration Committee
7.10.5(a)	Composition of Remuneration Committee	Shall comprise of Non-Executive Directors a majority of whom will be independent	Remuneration Committee consists of three Independent Non-Executive Directors.
7.10.5(b)	Functions of Remuneration Committee	The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and Executive Directors	Please refer Remuneration Committee Report on page 26



## CORPORATE GOVERNANCE

Rule No	Subject	Applicable Requirement	Level of Compliance
7.10.5(c)	Disclosure in the Annual Report relating to the Remuneration Committee	The Annual Report should set out: a) Names of Directors comprising the Remuneration Committee	Names of the Members of the Remuneration Committee as stated in this report under the heading of Remuneration Committee. Please refer Page 10.
		b) Statement of Remuneration policy	Please refer Remuneration Committee Report on Page 26.
		c) Aggregated Remuneration paid to Executive Directors & Non-Executive Directors	Please refer page 22.
7.10.6	Audit Committee	The Company shall have an Audit Committee	Company has formed an Audit Committee.
7.10.6(a)	Composition of the Audit Committee	Shall comprise of Non-Executive Directors a majority of whom will be independent	Audit Committee consists of two Independent Non-Executive Directors and one Non-Executive Director.
		Non-Executive Director shall be appointed as the Chairman of the Committee	Chairman of the Audit Committee is an Independent Non-Executive Director.
		Chief Executive Officer and the Chief Financial Officer shall attend Audit Committee Meetings unless otherwise determined	Managing Director and the Chief Finance Officer attend meetings by invitation.
		The Chairman of the Audit Committee or one member should be a member of a professional accounting body	One member is a member of a professional accounting body.
7.10.6(b)	Audit Committee Functions	Should be as outlined in Section 7 of the listing rules	The terms of reference of the Audit Committee adopted by the Board listed on page 11.
7.10.6(c)	Disclosure in the Annual Report relating to Audit Committee	a) Names of Directors comprising the Audit Committee	Names of the members of the Audit Committee are stated in this Report under the heading of Audit Committee on Page 12.
		b) The Audit Committee shall make a determination of the independence of the Auditors and disclose such determination	Please refer Audit Committee Report on page 27.
		c) The Annual Report shall contain a Report of the Audit Committee setting out the manner of compliance of the functions	Please refer Audit Committee Report on page 27.



## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible under section 150(1), 151 of the Companies Act No. 7 of 2007, to ensure compliance with the requirements set out therein, to prepare financial statements for each financial year giving a true and fair view of the state of affairs of the Company as at the end of the financial year and of the Profit or Loss of the financial year.

The Directors are also responsible, under section 148 for ensuring that proper accounting records are kept, to disclose with reasonable accuracy, the financial position and enable preparation of the financial statements.

The Board accepts responsibility for the integrity and objectivity of the financial statements presented. The Directors confirm that in preparing the financial statements, appropriate accounting policies have been selected and applied consistently while reasonable and prudent judgments have been made so that the form and substance of transactions are properly reflected.

They also confirm that the financial statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards. The financial statements provide the information required by the Companies Act and the listing rules of the Colombo Stock Exchange.

The Directors have taken reasonable measures to safeguard the assets of the Company and in that context, have instituted appropriate systems of internal control with a view to preventing and detecting fraud and other irregularities.

The External Auditors, Ms. H. L. B. Edirisinghe & Company re-appointed in terms of Section 158 of the Companies' Act No. 7 of 2007 were provided with every opportunity to undertake the inspections they considered appropriate to enable them to form their opinion on the Financial Statements. The report of the Auditors shown on page 28 sets out their responsibilities in relation to the Financial Statements.

### Compliance Report

The Directors confirm to the best of their knowledge that all statutory payments relating to employees and the Government that were due in respect of the Company as at the Balance Sheet date have been paid or where relevant provided for.

By Order of the Board  
Mahaweli Reach Hotels PLC

Businessmate Pvt. Ltd.  
Secretaries

45, Braybrooke Street, Colombo 2.  
23<sup>rd</sup> August 2012





## CHAIRMAN'S REVIEW

Exciting and challenging times are ahead for the tourism industry in Sri Lanka and it gives me great pleasure to present to you the annual report of the company for the financial year ended 31<sup>st</sup> March 2012.

During the calendar year of 2011, arrivals to Sri Lanka reached 855,975 resulting in a 31% increase over the previous year, prompting a revision of forecasts for 2012. The first quarter of 2012 has also shown an increase in arrivals over the same period in the previous year. The potential for development in the tourism arena in Sri Lanka is immense and the year on year increase during the last couple of years is very encouraging. The entry of some of the largest hotel operators in the world to the local market is an indication of the future prospects for the industry. It will also undoubtedly raise the profile of the destination. However, we must guard against complacency.

The global economic environment may have a dampening effect on the growth forecasts. Western Europe continues to be one of the biggest generating markets for Sri Lanka and our hotel and the current economic upheavals taking place in that region may have a detrimental effect on the projected arrivals from this geographical area. These issues in the Western world may also have a ripple effect on other economies such as Sri Lanka's largest generating market of India and other Asian markets which are currently experiencing the effects of these events in the form of depreciation of their currencies as well among other effects. Further exacerbating the issues are the Airline Passenger Tax imposed by the United Kingdom and the carbon taxes imposed on airlines by the European authorities which make long haul travel more expensive. The emerging markets such as the Middle East, Russia and China have shown potential for growth with the Middle East generating the most interest.

The Tourism Development Strategy unveiled by the Ministry of Economic Development which will serve as the blue print for the development of the industry in the next five years, has identified several areas for development in order to achieve

the target of 2.5 million visitors by the year 2016. This includes the development of infrastructure, increasing capacity and related services and development of human capital and it is hoped that with the Government's active participation the industry can make strides towards addressing the obstacles currently in their path.

Your hotel being situated in Kandy, has encountered further challenges, chief among them being the fact that Kandy remains a round trip destination and has not yet become a destination in its own right. The difficulty in accessing Kandy from other major tourist hubs such as Colombo or the coastal areas has been curbing the number of foreign and domestic travelers though the improved rail services if expanded may assist in addressing this issue. It is hoped that the proposed highway between Colombo and Kandy and the domestic airport in Kandy will provide further alternatives in the long term, while the air taxi services are proving to be attractive to high yield travelers. In order to promote Kandy as a destination in its own right, it is also important to develop different activities in and around Kandy. The natural treasures possessed in these areas such as the mountain areas, nature trails, waterfalls and reservoirs could be utilised to promote nature-related activities or adventure sports in a responsible manner taking into consideration the environment and safety precautions. Other entertainment options such as special events, venues or amusement parks could be introduced to attract visitors with varied interests. The proposed development of the City of Kandy is very welcome as it will assist to preserve and promote Kandy as a heritage city and to develop it to cater to a greater number of tourists and residents.

The improvement of amenities at the many tourist sites is also an important factor which has been listed for special focus in the coming period and is very welcome as the lack of such facilities is an impediment to the industry's future progress.

There is a great need for a cohesive destination marketing campaign involving all stakeholders. Currently, Sri Lanka does not have a strong presence



on the global stage and it is imperative that a compelling promotion be carried out as the island is competing against regional competitors who are carrying out aggressive promotional campaigns in the international media. Sri Lanka must capitalise on the momentum gained from being named as a "hot destination" by several international travel magazines and media outlets as the opportunity may otherwise be lost.

The macro environment has been challenging. However, the company has taken measures to ensure that it mitigated these effects as much as possible and that it achieved and exceeded its targets. The profit after tax for the year was Rs. 7.9 million compared to Rs. 46.6 million last year.

The company was awarded the Star Award in the Service Sector - Large Category. This award is presented to Best Performing Entrepreneurs of the Central Province in a competition organized by the Department of Industrial Development and Enterprise Promotion of the Central Province under the guidance of the Ministry of Industries of the Central Province.

With the new inventory of rooms which is expected to be introduced within the next couple of years and also with the newly refurbished properties in the area, it is imperative that the hotel takes steps to maintain its standards and market share. To this end, an ongoing refurbishment programme has been undertaken to add value to the customer experience by upgrading the facilities in the rooms and public areas and also certain capital expenses which are necessitated by the age of the property. The refurbishment is being carried out on a staggered basis, mainly through generated funds in order to ensure that the debt burden on the company is managed, in view of the increase in borrowing rates. It is proposed to introduce new features which will leverage the unique location of the property. While the Company benefited in the first three quarters of the financial year from the reduction in interest rates, it is expected that in the future the rates will increase, thus having an impact on results. The refurbishments and improvements have however had a positive effect

by enabling the company to command higher rates which in turn has boosted revenue and offset to an extent the higher costs of food, materials and energy. The recent depreciation of the rupee has resulted in higher earnings as the rates are generally contracted in foreign currency though the rising costs of materials and of construction have eroded profits.

With increasing capacity in the market and the expected influx of visitors to the island, the dearth of skilled human resources is still one of the biggest challenges faced by the industry. High standards and personalized service is one of the hallmarks of Mahaweli Reach and maintaining these standards in the face of staff turnover can be very challenging. In light of the prevailing economic conditions and the competitors who are entering the market, the company recognises the need to motivate and retain our associates and thus we have devised attractive remuneration packages and incentives for this purpose. We also believe in investing in our staff and carry out extensive operational training for them with internal and external trainers. It is hoped that with tourism once again becoming an attractive employer and that more young people will be interested in becoming tourism professionals.

Mahaweli Reach is an integral part of its community and we firmly believe in our role as a socially responsible corporate citizen and in nurturing talents of the younger generations. The Kosala Dullewe Foundation, a not-for-profit organisation of volunteers focused on improving the quality of life of children with special needs, along with experts from the Netherlands, conducted a 3 day training programme on Basic Motor Skills for Children with Down Syndrome, for parents, caregivers and healthcare workers dealing with these children. Mahaweli Reach contributed to this worthy cause by providing the catering on the first day of this workshop. On World Childrens' Day, the hotel provided tea and snacks to children of the Mawilmada School with the participation of members of the staff. As an annual event during Christmas, the hotel once again hosted children



## CHAIRMAN'S REVIEW

from the Sarana Sevana Childrens' Home and afforded them the opportunity of spending the day with our team. To promote and encourage future professionals of the industry, a training programme spearheaded by our Executive Chef was conducted for hotel school students of the National Services Council, Polgolla. The hotel also facilitated an educational tour for students of the Naval and Maritime Academy following the Phase III Catering Assistant Qualifying Course in order to give them exposure to the field of cookery, including responsibilities of chefs, food safety and hygiene standards and professional standards.

The changes affected to the Sri Lanka Accounting Standards in adopting the International Financial Reporting Standards have been assessed and it is expected to have a minimal impact on the company's reporting formats. The financial statements in compliance with these standards will be prepared for the financial year commencing from 01<sup>st</sup> April 2012 in keeping with the regulatory requirements.

On behalf of my colleagues on the Board, I pay tribute to the late Mrs. L .R. Panabokke, our Founder Director and my predecessor as Chairperson of this company. It is with great sorrow that we mark her passing in April. Her immense contribution to the development of this company and towards the making of the "Mahaweli Reach" brand, is immeasurable and we pledge to uphold the values and ethics which she and the Founder of this company, late Mr. Atul Panabokke propounded and which to date are the bases upon which the company's quest to fulfill its vision and mission are founded.

We also remember with deep sorrow the passing of our colleague, late Brigadier C.N. Panabokke, who was a longstanding member of the Board of Mahaweli Reach and whose unstinted support and encouragement have been pillars of strength to the Board over the years.

The loyal patronage of our customers and the destination management companies is truly appreciated and we trust they will continue to patronize the hotel in the future.

We acknowledge with gratitude the steadfast support and co-operation of our bankers and suppliers.

We greatly appreciate the trust and confidence placed in us by you, our valued shareholders, and we pledge to use our best efforts to continue to develop the product and company.

