



# Pure Paradise

Annual Report 2017/18





# Pure Paradise

Nestled along the pristine coast of verdant Sri Lanka, Royal Palm Beach Hotel offers the modern traveller an unrivalled standard of privacy and personalised service in an ambience that is best described as “refined tropical luxury”. Thoughtfully renovated in accordance with plush contemporary design, every room and suite in the hotel is a treasure trove of opulent detail, features uninterrupted, picturesque views of azure waters and embodies sophistication and style. Regardless of whether you are visiting the exotic island destination that is Sri Lanka or reside here, you are always assured of your very own personal paradise with us, where you are made to feel right at home in the lap of luxury. With your every need catered to, you will want for nothing-It is tropical bliss in its purest form.







# Contents

Hotel at a Glance	6
Tangerine Group of Hotels	8
Awards and Accolades	10
Financial Highlights	12
Milestones	14
Highlights of the Year	16
Chairman's Message	24
Managing Director's Review	26
Board of Directors	29
Corporate Management	32
Financial Review	33
Sustainability Report	38
Corporate Governance Report	56
Risk Management	74
SWOT Analysis	76
Annual Report of the Board of Directors	77
Statement of the Director's Responsibilities in Relation to the Financial Statements	79

## FINANCIAL REPORT

Audit Committee Report	83
Remuneration Committee	84
Related Party Transactions Review Committee Report	85
Independent Auditor's Report	86
Statement of Financial Position	90
Income Statement	91
Statement of Comprehensive Income	92
Statement of Changes in Equity	93
Cash Flow Statement	94
Notes to the Financial Statements	95
Investor Information	122
Value Added Statement	124
Decade at a Glance	125
Real Estate Portfolio	126
Notice of Meeting	127
Form of Proxy	131
Corporate Information	Inner Back Cover





## Our Vision

To be in the forefront of the hospitality industry providing our valued Guest a memorable experience.

## Our Mission

To achieve our vision, we provide the most comprehensive holiday package and ensure caring service to the Guest.

## Our Values

We assure our Guests, our inspirational strength, dependable support and our high standard of service. Our business revolves around people, in building the right atmosphere to serve our valued customers.

We consider our staff the most valuable asset and strive to improve their levels of performance through training.

Above all we pledge to safeguard the environment we live.

# Hotel at a Glance

Deluxe Rooms

119



Suites

10

Banquet Hall

01







Bar Outlets

03

Wellness Center

01



Dining Outlets

03

# Tangerine Group of Hotels



Pure beachside bliss and lazy days await you at one of the most luxurious hotels in Kalutara, Sri Lanka. Space meets light at our sunny haven in a fusion of ancient and modern design, where myriad corners of quiet beauty are yours to call your own. A vast stretch of glittering sands kiss the rolling surf. The palms sway and beckon you to bring a deck chair and at just 40km South from Colombo on the Western coastline, you don't have to travel far for it either.



**GRAND HOTEL**  
ESTABLISHED 1891

An elegant High Tea on a manicured lawn; sip a stiff brandy by the blazing fire after a round of golf in the chill air. Is it England in the Days of the Raj? It may be the 21st century but colonial splendour still reigns in all its past glory at the Grand Hotel. Built in 1891, this was the palatial residence of the former Governor of Sri Lanka; Sir Edward Barnes. Today we offer the ultimate in comfort and the best of traditions from the 'good old days' to all who seek the charms of our famed hill country landmark.





 **Nilaveli**  
Beach Hotel, Trincomalee

Pristine white sands, stretch far into the distance. The gentle waves slip softly to shore. The turquoise ocean seems endless as it blends into the clouds. Slowly, the golden sun lifts above the horizon – paradise at dawn? At Nilaveli Beach Hotel, this is just another ordinary morning. Located 275km from Colombo, on the North East Coast of Sri Lanka, Nilaveli is the ultimate getaway for those who wish for quiet bliss on a tropical heaven, far away from the cares of life.



**FAIRVIEW HOTEL**  
Welcome Home

Fairview City Hotel is a specially created haven for travellers situated on the edge of the city limits just a few minutes' walk away from the two main thoroughfares of Colombo – Galle Road and Marine Drive. With all the modern amenities you need combined a little homely touch it is the ideal choice for a comfortable, inspiring and productive stay in Sri Lanka's commercial capital.





# Awards and Accolades



The Waste Management Authority of the Western Provincial Council organised the ceremony to facilitate government agencies and private companies for their initiatives in waste management in the Western Province and with the aim of streamlining the waste Management process by encouraging those institutions. Royal Palms Beach Hotel won the Silver award for the commitment in properly conducting the Best Waste Management Process under Hotel section.



### SOUTH ASIAN TRAVEL AWARDS 2017

We are indeed honored to achieve this prestige award for the consecutive second time for the commitment towards Corporate Social Responsibility.

During the South Asian Travel Awards Royal Palms Beach Hotel was recognised as the Leading CSR program in Sri Lanka and South Asia.



**TRAVELIFE GOLD AWARD**  
 We have honored to receive the Travelife Gold Award for 2017/18. This unique award was awarded for our tremendous commitment and hard work on sustainable tourism. Mihisar Awards 2017 Silver Award for Best Waste Management Practices



**TRIP ADVISOR – TRAVELERS CHOICE 2018 AWARD**

Trip Advisor LLC is an American travel website company providing reviews of travel-related content. It also includes interactive travel forums.

Trip Advisor was an early adopter of user-generated content. The website services are free to users, who provide most of the content, and the website is supported by an advertising business model.

Every year, based on the reviews of the travellers, the best hotels will be selected all over the world. Royal Palms Beach Hotel was awarded the Trip Advisor Travellers Choice Award for year 2018 continuously.



**HOLIDAYCHECK 2018 AWARD**

HolidayCheck is a leading travel website based in Germany where users can easily find and book their perfect holiday and share their holiday experiences. We are pleased to have the Holiday Check 2018 award based on 2017 reviews.



**INTERNATIONAL STANDARDS**

We are privilege to maintain and renew the following international standards

- ISO 14001:2004 (Environmental Management System)
- ISO 18001:2007 (Occupational Health and safety)
- ISO 22000:2005 (Food safety management system)
- HACCP (Hazardous Analysis Critical Control Point)

# Financial Highlights

Year ended 31st March	2018 Rs.'000	2017 Rs.' 000	% Change
<b>Results for the year</b>			
Gross Revenue	656,686	582,319	12.77
Cost of Sales	226,245	201,418	(12.33)
Operating Profit before Interest & Tax	133,458	97,010	37.57
Interest Expense	(123)	(266)	53.76
Profit before tax	133,335	96,744	37.82
Income Tax Expense	(45,562)	(10,005)	(355.39)
Profit after tax	87,773	86,739	1.19
Profit attributable to shareholders	87,773	86,739	1.19
Dividend paid	40,000	40,000	-
<b>Financial Position at the end of the year</b>			
Shareholders' funds (Stated Capital & Reserves)	2,220,475	2,247,084	(1.18)
Total Assets	2,569,867	2,500,254	2.78
Number of shares in issue (in Million)	50	50	-
<b>Information per Ordinary share</b>			
Earnings per share (Rs.)	1.76	1.73	1.73
Dividend paid per share (Rs.)	0.80	0.80	-
Net Asset per share (Rs.)	44.41	44.94	(1.18)
<b>Ratios</b>			
Return on shareholders' funds (%)	3.95	3.86	0.09
Return on total assets (%)	3.42	3.47	(0.05)
Year on year EPS Growth (%)	1.73	(41.75)	43.48
Interest cover (Times)	1,081.26	365.13	196.13
Dividend cover (Times)	2.19	2.17	0.92
Equity : Assets (%)	86.40	89.87	(3.47)
Current Ratio (Times)	6.20	5.22	18.77
Gearing Ratio (%)	0.02	0.11	0.09
<b>Market Shareholder Information</b>			
Market price of a share as at 31st March (Rs.)	18.00	21.90	(17.81)
Market Capitalisation (Rs.' 000)	900,000	1,095,000	(17.81)
Price Earnings Ratio (Times)	10.23	12.66	(19.19)





Gross Revenue

**Rs. 656.7 MN**



Revenue Growth

**12.77%**



Profit Before Tax

**Rs. 133.3 MN**



Earnings Per Share

**Rs. 1.76**



Net Assets Per Share

**Rs. 44.41**



Total Assets

**Rs. 2.57 BN**

# Milestones

**1992**

*May*

Company was incorporated as a Private Limited Liability Company

*October*

Company signed an agreement with the Greater Colombo Economic commission "To Build & Operate" a 124 room Five Star Hotel

**1993**

*December*

Commenced the construction of proposed Five Star Resort

**1994**

*March*

By a special resolution company was converted to a Public Limited Liability Co. and company's authorised share capital was increased from 150Mn to Rs.250 Mn

**1996**

*October*

Royal Palms Beach Hotel commenced operation with the vision to be in the forefront of the hospitality industry providing our valued guest a memorable experience.

**1997**

*March*

Company registered a net profit of Rs. 3.9 Mn from its initial six months of operation

*December*

"Orient" the specialty restaurant was opened for fine dining.

**2002**

*September*

Two northern wing suits were completed.

**2009**

*July*

Hotel kitchen staff participated the culinary art competition and won 10 Bronze Medals and 8 Silver Medals being placed 11th in the entire island

**2010**

*October*

New banquet hall commissioned

*November*

Fitness center relocated. Laundry was installed with a new 45Kg washer and 55Kg dryer

**2011**

*June*

Refurbishment of 24 rooms were completed

## 2013

### *February*

Japanese restaurant was redesigned with an open café concept.

### *March*

The “Orient” restaurant was redesigned and named “The Cabana”.

“The Gazebo” an Old Balinese style artifact placed on the beach for special occasions.

### *June*

Refurbishment of 33 rooms were completed.

New Penthouse unites and two Beach Deluxe rooms were established and total rooms were increased from 125 to 129

## 2014

### *October*

Opened the new Banquet Hall Entrance.

Started the “Taste Buds” pastry shop at hotel premises

## 2015

### *September*

New Ladies Quarters opened

### *December*

Introduced a new Laundry outlet.

## 2016

### *October*

Won South Asian Gold Awards and Regional Silver Award for Leading CSR Program at South Asian Awards Ceremony

### *December*

Renovation of the Main Restaurant

## 2017

### *February*

Garden Solar Lighting project completed.

### *July*

Won South Asian Gold Awards and Regional Silver Award for Leading CSR Program at South Asian Awards Ceremony for the 2nd Year consecutively.



# Highlights of the Year

April 2017

## CELEBRATED SINHALA HINDU NEW YEAR.

The traditional Sinhala and Hindu New Year festivity was celebrated on 13th April 2017 on the Garden area by creating an ambience of a typical village. The Raban players heralds while the traditional dancers entertain the gathering.

All participants were served with Traditional Sweetmeats and local cuisines while the traditional New Year games are being played on the ground.

It was nice to see most foreigners as well as the local guests enjoying the New Year Gams such as Pillow Fighting, Sack Race, Tug of war, Blond Blow and Awurudu Kumari.



April 2017

## STAFF NEW YEAR CELEBRATION

The Staff of Royal Palms Beach Hotel celebrated Sinhala and Hindu New Year with tasty sweetmeats and traditional activities on 14th April 2017.





May 2017  
**NEW DINNING VENUE WAS INTRODUCED**  
*The Watch-hut located on the beach is a perfect place for a romantic Dinner. It was introduced to guests in the month of April along with a special Sea Food Promotion. Couples were enjoyed their meals in the hut of the watchman, overlooking the Indian Ocean.*



May 2017  
**STAFF WESAK LANTERN COMPETITION**  
*To develop the creativity skills among the staff, A Wesak Lantern Competition was held in par with Wesak Poya. Staff were encouraged to use the departmental waste and bio degradable items to make the lanterns and the best Lanterns were selected based on a criteria given prior and in-house guests were the judges.*



# Highlights of the Year contd.

May 2017

## STAFF SINHALA AND HINDU NEW YEAR FESTIVAL

*In par with Sinhala and Hindu New Year, which falls in the month of April, Royal Palms Beach Hotel organised a New Year Program for the staff which mainly consist the traditional New Year Games. All staff participated in different games and winners were felicitated with gifts.*



June 2017

## WORLD ENVIRONMENT DAY

*A beach cleaning session was organised to mark the World Environment Day 2017.*



July 2017

## CHEFS GUILD CULINARY ART COMPETITION

*The Kitchen and F & B staff for the Royal Palms Beach Hotel participated in the Chefs Guild Culinary Art Competition and won 16 Medals including 02 Gold Medals and 03 Silver Medals.*

July 2017

## RISING STAR

*The Hoteliers Association of Sri Lanka organised a competition among the hotels to recognise the best young personnel in different areas in Sri Lanka and five staff were nominated by the Royal Palms Beach Hotel to take part in this event.*

August 2017

## CHEFS GUILD AND EMPLOYEE OF THE YEAR FELICITATION

*Winners of the Chefs Guild and Employee of the Year 2016 felicitation was held with the present of the Managing Director Mrs. Angeline Ondaatjie at Royal Palms Beach Hotel banquet Hall.*



September 2017  
**WORLD TOURISM DAY**  
 Beach Cleaning Campaign was organised to mark World Tourism Day 2017 with the participation of guests.

**HALLOWEEN**  
 Halloween was celebrated at Royal Palms Beach Hotel with a Horror theme and Fun Games.



October 2017  
**OKTOBER FEST**  
 In par with the International Fiesta, Oktoberfest was celebrated at Royal Palms Beach Hotel in the Month of October 2017.

October 2017  
**21ST ANNIVERSARY OF ROYAL PALMS BEACH HOTEL**  
 21st Anniversary of the hotel was celebrated with the blessings from multiple religious leaders.





# Highlights of the Year contd.

October 2017

## CHRISTMAS CAKE MIXING

*Traditional Christmas Cake Mixing was held at the Sea Lounge of Royal palms Beach Hotel with the participation of the Staff and in-house Guests.*



December 2017

## CHRISTMAS

*Christmas was Celebrated at the Lounge bar with the participation of Guests.*

December 2017

## 31ST NIGHT CELEBRATION

*31st Night was celebrated with a theme from the Colonial Era. Staff were dressed in Colonial type dresses while the Colonial Village was created at the Main Restaurant with traditional arts and crafts.*



January 2018

## STAFF NEW YEAR CELEBRATION

*As a tradition carrying out from so many years, Royal Palms staff welcome the New Year with Boiling milk and lighting the oil lamp.*



January 2018  
**RUSSIAN CHRISTMAS**  
*As Christmas for the Russian Nationals falls in January each year, Royal Palms Beach Hotel Celebrated a Russian Christmas with the traditional Christmas customs in January.*

January 2018  
**THAIPONGAL FESTIVAL**  
*Thai Pongal is the Harvest Festival dedicated to the God of Sun. This year we at Royal palms Beach Hotel celebrated Thaipongal Festival.*



February 2018  
**INDEPENDENCE DAY**  
*We Celebrated the 70th Independence Day of Sri Lanka along with the guests of Royal Palms Beach Hotel.*



February 2018  
**TREE PLANTING CAMPAIGN**  
*A Tree planting Campaign also held on the same day*



February 2018  
**VALENTINES DAY**  
*Valentines Day celebration on the Beach.*







Wrap yourself  
in the comfort  
and joy of  
a tranquil  
escape that  
triggers your  
relaxation.



# Chairman's Message

Recognising the importance of developing both economic and social infrastructure to enhance the country's competitiveness and accelerate its sustainable economic growth, the government continued with its infrastructure development work amidst a tight fiscal space.

Dear shareholders,

The year 2017 has been yet another remarkable year for Royal Palms Beach Hotel. We continued to make significant progress in fulfilling our strategy of realising our growth potential and creating long-term value for our shareholders.

We remain ever mindful of the geopolitical environment, increasing cost pressures and the uncertainties the travel industry is currently facing. Against this backdrop, I am delighted to say that our property in operation has collectively delivered a strong performance. Looking ahead, we are committed to continuously improve and maintain the excellent quality of our portfolio and we have several exciting renovation projects well under way.

During 2016, the global hospitality industry was affected by the increased supply of rooms in major cities, concern over terrorist attacks in Europe and increased competition from non-traditional lodging options. This was against a backdrop of considerable political change and volatility in many parts of the world.

## Sri Lankan Economy

Recognising the importance of developing both economic and social infrastructure to enhance the country's competitiveness and accelerate its sustainable economic growth, the government continued with its infrastructure development work amidst a tight fiscal space. In terms of economic infrastructure, development activities such as the construction of expressways, highways and regional roads, urban and housing development projects, irrigation, port and airport development activities and commissioning of power projects were in progress during 2017. Meanwhile, the economy benefitted from the improvement in communication and logistical support activities. In this respect, telecommunication and port sector activities continued their growth momentum supported by the private sector involvement. The Colombo Port City Project, which is a public-private partnership towards developing a world-class city in South Asia, along with a financial hub, rapidly progressed during 2017 in terms of land reclamation and breakwater construction. Airport development activities, including the resurfacing of the runway at

Bandaranaike International Airport, were carried out during the year. Moreover, several urban development programmes were initiated by the government, with the support of the private sector.

Natural disasters, such as drought and floods, significantly hampered overall economic growth during the past two years, highlighting the importance of giving due policy consideration to environment and disaster mitigation. In addition to drought and floods, Sri Lanka also encountered several other natural and human-induced disasters such as cyclones, landslides, drying-up of ground water due to development activities and collapse of a garbage landfill, though the impact of these disasters on economic growth was relatively limited.

## Sri Lanka Tourism

The tourism industry remained the third largest foreign exchange earner to the country, despite recording a moderate growth of tourist arrivals in 2017. Although tourist arrivals recorded highest annual arrivals of 2,116,407 in 2017, the year-on-year growth in arrivals moderated to 3.2 per cent. Flight cancellations and delays at the BIA, caused by partial operation of the Airport till April 2017 owing to repairs and the upgrade of the runway, as well



# Rs. 656.7 MN

## Revenue

We remain committed to delivering memorable experience for our valuable guests. This financial year we were able to achieve Rs. 656.7 million in terms of turnover and Rs. 133 million in terms of profits which an increase of 37% compared to the previous year.

as the breakout of the dengue epidemic in mid-2017, partly contributed to the sluggish performance in the tourism industry. However, the arrivals showed some recovery, recording the highest ever monthly arrivals during December 2017. Despite a lower than expected growth in tourist arrivals, earnings from tourism remained healthy with increased average spending and duration of stay by tourists during 2017. Earnings from tourism increased by 11.6 per cent to US dollars 3,925 million in 2017, in comparison to US dollars 3,518 million in 2016.

### Financial Performance.

We have performed well in terms of the financial outcome with the revenue and profits increasing compared to previous year. We remain committed to delivering memorable experience for our valuable guests. This financial year we were able to achieve Rs. 656.7 million in terms of turnover and Rs. 133 million in terms of profits which an increase of 37% compared to the previous year.

### Our Strategy

The strategic priorities of the The Royal Palms Beach Hotels PLC remain sustainability and growth. The current uncertain socio-economic outlook in Sri Lanka heightens sustainability risks which we address by avoiding decision making that negatively impacts the long-term health and survival of the business. Growth is to be achieved both organically and inorganically and is measured by the increase in the Company's free cash flow generated over time.

### Human Capital

We have continued to strengthen the human resource capabilities of the Company, particularly within sales and operational staff. In our hotel, we have aligned our commercial team bringing together our sales and marketing teams under one roof with innovation and technical insight. This will ensure greater alignment with the delivery of our growth plans. A dedicated management team has also been put in place to focus on addressing the challenges faced by the leisure sector, and its possible impacts on our Hotel to ensure effective management of such risks.

### Conclusion

On behalf of the Board of Directors, I would like to take the opportunity to thank our stakeholders, including shareholders, customers and business partners for their continued support and confidence in Royal Palms Beach Hotel. Last but not least, on behalf of the Board of Directors, I would like to express my sincere appreciation to our management and staff, who were the driving force behind our success.

Angeline Ondaatjie  
For and on behalf of  
Desabandu George L.A. Ondaatjie

24 August 2018

# Managing Director's Review

Over the last five years, the operating environment and landscape has changed on a global scale. While we are focused on delivering sustainable value to our stakeholders today.

This year has been a significant one for Royal Palms Beach Hotel, where, against a challenging external environment, we have continued to make progress against our purpose: to serve our valuable guests a little better every day. I am grateful to the management team and Royal Palms colleagues for all that they have done to deliver this. From a macroeconomic perspective, the global and local operating environment remains challenging. In Sri Lanka, the economic slowdown was further exacerbated by heightened political uncertainty and volatility of business. In an industry reliant on guests discretionary spending and positive sentiment, hotel revenues came under pressure as guests become more conservative. This tough climate has made it even more necessary to strengthen the Companies' balance sheet, contain costs and streamline operations to ensure that we operate as efficiently as possible.

## Sri Lankan Economy

The growth rate of services related activities, which accounted for over 56 per cent of real GDP, also moderated during 2017. The growth of services activities, which was recorded at 4.7 per cent in 2016, decelerated to 3.2 per cent in 2017, particularly due to the contraction in public administration and defence activities, and the slowdown in transportation activities. Accordingly, transportation activities that contributed to over 10 per cent of GDP in 2017, grew marginally by 0.9 per cent. However, the growth in services activities was supported by the notable growth of 9.4 per cent in financial services during 2017. Furthermore, wholesale and retail trade, and other personal service

activities, which grew at 3.8 per cent and 3.2 per cent, respectively, also contributed positively towards the growth of the services sector.

## Global Economy Outlook

According to the World Economic Outlook of the International Monetary Fund, the global economy continued to gain momentum in 2017 with a substantial majority of economies registering a pickup in growth. Two thirds of the world economies, comprising of emerging and developing economies as well as advanced economies, registered higher growth rates in 2017, compared to 2016. For the first time since the Global Financial Crisis, there is synchronised growth in the US, UK, EU and Japan. Growth in the advanced economies and China was triggered mainly by the increase in expenditure on fixed capital formation and accommodative monetary policy, while an increase in private consumption contributed to increased growth in most emerging market economies. Global trade recovered strongly and recorded substantially higher levels in 2017 compared to the past two years, despite the beginning of a series of successive retaliatory trade restrictions imposed on each other by the US and China.

The global growth momentum is expected to improve further in 2018 and 2019 with better prospects for both advanced and emerging economies in terms of investment, production and trade, though possibly in the face of tightening financial market conditions and disruptions arising from trade wars between key global economies. The cyclical upturn

registered in the last two years, which was synchronised across a broad cross section of advanced, emerging and developing economies, is expected to augment further to record higher growth rates in the next two years and begin to moderate thereafter with growth in advanced economies returning to potential levels. Global growth in the next two years will mainly be driven by the pickup in domestic and external demand of the US, Europe and advanced Asian economies, as well as the effects of tax policy changes in the US that involved corporate tax reductions. In the US, fiscal adjustments to offset the deficit created through the tax reduction are expected in the medium term. Meanwhile, emerging and developing Asia is projected to grow at 6.5 per cent and 6.6 per cent, respectively, in the next two years.

## Sri Lankan Tourism

The unrest in the Middle East did have a strong impact on air travel, since majority of the load to Sri Lanka is catered by the Middle Eastern airlines particularly to long haul destinations as ours.

The Brexit issue continue to posed a threat on British travel, particularly, when UK having just recovered from the recession just a few years ago. The arrivals from UK are down by over 35% .The travel warning imposed by UK cautioning on single ladies travelling to the island, secondly highlighting the floods which affected the low lying areas of Colombo and the epidemics, particularly Dengue continued to pose a threat . Certain European – West and East and the Middle East followed the travel warnings imposed by the UK.



# 12.77%

## Revenue Growth

During the last few years we have rapidly developed our e-marketing and online marketing infrastructure and strategies and Royal Palms Beach Hotel shows a 100% increase in sales year on year from the online platforms

### Global Tourism

The year 2017 was characterised by stable growth in many destinations around the world and a firm recovery was recorded in destinations that suffered decreases in previous years. Results were partly assisted by the global economic upswing and the robust outbound demand from many traditional and emerging source markets. Based on the reports by destinations around the world, it is estimated that international tourist arrivals globally increased by 7% in 2017. This is well above the sustained and consistent trend of 4% or higher growth since 2010 and represents the best results in seven years. The travel and tourism industry is one of the world's largest industries with a global economic contribution (direct, indirect and induced). The direct economic impact of the industry, includes accommodation, transportation, entertainment and attractions. A number of countries, such as France and the United States, are consistently popular tourism destinations, but other, less well-known countries are quickly emerging in order to reap the economic benefits of the industry.