The dedication and commitment of our Managing Director and all our team members is invaluable and make all the achievements possible. We salute you.

I wish to express my sincere appreciation to my colleagues on the Board for the advice and leadership in guiding the company forward in challenging times and trust that we will be able to continue to steer the company with assurance. The future holds great promise and let us hope that together we can ensure that this full potential is realised.

**Mr. M. U. Maniku**

**Chairman**

**23<sup>rd</sup> August 2012**



## BOARD OF DIRECTORS

### **Mr. J. A. Panabokke (Managing Director)**

#### **Executive Director**

Mr. Jayantha A. Panabokke has over 32 years management experience in the hospitality industry and has been a member of the Board of Directors of Mahaweli Reach Hotels PLC since 1988 and has functioned as its Managing Director since 1992. He currently represents Sri Lanka on the Executive Board of the Pacific Asia Travel Association (PATA), and is a member of the Council of Governors of the Sri Lanka Business Development Centre. He is a Director of Mahaweli Hotel Management Services (Pvt.) Limited and of Mowbray Hotels Ltd. He has also been a former Member of the Board of the Sri Lanka Tourist Board and Chairman of the PATA Sri Lanka Chapter. In addition, he has in the past been appointed Vice President of the Tourist Hotels Association of Sri Lanka, President of the Kandy Hoteliers Association, Director of the Chamber of Commerce & Industry of the Central Province and a Director of the Sri Lanka Institute of Tourism & Hotel Management.

### **Mr. K. Mohan Panabokke**

#### **Non-Executive Director**

Mr. K. Mohan Panabokke has over 30 years experience in the hospitality industry and functioned as General Manager of Mahaweli Reach Hotel from 1992 to 2007. He was appointed an alternate Director of the Company on 27<sup>th</sup> September 1996 and was appointed a Director with effect from 5<sup>th</sup> June 2012. He is a graduate of the Ceylon Hotel School and also the Chairman / Managing Director of Unique Road Hauliers (Pte) Ltd. He is also the present Basnayake Nilame of the Sri Maha Vishnu Devalaya in Kandy and of the Dedimunda Devalaya in Aluth Nuwara. He currently serves on the Board of the Sri Lanka International Buddhist Academy.

### **Mr. R. T. Molligoda**

#### **Independent Non-Executive Director**

Mr. R. T. Molligoda was appointed as a Director of Mahaweli Reach Hotels PLC on 15<sup>th</sup> July 1976 and has been associated with the Company since then. He has over 40 years management experience in various fields and held Executive Directorships in several companies of the John Keells Group, including the Travel & Hotel sectors prior to his retirement. He has served on the governing bodies of several associations aligned to international bodies and also as a former surveyor of the Chamber of Commerce on Export Products and as an advisor to the Bureau of Standards.

### **Mr. A. N. Esufally**

#### **Independent Non-Executive Director**

Appointed to the Board of Directors of Mahaweli Reach Hotels PLC on 20<sup>th</sup> October 1987. Mr. Esufally is a Fellow of both the Institute of Chartered Accountants of England and Wales and The Institute of Chartered Accountants of Sri Lanka. He has over 30 years experience in Sri Lanka and overseas and has been in the forefront of the leisure industry in Sri Lanka. He is the Honorary Consul General for Bhutan in Sri Lanka and an All-island Justice of the Peace. He is also a Director of several other companies including Hemas Holdings PLC, Dolphin Hotels PLC, Hotel Sigiriya PLC, Serendib Hotels PLC and Printcare PLC.

### **Mr. M. U. Maniku**

#### **Non-Executive Director**

Mr. Mohamed U. Maniku was appointed to the Board on 27<sup>th</sup> February 2003. He is a holder of a Masters Degree in Agriculture from the University of Bangladesh. Mr. Maniku has over 40 years experience in the hospitality industry. He is considered as the pioneer in development of tourism in the Maldives. He is the Chairman of Universal Enterprises Pvt. Ltd., a company that owns and operates eight tourist resorts in the Maldives and La-briz Tourist Resort, Seychelles. He is a director of Royal Palms Beach Hotels PLC. Mr. Maniku is the Chairman of the Maldives Association of Tourism Industry of the Republic of Maldives.

### **Mr. A. U. Maniku**

#### **Non-Executive Director**

Mr. Ahamed U. Maniku was appointed to the Board on 27<sup>th</sup> February 2003. He is the Managing Director of Universal Enterprises Pvt. Ltd. of Maldives.





## BOARD OF DIRECTORS

### **Dr. I. U. Maniku**

#### **Non-Executive Director**

Dr. Ibrahim U. Maniku was appointed to the Board on 27<sup>th</sup> February 2003. He is a Director of Universal Enterprises Pvt. Ltd. of Maldives.

### **Mr. A. M. Didi**

#### **Non-Executive Director**

Mr. Ahamed Mahir Didi was appointed to the Board on 27<sup>th</sup> February 2003. He is the Director - Sales and Marketing of Universal Enterprises Pvt. Ltd., Maldives. He has over 26 years experience in Resort Management, specializing in Marketing and promotion of Maldives and the Universal Resorts portfolio around the world. He is also responsible for Universal Travel Services. He is a Director of Silhouette Island Resort and Rocher Marketing and Hospitality Supplies of Seychelles. Mr. Ahamed Mahir Didi is the Honorary Consul for Russia in the Republic of Maldives.

### **Mr. W. P. Hettiaratchi**

#### **Non-Executive Director**

Mr. W. Priyantha Hettiaratchi was appointed to the Board on 27<sup>th</sup> February 2003. He is a Fellow member of the Institute of Chartered Accountants of Sri Lanka. He has been employed by Universal Resorts, Maldives since 1998 and at present heads the Group's operations in Sri Lanka. He is also the Managing Director of The British School in Colombo, CEO/Director of Lanka Valiant Developers Pvt. Ltd., CEO/Director of Universal Holdings Lanka Pvt. Ltd. and is the alternate Director to Mr. M. U. Maniku at Royal Palms PLC and serves as a member of the Audit Committee. He counts over 20 years experience and exposure in the areas of the soft drinks industry, hospitality, tourism and school operations.

### **Mr. A. Nooradeen**

#### **Non-Executive Director**

Mr. Ali Nooradeen was appointed to the Board on 15<sup>th</sup> June 2004. He is a Director of Universal Enterprises Pvt. Ltd.

### **Mr. M. Mahir**

#### **Non-Executive Director**

Mr. M. Mahir was appointed to the Board on 15<sup>th</sup> June 2004. He has over 26 years experience in the tourism industry. He is the Director in Charge for Procurement of Supplies for the resorts owned by the Universal Group.

### **Mr. J. C. Ratwatte**

#### **Independent Non-Executive Director**

Mr. J. Charitha Ratwatte is a holder of a Bachelor of Law Degree from the University of Colombo and is an Attorney of Law with 36 years experience. He also holds a Post Graduate Diploma in International Relations from the Bandaranaike Center for International Studies. He has worked for the government for over 20 years in various assignments, ranging from Director General of Youth Services, Chairman of the National Youth Services Savings and Credit Co-operative, Commissioner General for Essential Services, Managing Director of the Janasaviya Trust Fund (now operating under the name National Development Trust Fund) and also as Secretary to six Ministries. He retired from the government service from the post of Secretary to the Treasury and Ministry of Finance. He now works in the business sector as the Managing Director of the Sri Lanka Business Development Centre, a non-profit, non-stock, private company. He has been a member of the Committee of the Ceylon Chamber of Commerce, by invitation, since 1995. He serves on the Board of Directors of several companies, mainly in the leisure business. He has been a Lecturer and Examiner in Constitutional Law in Sri Lanka and a Resource Person on Disaster Management to the Asian Disaster Management Center of the Asian Institute of Technology, Bangkok.



## BOARD OF DIRECTORS

### **Mr. Rienzie T. Wijetilleke**

#### **Independent Non-Executive Director**

Mr. Wijetilleke has been a Director of the Company since early 2008. He retired in 2011 as the Chairman of Hatton National Bank. In November 2010, he celebrated his 50 years as a Practicing Banker.

He is a Fellow Member of the Chartered Institute of Bankers, United Kingdom, a Fellow Member of the Institute of Bankers, Sri Lanka and a Companion of the Chartered Management Institute, United Kingdom.

Mr. Wijetilleke is also a Director of several other companies. He is also the former Chairman and a Director of the Colombo Stock Exchange.

### **Mr. R. Seevaratnam**

#### **Non-Executive Director**

Mr. R. Seevaratnam was appointed a Director with effect from 5<sup>th</sup> June 2012. He is a graduate of the University of London and a fellow member of the Institute of Chartered Accountants of England and Wales and a fellow member of the Institute of Chartered Accountants of Sri Lanka. He was a senior Partner of KPMG Ford Rhodes Thornton & Company. At present, he is a Non-Executive Independent Director of a number of Public Quoted Companies.



## REPORT OF THE DIRECTORS

### ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY - FOR YEAR 2011/12.

The Directors are pleased to present their report together with the audited Financial Statements for the year ended 31<sup>st</sup> March 2012. The details set out herein provide the pertinent information in compliance with the Companies Act No. 7 of 2007, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Listing Rules of the Colombo Stock Exchange.

#### Principal Activities and Review of Business

The principal activity of the Company is that of a Hotelier and this has remained unchanged. A review of Business and the Company's performance during the year with comments on financial result is contained in the Chairman's Review.

There are no other classes in which the Company has an interest, either as a Shareholder of another company or otherwise.

The Directors are not aware of any other material information which requires inclusion for the Shareholders to have a further appreciation of the state of the Company's affairs outside the information disclosed in the Financial Statements.

#### Financial Statements

The Financial Statements of the Company for the accounting period ended 31<sup>st</sup> March 2012, prepared in compliance with the Sri Lanka Accounting Standards and completed and signed in accordance with the provisions of the Companies Act are given on pages 29 to 53.

#### Auditor's Report

The Auditor's Report on the Financial Statements of the Company is given on page 28.

#### Accounting Policies

The Notes to the Financial Statements contained herein describe the accounting policies adopted in the preparation of the Financial Statements.

Changes in Accounting policies made during the accounting period are described under note 2.2 to the Financial Statements.

#### Stated Capital

The Stated Capital is the total of the amounts received by the Company in respect of the issue of Shares.

The Stated Capital of the Company as at 31<sup>st</sup> March 2012 consists of 47,066,447 Ordinary shares and 11,660 Preference shares totaling to Rs. 585,562,470. There was no change in the Stated Capital during the year.

#### Dividends

The Company has not declared or paid any Dividends during the period under review.

#### Investments

The Company has no investments (quoted or unquoted).

#### Property Plant & Equipment

Information relating to movements of Property, Plant & Equipment is given in Note 3 to the Financial Statements.