The industry contributes to almost 10% of Global GDP, 1 out of 10 Jobs and 7% of world's exports. As the industry now focuses on methods of sustainable tourism, it will enjoy continued growth.

### Our Operations Performance

Customer feedback ratings have today become an important channel for travellers making a decision on where to stay. Hence, it is noteworthy to state that Royal Palms have won the Trip Advisor and Holiday Check awards for service excellence for the 03rd year consecutively. The other accolades the hotel received was the Gold Award for CSR from the South Asian Travel Awards held in the Maldives and the Travelife – Gold award for the second year for sustainability.

Considering about the market mix of the last financial year, German market was the leading market for RPBH. It's a great achievement when we compare with our competitors in the region. All German tour operators such as TUI, Neckermann, ITS, Jhan, MWR, Der Tours, were contributed a lot for this achievement during past years.

But the German web site Holiday Check was playing a major role during the last year to keep this achievement live. Due to the huge number of good On-Line comments (93%) on the above web site it was easy to identify the needs of our valuable clients.

### Strategy

Over the last five years, the operating environment and landscape have changed on a global scale. While we are focused on delivering sustainable value to our stakeholders today, we understand that in a changing world, we choose to stand still at our own peril. As such, the group has re-emphasised

the need for a long term approach to strategy and business development. We are constantly assessing our operating landscape to take advantage of opportunities in our core areas to set the Company on a firmer footing for future growth. Meanwhile, we remain focused on strengthening and growing our businesses, identifying opportunities that create value in the longer term and improving our performance through innovation.

### Marketing Strategy

During the last few years we have rapidly developed our e-marketing and online marketing infrastructure and strategies and Royal Palms Beach Hotel shows a 100% increase in sales year on year from the online platforms due to the promotions and strategies implemented. Some of the e-commerce strategies and software's implemented by Royal Palms Beach Hotel for 2018 /2019 to continue the positive trend are Thomascook online campaigns, STAAH Channel Manager software, STAAH Booking Engine, OTA (Online Travel Agents) Promotions, Royal Palms Beach Hotel Internet Payment Gateway.

### Risk Management and Internal Controls

The Board places great importance on identifying and dealing with wide-ranging risk potentials as this is crucial in safeguarding and enhancing shareholder value. The company's Risk Management Framework and Internal Control System, which is further described in the Statement on Risk Management and Internal Control, specifically addresses some of Royal Palms Beach Hotel's most significant



# Managing Director's Review contd.

risk areas. Our appetite for risk in these areas is a key consideration in our decision making, as defined risk appetite parameters guide the Group's risk tolerance when pursuing its strategic objectives.

## Investment in Our People

Our people are at the heart of our business and we remain focused on ensuring that they are fully supported, engaged, developed and motivated so we can consistently deliver a high service standard and memorable guest experience.

All team members are trained to deliver the highest levels of service. We are committed to attracting and nurturing talent within the business which supports the development of all our teams whilst creating the next generation of leaders.

## Guest Experience

We are proud of the high levels of guest satisfaction scores achieved across our hotel, reflecting our investment in our product offering and our commitment to a service delivery above and beyond expectation.

## Industry Recognition

We are delighted to see that our hotels and campsites have been recognised through a number of industry awards and accolades during the financial period under review. Trip Advisor - 03rd place out of 11 hotels in Kalutara, achieve outstanding traveller reviews on Trip Advisor which is awarded to Royal Palms and consistently a Booking.com – Guest Review Award.

## Our Financial Performance During the Year

We have performed well in terms of the financial outcome with high revenue and profits compared to previous year. We remain committed to delivering Royal experience for our valuable guests. This financial year we were able to achieve Rs. 656.7 million in terms of turnover with the assistance of the better performance in this year which was 12.7% increase compared to the last year. The company's profit before tax increased by 37% to Rs. 133 million in 2018 compared to Rs. 96 million in 2017.

## Delivering Value for Stakeholders

The Board aims to maintain a dividend policy that provides a dividend level that grows broadly in line with the underlying earnings of the Company. I am pleased to report that the Board has recommended a first and final dividend of Rs. 1.00 per share amounting to Rs. 50 Million in respect of the year ended 31st March 2018, in compliance with this policy.

## Earnings Per Ordinary Share

The Company Earnings per Share (EPS) for the period under review was Rs. 1.76, against Rs. 1.73 in year 2017.

## Average Room Rate

The Management has been successful in delivering real revenue growth this year by capitalising on increased demand and improving the average room rate. The overall average room rate as a result had increased by 7.8 %.

## Occupancy Across the Company

The occupancy increased to 69% (2017 - 66%), in line with our strategy of focusing on improving average room rates. Occupancy increased by 3% per cent from the previous year. The Company had been able to contain this to increase despite a considerable increase in rates, which had brought about a 12.8 per cent increase in revenue. Number of guests occupied the Hotel during the year was 65,216 (2017 - 63,646).

## Operational Achievements

1. South Asian Travel Award 2018:  
We are indeed honoured to achieve this prestige award for our commitment towards Corporate Social Responsibility and winning the award best Corporate Social Responsibility program for Sri Lanka and South Asia for the 02nd time.
2. ISO 14001, 18001, 22000 and HACCP:  
Once again we were certified for with ISO 14001, 18001, 22000 and HACCP by SGS Lanka for year 2017, 2018 and 2019.

3. Won Silver Award for Best Practices in Waste Management in Sri Lanka at "Mihisaru Awards Ceremony" Organised by Sri Lanka Waste Management Authority

## Outlook for 2019 and Current Trading

2019 outlook is in line with our expectations. Operations are year-round, whereas trading in the beach is seasonal with most of the hotels preparing to open their doors in early spring. In the year ahead, we will continue to implement our strategy to drive growth through expansion in our hotel; maintain and enhance operational efficiency; remain focused on delivering a high quality service; ensure our guests have a memorable experience during their stay; and create and realise shareholder value. Proposition has strong potential and are excited about progressing this new development opportunity.

In this challenging and sometimes uncertain environment, it is important that Royal Palms Beach Hotel continually engages with its stakeholders, updating them on progress against the group's strategic objectives and listening to any specific issues that need to be addressed. Widespread management engagement took place during the year with key stakeholders such as employees, investors, shareholders, other stakeholders and government to keep them informed of developments within the group.

## Conclusion

Finally, I would like to thank the board, management and our employees for their Unwavering support, commitment and passion in these difficult times. I believe in the Company's ability to emerge a stronger, more efficient and innovative Company. Thank you to all our stakeholders, without whose support we would not be in business.



Angeline Ondaatje  
Joint Managing Director

24 August 2018

# Board of Directors



# Board of Directors contd.

## 1. Desabandu G L A Ondaatjie

### *Chairman & Joint Managing Director*

Mr. George Ondaatjie is a pioneer in the tourism sector and is the Founder of Mercantile Investments Group of Companies. He counts over 40 years extensive experience in the financial services, tourism and trading sectors. He is presently the Chairman of several Companies which include Tangerine Beach Hotels PLC, The Nuwara Eliya Hotels Co. PLC and Nilaveli Beach Hotels (Pvt) Ltd which was the first planned hotel development on the East Coast of Sri Lanka. He has been the Past Chairman of the Tourist Hotels Association, Pacific Asia Travel Association – Sri Lanka Chapter and Finance Houses Association. He has also been a Past Director of the Colombo Stock Exchange and the Pacific Asia Travel Association – International Chapter. He was awarded the prestigious “Desabandu” title by the Government of Sri Lanka in 1994 for his pioneering efforts as an Entrepreneur, Financier and Hotelier. He was also the recipient of the “Pioneer Award” at the presidential Awards for Travel & Tourism 2008.

## 2. Ms. A M Ondaatjie

### *Joint Managing Director*

Ms. Angeline Ondaatjie was appointed to the Board in 1994 and appointed as Joint Managing Director on 01st May 2005. She has over 20 years’ experience in the tourism, financial services and manufacturing sectors. She holds a Masters Degree from the University of Texas in Austin, USA and a BSc Degree from the Massachusetts Institute of Technology (MIT) USA. She is presently the Managing Director of Tangerine Tours (Pvt) Ltd and Joint Managing Director of Tangerine Beach Hotels PLC. She holds directorship in several other companies including Mercantile Investments and Finance PLC, The Nuwara Eliya Hotels Co. PLC (Grand Hotel), Nilaveli Beach Hotels (Pvt) Ltd, Fair View Hotel (Pvt) Ltd and Lighthouse Hotel PLC. She is presently the Vice President Tourist Hotels Association, Director of the Sri Lanka Tourism Promotion Bureau and serves on the Education Council of MIT.

## 3. Mr. G G Ondaatjie

### *Executive Director*

Mr. Gerard Ondaatjie was appointed to the Board in 1994. He has over 20 years’ experience in the tourism, financial services and trading sectors. He holds a BSc Degree in Accountancy from the Arizona State University, USA. He is presently the Managing Director of Mercantile Investments and Finance PLC, Chairman of Fair View Hotel (Pvt) Ltd and Deputy Chairman of The Nuwara Eliya Hotels Co. PLC (Grand Hotel) Mercantile Fortunes (Pvt) Ltd and Nilaveli Beach Hotels (Pvt) Ltd. He is also a Director of several companies including Tangerine Beach Hotels PLC.

## 4. Mr. T J Ondaatjie

### *Executive Director*

Mr. Travice Ondaatjie was appointed to the Board in 1998. He has over 15 years experience in the tourism and the financial services sectors. He holds a BSc Degree from the Arizona State University USA. He is presently the Managing Director of Nilaveli Beach Hotels (Pvt) Ltd and a Director of several other companies which include Mercantile Investments and Finance PLC, Tangerine Beach Hotels PLC, The Nuwara Eliya Hotels Co. PLC (Grand Hotel) and Fair View Hotel (Pvt) Ltd.

## 5. Mr. R S Weerawardena

### *Non Executive Independent Director*

Mr. Ranjan Weerawardena was appointed to the Board in 1994. He is a holder of a Diploma in Polymer Science & Rubber Technology from the National College of Rubber Technology, London, UK. He has over fifteen years experience in the service sector and is presently managing property and estates owned by the family.

Mr. Weerawardena has been a Director of the company for a period of over ten years and the Board taking account of all the circumstances is of the opinion that he should be considered as a Non Executive Independent Director.

(\*Deceased on 07th July 2018)

## 6. Mr. N H V Perera

### *Non Executive Independent Director*

Mr. Hasantha V. Perera was appointed to the Board on 25th November 1999. He is and has been attached to Lucian Perera Associates, a legal firm, for over a period of fifteen years. He is a Director of Mercantile Investments and Finance PLC, Tangerine Beach Hotels PLC, Blue Oceanic Beach Hotels Limited, Yala Safari Beach Hotels Limited, Yala Properties (Private) Limited, Ceylon Electro Mechanical Services (Private) Limited, South Asia Economic and Trade Corporation (Private) Limited, Koggala Beach Hotel (Private) Limited, Desano Investments (Private) Limited, Tisara Hotels (Private) Limited, Thisara Investments (Pvt) Ltd, Ranyan Industries (Pvt) Ltd, Ranali Marketing (Pvt) Ltd, Ranali Industries (Pvt) Ltd and Janath Trading & Investments (Pvt) Ltd.

Mr. Hasantha Perera is a Non-Executive Director of Tangerine Beach Hotels PLC and Mercantile Investments and Finance PLC, which are group companies and been a Director of the company for a period of over nine years. The Board taking account of all the circumstances is of the opinion that he should be considered as a Non-Executive Independent Director.

## 7. Mr. M Keerthiratne

### *Non Executive Independent Director.*

Mr. Mihindu Keerthiratne was appointed to the Board in 1994. He is a Chartered Architect by profession and the Chairman & Managing Director of Mihindu Keerthiratne Associates (Chartered Architects, Engineers & Urban Planners). He is a holder of a Bachelor’s Degree in Architecture from the University of Hongkong and is an Honorary Fellow of the Sri Lanka Institute of Architects and has also served twice as the President of the Sri Lanka Institute of Architects. He is an Associate of the Indian Institute of Interior Designers, Associate of the Royal Institute of British Architects and a Member of the American Institute of Architects. He is the founder Chairman of South Asian Association for Regional Co-operation of

Architects (SAARCH). Mr. Keerthiratne was awarded the prestigious gold medal, of the Sri Lanka Institute of Architects, by his excellency the President in February 2014 for his achievements. Mr. Keerthiratne is the founder of MIKE group of Companies and is the Chairman and Managing Director of several affiliated companies.

Mr. Keerthiratne has been a Director of the Royal Palms Beach Hotels PLC for a period of over ten years and the Board taking account of all the circumstances is of the opinion that he should be considered as a Non Executive Independent Director.

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

*Non Executive Independent Director*

Mr Maniku was appointed to the Board in 1994. He holds a Masters Degree in Agriculture from the University of Bangladesh. He is the Chairman of Universal Enterprises (Pvt) Ltd a company that owns and operates eight tourist resorts in the Maldives and La-breeze Seychelles. Mr. Maniku is the Chairman of the Maldives Association of Tourism Industry of the Republic of Maldives. He has over 35 years experience in the Hospitality Industry and is being considered as the pioneer in the development of tourism in the Maldives.

Mr. Maniku has been a Director of the company for a period of over ten years and the Board taking account of all the circumstances is of the opinion that he should be considered as a Non Executive Independent Director.

#### **9. Mr. M J Fernando**

*Non Executive Independent Director*

Mr. Merill J Fernando was appointed to the Board in 1997. He is the Chairman of MJF Holdings Limited and one of Sri Lanka's first tea tasters in the then British-dominated trade. He is the Founder of "DILMAH TEA" brand name which re-launched, redefined and re-established the quality of Ceylon tea. DILMAH is a much respected global name, renowned for its philosophy of caring for and sharing with the community.

Mr. Fernando incorporated the MJF Charitable Foundation, to fulfil his pledge to make his business a matter of human service. His Foundation and linked Dilmah Conservation use a significant share of the earning from the sale of Dilmah to create better conditions for plantation workers and the underprivileged in the wider community whilst implementing positive and sustainable environmental interventions. He was chosen by an award committee of Nobel Laureates as one amongst five Honourees of the Oslo Business for Peace Award in 2015.

Mr. Merill J Fernando has been a Director of the company for a period of over ten years and the Board taking account of all the circumstances is of the opinion that he should be considered as a Non Executive Independent Director.

#### **10. Mr. A de Zoysa**

*Non Executive Independent Director*

Mr. Ajita de Zoysa was appointed to the Board in 1999. He is the Chairman of Associated Electrical Corporation Ltd. Mr. de Zoysa has held a series of leadership roles in the field of manufacturing, Trading, and Financial services. He was the former Chairman of AMW Group of Companies, Sathosa Motors PLC and Union Bank of Colombo PLC. He is a Director of Trelleborg Lanka (Pvt) Ltd., and Trelleborg Tyres Lanka (Pvt) Ltd.

Mr. de Zoysa has been a Director of the company for a period of over ten years and the Board taking account of all the circumstances is of the opinion that he should be considered as a Non-Executive Independent Director.

#### **11. Mr. J D Vaz**

*Executive Director*

Mr. J D Vaz was appointed to the Board on 20th December 2007. He has over 45 years' experience in the Finance & Administration field in the tourism sector. He is the Executive Director at Nilaveli Beach Hotels (Pvt) Ltd and presently the Finance & Administration Manager at Tangerine Beach Hotel and Royal Palms Beach Hotel.

#### **12. Mr. P S R Casie Chitty**

*Non Executive Independent Director*

Mr. Rajiv Casie Chitty was appointed to the Board of Royal Palms Beach Hotels PLC on 05th February 2013. He is presently the Chief Operating Officer of the Commercial Credit and Finance PLC. He is also a Non-Executive Independent Director at ACL Cables PLC, Tangerine Beach Hotels PLC and in some companies of the Ceylon Printers Group. Mr. Casie Chitty is immediate Past President of the Association of Chartered Certified Accountants (ACCA) Sri Lanka Branch.

Mr. Cassie Chitty who holds a Master in Economics, University of Colombo is also a Fellow of the Association of Chartered Certified Accountants (ACCA) UK, an Associate Member of the Chartered Institute of Management Accountants (CIMA) UK, and is a Chartered Financial Analyst, USA.

**\*\*\* Mr. A N Esufally resigned w.e.f. 29/11/2017**



# Corporate Management

## Ravi Kurukulasooriya

*DIP (Hotel Mgt.) Swiss  
General Manager*

Graduate from International Hotel Management Institute, Lucerne, Switzerland. Over 21 years of service in the hospitality industry having worked at Aitken Spence Co., Carsons Cumberbatch and Confifi Group. Also served as a President, Kalutara Hoteliers Association for the past 5 Years.

## Dayan Ganegoda

*Graduate Diploma  
Resident Manager*

Masters diploma for hospitality management and graduate diploma for food service management from Cornell University USA. Over 22 years of industry experience with 12 years of overseas experience. Preceding work experience with world's leading 5-star luxury brand – Banyan tree resorts & Spa. Specialising in hotel pre-openings.

## M I Shahabdeen

*FCA, CGMA, ACMA, MIH, ACQI, CPA  
Group Financial Controller*

Group Financial Controller of Tangerine Group of Hotels since 02nd February 2005 with overall responsibility for the Group's Finance and Accounting, Taxation, Corporate Finance, Treasury and the Information Technology functions.

He has over three decades of finance and general management experience in Sri Lanka and abroad in Senior Management Positions in the Hoteliering Sector both in Five Star and Resort hotels and also in the Catering & Support Services Sector at Greyhound Services Saudi Arabia Ltd., a subsidiary of Greyhound Support Services Incorporated, USA. Prior to joining the Tangerine Group, he had been with Trans Asia Hotel PLC for a period of 17 years, holding senior management positions throughout. During this period, Trans Asia Hotels PLC was managed by Ramada

International (Germany), General Hotel Management (Singapore) and by John Keells Holdings PLC and had the opportunity of experiencing to a wide and varied Five Star Hotel Management Systems and Procedures including to an array of three decades of exposure in the Information Technology. He is a Fellow of the Institute of Chartered Accountants, Sri Lanka, Associate of the Chartered Institute of Management Accountants, UK, Member of the Institute of Certified Public Accountants, Sri Lanka, Member of the Institute of Hospitality, UK, Associate of the Chartered Institute of Quality Assurance, UK, Associate of the Society of Certified Management Accountants, Sri Lanka and Member of the Sri Lanka Institute of Directors. He is also a Director of Security Ceylon (Pvt) Limited.

## Ravi Fernando

*MBA (UK), M.Sc. App Fin (Sjp), FMAAT,  
AFA, MCSI, CBA, ACMI  
Group Accountant*

Ravi Fernando Joined Tangerine Group of Hotels on 1st June 2003 as Group Accountant With overall responsibility for the Group's Finance and Accounting function in addition He is involved in New City hotel Project. Ravi Fernando holds a Master of Business Administration from University of Lincoln UK, Master of Applied Finance from University of Sri Jayewardenepura, Associate Member of Institute of Financial Accountants UK, Fellow Member of Association of Accounting Technicians, Certified Business Accountant of CA Sri Lanka, Member of Chartered Securities & Investments UK, Associate Chartered Management Institute of UK.

He has over Three decades of experience and expertise in Financial and Auditing, Insurance, Leisure Sectors and held key positions as Finance Manager at Kandy Hotels Company PLC, the Accountant at Aitken Spence Hotels, Ceylinco Insurance PLC, and Commercial Credit PLC..

## M K K K B Galagoda

*Group Engineer*

Presently the Group Engineer of Mercantile Investments & Finance PLC and a Director at Nilaveli Beach Hotels (Pvt) Limited. He has over 25 years' experience in the hotel industry in Sri Lanka and overseas including in Ramada Group of Hotels and in the Holiday Inn Group. He holds a Diploma in Electrical and Electronics Engineering from the University of Katubedda, Moratuwa.

## J D Vaz

*Manager Finance & Administration*

Please refer Board of Directors profile.

## Nelson Mayadunnage

*Financial Controller*

Possessing of 29 years' experience in hospitality industry Five Stars and Resort sector diverse financial positions with multiple international chain hotels, such as Intercontinental, Accor, Taj and Aman resorts he has gathered an extensive to the insights within this area. Contributed implementation of PMS programs in all hotels served in last three decades. In the past 11 years served as a Financial controller in Aman resorts, expertise- all aspects of financial management, including corporate accounting, regulatory and fiscal reporting, budget and forecasts preparation, as well as implementation of internal control policies and procedures.

## Menaka Fernando

*HNDA, CBA  
Chief Accountant*

Menaka Fernando is the Chief Accountant Royal Palms Beach Hotels PLC and Tangerine Beach Hotels PLC. She holds the Higher National Diploma in Accountancy and Certified Business Accountant of Institute of Chartered Accountants of Sri Lanka. She has over 25 years' experience in the Hospitality industry in Accounting, Taxation & General Management.

# Financial Review

The Royal Palms Beach Hotels PLC’s detail financial review should be read in concurrence with the Audited financial statements of the Company for the financial period ended 31st March 2018.

## Revenue

The company turnover increased during the year under review by 12.8 per cent, with a record Rs 657 million compared to Rs 582 million of the previous year. This increase mainly due to increased in occupancy from 66 per cent to 69 per cent, which is a increased by 3.28% as a result of last year renovation of the Restaurant and Bar, and this year increase in occupancy mainly due to the arrivals from Germany, France and East Europe.

## Cost of Sales

The Cost of Sales was Rs. 226 Million compared to Rs. 201 Million during the previous year. As a percentage 34.5 per cent as against 34.6 per cent during the previous year, this decrease was mainly due to Food cost decrease by 0.1% and an increase in occupancy.

## Gross Profit

The Gross Profit of the Company for the year under review was Rs. 430 Million as against Rs 381 Million in the previous year. The gross margin percentage increased from 65.4 per cent to 65.5 per cent, which is an increase of 0.1 per cent.

## Administrative Expenses

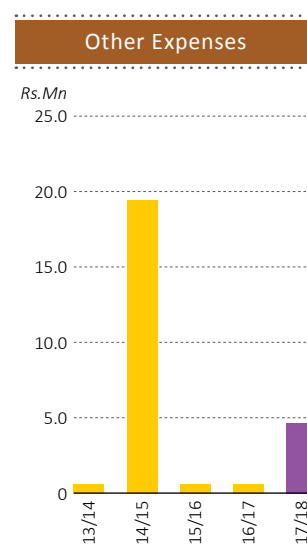
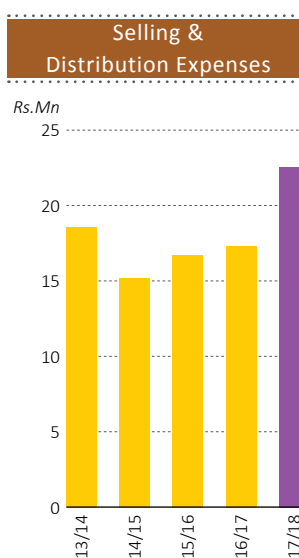
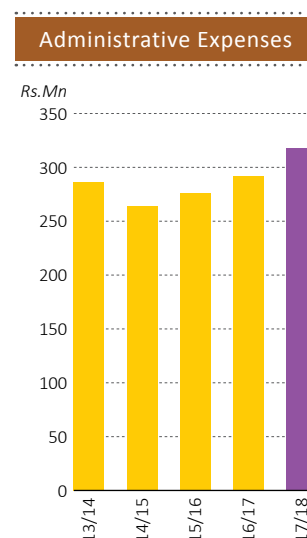
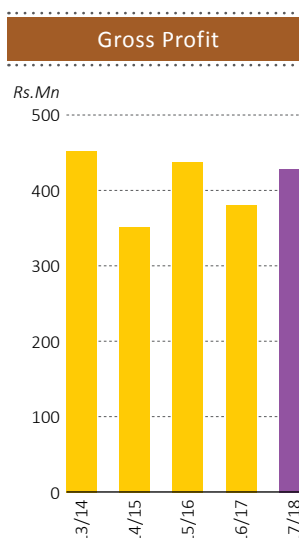
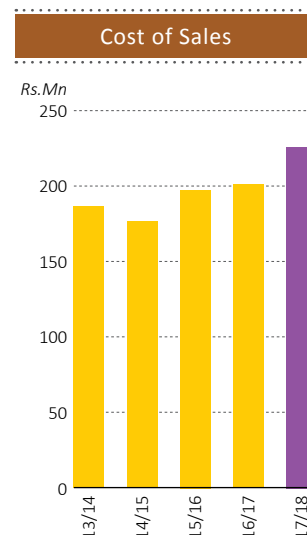
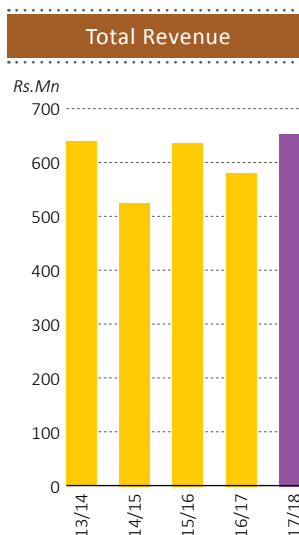
The Administrative expense of the Company has increased by 8.7% per cent from Rs 292 Million to Rs 318 Million in 2018. The increase came through in Provision for Depreciation and Salaries.