## REPORT OF THE DIRECTORS

### Directorate

The Directors of the Company as at the end of the accounting period and those who ceased to hold office as Directors of the Company during the accounting period are as follows:

Directors as at 31 <sup>st</sup> March 2012	Remarks
MRS. LALANAWATHIE RATWATTE PANABOKKE	EXECUTIVE DIRECTOR
MR. RAJA TISSA MOLLIGODA	INDEPENDENT NON-EXECUTIVE DIRECTOR
MR. ABBASALLY NURUDDIN ESUFALLY	INDEPENDENT NON-EXECUTIVE DIRECTOR
MR. JAYANTHA ATUL PANABOKKE	EXECUTIVE DIRECTOR
MR. MOHAMED UMAR MANIKU	NON-EXECUTIVE DIRECTOR
MR. AHAMED UMAR MANIKU	NON-EXECUTIVE DIRECTOR
DR. IBRAHIM UMAR MANIKU	NON-EXECUTIVE DIRECTOR
MR. AHAMED MAHIR DIDI	NON-EXECUTIVE DIRECTOR
MR. WAJJIYA PRIYANTHA HETTIARATCHI	NON-EXECUTIVE DIRECTOR
MR. ALI NOORADEEN	NON-EXECUTIVE DIRECTOR
MR. MOHAMED MAHIR	NON-EXECUTIVE DIRECTOR
MR. JAYAMPATHY CHARITHA RATWATTE	INDEPENDENT NON-EXECUTIVE DIRECTOR
MR. RIENZIE THEOBALD WIJETILLEKE	INDEPENDENT NON-EXECUTIVE DIRECTOR

Messrs. Ali Nooradeen, Mohamed Mahir, Jayampathy Charitha Ratwatte and Rienzie Theobald Wijetilleke are due to retire by rotation at the forthcoming Annual General Meeting of the Company in terms of Article 90 of the Articles of Association of the Company, and being eligible, offer themselves for re-election and this is recommended by the Board. Mr. R. T. Molligoda, who attained the age of seventy-five years on 02<sup>nd</sup> February 2012 retire pursuant to Section 210 of the Companies Act No. 7 of 2007. Special Notices of intention in compliance with the law have been received by the Company regarding the re-election of Mr. R T Molligoda who, being eligible, offer themselves for re-election and this is recommended by the Board.

Messrs. K. M. Panabokke and R. Seevaratnam who were appointed to the Board since the last Annual General Meeting are due to retire at the forthcoming Annual General meeting in terms of Articles 97 of the Articles of Association of the Company, and being eligible, offer themselves for re-appointment and this is recommended by the Board.

### Directors Shareholdings

The Shareholdings of the Directors together with those of their spouses are as follows:

	As at 31st March 2011	As at 31st March 2012
Mr. J. A. Panabokke	505,721	520,388
Mrs. L. R. Panabokke	4,295,062	4,369,062
Mr. A. N. Esufally	332,000	332,000
Mr. R. T. Molligoda	626,200	626,200
Mr. M. U. Maniku	1,160,380	1,160,380
Brig. C. N. Panabokke	33,000	NIL

### Directors Remuneration and other benefits

The Directors remuneration and other benefits from the Company during the Financial year 2011/2012 is Rs. 11,187,000.00





## REPORT OF THE DIRECTORS

### Interests Register

The particulars of entries in the Interests Register and the Directors Interests in the Contracts of the Company are disclosed under Note 22 to the Financial Statements contained herein.

The Directors are not either directly or indirectly interested in any existing or proposed contracts with the Company other than what is disclosed in the Financial Statements.

### Post Balance Sheet Events

No circumstances of significance have arisen since the Balance Sheet date, which would require adjustments to or disclosure in the Financial Statements.

### Donations

The total amount of Donations made by the company during the Financial Year is Rs.107,508.00

### Auditors

M/s HLB Edirisinghe & Co., Chartered Accountants, Auditors of the Company, have signified their willingness to continue in office and are recommended for re-appointment.

The amounts payable by the Company to the Auditors as audit fees is Rs. 226,600.00

The fees payable by the Company for other services provided by the Auditors are:

Nature of Service	Fees Payable
Tax work and other services	Rs. 33,100.00

As far as the Directors are aware, the Auditors do not have any other relationship or interest in the Company.

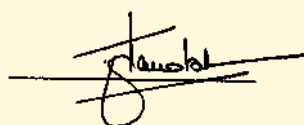
### Employee Share Ownership

The Company does not operate any share option scheme

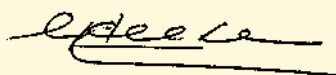
### Going Concern

The Directors have made an assessment and have a reasonable expectation of the Company's ability to continue as a going concern and do not intend either to liquidate or to cease operations of the Company in the foreseeable future.

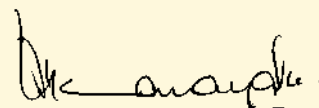
BY ORDER OF THE BOARD.



J. A. Panabokke  
Director



W. P. Hettiaratchi  
Director



Businessmate (Pvt.) Ltd.,  
Secretaries.

23<sup>rd</sup> August 2012



## TWENTY LARGEST SHAREHOLDERS

Name of Shareholder	31.03.12		31.03.11	
	No. of Shares	Holding %	No. of Shares	Holding %
1. Universal Enterprises Pvt. Ltd.	32,683,550	69.45	32,683,550	69.45
2. Mrs. L. R. Panabokke	4,369,062	9.29	4,295,062	9.13
3. Gold Investments Ltd.	1,200,048	2.55	1,436,848	3.06
4. Mr. M. U. Maniku	1,160,380	2.47	1,160,380	2.47
5. Mr. R. T. Molligoda	626,200	1.33	626,200	1.33
6. Mercantile Investments Limited	507,000	1.08	507,000	1.08
7. Mr. J. A. Panabokke	484,104	1.03	472,371	1.01
8. Mr. J. R. De Silva	381,767	0.82	63,300	0.14
9. Mr. A. N. Esufally	332,000	0.71	332,000	0.71
10. Pan Asia Banking Corporation PLC / B. R. Fernando	200,261	0.43	385,900	0.82
11. Mr. A. W. Nanayakkara	175,000	0.38	167,400	0.36
12. Sinhaputhra Finance Ltd.	167,200	0.36	239,900	0.51
13. National Savings Bank	133,300	0.29	278,100	0.59
14. Mr. K. M. Panabokke	131,000	0.28	131,000	0.28
15. Dee Investments (Pvt.) Ltd.	110,000	0.24	110,000	0.24
16. Mr. B. B. S. A. Perera	71,814	0.16	-	-
17. Alliance Finance Company PLC	69,100	0.15	69,100	0.15
18. Mr. J. A. Panabokke	64,900	0.14	62,700	0.14
19. Rosewood (Pvt.) Ltd.	64,200	0.14	-	-
20. Mr. S. A. K. Subasinghe	60,000	0.13	60,000	0.13

### SHAREHOLDINGS

	31.03.12		31.03.11	
	No. of Shares held	Holding %	No. of Shares held	Holding %
Others	39,825,247	84.61	39,776,096	84.51
Public	7,241,200	15.39	7,290,351	15.49
<b>Total</b>	<b>47,066,447</b>	<b>100.00</b>	<b>47,066,447</b>	<b>100.00</b>

### Shareholders/Investors Information

#### Details of Shareholding

No. of Shareholders		Holdings		Total Holdings	31.03.12		%	31.03.11		%
31.03.12	31.03.11									
1419	1231			500	483,350	1.03%		309,358	0.66%	
		Less Than								
701	439	500	to	5,000	1,496,354	3.18%		869,659	1.85%	
83	64	5,001	to	10,000	634,902	1.35%		437,302	0.93%	
44	55	10,001	to	20,000	783,926	1.66%		902,236	1.92%	
13	17	20,001	to	30,000	351,422	0.75%		497,120	1.06%	
6	14	30,001	to	40,000	169,321	0.36%		524,778	1.11%	
0	5	40,001	to	50,000	0	0.00%		197,957	0.42%	
9	10	50,001	to	100,000	532,461	1.13%		550,526	1.17%	
10	10	100,001	to	1,000,000	3,201,671	6.80%		3,201,671	6.80%	
4	4	Over		1,000,000	39,413,040	83.74%		39,575,840	84.08%	
2289	1849				<u>47,066,447</u>	<u>100.00%</u>		<u>47,066,447</u>	<u>100.00%</u>	



## FIVE YEAR HIGHLIGHTS

OPERATING RESULTS		2007/08	2008/09	2009/10	2010/2011	2011/2012
Occupancy	%	49	41	47	61	57
Gross Revenue	(Rs.000)	233,670	262,596	279,030	391,017	449,107
Interest Charges	(Rs.000)	(23,158)	(24,828)	(20,169)	(11,670)	(14,850)
Depreciation	(Rs.000)	(25,486)	(22,920)	(21,220)	(20,322)	(32,416)
Profit and Loss before Interest	(Rs.000)	734	13,229	21,449	54,584	28,336
after Interest	(Rs.000)	(22,424)	(11,600)	1,280	42,914	13,486
<b>ASSETS EMPLOYED</b>						
Non Current Assets	(Rs.000)	573,348	560,437	611,460	982,214	1,026,833
Net Current Assets/ (Liabilities)	(Rs.000)	(35,268)	(50,259)	(41,362)	(17,243)	1,404
<b>SHAREHOLDERS FUNDS</b>						
Stated Capital	-	-	-	-	-	-
- Ordinary Shares	(Rs.000)	585,445	585,445	585,445	585,445	585,445
- Preference Shares	(Rs.000)	117	117	117	117	117
Ordinary Share Capital	(Rs.000)	-	-	-	-	-
Preference Shares	(Rs.000)	-	-	-	-	-
Net Reserves	(Rs.000)	(143,086)	(154,685)	(121,310)	253,046	260,992
Non Current Liabilities	(Rs.000)	95,602	79,300	105,846	126,362	181,681
Market Value per share	Rs. Cts	15.00	12.50	22.00	34.00	25.20
Net Assets per share	Rs. Cts	9.4	9.15	9.86	17.81	17.97
Dividend per share	Rs. Cts	-	-	-	-	-
Earnings per share	Rs. Cts	(0.48)	(0.25)	0.71	0.99	0.17
Year-on-Year Growth in Earnings per share	%	(37)	48	384	39.43	(83)
in Divident per share	%	-	-	-	-	-
Price Earning Ratio	-	-	-	31	34.34	148.24
Borrowing as a % of Total Assets	%	17%	15 %	13%	7.89%	13,10%
Interest Cover	Times	nil	nil	1.06	4.68	1.91

### Highest and lowest value per share

The highest value per share traded during the year is Rs. 44.50 and the lowest value per share traded during the year is Rs. 17.00 and the market value per share as at 31<sup>st</sup> March 2012 is Rs. 25.20

The Company has not raised funds on listed securities.



## REMUNERATION COMMITTEE REPORT

The Remuneration Committee of Mahaweli Reach Hotels PLC comprise of three Non-Executive Independent Directors, one of whom functions as the Chairman of the Committee.

Members of the Remuneration Committee are:

Mr. J. C. Ratwatte (Chairman)	- Independent Non-Executive Director
Mr. R. T. Wijetilleke	- Independent Non-Executive Director
Mr. R. T. Molligoda	- Independent Non-Executive Director

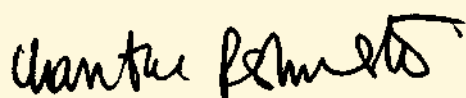
The three Non-Executive Independent Directors are independent of management and free from any business or other relationship which would otherwise interfere with the exercise of their independent judgement. The Managing Director attends the meetings by invitation.

The Remuneration Committee formally met once during the year under review.

The Committee interacted among themselves as well as with the executive board members when the necessity arose.

It is the Company policy on remuneration to attract, retain and motivate the best management talent in the Company to perform and be developed to the highest level. The policy ensures that internal equity and fairness between the various employees are maintained, no discrimination is practiced on account of gender, age, ethnicity or religion. The company recognises the basic needs of employees and the compensation packages address cost of living, inflation and the industry norms. An attractive remuneration package in line with comparative industry levels is offered and whenever required the Remuneration Committee obtains market research information from third parties in order to benchmark compensation packages with the industry norms.

Mahaweli Reach Hotels PLC has complied with the policies and procedures set out by the Remuneration Committee.



J. C. Ratwatte  
Chairman - Remuneration Committee

23<sup>rd</sup> August 2012



## AUDIT COMMITTEE REPORT

### Composition of the Audit Committee

The Audit Committee comprises of two Independent Non-Executive Directors and one Non-Executive Director.

Members of the Audit Committee are:

- |                                    |                                      |
|------------------------------------|--------------------------------------|
| • Mr. R. T. Wijetilleke - Chairman | - Independent Non-Executive Director |
| • Mr. J. C. Ratwatte               | - Independent Non-Executive Director |
| • Mr. W. P. Hettiaratchi           | - Non-Executive Director             |

### Meetings and Attendance

The Committee formally met on four occasions during the year ended 31<sup>st</sup> March 2012.