## Selling & Distribution Expenses

This includes expenses such as Sales Promotions, Advertising and Entertainment and other Marketing related expenses. Selling and Distribution Expenses has increased by 30.4 per cent (Rs. 5.25 Million). This was mainly due to increase in Sales Promotion Expenses.

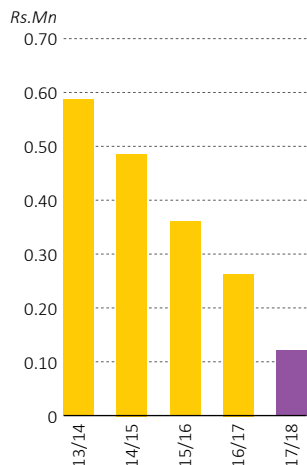
## Other Expenses

Other Expenses has increased by Rs. 4.0 Million from Rs. 0.62 Million to Rs. 4.6 Million during the financial period. This was mainly due to Losses on Disposal of Property, Plant & Equipment.

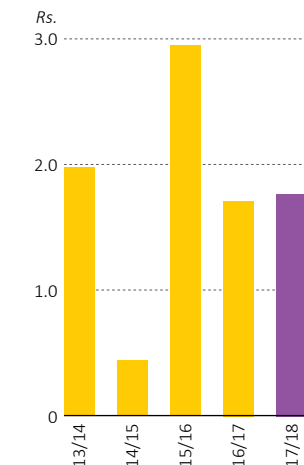


# Financial Review contd.

## Finance Cost



## Earning Per Share



### Finance Cost

Finance Costs of the Company decreased from Rs. 0.266 Million to Rs. 0.123 Million an overall decrease of 53.5 per cent. This was due to a reduction in the interest component of the Susahanaya Loan, which is a term loan the Company borrowed during the Tsunami period.

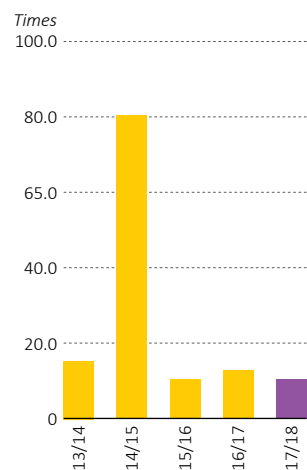
### Earnings Per Share

Company earnings per share (EPS) in the period under review was Rs 1.76 as against Rs 1.73 in 2017. The increase in EPS was due to an increase in profits for the financial year.

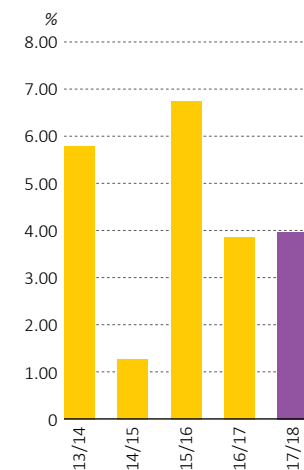
### Price Earnings Ratio

The Price Earnings Ratio of the Company as at 31st March 2018 was Rs. 10.23 as against Rs. 12.66 as at 31st March 2017. During the Financial Year 2017/18, the market price of the Company shares ranged between Rs. 16.10 and Rs. 28.00.

## Price Earning Ratio



## Return on Shareholder Funds



### Return on Equity

Return on Company Equity has increased to 3.95 per cent from 3.86 per cent from the preceding year due to increase in profit growth.

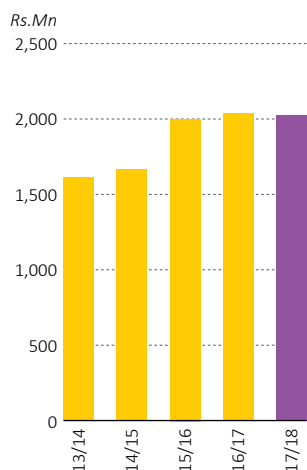
### Non-Current Assets

Non- Current Assets of the Company decreased from Rs 2,035 Million in 2017 to Rs 2,018 Million in 2018, an overall decrease of Rs 17 Million. In percentage this is an decrease of 0.8 per cent from the previous year.

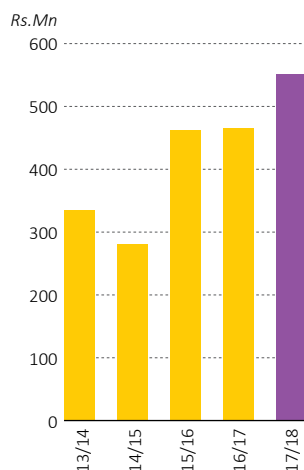
### Current Assets

Current Assets of the Company during the financial year under review increased from Rs. 466 Million in 2017 to Rs. 552 Million in 2018. Increase of Rs. 86.1 Million or 18.5 per cent compared to the previous year. This increase mainly due to increase in short term investment and cash & bank balances.

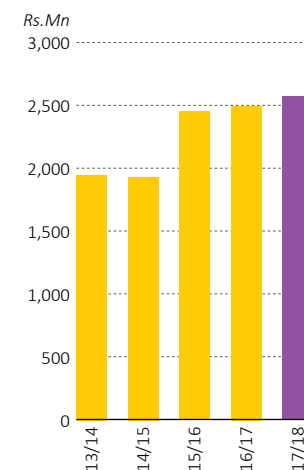
## Non Current Assets



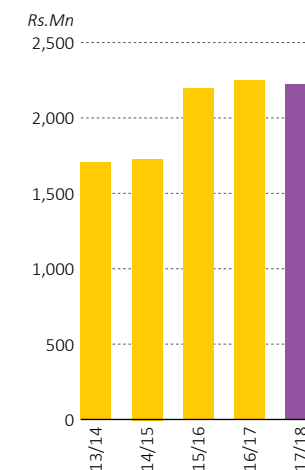
## Current Assets



## Total Assets



## Total Equity





**Total Assets**

Total Assets of the Company increased by 2.8 per cent from Rs. 2, 500 Million to Rs 2, 570 Million an increase of Rs. 69.6 Million compared to the figures as at 31st March 2017. This increase mainly due to increase in current assets.

**Total Equity**

The decrease in Total Equity was due to a decrease in the revaluation reserve on account of income tax effect on revaluation of land & building over the previous year. Total Company Equity decreased from Rs. 2,247 Million to Rs. 2,220 Million on the same date. This accounted for a 1.2 per cent decrease in comparison to the previous financial year.

**Non- Current Liabilities**

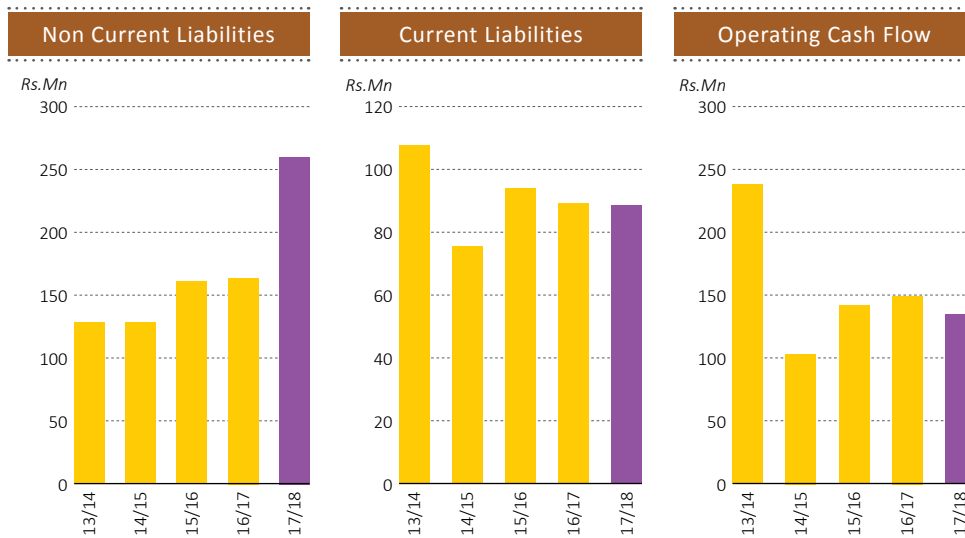
Non-Current Liabilities of the company increased from Rs. 164 Million to Rs. 260 Million. The current period figures increased mainly due to increase in the Differed Tax Liabilities.

**Current Liabilities**

Current Liabilities of the Company slightly decreased from Rs. 89.2 Million in 2017 to Rs. 89 Million as at 31st March 2018.

**Operating Cash Flows**

Company Net Cash Flow from operating activities during the year was Rs.134.7 Million as against that of the prior year at Rs.149.4 Million. This is mainly due to the decrease in trade & other receivables by Rs. 48.87 Million and increase in trade and other payables by Rs. 19.84 Million.







Giving you  
a taste of  
the exotic  
while nestled  
in an island  
paradise



# Sustainability Report



## Managing Director's Sustainability Message 2018

Royal Palms Beach Hotels PLC extends its global reach. It is important to have a framework of sustainability strategies and programmes in place to address critical topics including decent work and economic growth as well as clean energy and water scarcity. We believe that the travel and tourism industry is well-positioned to help support and accelerate industry best practices for sustainable tourism. The Company is therefore focusing its sustainability efforts around the United Nations Sustainable Development Goals.

This 2017/18 Sustainability Report shows the progress made towards the Company's specific 2020 environmental goals, as well as company-wide commitments and practices to deliver excellence, advance sustainability and develop the communities in which it operates. We highlight stories of innovation across our hotels and residences and aim to be transparent about the challenges we face.

Our accomplishments in 2017/18 were made possible due to the hard work and dedication of the company's management and the staff across the area who continues to identify impactful ways to respond to local community and environmental needs.

As we look to the future, we aim to further integrate sustainability into our operations and culture so that we can deliver measurable results by harnessing the passion and dedication of our management and staff members.

A handwritten signature in black ink that reads "Angeline Ondaatjie".

Angeline Ondaatjie  
Joint Managing Director

*The Company aims to be recognised as an industry leader in corporate responsibility and to achieve this the company has embarked on a journey of continuous improvement.*

The Company is committed to contributing to the development of local communities through local employment and corporate responsibility projects. The key drivers for success in these projects have been the Company's overarching support and the willingness of our personnel to volunteer their time and make donations in support of their local corporate responsibility activities.

For the year ended 31st March 2018 (Reporting Period), the Company engaged in a broad range of projects across its business with a strong focus on community projects that require technically skilled volunteers. Other activities include fund raising for not-for-profit organisations, scholarships, sponsorships, training programs to reduce the Company's impact on the environment and programs promoting improved diversity.

### Scope and Boundaries of this Sustainability Report

The Sustainability Report of Royal Palms Beach Hotels PLC Company for 2017/18 describes the most relevant sustainability aspects of our operations, not the full range of our actions and data on the subject. The information in this report refers to the year 2017/18 and achievements mentioned in this report cover the Royal Palms Beach Hotel which is owned and managed by the Royal Palms Beach Hotels PLC Company unless otherwise stated.

We have limited the reporting boundaries to areas in which the company has full control over data collection and information quality. Downstream impacts are generally excluded as we do not currently have reliable tools to measure their effect. Financial data presented in our Sustainability Report 2017/18 is derived from audited annual accounts. Our financial reporting accounting principles is stated in Royal Palms Beach Hotels PLC 2017/18 Annual Report.

The Sustainability Report 2017/18 has not been independently reviewed by auditors or any other third party.

**The Scope**

This report provides a summary of Royal Palms Beach Hotels PLC’s sustainability approach, actions and performance for the twelve months ending 31st March 2018. The report was approved by the Royal Palms Beach Hotels PLC Board of Directors on 19th May 2018.

**Reporting Approach**

The Company reports in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (G4). The GRI guidelines provide a globally accepted framework of principles and indicators for reporting an organisation’s economic, environmental and social practices and performance. We self-declare that this report fulfills the requirements of Application Level. Where possible, we have also provided data in accordance with the GRI-G4 guidelines-food processing supplement.

To ensure inclusivity we acknowledge the importance of stakeholder participation in developing and implementing our response to sustainability reporting. We sought the opinions of stakeholders as part of the materiality process which helped to define the content of this report. More information on our diverse stakeholders, their issues and our responses can be found on pages 40 to 53.

Materiality Issues are considered material if they have the potential to impact our ability to achieve our business strategy or our reputation, or are of material concern to our stakeholders.

**Responsiveness**

This report aims to respond to those issues identified as material for Royal Palms Beach Hotel and its stakeholders. The social, environmental, and economic aspects in the short and longer term are considered when strategic decisions are taken. The Business Principles of Royal Palms Beach Hotel, or core values, are derived from the strategic agenda and form the basis for managing the Company’s Sustainability.

Sustainability can bring many benefits to our business: It will enhance our reputation, mark us out as sustainable to our customers; help us make savings, allow us to attract and retain sustainability conscious staff - and it is the right thing to do.

**Our Sustainability Approach**









Our sustainability committee finalised our Sustainability Strategy, a five year road map meant to drive sustainability policies and programmes across the Company. Beginning in 2015, our six pillars of Our Guests, People, Community, Environment, Health and Safety and Supply Chain will form the foundation on which we set performance targets and action plans to achieve them in the next five years. The targets were set by our senior management and sustainability committee in specific areas that we aim to improve. At the same time, we strive to maintain our performance in areas where we have done well over the years.

# Sustainability Report contd.

## Stakeholder Engagement

How we engage with our key stakeholders

Key Stakeholders	Our Goals	How we Engage
Guests 	Create memorable and unforgettable experience for our guests	<ul style="list-style-type: none"> <li>• Guests satisfaction feedback.</li> <li>• Personalised service to all the guests</li> <li>• We cater to the guests according to their like and dislikes.</li> <li>• We serve all types of food to the guests in our food outlets.</li> </ul>
Employees 	Provide training and career progression opportunities to team members based on merit and develop an open and communicative Workforce to engage our team members.	<ul style="list-style-type: none"> <li>• Annual performance appraisal</li> <li>• Awareness programs</li> <li>• Focused group discussions</li> <li>• Internal communications</li> <li>• Staff celebrations</li> <li>• Staff annual trips and their well-being.</li> </ul>
Communities 	Improve lives and bring hope to the communities we operate in, through engagement, empowerment and environmental conservation.	<ul style="list-style-type: none"> <li>• Charitable work.</li> <li>• Creating indirect employment.</li> <li>• Management attends community functions.</li> <li>• Annual kids party for underprivileged kids.</li> <li>• Annual book distribution.</li> </ul>
Health & Safety 	Our number one priority is the health & safety of our guest and employees.	
Environment 	We consider the environment to be one of the most significant and challenging components of sustainable development.	<ul style="list-style-type: none"> <li>• Monitoring emissions, identifying and acting upon trends or issues;</li> <li>• Promoting energy efficiency.</li> <li>• Reducing waste and recycling all materials possible.</li> <li>• Offering guests the opportunity to participate in programmes to reduce their environmental impact.</li> <li>• Investigating all complaints and non-compliances and acting on our findings.</li> <li>• Reporting monthly and annually on environmental performance.</li> <li>• Ensuring that environmental training is provided to team members.</li> </ul>
Supply Chain 	Expanding our business, gives us an opportunity to leverage our purchasing power and address broader environmental, social and economic issues.	<ul style="list-style-type: none"> <li>• Responsible sourcing.</li> <li>• Working closely with the local suppliers.</li> <li>• Comply with the quality food.</li> <li>• Encouraging small suppliers.</li> </ul>

## Materiality Assessment

In our 2018 annual report, we conducted our first formal materiality assessment with key members of our senior management. The process to identify and prioritise issues of significance to the business and our external stakeholders was assisted by our senior management staff.



Topics	MAPPED GRI G4 ASPECTS
Corporate Governance	<ul style="list-style-type: none"> <li>• Environmental Grievance Mechanisms</li> <li>• Labour Practice Grievance Mechanisms</li> <li>• Human Rights Grievance Mechanisms</li> <li>• Bribery and Corruption.</li> </ul>
Regulatory Compliance	<ul style="list-style-type: none"> <li>• Marketing and Communication</li> <li>• Compliance</li> </ul>
Community Investments	<ul style="list-style-type: none"> <li>• Local Community</li> </ul>
Responsible Provision of Products and Services	<ul style="list-style-type: none"> <li>• Health and Safety</li> <li>• Customer Privacy</li> </ul>
Environmental Management System	<ul style="list-style-type: none"> <li>• Effluent and Waste Management</li> <li>• Water</li> <li>• Energy</li> </ul>
Training and Development	<ul style="list-style-type: none"> <li>• Recruitment</li> <li>• Occupational Health Issues</li> <li>• Staff Well Beings</li> </ul>
Economic Conditions	<ul style="list-style-type: none"> <li>• Political Situation</li> <li>• Inflationary Issues</li> <li>• Economic Indicators.</li> </ul>

**Occupancy Growth Comparison Last Year to Current Year**

Tourist arrivals have increased this year in comparison to 2016/17. This has resulted a high influx of tourist to the kalutara region as well.

Considering the occupancy at Royal Palms Beach Hotel, the occupancy has increased from 66% to 69% during the year 2017/18 compared to 2016/17.

**Nationality Mix**

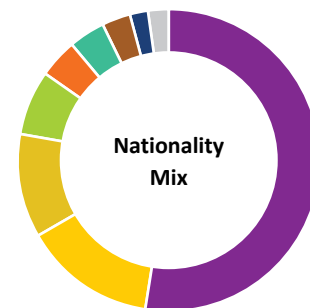
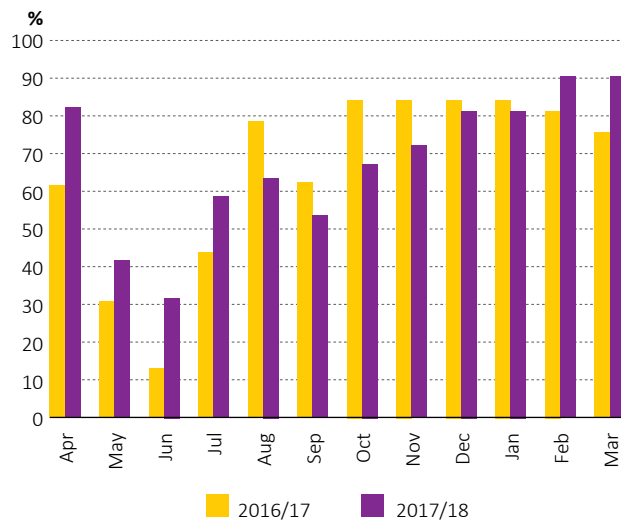
Considering the nationality mix during last financial year the leading nationality was German. Russians and British guests recorded are came second and third highest in terms of our guests. In addition to the large number of polish also been visited the Royal Palms Beach Hotel.



**Guests**

Safety of the guests is our utmost priority. In upholding this, we are committed to complying with the local laws and regulations as well as industry standards. We believe a safe environment is vital to an enjoyable experience at our hotel.

**Occupancy Comparison of 2016/17 to 2017/18**



Nationality	Count	Nationality	Count
Germany	24,858	Sri Lanka	1,844
Russia	6,846	Austria	1,578
United Kingdom	5,142	Belgium	1,088
Poland	3,480	Chinees	998
French	1,936		

**Guest Satisfaction Analysis**

The research of guest satisfaction analysis will help us to have a better understanding where we stand and areas to improve in our service. Our analysis is mainly based with online comments such as Trip Advisor, Booking.com, Agoda, and Holiday check. In addition the above front line staff are practicing a new system of collecting the comments from the clients during their stay. This is very helpful for

# Sustainability Report contd.

us to do a service recovery since the clients still in the hotel. This system assist us in minimising the guest complaints.

	2014/15	2015/16	2016/17	2017/18
Repeat Guests	106	129	178	84
Guests Satisfied	2011	2572	2213	2185
Guests Dissatisfied	106	135	116	103
Total Questionnaires	2117	2707	2329	-
Guest Satisfaction	95%	95%	95%	95%
Guest Dissatisfaction	5%	5%	5%	5%
Sri Lankan Guest Nights	2184	2097	2631	1844
Sri Lankan Room Nights	1456	1398	1754	623
Total Room Nights	28220	36098	31056	32602
Total Guest Nights	58249	74617	63646	65216

## Guest Satisfaction Analysis – Category wise



The purpose of analysing category wise data is to identify the areas we have to improve and service practices to be implement. Further this will assist us to compare where we stand compared our competitor hotels and further it is used as a mean of employee motivation as well.

### Golden Hands of Royal Palms

Royal Palms Beach Hotel has performed well in terms of the repeat clientele and most of the repeaters are from Germany and United Kingdom. Guinness world record holder Mr. Price from United Kingdom had stayed twenty one times at Royal Palms Beach Hotel and it's a great achievement as a service provider in hospitality industry.

Mr. & Mrs. Cooling (17th Visit)  
United Kingdom



Mr & Mrs Thompson & Family (23rd Visit)  
United Kingdom



Guinness world record holder Mr. Price (21st Visit)  
United Kingdom

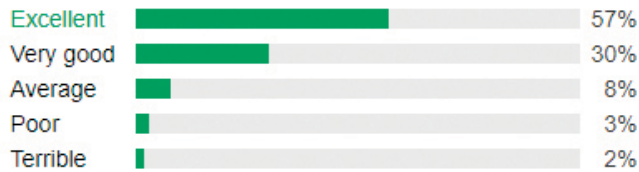


Trip Advisor Comments

Overview

4.5 

1,452 reviews



- Free Internet
- Free Parking
- Breakfast Buffet
- Air Conditioning
- Pool

- Non-Smoking Rooms
- Restaurant
- ★★★★★
- 4 Star accommodation
- [All hotel details](#)

TRAVELERS TALK ABOUT



"japanese restaurant" (33 reviews)

"hurricane bar" (19 reviews)

"cabana restaurant" (15 reviews)



Nissaka C  
7410

Best Food! / Excellent Hospitality!

Reviewed December 3, 2017 via mobile

This beautiful hotels offers you the best food and great comfort rooms..rooms are large and clean.. Hotel restaurants offer you the best srilankan/international food that you can experience! Great food spread for your choice. Hotel staff make your stay without any hassle.. friendly staff will make you satisfied as you expected. Poolside offers great cocktails and snacks all day. Keep it up!

91 - 95 of 1,057 reviews



Rathsara R  
413

Great Weekend Experience

Reviewed December 2, 2017 via mobile

Great weekend experience at Royal palms. I stayed at this great hotel during the last weekend .It was our family getaway. The facilities provided and services offered were really five star experience. Great food very friendly service made our holiday special. .It was our first visit But surely not the last. Thank you team Royal Palms.



Ilse KDelft  
23

Best Hotel in Kalutara!

Reviewed November 22, 2017

This was the third time that we visited the hotel and we got a real warm welcome, so it immediately felt like home again. As always the staff is so nice and friendly and willing to help you with anything, from the reception and the bar to the guys from the pool and restaurant. Especially we want to thank the animators Nuwan and Prabath, who became friends during the last few years. We just hope to come back again in two years. Thank you very much Royal Palms, for giving us such a wonderful time again. Ilse from the Netherlands.



# Sustainability Report contd.



## People

### Employee of the Year

Employee of the Year (EOY) Award recognises outstanding employees in the organisation annual basis who demonstrates high level of productivity with expected job performance and competencies. Rewarding the best performers motivate the rest of the staff for the organisational efficiency.

### Process :

Human Resources sends employee of the year nomination forms to the respective department heads to complete initially and selection will be determined through a department heads recommended evaluation form plus the employee test results. Once they complete the test General Manager, Resident Manager, Human resource Manager will make the final selection based on the results and recommendations will be submitted.



### Coffee with General Manager

We have implemented Coffee with the General Manager programme session for the staff to have an open discussion with the General Manager. The discussion attempts to have the best opinions / operational level issues and day to day work experience which would lead to the development of their future and hotel services. This event makes staff members motivated to work as a team and to work towards activity for the hotel objectives.