The Managing Director, The Financial Controller, The Company Secretary and The Internal Auditor attended the meetings by invitation.

### Activities

The Audit Committee discharged its duties by reviewing and discussing the Audit Reports submitted by M/s KPMG Ford, Rhodes Thornton & Co., the Internal Auditor. The Audit Committee having reviewed these reports using their extensive experience and expertise, recommended additional controls and risk mitigation strategies that could be implemented to strengthen the existing internal control system thus minimizing the possibility of occurrence and impact of fraud, errors, operational and financial risks faced by the Company.

The Committee is empowered to examine any matter relating to the financial reporting systems, and its internal and external audits. Its duties include detailed reviews of financial statements, internal control procedures, accounting policies and compliance with accounting standards. It also reviews the adequacy of systems for compliance with the relevant legal, regulatory and ethical requirements, and Company policies.

The committee endeavours to assist the Directors to discharge their duties and responsibilities in respect of regulatory compliance and risk management.

### Compliance

The Audit Committee assisted the Board in ensuring compliance with the statutory provisions prior to publication of timely and reliable financial reports, which were in line with the Companies Act No. 7 of 2007, the Sri Lanka Accounting Standards, appropriate statutes and regulations of relevant institutes and organisations.

The Audit Committee also monitors the timely payments of all statutory obligations.

The Audit Committee is satisfied that the control environment prevailing in the organisation provides reasonable, but not absolute assurance that the financial position of the company is satisfactory and that the systems are in place to minimize the impact of identifiable risks.

### Internal Audit

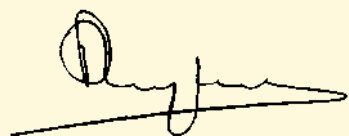
The Audit Reports of the Internal Audit Company were reviewed and approved at the meetings.

### External Audit

The Audit Committee reviewed the services provided by the External Auditors to the Company to ensure their independence as Auditors has not been compromised.

As far as the Directors are aware, the Auditor does not have any relationship (other than that of an Auditor) with the Company. The Auditors also do not have any interest in the Company. For the said reasons, the Committee had determined that Auditors are independent.

The Audit Committee having evaluated the independence and performance of the external auditors decided to recommend to the Board of Mahaweli Reach Hotels PLC, the re-appointment of Messrs. HLB Edirisinghe & Co., as auditors of the Company for the current financial year subject to the approval of the shareholders at the Annual General Meeting.



Rienzie T. Wijetilleke  
Chairman - Audit Committee

23<sup>rd</sup> August 2012





## INDEPENDENT AUDITORS REPORT



Chartered Accountants

### INDEPENDENT AUDITOR'S REPORT

#### TO THE SHAREHOLDERS OF MAHAWELI REACH HOTELS PLC

We have audited the accompanying financial statements of Mahaweli Reach Hotels PLC, which comprise the Balance Sheet as at March 31<sup>st</sup> 2012, Income Statement, Statement of Changes in Equity, and Cash Flow Statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

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

#### Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

#### Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the period ended March 31<sup>st</sup> 2012, and the Financial Statements give a true and fair view of the Company's state of affairs as at March 31<sup>st</sup> 2012, and its profit and cash flows for the period 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 7 of 2007.

*HLB Edirisinghe & Co*

HLB Edirisinghe & Co.  
Chartered Accountants

Colombo  
20<sup>th</sup> August 2012



45, Braybrooke Street, Colombo 02, Sri Lanka. Telephone: +94 11 2433933 Facsimile: +94 11 2445683, E-mail: [info@hlblk.com](mailto:info@hlblk.com)  
A.T.P. Edirisinghe FCMA, FCA, Partner: A.D. Jayasena FCA, Partner: H.D.G. Nihal FCA, Partner: P.P. Edirisinghe ACA, ACIM, Partner: A.S. Edirisinghe ACA, ACIM, Partner:  
Ms. N.G.D.C.K. de Silva Jayawardane ACA, Partner:

HLB Edirisinghe & Co is a member of HLB International. A world-wide organisation of accounting firms and business advisers.

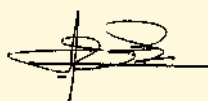


## Balance Sheet

For the year ended 31<sup>st</sup> March 2012

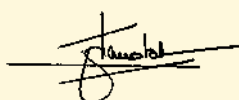
		31.03.2012	31.03.2011 Restated
ASSETS	Note	Rs.	Rs.
<b>Non-Current Assets</b>			
Property, Plant & Equipment	3	977,842,348	931,585,239
Deferred Tax Assets	4	48,990,743	50,629,743
		<u>1,026,833,091</u>	<u>982,214,982</u>
<b>Current Assets</b>			
Inventories	5	22,608,000	21,351,096
Trade and Other Receivables	6	82,635,722	70,540,348
Income Tax Refund Due		2,019,691	1,292,804
Cash in Hand and at Bank	7	6,043,540	2,141,361
		<u>113,306,953</u>	<u>95,325,610</u>
		<u>1,140,140,044</u>	<u>1,077,540,592</u>
<b>Total Assets</b>			
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Stated Capital	8	585,562,470	585,562,470
Capital Reserves		417,122,058	417,122,058
Retained Earnings		(156,129,580)	(164,075,083)
Total Equity		<u>846,554,948</u>	<u>838,609,445</u>
<b>Non-Current Liabilities</b>			
Interest Bearing Borrowings	9	118,892,380	65,696,729
Deferred Tax Liability	4	39,339,550	38,895,950
Employee Benefit Liability	10	23,449,861	21,769,838
		<u>181,681,791</u>	<u>126,362,516</u>
<b>Current Liabilities</b>			
Trade and Other Payables	11	61,799,900	60,161,319
Amounts Due to Related Parties	12	19,311,941	13,309,620
Social Responsibility Levy Payable		-	114,511
Current Portion of Interest Bearing Borrowings	9	30,503,956	19,362,285
Bank Overdrafts	7	287,508	19,620,896
		<u>111,903,305</u>	<u>112,568,631</u>
		<u>1,140,140,044</u>	<u>1,077,540,592</u>
<b>Total Equity and Liabilities</b>			

I certify that the Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

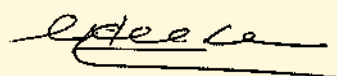


J. M. Faider  
Finance Officer

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



J. A. Panabokke  
Director



W. P. Hettiaratchi  
Director

The Accounting Policies and Notes to Accounts form an integral part of the Financial Statements.

20<sup>th</sup> August 2012  
Colombo



## INCOME STATEMENT

For the year ended 31<sup>st</sup> March 2012

	Note	2011/2012 Rs.	2010/2011 Restated Rs.
Revenue	13	424,910,717	366,390,586
Cost of Sales		(172,275,656)	(137,415,563)
Gross Profit		<u>252,635,061</u>	<u>228,975,024</u>
Other Operating Income	14	24,196,624	24,626,379
Administrative Expenses		(165,826,737)	(141,760,122)
Marketing & Promotion Costs		(17,268,208)	(13,149,729)
Finance Cost	15	(21,030,860)	(17,831,575)
Other Cost		<u>(59,219,490)</u>	<u>(37,946,271)</u>
Profit Before Tax	16	13,486,391	42,913,707
Income Tax Expense	17	(5,540,888)	3,694,330
Profit For The Year		<u><u>7,945,503</u></u>	<u><u>46,608,037</u></u>
Earnings Per Share (Basic) - Rs.Cts.	18	0.17	0.99

Figures in brackets indicate deductions.

The Accounting Policies and Notes to accounts form an integral part of the Financial Statements.

20<sup>th</sup> August 2012  
Colombo



## STATEMENT OF CHANGES IN EQUITY

For the year ended 31<sup>st</sup> March 2012

	Stated Capital Rs.	Preference Shares Rs.	Retained Earnings Rs.	Capital Reserve Rs.	Total Rs.
As at 1 <sup>st</sup> April 2010	585,445,870	116,600	(210,683,120)	89,373,277	464,252,627
Profit for the year - Restated	-	-	46,608,037	-	46,608,037
Revaluation Surplus during the year	-	-	-	360,792,224	360,792,224
Revaluation effect on Deferred Tax	-	-	-	(33,043,442)	(33,043,442)
<b>As at 31<sup>st</sup> March 2011</b>	<u>585,445,870</u>	<u>116,600</u>	<u>(164,075,083)</u>	<u>417,122,058</u>	<u>838,609,445</u>
Profit for the year	-	-	7,945,503	-	7,945,503
<b>As at 31<sup>st</sup> March 2012</b>	<u>585,445,870</u>	<u>116,600</u>	<u>(156,129,580)</u>	<u>417,122,058</u>	<u>846,554,948</u>

Figures in brackets indicate deductions.

The Accounting Policies and Notes to accounts form an integral part of the Financial Statements.

20<sup>th</sup> August 2012  
Colombo





## CASH FLOW STATEMENT

For the year ended 31<sup>st</sup> March 2012

	31.03.2012 Rs.	31.03.2011 Rs.
<b>Cash Flows From Operating Activities</b>		
Profit Before Income Tax Expense	13,486,391	42,913,707
Adjustments for:		
Depreciation	32,416,384	20,322,592
Lease Interest	624,203	217,069
Interest Expenses	14,850,220	11,670,210
Provision for Gratuity Net of Payments	1,680,023	8,718,492
Loss from Disposal of Assets	-	(3,538,435)
<b>Operating Profits Before Working Capital Changes</b>	<u>63,057,221</u>	<u>80,303,635</u>
(Increase) / Decrease in Inventories	(1,256,904)	(4,881,388)
(Increase) / Decrease in Trade and Other Receivables	(12,095,374)	(19,480,078)
Increase / (Decrease) in Trade and Other Payables	1,638,581	3,260,199
Increase / (Decrease) in Related Party Balances	6,002,321	(656,588)
<b>Cash Generated from Operations</b>	<u>57,345,845</u>	<u>58,545,781</u>
Interest Paid	(14,850,220)	(11,670,210)
Tax Paid	(4,299,687)	(6,671,175)
<b>Net Cash From Operating Activities</b>	<u>38,195,938</u>	<u>40,204,396</u>
<b>Cash Flows from/(Used in) Investing Activities</b>		
Acquisition of Property, Plant & Equipment	(78,673,493)	(40,372,185)
Proceeds from sale of Property Plant & Equipment	-	4,237,000
<b>Cash Used in Investing Activities</b>	<u>(78,673,493)</u>	<u>(36,135,185)</u>
<b>Cash Flows from/(Used in) Financing Activities</b>		
Borrowings obtained during the year	86,825,000	19,125,719
Repayments of interest bearing borrowings	(20,323,211)	(22,730,536)
Lease rentals paid	(2,788,670)	(3,953,583)
<b>Net Cash Generated from/(Used in) Financing Activities</b>	<u>63,713,119</u>	<u>(7,558,400)</u>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	23,235,567	(3,489,188)
<b>Cash and Cash Equivalents at the beginning of the year</b>	<u>(17,479,535)</u>	<u>(13,990,347)</u>
<b>Cash and Cash Equivalents at the end of the year</b>	<u>5,756,032</u>	<u>(17,479,535)</u>

Figures in brackets indicate deductions.

The Accounting Policies and Notes to accounts form an integral part of the Financial Statements.

20<sup>th</sup> August 2012  
Colombo



## For the year ended 31<sup>st</sup> March 2012

### 1 CORPORATE INFORMATION

#### 1.1 General

The Company is a quoted public limited liability company incorporated and domiciled in Sri Lanka. The Registered Office of the Company is located at No. 35, P.B.A Weerakoon Mawatha, Kandy.

The principal place of business is at the same place.

The average number of employees of the Company amounted to 296 and last year, 311.

#### 1.2 Principal Activities and Nature of Operations

During the year, the principal activity of the Company is that of a hotelier.