### Monthly Staff Meeting

In our hotel we organise staff meetings on a monthly basis. This event is conducted and coordinated by the Human Resources Department. In this meeting the General Manager will address the previous month's revenues and expenses of the hotel, new implementations etc. Then, the Manager of the Human Resources Department will announce the Employee of the Month for the particular month, which was selected at the head of the department meeting. Monthly birthdays of the staff members will also be celebrated at this meeting.

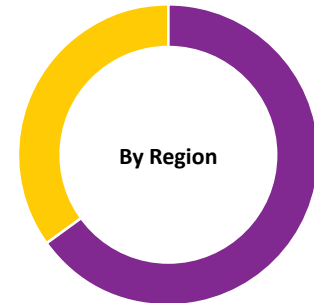
### Staff Resignations

Resignation is the formal notice to an employer of voluntary termination of employment by an employee. At the time of resignation, the HR department conducts one-to-one exit interview discussions to gather information during the work period of an employee.

### Financial Year Statistics

#### Region Wise Cadre

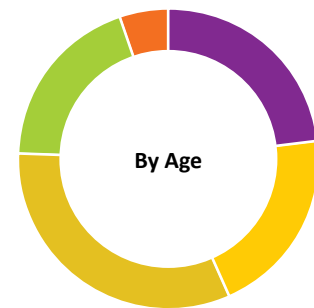
Region	Count
Kalutara District	180
Other	96
Total	276



Kalutara District	65%
Other	35%

#### Age wise Cadre

Age Group	Count
Under 25	63
25-34	56
35-44	89
45-54	53
Over 55	15
Total	276

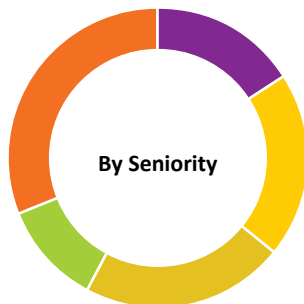


Under 25	23%	45-54	19%
25-34	20%	Over 55	5%
35-44	32%		

**Seniority**

In our Hotel most of the staff members have worked over 10 to 15 years. Company recognises to important of the experienced employees.

Year Group	Count
Under 6 Month	43
Month 6 and 2 Year	55
Year 2-5	61
Year 5-10	31
Over 10	86
Total	276



- Under 6 Month 16%
- Month 6 and 2 years 20%
- year 2-5 22%
- year 5-10 11%
- Over 10 31%

**Contract and Permanent Employees**

The key difference between contract work and permanent employment is the expected duration of the relationship between the worker and the employer. The Hotel recruited most candidates on a 06 months contract basis and based on performance, were promoted to the permanent cadre.

Contract	Permanent	NAITA
118	157	1



- Contract 43%
- Permanent 57%
- Naita



**COMMUNITY**

**CSR Programmes**

Royal Palms Beach Hotel committed to be a responsible corporate citizen by giving back and investing in the communities we operate in. Being socially responsible is a philosophy ingrained in the way we conduct our business and not merely an afterthought.

We adopt a three pronged approach to empower the community, engage our stakeholders in community development and conserve the environment. Through our initiatives, we have committed to both cash and in-kind donations to numerous charity organisations in Kalutara;

We believe our presence in the area will enhance the living standards of community and we will engage in ensuring our part of sharing our profits with local communities. We always work closely with the authorities and the community leaders in order improve the living standards. Presently we have taken

the leadership to manage a preschool in the neighborhood to ensure proper education and guidance is provided for their future. We have engaged in many CSR programmes by improving many public places thus giving more opportunities to the youth to engage in our business model. Our main aim is to give priority to local community to engage in our core business.

**Corporate Social Responsibility Policy**

We recognise and strive to integrate our business values and operations to meet the expectations of our communities, recognising our responsibility to work in partnership with the communities in which we operate.

We recognise our business presence in the community and to enhance our presence to the betterment of the community to safe guard their respect and offer our maximum support in up lift their living standards, cultures and religious habits by actively participating in open dialogue to ensure that we fulfill the requirements outlined within this policy.

We shall be open and honest in communicating our strategies, targets, performance and governance to our communities in our continual commitment to sustainable development.

Royal Palms Beach Hotel is responsible for the implementation of this policy and will make the necessary resources available to important our corporate responsibility.

# Sustainability Report contd.



### CROCKERY DONATION TO PRISON

There was a requirement from the Welikada prison for discarded crockery items to be used in the officer's mess.



### FLOOD DONATION

Kalutara District was heavily affected by the flood occurred last year and Royal Palms Beach Hotel took the very first steps to help the Victims from the flood. During this period management and the staff took all necessary action to make the victims feel comfortable by providing meals and sanitation.



### NAPKIN DONATION TO STF TRAINING SCHOOL

Kalutara STF Training College is the main location which provide the training to the Special Task Force. They requested for hotel discarded linen and crockery items to be used during their training sessions.



### DEVELOPING AND UP-KEEPING SUMUDUGAMA PRE-SCHOOL

Our commitment towards Sumudugama pre-school is to ensure all children are given every support to make them future leaders of the country. Each year average of thirty children from the adjoining village patronizing this pre-school. We have been supporting on their all annual events in terms of food, beverage, equipment and all other sanitation facilities all year around. We believe the environment plays a major role when it comes to education, we make sure to give them a beautiful and clean place to do their studies. Annually we colour wash and provide other facilities to the preschool.





**AWARENESS TRAINING AND FAMILIARISATION TOURS**

During past year we have provided trainings to;

- Government Schools
- International Schools
- Special Task Force Training College
- Government and Private Universities
- Midwives Association



*This year we have organised a Fund Raising Campaign to help the needy people around the community by selling the Christmas decoration and the money we earned from the program, we utilised to provide the annual books list to the pre-school kids.*

- Consider the wider global impact of all our activities including those of our supplier’s customers and other stakeholders.
- Educate, train and motivate employees to carry out tasks in an environmentally responsible manner and ensure that a continuous professional development strategy remains core to our business goals.
- Encourage environmental protection among suppliers and subcontractors.
- Investigate the feasibility of influencing its suppliers, customers and third parties with consideration to life cycle impacts of their aspects and activities.
- Encourage and enhance biodiversity and ecology.

Our special attention was given to organise excursions to explore the features of Culture, Nature, Heritage & Adventure of Kalutara and beyond places.

*“Think Of Bicycles As Rideable Art That Can Be Just About Save The World.”*

Royal Palms Beach Hotel offers guided/ unguided quality mountain bicycle riding facility with best rates depending on the guest request. To reduce the emissions, Zero emission bicycles introduced for guests for short distance traveling will be a good implementation by thinking of the environment. They may involve solo cyclists to group rides, Their length can range from a few kilometers to longer. Their purpose can range from riding for pleasure or fitness.



**Environment**

**Our Environment Policy**

Royal Palms is not just a hospitality service provider but a team of dedicated individuals who has a passion of contributing positively to our mother earth and protect it for our future generations.

We always strive to mitigate negative impacts created due to our operations and positively participate in developing environmental friendly practices within and outside our premises.

We dedicate to create awareness among our staff, guests and visitors while meeting statutory, regulatory and other requirements all the time and continually improve our good environmental practices.

**Newly Introduced Activities During 2017-2018 for the Promotion of the Tourist Industry of the Hotel.**

**Excursion Map**

Through the hotel by mainly focusing Nature tours, a special Guided Map newly introduced (2017) to the In-house Hotel Guests. It included 21 places of interest within and around Kalutara area.



# Sustainability Report contd.

## Solid Waste and Material Management

A systematic waste disposal practice is followed at the hotel which covers the entire operation of the hotel. The segregation of waste is done at the point of generation and all staff members are made aware of this.



## Solid Waste Management

### Method of Separation at Source

By considering the type of waste generated Hotel restaurants, bars, kitchens are provided with both Dry and Wet garbage bins to prevent from mixing of food waste at source. Every hotel department is provided with dry garbage bins. Guest room waste collection staff are trained to collect Polythene, plastic bottles, Newspapers magazines etc. Separately. Waste from all other places of the hotel is segregated into separate bins near the main kitchen of the Hotel. In all wash rooms labeled waste separation bins are placed. To recognise the waste types, colour codes are used. Encourage and trained the hotel staff to segregate the waste at the source.

### Method of Storage/ Transportation & Method of Collection of Solid Waste

For the temporary storage of the waste labeled garbage bins are provided. “ Sobha poshana uyana” is the name given to the common Garbage collection room. To collect and store wet garbage temporarily “ cold wet garbage room” is maintained. At the hotel garden labeled segregation bins provide to temporary collect the gardening waste at the source. Garden dry waste collecting to reusable bags and moving to the compost preparing area. Kitchen waste is collected into two bins depend on Dry and wet waste.

Further during past few years the hotel has developed its waste management system by paying more attention to areas such as hotel staff, customers, and suppliers.

1. Improving efficiency in our operational process.
2. Partnering with suppliers to reduce packaging materials.
3. Procure products with a lesser carbon footprint.
4. Reduce the volume of waste by prudent use of materials.
5. Reuse of waste by using in other value addition processes.
6. Recycling solid waste and e-waste.

The compost is used as a natural fertilizer within hotel garden.

Through this project we were able to make natural compost by ourselves and as a result of it we were able to enhance the vegetable and fruit coverage within the hotel premises.



## Existing Treatment Facilities

### Waste Water

The waste water is being sent to the water treatment plant and treated water is being sent to the pond located at the Tangerine Beach Hotel premises and Treated water collecting to a pond near the spa of Tangerine Beach Hotel. The excess amount of treated water further using for the Gardening watering purposes.

Month	Treated water 2018	Treated water 2017
January	8355	7568
February	6910	6427
March	7656	7546
April		8329
May		8466
June		7227
July		9200
August		9912
September		6579
October		7268
November		7290
December		7190

### Strategies for Minimisation of Wastewater Generation

Royal Palms Beach Hotel always considers the strategies, new technologies and methods to reduce waste water generation at the source.

- There are water saving messages in guest bathrooms, public areas and staff bathrooms thus it helps to reduce water wastage.

- Dual flushing cisterns have been installed to minimize water use during flushing.
- The staff has been trained to reduce water when rinsing dishes for the dishwasher.
- Almost all the taps located in Royal Palms Beach Hotel are fitted with water saving devices.
- All rooms have low flow taps which helps to save the water.
- Hotel commodes are with low flow flush units and we assume it saves around 6L of water per activity.
- In public washrooms urinals are with sensors and it also support to reduce the water wastage.
- Reused laundry hot water to heat the Boiler.
- Urinals with Sensors in Public Washrooms.
- Sprinklers fitted to flower pots
- Sprinklers in the Garden.
- Treated Water to Sewerage Treatment plant and then it will be sent to ponds.
- Automatic dish-washing detergent that is biodegradable.
- Biodegradable liquid or powder laundry detergents.
- Non-phosphate, nontoxic, biodegradable, liquid or powder cleaning products.

### **3R Principles in the Hotel:** **Reuse/Reduce/Recycling**

The popular and well-known concept of “3R” refers to reduce, reuse and recycle. It calls for an increase in the ratio of recyclable materials, further reusing of raw materials and manufacturing wastes, and overall reduction in resources and energy used. These ideas are applied

to the entire lifecycles of products and services - from design, manufacture, use, reuse and disposal. Some achievements and examples of the 3R concept and waste minimization are as follows;

- Rough papers reused for key wrapping.
- Waste water mainly treated aerobically with microorganisms and used to maintain the pond with flora and fauna and for gardening purposes.
- Reused laundry hot water to heat the Boiler.
- Dry degradable waste reused as a natural fertilizer to the garden after turning to compost.
- Kitchen used oil is sold to the soap manufacturers as a raw material for soap making.
- Tins, cans, plastic and glass bottles, cardboard, bulbs, e waste, bulbs etc. sent to proper places for recycling / reuse them.
- Recycling of solid waste in the form of paper, glass, plastic, metal etc. is done with the collaboration of a contractor who delivers items to the respective recycling facilities on a regular basis.

### **Strategies for Minimisation of Waste Generation**

We have educated all our suppliers to provide the goods as bulks rather than single packaging or containers. Suppliers are been motivated not to produce items in polythene or plastic covers. All vegetable suppliers are requested to produce the vegetables and fruits in reusable plastic crates. We have educated our staff on breakages of every month by a statistic board figures which make them aware about the loses per month.