#### 1.3 Parent Enterprise

The Company's parent undertaking is Universal Enterprises Private Ltd. which holds 69.44% of shares in Mahaweli Reach Hotels PLC.

#### 1.4 Management Contract

The Company is managed by Mahaweli Hotels Management Services Pvt. Ltd. under an agreement.

### 2.1 Basis of preparation

These financial statements presented in Sri Lankan Rupees have been prepared under the historical cost basis except for certain Property, Plant and Equipment which are stated at revalued amounts, in accordance with Generally Accepted Accounting Principles and the standards laid down by the Institute of Chartered Accountants of Sri Lanka.

#### 2.1.1 Statement of Compliance

The Balance Sheet, Income Statement, Changes in Equity and Cash Flow together with Accounting Policies and notes to the Financial Statement of the company as at 31<sup>st</sup> March 2012 and for the year then ended comply with the Sri Lanka Accounting Standards.

These Financial Statements were authorised for issue by the Directors on 20<sup>th</sup> August 2012.

#### 2.1.2 Going Concern

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

#### 2.1.3 Comparative Information

The previous years figures and phrases have been rearranged wherever necessary to conform to the current year's presentation.

### 2.2 Changes in accounting policies

The Accounting Policies adopted are consistent with those used in the previous year.

### 2.3 Significant accounting judgments, estimates and assumptions judgments

In the process of applying the Company's Accounting Policies, management has made the following judgments apart from those involving estimations, which has the most significant effect on the amounts recognised in the Financial Statements.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is



## ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 2.4.1 ASSETS AND BASES OF THEIR VALUATION

##### **Property, Plant & Equipment**

Property, Plant & Equipment is recorded at cost (or at fair value in the case of land and building) less accumulated depreciation and accumulated impairment losses if any.

##### **a) Cost and Valuation**

All items of Property, Plant and Equipment are initially recorded at cost. Where items of Property, Plant & Equipment are subsequently revalued, the entire class of such assets are revalued.

Valuations are made with sufficient regularity to ensure that their carrying amounts do not differ materially from their fair values at the Balance Sheet date.

When an asset is revalued any increase in the carrying amount is credited directly to a revaluation surplus unless it reverses a previous revaluation decrease relating to the same asset which was previously recognised as an expense. In these circumstances, the increase is recognised as income to the extent of the previous written down value. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense unless it reverses a previous increment relating to that asset, in which case it is charged against any related revaluation surplus, to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of the same asset, any balance remaining in the revaluation surplus in respect of an asset is transferred directly to accumulated profit or loss on retirement or disposal of the asset.

##### **b) Depreciation**

Provision for depreciation is calculated by using reducing balance on the cost / valuation of all Property, Plant & Equipment other than freehold land, in order to write off such amounts over the estimated useful lives of such assets.

The principal annual rates used are as follows:

Buildings	-	2.5%
Office Equipment	-	10%
Furniture & Fittings	-	20%
Motor Vehicles	-	25%

Depreciation of assets begin when it is available for use.

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

##### **d) Restoration Costs**

Expenditure incurred on repairs or maintenance of Property, Plant & Equipment in order to restore or maintain the future economic benefits expected from originally assessed standard of performance is recognised as an expense when incurred.

##### **e) De-recognition**

An item of Property, Plant & Equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset is calculated as the difference between the net disposal proceeds and the carrying amount.



## ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

### Leases

- a) **Finance Leases** - where the company is the lessee  
Property, Plant & Equipment on finance leases (which effectively transfer to the company substantially all of the risk and rewards incidental to ownership of the leased item) are capitalised at their cash price and depreciated or amortized over the period the company is expected to benefit from the use of the leased assets.

The corresponding principal amount payable to the lessor is shown as a liability.

The finance charges allocated to future periods are separately disclosed in the notes.

The interest element of the rental obligation applicable to each financial year is charged to the income statement over the period of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The cost of improvements to or on leased property is capitalised, and depreciated over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is shorter.

- b) **Operating Lease**

Leases where the lessor effectively retains substantially all the risk and benefits of ownership over the leased terms are classified as operating leases.

Operating lease payments are recognised as expenses in the income statement on a straight line basis over the lease term.

### Inventories

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

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

Beverages	- at actual cost on first-in-first-out basis
Room Supplies	- at actual cost on first-in-first-out basis
Stationery	- at actual cost on first-in-first-out basis
Provisions	- at weighted average
Maintenance	- at actual cost on first-in-first-out basis

### Trade and Other Receivables

Trade and other receivables are stated at the amounts they are estimated to realize net of provisions for bad and doubtful receivables.

Other receivables and dues from related parties are recognised at cost less provision for bad and doubtful receivables.

### Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. For the purpose of cash flow statement, cash & cash equivalents consists of cash in hand and deposits in banks net of outstanding bank overdrafts.



### 2.4.2 LIABILITIES AND PROVISIONS

#### Liabilities

Liabilities stated under current liabilities in the Balance Sheet are those expected to fall due within one year from the Balance Sheet date. Items stated as long term liabilities are those expected to fall due at a point of time after one year from the Balance Sheet date.

#### Trade and Other Payable

Trade creditors and other payables are stated at their book values.

#### Provisions

Provisions are recognised when the Company has a present obligation (legal and constructive) as a result of a past event, where 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.

#### Retirement Benefit Obligation

##### a) Defined Benefit Plan - Gratuity

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Provision has been made in the Financial Statements for retiring gratuities, based on an actuarial valuation carried out on a Projected Unit Credit (PUC) method as recommended by Sri Lanka Accounting Standard No. 16 'Employment Benefits'. The actuarial valuation was carried out by a professionally qualified firm of actuaries, as at 31<sup>st</sup> March 2012. The actuarial valuation involves making assumptions about discount rate, salary increment rate and balance service period of employees. Due to the long-term nature of the plans such estimates are subject to significant uncertainty. Based on the revised Sri Lanka Accounting Standards 16 (SLAS 16) which became effective from the financial year commencing after 01<sup>st</sup> July 2007, the Company has adopted the actuarial valuation method from 01<sup>st</sup> April 2008.

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

The liability is not externally funded. Basis of computation is given in Note 10 to the Financial Statements.

##### b) Defined Contribution Plans - EPF & ETF

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations. The company contributes 12% and 3% of gross emoluments of employees to the Employees' Provident Fund and to the Employees' Trust Fund respectively.

#### Taxation

##### a) Current Taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue.

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act No. 10 of 2006.

##### b) Deferred Taxation

Deferred tax is recognised on temporary difference between the carrying amount of assets and liabilities in the Balance Sheet and amount attributed to such assets and liabilities for tax purposes.

Deferred tax liabilities are generally recognised for all taxable differences and deferred tax assets are recognised for unused tax losses to the extent it is probable that future tax profits will be available





against which deductible temporary differences can be utilised. The carrying amount of deferred income tax asset is reviewed at each Balance Sheet date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred tax is calculated using tax rates that have been enacted or substantially enacted at the Balance Sheet date and expected to apply in the period in which assets are realized or liabilities are settled. The net increase in the carrying amount of deferred tax liabilities net deferred tax asset is recognised as deferred tax expense and conversely any decrease is recognised as reversal to the deferred tax expense in the Income Statement.

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

Deferred tax assets and liabilities are computed based on revised income tax rates at 12% or relevant concessionary rates as announced in the recent budget proposal. The movement in the deferred tax assets and liabilities due to change in applicable rate have been charged to the Income Statement.

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

### 2.4.3 INCOME STATEMENT

#### Revenue Recognition

##### a) Sale of foods, beverages and apartments

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 can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes.

##### b) Interest

Interest income is recognised as the interest accrued unless collectability is in doubt.

##### c) Dividends

Dividend income is recognised on cash basis.

##### d) Others

Other income is recognised on an accrual basis.

Net profits and losses of a revenue nature on the disposal of Property, Plant & Equipment and other non current assets including investments have been accounted for in the Income Statement having deducted from proceeds on disposal, the carrying value amount of the assets and related Property, Plant & Equipment amount remaining in revaluation reserve relating to that asset is transferred directly to accumulated profit / loss.

#### Expenditure Recognition

a) Expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All the expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

b) For the purpose of presentation of the Income Statement, the Directors are of the opinion that function of expenses method presents fairly the elements of the company's performance and hence such a presentation method is adopted.

##### c) Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent where borrowing costs are directly attributable to the acquisition, construction or production



## ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

of a qualifying asset which takes a substantial period of time to get ready for its intended use or sale is capitalised as part of that asset.

### Foreign Currency Translation

All foreign exchange transactions are converted to Sri Lankan Rupees, which is the reporting currency, at the rates of exchange prevailing at the time the transactions were effected.

Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lankan Rupee equivalents using year end spot foreign exchange rates. The resulting gains or losses are accounted in the Income Statement.

Non monetary assets and liabilities are translated using exchange rates that existed when the values were determined. The resulting gain or loss is accounted in the Income Statement.

### 2.4.4 OFF BALANCE SHEET AND INCOME STATEMENT ITEMS

#### Events after the Balance Sheet

All material events after the Balance Sheet date have been considered and where necessary adjustments to or disclosures have been made in the respective notes to the accounts.

#### Contingencies and Unrecognised Contractual Commitments

Contingencies are possible assets or obligations that arise from past events and would be confirmed only on the occurrence or non occurrence of uncertain future events, which are beyond the Company's control.

### 2.5 SRI LANKA ACCOUNTING STANDARDS EFFECTIVE FROM 01<sup>st</sup> JANUARY 2012

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

- a) SLFRS 1 - 'First Time Adoption of Sri Lanka Accounting Standards' requires the Company to prepare and present opening new SLFRS Financial Statements at the date of transition to new SLFRS. The Company shall use the same Accounting Policies in its opening new SLFRS Financial Statements and throughout all comparable periods presented in its first new SLFRS Financial Statements. Those accounting policies should comply with each new SLFRS effective as at 1<sup>st</sup> January 2012.
- b) LKAS 1 - 'Presentation of Financial Statements' requires an entity to present, in a Statement of Changes in Equity, all owner changes in equity. All non-owner changes in equity are required to be presented in one statement of Comprehensive Income or in two statements (a separate Income Statement and a Statement of Comprehensive Income.) This standard also requires the Company to disclose information that enables users of its Financial Statements to evaluate the entity's objectives, policies and processes for managing capital.
- c) LKAS 16 - 'Property Plant & Equipment' requires the Company to initially measure an item of Property, Plant & Equipment at cost, using the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period, unless such interest is capitalised in accordance with LKAS 23 'Borrowing Costs'. This standard requires depreciation of assets over their useful lives, where the residual value of assets is deducted to arrive at the depreciable value. It also requires that significant components of an asset be evaluated separately for depreciation.



## ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

- d) LKAS 32 - 'Financial Instruments: Presentation', LKAS 39 - 'Financial Instruments' Recognition and Measurement and SLFRS 7 - 'Financial Instruments: Disclosures' will result in changes to the current method of recognizing financial assets, financial liabilities and equity instruments. These standards will require measurement of financial assets and financial liabilities at fair value at initial measurement. The subsequent measurement of financial assets classified as fair value through profit and loss and available for sale will be at fair value, with the gains and losses routed through the Statements of Comprehensive Income and Other Comprehensive Income respectively.

Financial assets classified as held to maturity and loans and receivables will be measured subsequently at amortised cost. These assets will need to be assessed for any objective evidence of impairment as a result of one or more events that occurred after the initial recognition of assets (a "loss event") coupled with a reliable estimate of the loss event (or events) impact on the estimated future cash flows of the financial asset or group of the financial assets. As such the current method of assessing for impairment will have to be changed to meet the requirements of these new standards.

Financial liabilities will be either classified as fair value through profit or loss or at amortised cost. At present, the Company does not identify, categories and measure financial assets and liabilities as per the requirements of the standard.

- e) LKAS 12 - 'Income Tax' requires deferred tax to be provided in respect of temporary differences which will arise as a result of adjustments made to comply with the new SLAS.
- f) LKAS 18 - 'Revenue' requires the Company to measure revenue at fair value of the consideration received or receivables. It also specifies recognition criteria for revenue, and the Company needs to apply such recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transactions.

The Institute of Chartered Accountants of Sri Lanka has resolved an amendment to Sri Lanka Accounting Standard 10, whereby the provision contained in paragraph 30 and 31 of SLAS 10 - 'Accounting Policies, Changes in accounting Estimates and Errors', would not be applicable for Financial Statements prepared in respect of financial periods commencing before 01<sup>st</sup> January 2012 and hence the impact of this transition is not required to be disclosed in these Financial Statements.



## ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

For the year ended 31<sup>st</sup> March 2012

### 3. PROPERTY, PLANT & EQUIPMENT

3.1 At Cost or Valuation	Balance as at 01.04.2011 Rs.	Additions Rs.	Balance as at 31.03.2012 Rs.
<b>Freehold Assets</b>			
Freehold Land	238,800,000	-	238,800,000
Buildings	579,000,000	19,485,589	598,485,589
Motor Vehicles	11,336,697	422,436	11,759,133
Office Equipment	146,687,233	31,860,223	178,547,456
Furniture and Fittings	116,143,035	6,754,554	122,897,589
	<u>1,091,966,965</u>	<u>58,522,802</u>	<u>1,150,489,766</u>
<b>Leasehold Assets</b>	9,635,865	5,125,000	14,760,865
Motor Vehicles	<u>9,635,865</u>	<u>5,125,000</u>	<u>14,760,865</u>
<b>Total Value of Assets</b>	<u>1,101,602,830</u>	<u>63,647,802</u>	<u>1,165,250,631</u>

### Accumulated Depreciation

At Cost or Valuation	Balance as at 01.04.2011 Rs.	Charge for the year Rs.	Balance as at 31.03.2012 Rs.
<b>Freehold Assets</b>			
Freehold Land	-	-	-
Buildings	-	14,631,112	14,631,112
Motor Vehicles	9,471,527	2,361,582	11,833,109
Office Equipment	72,505,802	9,035,159	81,540,962
Furniture and Fittings	90,705,293	5,427,593	96,132,885
	<u>172,682,622</u>	<u>31,455,446</u>	<u>204,138,068</u>
<b>Leasehold Assets</b>			
Motor Vehicles	2,407,330	960,938	3,368,268
	<u>2,407,330</u>	<u>960,938</u>	<u>3,368,268</u>
<b>Total Depreciation</b>	<u>175,089,952</u>	<u>32,416,384</u>	<u>207,506,336</u>
<b>Net Book Value</b>		<b>31.03.2012 Rs.</b>	<b>01.04.2011 Rs.</b>
Freehold Assets		946,351,699	919,284,343
Leasehold Assets		11,392,597	7,228,535
		<u>957,744,296</u>	<u>926,512,878</u>

3.2 Work In Progress	Balance as at 01.04.2011 Rs.	Additions Rs.	Transfers to Fixed assets Rs.	Balance as at 31.03.2012 Rs.
Construction of Chiller	1,250,932	11,722,983	-	12,973,915
Sewerage System	3,821,429	-	(3,821,429)	-
Construction of Buildings	-	7,124,137	-	7,124,137
	<u>5,072,361</u>	<u>18,847,120</u>	<u>(3,821,429)</u>	<u>20,098,052</u>
<b>Total Assets</b>			<u>977,842,348</u>	<u>931,585,239</u>



## ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

For the year ended 31<sup>st</sup> March 2012

- 3.3 The last revaluation was carried out by Mr. T. B. Balasuriya, (BSc.) EMV Spl (Hons), SJP, on 31<sup>st</sup> March 2011. The appreciation in value of Land & Building arising from the revaluation was credited to capital reserve amounting to Rs.360,792,224.

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

	Cost	Cumulative depreciation if asset were carried at cost	Net carrying amount as at 31.03.2012	Net carrying amount as at 31.03.2011
	Rs.	Rs.	Rs.	Rs.
Lands	60,312,427	-	60,312,427	60,312,427
Buildings	402,527,961	96,304,184	306,223,777	284,072,285
	<u>462,840,388</u>	<u>96,304,184</u>	<u>366,536,204</u>	<u>344,384,712</u>

- 3.4 Location of lands  
Lands comprise of Walawwewatta and Siyambalagahakotuwa (368.4 perches), Meegonkattuwekubura (150.56 perches), Weralugasdeniye Kumbura & Pillewa (152.5 perches) which are situated within municipal council limits of Kandy.

4. PROVISION FOR DEFERRED TAXATION	31.03.2012	31.03.2011
	Rs.	Restated Rs.
<b>Balance as at Beginning of the year</b>	(11,733,792)	(33,288,018)
Transferred to / (from) Income Statement	2,082,599	(11,489,216)
Transferred from Revaluation Reserve	-	33,043,442
Balance as at end of the year	<u>(9,651,193)</u>	<u>(11,733,792)</u>
 <b>Deferred tax asset</b>		
Temporary differences arising from Retirement Benefit	2,813,983	2,612,381
Temporary differences arising from unused tax losses	46,176,760	48,017,362
	<u>48,990,743</u>	<u>50,629,743</u>
 <b>Deferred tax liability</b>		
Temporary differences arising from PPE	6,296,108	5,852,508
Temporary differences arising from Revaluation Surplus	33,043,442	33,043,442
	<u>39,339,550</u>	<u>38,895,950</u>

### Correction of Prior year

The Company has made a provision for the deferred tax on revalued land erroneously for the year 2010/2011 amounting to Rs.10,561,920 which should be provided on revalued building. Further, there was an error on deferred tax asset amounting to Rs.18,083,258. Accordingly, corrections have been made to the financials in year 2010/2011, Rs. 22,481,522 transferred from the revaluation reserve, Rs.18,083,258 transferred from profits, effect of Rs. 12,230,749 was reversed from the deferred tax asset and Rs. 28,334,031 transferred to deferred tax liability, as required by SLAS 10.





## ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

		31.03.2012 Rs.	31.03.2011 Rs.
5.	<b>INVENTORIES</b>		
	Food Stock	3,311,696	3,258,198
	Beverage Stock	2,855,874	3,236,884
	House Keeping & Maintenance Stock	7,663,134	7,714,770
	Printing & Stationery Stock	2,448,342	2,890,009
	General Stock	5,820,894	3,745,732
	Gas Stock	29,121	84,446
	Fuel Stock	478,939	421,057
		<u>22,608,000</u>	<u>21,351,096</u>
6.	<b>TRADE AND OTHER RECEIVABLES</b>	31.03.2012 Rs.	31.03.2011 Rs.
	Trade Debtors	70,543,217	61,715,491
	Provision for Bad Debts	(5,469,937)	(1,680,866)
		<u>65,073,280</u>	<u>60,034,625</u>
	Refundable Deposits	2,275,201	2,189,121
	Prepayments	2,948,507	2,130,655
	Other Receivables	12,338,734	6,185,947
		<u>82,635,722</u>	<u>70,540,348</u>
7.	<b>CASH IN HAND AND AT BANK</b>		
	Favourable Balances		
	Cash in Hand and at Bank	7.1 6,043,540	2,141,361
	Unfavourable Balances		
	Bank Overdraft	7.2 287,508	19,620,896
		<u>5,756,032</u>	<u>(17,479,535)</u>
7.1	<b>Cash at Bank</b>		
	HNB - A/C No. 0180 1030 3006	2,424,100	38,449
	HNB - A/C No. 1000 1000 1248	16,222	99,280
	HNB - A/C No. 0180 1000 3266	16,711	27,679
	Commercial Bank - A/C No. 1001358701	655,413	168,509
	HSBC - 002-001808 -001	2,034,096	965,052
	HSBC - 002-001808 -002	15,359	11,309
	BOC - 0000033073	40,939	19,079
	Sampath Bank	49,250	-
		<u>5,252,090</u>	<u>1,329,357</u>
	Cash in Hand		
	Stamps - Reception	5,000	10,286
	Foreign Currency	350,000	250,000
	Cash in Hand	436,451	551,718
		<u>791,451</u>	<u>812,004</u>
7.2	<b>Bank Overdraft</b>		
	HNB - A/C No. 0180 1000 3271	1,233	16,951
	HNB - A/C No. 0180 1000 3251	286,275	19,603,945
		<u>287,508</u>	<u>19,620,896</u>
8.	<b>STATED CAPITAL</b>	31.03.2012	31.03.2011
		Number Rs.	Number Rs.
	<b>Fully Paid Up Ordinary Shares</b>		
	At the beginning of the year	47,066,447 585,445,870	47,066,447 585,445,870
	At the end of the year	47,066,447 585,445,870	47,066,447 585,445,870
	<b>Preference Shares</b>		
	At the beginning of the year	11,660 116,600	11,660 116,600
	At the end of the year	11,660 116,600	11,660 116,600



## ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

For the year ended 31<sup>st</sup> March 2012

### 9. INTEREST BEARING BORROWINGS

	31.03.2012 Amount Repayable Within 1 Year Rs.	31.03.2012 Amount Repayable After 1 Year Rs.	31.03.2012 Total Rs.	31.03.2011 Amount Repayable Within 1 Year Rs.	31.03.2011 Amount Repayable After 1 Year Rs.	31.03.2011 Total Rs.
Finance Leases	2,465,688	5,843,430	8,309,118	1,440,681	3,907,904	5,348,585
Bank Loans	28,038,268	113,048,950	141,087,218	17,921,604	61,788,825	79,710,429
	<u>30,503,956</u>	<u>118,892,380</u>	<u>149,396,336</u>	<u>19,362,285</u>	<u>65,696,729</u>	<u>85,059,014</u>

#### 9.1 Finance Leases

	As At 01.04.2011 Rs.	Lease (Repayment)/ Obtained Rs.	Charges Rs.	As At 31.03.2012 Rs.	Current As At 31.03.2012 Rs.	Non-Current As At 31.03.2012 Rs.
Gross Liability	7,159,536	6,113,220	(2,788,670)	10,484,086	3,155,364	7,328,722
Finance Charges allocated to future periods	(1,810,951)	(988,220)	624,203	(2,174,968)	(689,676)	(1,485,292)
Net Liability	<u>5,348,585</u>	<u>5,125,000</u>	<u>(2,164,467)</u>	<u>8,309,118</u>	<u>2,465,688</u>	<u>5,843,430</u>

#### 9.2 Bank Loans

	31.03.2012 Amount Repayable Within 1 Year Rs.	31.03.2012 Amount Repayable After 1 Year Rs.	31.03.2012 Total Rs.	31.03.2011 Amount Repayable Within 1 Year Rs.	31.03.2011 Amount Repayable After 1 Year Rs.	31.03.2011 Rs.
Bank	28,038,268	113,048,950	141,087,218	17,921,604	61,788,825	79,710,429
	<u>28,038,268</u>	<u>113,048,950</u>	<u>141,087,218</u>	<u>17,921,604</u>	<u>61,788,825</u>	<u>79,710,429</u>

	As At 01.04.2011 Rs.	Loans Obtained Rs.	Repayment Rs.	As At 31.03.2012 Rs.
Movement of Bank Loans and Finance Leases				
Bank	79,710,429	81,700,000	(20,323,211)	141,087,218
Leases	5,348,585	5,125,000	(2,164,467)	8,309,118
	<u>85,059,014</u>	<u>86,825,000</u>	<u>(22,487,678)</u>	<u>149,396,336</u>

\* Refer Note No. 20 for details of Interest Bearing Borrowings



## ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

For the year ended 31<sup>st</sup> March 2012

10. EMPLOYEE BENEFIT LIABILITY	31.03.2012	31.03.2011
	Rs.	Rs.
At the beginning of the year	21,769,838	13,051,346
Interest Charged for the year	2,394,682	1,435,648
Current Service Cost	1,675,501	1,560,191
Payments made during the year	(708,838)	(1,121,702)
Actuarial (Gain)/ Loss	(1,681,322)	6,844,355
At the end of the year	<u>23,449,861</u>	<u>21,769,838</u>

SLAS 16 (Revised) requires the use of actuarial techniques to make a reliable estimate of the amount of retirement benefit that employees have earned in return for their service in the current and prior periods and discount that benefit using the Projected Unit Credit Method in order to determine the present value of the retirement benefit obligation and the current service cost. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates about demographic variables and financial variables that will influence the cost of the benefit.

The following key assumptions were made in arriving at the above figures:

### Demographic Assumptions

**Mortality** : In service - 67/70, Mortality table, issued by the Institute of Actuaries, London.

### Withdrawal

The withdrawal rate at an age represents the probability of an employee leaving within one year of that age due to reasons other than death, ill health and normal retirement.

Normal Retirement Age : 55 years

### Financial Assumptions

Salary Increases 10%

Rate of Discount 11%

### The Present Value of the Defined Benefit Obligation (PV-DBO)

The present value of the Defined Benefit Obligation as at 31<sup>st</sup> March 2012, with respect to employees in service, based on the above assumptions is Rs. 23,449,861

CURRENT SERVICE COST	}	Rs.	4,070,183
INTEREST COST			
ACTUARIAL GAIN / (LOSS)		Rs.	(1,681,322)



## ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

For the year ended 31<sup>st</sup> March 2012

<b>11. TRADE AND OTHER PAYABLES</b>	<b>31.03.2012</b>	<b>31.03.2011</b>
	<b>Rs.</b>	<b>Rs.</b>
Trade Creditors	21,060,406	18,041,781
Other Payables	23,471,658	5,676,670
Expense Creditors	17,267,836	36,442,868
	<u>61,799,900</u>	<u>60,161,319</u>
<b>12. AMOUNTS DUE TO RELATED PARTIES</b>		
Universal Enterprises (Pvt.) Ltd.	4,634,625	4,634,625
Mahaweli Hotel Management Services (Pvt.) Ltd.	14,677,316	8,674,995
	<u>19,311,941</u>	<u>13,309,620</u>
<b>13. REVENUE</b>	<b>2011/2012</b>	<b>2010/2011</b>
	<b>Rs.</b>	<b>Rs.</b>
Front Office & Apartment	240,679,654	205,476,272
Restaurant	160,736,247	135,245,165
Beverage	23,494,816	25,669,149
	<u>424,910,717</u>	<u>366,390,586</u>
<b>14. OTHER OPERATING INCOME</b>		
Staff Loan Interest	680,450	554,946
Gain on Exchange	866,185	382,300
Profit on Disposal of Assets	-	3,538,435
Presented cheques written Back	-	12,300
Minor Operating Profit	22,649,989	18,608,666
Balances written back	-	1,529,731
	<u>24,196,624</u>	<u>24,626,379</u>
<b>15. FINANCE EXPENSES</b>		
Interest Expenses	14,850,220	11,670,210
Finance charges on Lease Liabilities	624,203	217,069
Other Financial charges	5,556,437	5,944,296
	<u>21,030,860</u>	<u>17,831,575</u>
<b>16. PROFIT / (LOSS) BEFORE TAX</b> <b>is stated after charging all expenses</b> <b>including the following:</b>		
Staff Salary	60,323,093	48,797,869
EPF & ETF	7,318,596	5,927,114
Gratuity	2,388,860	9,840,194
Directors Remuneration	11,187,000	8,628,675
Auditors Remuneration	259,700	225,600
Other Assurance Fess & Expenses	343,712	207,551
Depreciation	32,416,383	20,322,592



## ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

For the year ended 31<sup>st</sup> March 2012

### 17 INCOME TAX

The major components of income tax expense for the year ended 31<sup>st</sup> March are as follows:

	Note	2011/2012 Rs.	2010/2011 Rs.
<b>Current Income Tax</b>			
Current Income Tax charge	17.1	3,458,289	7,663,847
SRL		-	114,958
Under/(Over) Provision of Current Taxes with respect to prior periods		-	16,081
<b>Deferred Tax</b>			
Deferred Taxation charge/(Reversal)	17.2	2,082,599	(11,489,216)
Income tax expense reported in the Income Statement		<u>5,540,888</u>	<u>(3,694,330)</u>
<b>17.1 A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows:</b>			
Accounting Profit before tax from continuing operations		13,486,391	42,913,708
Non deductible expenses		72,242,219	63,447,073
Deductible expenses		<u>(41,391,572)</u>	<u>(27,757,226)</u>
		<u>44,337,038</u>	<u>78,603,555</u>
<b>Total Statutory income</b>		44,337,038	78,603,555
Set off against Tax Losses		<u>(15,517,963)</u>	<u>(27,511,244)</u>
<b>Taxable income</b>		<u>28,819,075</u>	<u>51,092,311</u>
<b>Income tax at 12% (in 2011 - 15%)</b>		<u>3,458,289</u>	<u>7,663,847</u>
<b>Tax losses brought forward and utilised during the year</b>			
Tax Losses brought forward		400,324,293	427,835,537
Tax Losses (utilised)/ increased during the year		<u>(15,517,963)</u>	<u>(27,511,244)</u>
Unutilised Tax losses carried forward		<u>384,806,330</u>	<u>400,324,293</u>
<b>17.2 Deferred Tax Expense Income Statement</b>			
Deferred tax expense arising from			
Accelerated depreciation for tax purposes (Property, Plant & Equipment)		(443,599)	26,992,506
Employee benefit liabilities		201,602	654,679
Benefit arising from tax losses		(1,840,602)	(16,157,969)
Deferred Tax (Charge) / Reversal		<u>(2,082,599)</u>	<u>11,489,216</u>



## ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

For the year ended 31<sup>st</sup> March 2012

### 18 EARNINGS / (LOSS) PER SHARE

18.1 Basic Earnings Per Share is calculated by dividing the profit / (loss) for the year attributable to ordinary shareholders by the number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

18.2 The following reflects the income and share data used in basic earnings per share computation:

Amount Used as the Numerator	2011/12	2010/11
Profit / (Loss) for the year	7,945,503	46,608,037
Amount Used as the Denominator		
Number of Ordinary Shares	47,066,447	47,066,447
Earnings / (Loss) per Share (Rs.Cts.)	<u>0.17</u>	<u>0.99</u>

### 19. COMMITMENTS & CONTINGENCIES

#### 19.1 Commitments

There were no commitments as at the Balance Sheet date.

#### 19.2 Contingent Liabilities

- Following the termination of employees on disciplinary grounds, an inquiry was held by the Commissioner General of Labour and an order was issued for reinstatement and the payment of back wages. The Company filed a Writ Application in the Court of Appeal to have this order quashed. The matter is pending as at 31<sup>st</sup> March 2012. The Board of Directors believe that a favourable outcome will result by the institution of this application in the court of appeal.
- Contingent liability of Rs. 10 Million exists as at Balance Sheet date in respect of a legal claim arising in the ordinary course of business. The Company maintains a public liability insurance policy and the matter has been referred to the insurer.

Our lawyers have advised that an evaluation of an unfavourable outcome and the amount or range of potential loss cannot be quantified or commented upon at this stage.





## ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

### 20. INTEREST BEARING BORROWINGS

#### Borrowings

Lending Institution	Nature of Facility Rs.	Interest Rate	Repayment Term	Outstanding Balance Rs.		Security
				2012	2011	
Hatton National Bank PLC	Term Loan 55 million	AWPLR + 1 % p.a	14 quarterly capital instalments of Rs. 1,069,500 each and a final instalment of Rs.699,000 together with interest to be serviced monthly.	14,602,500	18,880,500	Registered primary floating mortgage bond No. 388 for Rs. 62.5 million, over hotel premises bearing assessment No. 35. PBA Weerakoon Mawatha, Kandy.
	Term Loan 50 million	AWPLR + 1 % p.a	8 quarterly capital instalments of Rs. 1,250,000 each and 4 Quarterly capital instalments of Rs. 2,500,000 each and 8 quarterly capital instalments of Rs. 3,750,000 each (with an initial grace period of 6 months). Interest to be serviced monthly.	30,249,550	33,593,285	Registered primary floating mortgage bond No. 388 for Rs. 62.5 million, Rs. 10.34 million available in the existing secondary floating mortgage bond No. 427 for Rs.15 million and Rs. 24.32 million available in the existing registered tertiary floating mortgage bond No. 2193 for Rs. 56.40 million over hotel premises bearing assessment No. 35. PBA Weerakoon Mawatha, Kandy.
	Term Loan 15 million	AWPLR + 1 % p.a	14 quarterly instalments of Rs. 283,500 each and a final instalment of Rs.690,500 interest to be serviced monthly.	4,376,000	5,510,000	Registered secondary floating mortgage bond No. 477 for Rs. 15 million over hotel premises bearing assessment No. 35. PBA Weerakoon Mawatha, Kandy.
	Development Loan 10.225 million	8.5 % p.a	To be repaid in 30 monthly instalments of Rs. 243,452 each and a final instalment of Rs.243,468 together with interest.	6,816,672	9,494,644	Registered primary floating mortgage bond No. 388 for Rs. 62.5 million over hotel premises bearing assessment No. 35. PBA Weerakoon Mawatha, Kandy.
	Term Loan of Rs. 0.925 Million	AWPLR + 1 % p.a	To be repaid in 30 monthly instalments of Rs. 25,694 and a final instalment of Rs. 25,710 together with interest.	719,448	-	Registered primary floating mortgage bond No. 388 for Rs. 62.5 million over hotel premises bearing assessment No. 35. PBA Weerakoon Mawatha, Kandy.
	Development Loan 9.775 million	8.5 % p.a	To be repaid in 29 monthly instalments of Rs. 271,528 each and a final instalment of Rs. 271,520 together with interest.	7,331,248	-	Registered primary floating mortgage bond No. 388 for Rs. 62.5 million over hotel premises bearing assessment No. 35. PBA Weerakoon Mawatha, Kandy.



## ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

### 20. INTEREST BEARING BORROWINGS

#### Long Term Borrowings

Lending Institution	Nature of Facility Rs.	Interest Rate	Repayment Term	Outstanding Balance Rs.		Security
				2012	2011	
	Term Loan 50 million	AWPLR + 1 % p.a	12 quarterly capital instalments of Rs.1,000,000 each and 6 Quarterly capital instalments of Rs. 2,750,000 each and a final instalments of Rs. 2,749,550 together with interest to be serviced monthly.	50,000,000	-	Registered tertiary floating mortgage bond No. 2193 for Rs. 56.40 million over hotel premises bearing assessment No. 35. PBA Weerakoon Mawatha, Kandy.
	Overdraft 15 million	AWPLR + 1 % p.a	On demand / To be reviewed annually.	286,275	19,603,945	Registered primary floating mortgage bond No. 388 for Rs. 62.5 million over hotel premises bearing assessment No. 35. PBA Weerakoon Mawatha, Kandy.



## ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

### 20. INTEREST BEARING BORROWINGS

#### Long Term Borrowings

Lending Institution	Nature of Facility Rs.	Interest Rate	Repayment Term	Outstanding Balance Rs.		Security
				2012	2011	
Commercial Bank of Ceylon PLC	Term Loan 20 million	AWPLR + 1 % p.a	71 equal monthly instalments of Rs. 278,000 and a final instalment of Rs.262,000 together with interest to be serviced monthly.	26,991,800	12,232,000	Concurrent primary mortgage bond No. 721/3274 dated 19 <sup>th</sup> and 22 <sup>nd</sup> December 2006 and 1 <sup>st</sup> of January 2007 for Rs. 30 million executed over free hold property of Maheweli Reach Hotels PLC at No. 35, PBA Weerakoon Mawatha, Kandy.
	Term Loan 3.5 million	AWPLR + 1 % p.a	71 equal monthly instalments of Rs.48,600 and a final instalment of Rs.49,400 together with interest to be serviced monthly.			Concurrent primary mortgage bond No. 721/3274 dated 19 <sup>th</sup> and 22 <sup>nd</sup> December 2006 and 1 <sup>st</sup> of January 2007 for Rs. 30 million executed over free hold property of Maheweli Reach Hotels PLC at No. 35, PBA Weerakoon Mawatha, Kandy.
	Term Loan 3.5 million	AWPLR + 1.5 % p.a	73 equal monthly instalments of Rs. 47,000 and a final instalment of Rs.69,000 together with interest to be serviced monthly.			Concurrent primary mortgage bond No. 721/3274 dated 19 <sup>th</sup> and 22 <sup>nd</sup> December 2006 and 1 <sup>st</sup> of January 2007 for Rs. 30 million executed over free hold property of Maheweli Reach Hotels PLC at No. 35, PBA Weerakoon Mawatha, Kandy.
	Term Loan 21 million	AWPLR + 1.5 % p.a	60 equal monthly instalments of Rs. 350,000 and a grace period of 6 months.			Concurrent primary mortgage bond No. 721/3274 dated 19 <sup>th</sup> and 22 <sup>nd</sup> December 2006 and 1 <sup>st</sup> of January 2007 for Rs. 30 million executed over free hold property of Maheweli Reach Hotels PLC at No. 35, PBA Weerakoon Mawatha, Kandy.
	Term Loan 5 million	AWPLR + 2 % p.a	35 equal monthly instalments of Rs.139,000 and a final instalment of Rs. 135,000 together with interest to be serviced monthly.			Concurrent primary mortgage bond No. 721/3274 dated 19 <sup>th</sup> and 22 <sup>nd</sup> December 2006 and 1 <sup>st</sup> of January 2007 for Rs. 30 million executed over free hold property of Maheweli Reach Hotels PLC at No. 35, PBA Weerakoon Mawatha, Kandy.



## ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

### 20. INTEREST BEARING BORROWINGS

#### Long Term Borrowings

Lending Institution	Nature of Facility Rs.	Interest Rate	Repayment Term	Outstanding Balance Rs.		Security
				2012	2011	
Hatton National Bank PLC	Finance Lease	12 % p.a	(60 months) Remaining 10 equal monthly instalments of Rs. 61,658	618,738	1,294,818	Absolute ownership of the vehicle. Joint and Several personal guarantee of Mr. J. A. Panabokke.
	Finance Lease	12 % p.a	(60 months) Remaining 47 equal monthly instalments of Rs. 99,402	4,671,894	5,864,718	Absolute ownership of the vehicle.
	Finance Lease	12.5% p.a	(60 months) Remaining 51 equal monthly instalments of Rs. 101,887	5,193,454	-	Absolute ownership of the vehicle.
				151,857,579	106,473,910	

### 21. EVENTS AFTER THE BALANCE SHEET DATE

#### Change in Board of Directors

Mrs. L. R. Panabokke who was the Founder Director and Chairperson passed away on 27<sup>th</sup> April 2012.

Mr. M. U. Maniku has been appointed as Chairman with effect from 31<sup>st</sup> May 2012.

Mr. K. M. Panabokke (Alternative Director) and Mr. R. Seevaratnam have been appointed as Directors with effect from 05<sup>th</sup> June 2012.

Other than those disclosed above, no circumstances have arisen, since the Balance Sheet date, which would require adjustments to, or disclosure, in the Financial Statements.

### 22. RELATED PARTY DISCLOSURES

#### 22.1 The Directors of the Company are also the Directors of the following companies;

Name of Company	Names of Directors	Relationship
Mahaweli Hotel Management Services (Pvt.) Ltd.	Mrs. L. R. Panabokke (Deceased 27.04.12)	Managing Agents
	Mr. J. A. Panabokke	-do-
Universal Enterprise Pvt. Ltd.	Mr. M. U. Maniku	Parent Company
	Mr. A. U. Maniku	-do-
	Dr. I. U. Maniku	-do-
	Mr. A. M. Didi	-do-
	Mr. M. M. Didi	-do-
	Mr. Ali Nooradeen	-do-



## ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

For the year ended 31<sup>st</sup> March 2012

### 22.1.1. Transactions with Related Parties

(a) The Company has entered into transactions during the year with the following companies:

Name of Company Transaction	Nature of	2011/2012 Rs.	2010/2011 Rs.
Mahaweli Hotel Management Services (Pvt.) Ltd.	Management Fees	30,808,445	28,862,481

#### Basis of Management Fees calculation

( Net Turnover + Service Charges ) \* 6% + ( 7% on Net Profit after Depreciation & Finance Charges)

Diethelm Travels (Pvt.) Ltd. Mr.A.N Esuffally, who is a Director of the company is also the Chairman / Director of Diethelm Travel.	Service Rendered	7,292,456	3,706,160
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For the purposes of these Financial Statements, parties are considered to be related to the Company, if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence.

### 22.1.2 Transaction with key management personnel of the company

The key management personnel of the company are the members of its Board of Directors.

Key management personnel compensation

	2011/2012 Rs.	2010/2011 Rs.
(a) Short term employee Benefits	14,381,685	11,883,229
(b) Post employment Benefits	12,158,151	11,865,178
(c) Long term Benefits	nil	nil
(d) Termination Benefits	nil	nil
(e) Share based Payments	nil	nil

There have been no related party transactions other than those disclosed in Notes no. 12 and 22 to the Financial Statements.



## ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

### 23. COMPARATIVE INFORMATION

The following comparative figures have been reclassified in 2012 Financial Statements to maintain comparability of Financial Statements in order to provide better presentation.

	2011/2012 Rs.	2010/2011 Rs.	
	Current Presentation	As Approved Previously	Changed
Revenue	366,390,586	395,336,075	(28,945,489)
Other Operating Income	24,626,379	5,635,412	18,990,967
Cost of Sales	137,415,563	146,076,475	8,660,912
Administrative Expenses	141,246,959	119,031,839	(22,215,120)
Other Cost	37,946,271	61,455,000	23,508,729
Trade and Other Receivables	70,540,350	67,300,902	3,239,448
Trade and Other Payables	60,161,319	56,921,871	3,239,448

- i.) Minor operation income and exchange gain which were previously classified under revenue, have been re-classified as other operating income.
- ii.) Tourist Development Levy expense which was previously classified under cost of sales, has been re-classified as revenue.
- iii.) Laundry expense which was previously classified under cost of sales, has been re-classified as laundry and other cost.
- iv.) Nation Building Tax expense which was previously classified under administrative expense, has been re-classified as cost of sales.
- v.) Electricity expense which was previously classified under other cost, has been re-classified as administrative expenses.
- vii.) Guest ledger balance which was previously classified under other receivables, has been re-classified as other payables.





## NOTES



## PROXY FORM

I/We..... of  
 .....  
 being a member/ members of Mahaweli Reach Hotels PLC hereby appoint .....  
 .....  
 .....of..... or failing him/her

MR. RAJA TISSA MOLLIGODA	Whom failing
MR. ABBASALLY NURUDDIN ESUFALLY	Whom failing
MR. JAYANTHA ATUL PANABOKKE	Whom failing
MR. MOHAMED UMAR MANIKU	Whom failing
MR. AHAMED UMAR MANIKU	Whom failing
DR. IBRAHIM UMAR MANIKU	Whom failing
MR. AHAMED MAHIR DIDI	Whom failing
MR. WAJJIYA PRIYANTHA HETTIARATCHI	Whom failing
MR. ALI NOORADEEN	Whom failing
MR. MOHAMED MAHIR	Whom failing
MR. JAYAMPATHY CHARITHA RATWATTE	Whom failing
MR. RIENZIE THEOBALD WIJETILLEKE	Whom failing

As my/our proxy to represent me/us and to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on the 17<sup>th</sup> September 2012 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

		For	Against
1.	To receive and adopt the Report of the Directors and the Statement of Accounts for the year ended 31 <sup>st</sup> March 2012 and the Report of the Auditors thereon.	.....	.....
2.	To re-elect Mr. Ali Nooradeen who retires by rotation at the Annual General Meeting, a Director.	.....	.....
3.	To re-elect Mr. Mohamed Mahir who retires by rotation at the Annual General Meeting, a Director.	.....	.....
4.	To re-elect Mr. Jayampathy Charitha Ratwatte who retires by rotation at the Annual General Meeting, a Director .	.....	.....
5.	To re-elect Mr. Rienzie Theobald Wijetilleke who retires by rotation at the Annual General Meeting, a Director.	.....	.....
6.	To re-elect Mr. R. T. Molligoda who attained the age of seventy-five years and the Company has received special notice of intention in compliance with Law, relating to his re-election.	.....	.....
7.	To re-elect Mr. K. M. Panabokke who was appointed to the Board since the last Annual General Meeting and retires in terms of the Articles of Association of the Company, a Director.	.....	.....
8.	To re-elect Mr. R. Seevaratnam who was appointed to the Board since the last Annual General Meeting and retires in terms of the Articles of Association of the Company, a Director.	.....	.....
9.	To authorise the Board of Directors to determine contributions to charities and other donations.	.....	.....
10.	To re-appoint Messrs. HLB Edirisinghe & Co. as auditors and authorise the Directors to determine their remuneration.	.....	.....

As witness my/our hand this.....day of .....2012

.....  
 Signature

Note: Instructions as to completion are noted on the reverse.



## INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the form of proxy, after filling in legibly your full name and address by signing in the space provided and please fill 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 a Company/ Corporation, the proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association.

The completed Form of Proxy should be deposited at the Registered Office of the Company, No. 35, PBA Weerakoon Mawatha, Kandy before 11.00 a.m. on the 15<sup>th</sup> September 2012 being 48 hours before the time appointed for holding of the meeting.



## **Corporate Information**

### **Name of the Company**

Mahaweli Reach Hotels PLC

### **Legal Form**

A Quoted Public Limited Liability Company

Incorporated on 21<sup>st</sup> September 1973

Company Registration No. PQ 127

### **Directors**

Mrs. L. R. Panabokke - (Deceased 27-04-2012)

Mr. M. U. Maniku - (Appointed Chairman w. e. f. 31-05-2012)

Mr. J. A. Panabokke - Managing Director

Mr. K. M. Panabokke - (Appointed on 05-06-2012)

Mr. R. T. Molligoda

Mr. A. N. Esufally

Mr. A. U. Maniku

Dr. I. U. Maniku

Mr. A. M. Didi

Mr. W. P. Hettiaratchi - (FCA, FFA, FSCMA, MCMI)

Mr. A. Nooradeen

Mr. M. Mahir

Mr. J. C. Ratwatte

Mr. R.T. Wijetilleke - FCIB (UK), FIB (Sri Lanka), CCMI(UK)

Mr. R. Seevaratnam - (Appointed on 05-06-2012)

### **Audit Committee**

Mr. R. T. Wijetilleke

Mr. J. C. Ratwatte

Mr. W. P. Hettiaratchi

### **Remuneration Committee**

Mr. J. C. Ratwatte

Mr. R. T. Wijetilleke

Mr. R. T. Molligoda

### **Secretaries**

Businessmate (Private) Limited,  
45, Braybrooke Street, Colombo 02.

Tel: +94 112 433 933

### **Auditors**

HLB Edirisinghe & Co.,

Chartered Accountants

45, Braybrooke Street, Colombo 2.

### **Bankers**

Hatton National Bank - Kandy

Hongkong and Shanghai Banking Corporation - Kandy

Bank of Ceylon - Kandy

Commercial Bank of Ceylon - Kandy

### **Registered Office**

No. 35, P. B. A. Weerakoon Mawatha, Kandy.



**MAHAWELI PEACH**  
SRI LANKA

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OUR WORLD REVOLVES AROUND YOURS