The popular and well-known concept of “3R” refers to reduce, reuse and recycle. It calls for an increase in the ratio of recyclable materials, further reusing of raw materials and manufacturing wastes, and overall reduction in resources and energy used. These ideas are applied to the entire lifecycles of products and services - from design, manufacture, use, reuse and disposal. ”

# Sustainability Report contd.

## Extent of Using Waste as Raw Material

Kitchen used oil is sold to the soap manufacturers as a raw material for soap making. Tins, cans, plastic and glass bottles, card board, bulbs, e waste etc. sent to proper places for recycling them. Used paper is reused as a raw material to make wrap room amenities. Gardening leaves use a raw material to make own natural compost.

Please consider the following data related to E-Waste & Bulbs

### 1. CFL, FTL bulbs delivered to Asia Recycle, Homagama

Item	Number of units
Orange FTL Bulbs	147
CFL Bulbs	60

### 2. E- Waste delivered to Green Links, Wattala

Item	Number of units
UPS Battery	7
Key Board	2
Power Supply Unit	2
UPS	4
HP Laser Jet Toner Cartage	1
CPU	1
Printer	1
Laptop chargers	1

## Managing Greenhouse Gas Emission

### Actions Taken to Reduce GHG Emissions

- The Hotel Banquet Hall illuminated with energy efficient LED bulbs.
- Use of Solar Hot Water system, has enabled a considerable reduction of diesel consumption.
- Solar Gardening Lighting project also to reduces electricity consumption significantly.
- New Chopping machine introduced to the Gardening team:
- Instead of burning dry waste, Royal palms make their compost within the Hotel by using degradable dry leaves. From this project we have been able to gain our own full requirement of natural fertilizers which are used for plants in the hotel and also we do not burn any garbage .We intend selling our excess compost in the near future.
- Continuously maintaining records of Diesel consumption, electricity consumption, LP gas consumption as for weekly, monthly, yearly and they are compared with previous year records and thereby identify the progress/ any over consumption situations and thus are able to take actions to mitigate over consumption.
- Net meters were set department wise and Guest rooms areas block wise. Through this massive project Royal Palms is able to identify the water/Electricity consumption in department/ block wise. Thus now it is easy to identify if any sudden over consumption situations and could take necessary actions to control them quickly.
- Details of transports done by the hotel vans maintained for every visit/tour.
- Boiler diesel consumption records maintaining and monitoring.
- By introducing a Linen reusing and Water saving message bearing card system to the guest rooms, Guests also engage with Royal Palms to give the support for Linen reusing and water saving programme and thus Royal Palms reduce unnecessary water consumption and unnecessary electricity consumption.
- Most areas ( Cabana restaurant, Hurricane Bar etc.) use day light and natural ventilation instead of using lights and Air Conditioning during Day Time
- Purchased a new van with more number sitting facility and through it we have been able to minimize the number of travelling times to a single destination.
- Heat pump implemented has reduced chiller consumption significantly.
- Tree planting programmes with the aim of reducing CO2(g) are carried out. Within the hotel premises new coconut trees, Kohomba trees etc. are planted. Guests also are encouraged to plant a tree in memory of their visit to Royal Palms Sri Lanka.
- Net metering system implemented at executive staff accommodation: shows the large reduction of the electricity bill concerned as shown below. The hotel has invested approximately Rs. 3 million on the project.

### Adaptation of Co2 Negative Product Concept

- Using Solar Hot Water and Solar Lighting in Garden areas.
- All most all of the bulbs are energy saving bulbs- thus a considerable amount of electricity is saved. (About 95% of Hotel bulbs are LED bulbs & Dimmer switches are placed where possible.)
- At lobby use of natural day light during daytime.



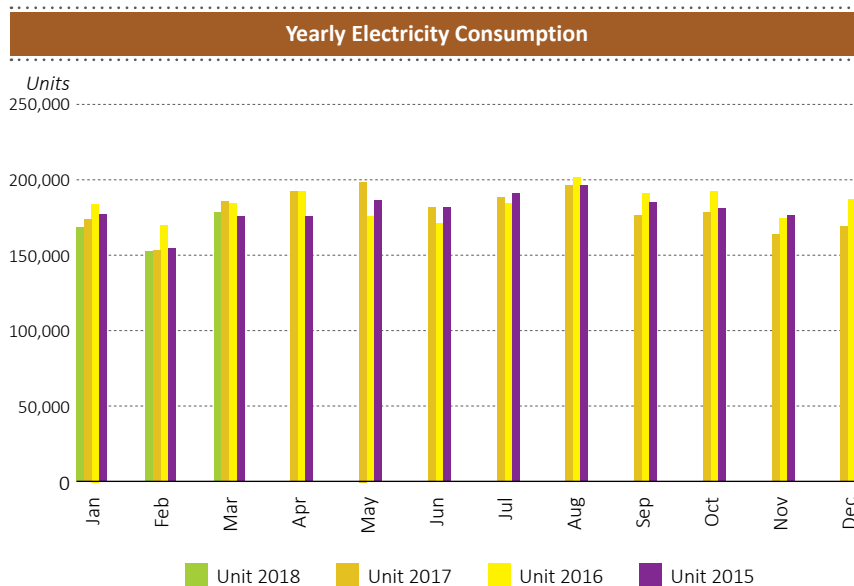
- An Energy saving colour code system is used to switch on/off lights on a scheduled basis.
- Dry garbage collecting from the gardening (leaves, branches, etc.) send through a crushing machine in daily basis and then make compost by the hotel itself.
- Take actions to increase the vegetation cover within and outside the hotel. CFC free refrigerators use as much as possible.
- Tree plantations throughout the year

**Energy Consumption**

**Electricity Consumption**

Statistical data comparison shows that Electricity consumption has come down this year due to several energy saving projects implemented. Also compared to the previous years data it shows this year Royal Palms will be able to reduce of electricity in a significant level.

Month	2018(Units)	2017(Units)	2016(Units)	2015(Units)
January	168741	173853	184159	176864
February	152938	153622	169907	154663
March	178370	185558	184475	175956
April		192052	192656	175593
May		198793	176055	186674
June		181605	171241	181774
July		188214	184752	191069
August		196105	201863	196216
September		176373	191294	185274
October		178595	192188	181465
November		163889	174387	176769
December		169580	186758	187316



“ All the soft drinks are being provided through dispenser machines which reduce the non-degradable materials consumption. The staff is educated by regular meetings to reduce and reuse the waste generated through operation. Our purchasing team is aware about waste generating guidelines given from the management and make sure they adhere while they do purchasing. All guest rooms amenities are recyclable and the shampoo, shower gel containers are made out in a way of reusing the containers. Suppliers are been motivated not to produce items in polythene or plastic covers. ”

# Sustainability Report contd.

## Water Consumption

Month	Treated water 2018 (cubic meter)	Treated water 2017 (cubic meter)
January	8355	7568
February	6910	6427
March	7656	7546
April		8329
May		8466
June		7227
July		9200
August		9912
September		6579
October		7268
November		7290
December		7190

### Initiatives Taken to Minimisation of Non-Degradable Materials

Rather than using plastic water bottles use of refilling glass water bottles to the guest rooms.

All the soft drinks are being provided through dispenser machines which reduce the non-degradable materials consumption. The staff is educated by regular meetings to reduce and reuse the waste generated through operation. Our purchasing team is aware about waste generating guidelines given from the management and make sure they adhere while they do purchasing. All guest rooms amenities are recyclable and the shampoo, shower gel containers are made out in a way of reusing the containers. Suppliers are been motivated not to produce items in polythene or plastic covers. All vegetable suppliers are requested to produce the vegetables and fruits in reusable plastic crates. We have educated our staff on breakages of each month, by a statistic board figures which make them aware about the losses per month. When purchasing chemicals, the purchasing team always makes sure to buy bio-degradable chemicals which does less harm to the environment and it reduces the amount of chemicals adding to the environment.

### Extent of Using Eco Friendly Raw Materials:

- Use recycled papers to wrap room amenities (soap, tooth brush etc.)
- For Lobby decorations, Guest room bed decorations using eco-friendly materials(flowers), using eco-friendly materials as much as possible( Ex: tender coconut leaves) for dream weddings.
- Use recycled papers for leaflets as much as possible.
- Fallen tree leaves and bio degradable dry waste are used to make compost.
- Guest rooms floor: wood.
- For make compost using bio degradable dry waste.
- To carryout the Dream weddings for foreigners using coconut leaves and bio degradable eco friendly decorations in every possible time.

- For staff competitions (Ex: Wesak lantern competitions, Cocktail competitions) motivate and encourage the staff to use Eco friendly raw materials.

### Extent of Utilising Green Building Concept

- Building Structure done by using Bricks, and for the Hotel roof Tiles are used to minimise the heat.
- More than 45% of the land covered with a vegetation cover.
- Most areas using Day Light and Natural ventilation instead of using lights and Air Conditioning during Day Time.
- Use renewable solar energy as much as possible as Solar Hot Water and Solar Lighting in Garden areas to reduce electricity consumption.
- Allocated a proper place for storing, segregation of waste. Maintaining a place for compost preparation within the hotel premises.
- Plant Vegetables, Flower plants, mangrove associated plants as much as possible using the hotel made natural compost.
- Guest rooms made out of woody furniture, wooden floor, Bulbs :LED



### Supply Chain

We have high expectations on our suppliers in terms of quality, price, lead times and sustainability. That said, creating a sustainable supply chain starts with us. We need to choose the right suppliers from the start and know exactly where and under what conditions our services takes place.

While our supply chain management systems can support improvements, we need to continue to collaborate closely work with our suppliers, governments,

NGOs, unions and other parties to jointly achieve a lasting change. In doing so, we believe we can help create win-win situations. We can improve the lives of workers and the economic and social development in their communities, and promote maturity and productivity in the hotel industry. We can also create better business for suppliers in terms of long-term business commitment and growth opportunities, greater stability and reliability in our sourcing markets and sustainable growth for Royal Palms Beach Hotels PLC.

#### Business Ethics

Responsible sourcing is a complex issue for a hotel company as we purchase everything from food and beverage, to linens, to amenities, to beds, to energy. Our suppliers span from multiple industries, countries, legal contexts and infrastructure challenges. Our procurement strategy depends largely upon the maturity of local markets and their ability to support our Hotel brand with the quantity and quality of supplies necessary.

Suppliers have a responsibility for the supply chains from which goods and services come into their organisation or directly to their customers. Royal Palms Beach Hotel believes this should include ethical as well as commercial and technical guidance and support.

The Royal Palms Beach Hotel Personal Ethical Code is the starting point for developing a code of practice for business-to-business ethics. The issues include the following:

#### Transparency, Confidentiality and Fairness

All suppliers should be treated fairly and even-handedly at all stages of

the procurement process. This means being open with all those involved, so that everyone, especially suppliers, understands the elements of the process, that is, the procedures, timescales, expectations, requirements, criteria for selection and so on.

#### Encouraging Small Businesses

Buyers should, wherever possible, be aware of opportunities to support the local community and SMEs, whilst maximizing opportunities for local sourcing. It is good practice to balance the risk of awarding contracts to new or small suppliers with the opportunity of encouraging new business to flourish. It is not good practice to exclude suppliers simply because they are small or new to the market. Capability and experience are examples of relevant supplier selection criteria. However, buyers should also consider the magnitude of business they award to a supplier, the impact on that supplier, and the level of dependence that may be created. Serious consequences for the supplier can result if business is removed at a later date.

#### Social Responsibility

Some of the worker welfare issues which a socially responsible buying organisation should address when reviewing its supply chains include forced labour, freedom of association, health and safety, child labour, wages, working hours and discrimination.

#### Other Practical Actions for Practitioners

Encouraging suppliers to comply with an organisation's ethical policy can take place in parallel with the development of monitoring procedures, and may need to take place over a period of time, or be introduced in phases. As this may be a long process, it is important to keep focused on what you are trying to achieve.

We need to consider the effect on suppliers of compliance costs, which in many cases can make small suppliers unviable. A further consideration is the potentially debilitating effect on suppliers, especially SMEs and those in our developing economy, of having to work to a number of apparently conflicting codes. This is an area where it can be counter-productive to insist upon precise compliance with the minutiae of particular interpretations of documentation.

Our supply chain management and Supplier engagement provides the opportunity to bring value to our hotel and guests from innovations and cross-fertilization from the supply chain. With lean planning techniques, we can incorporate schedules of supply chain partners, allowing for a reduction in labour and equipment costs. Supply chain management requires sharing our Business Principles and Policies on Corporate Social Responsibilities (CSR) including our targets, and we require our major supply chain partners to share information on their carbon emissions with us. We operate in a network supply chain, of which the flow of natural, manufactured, and human sources.







Slip into the  
azure waters  
and let your  
cares float  
away

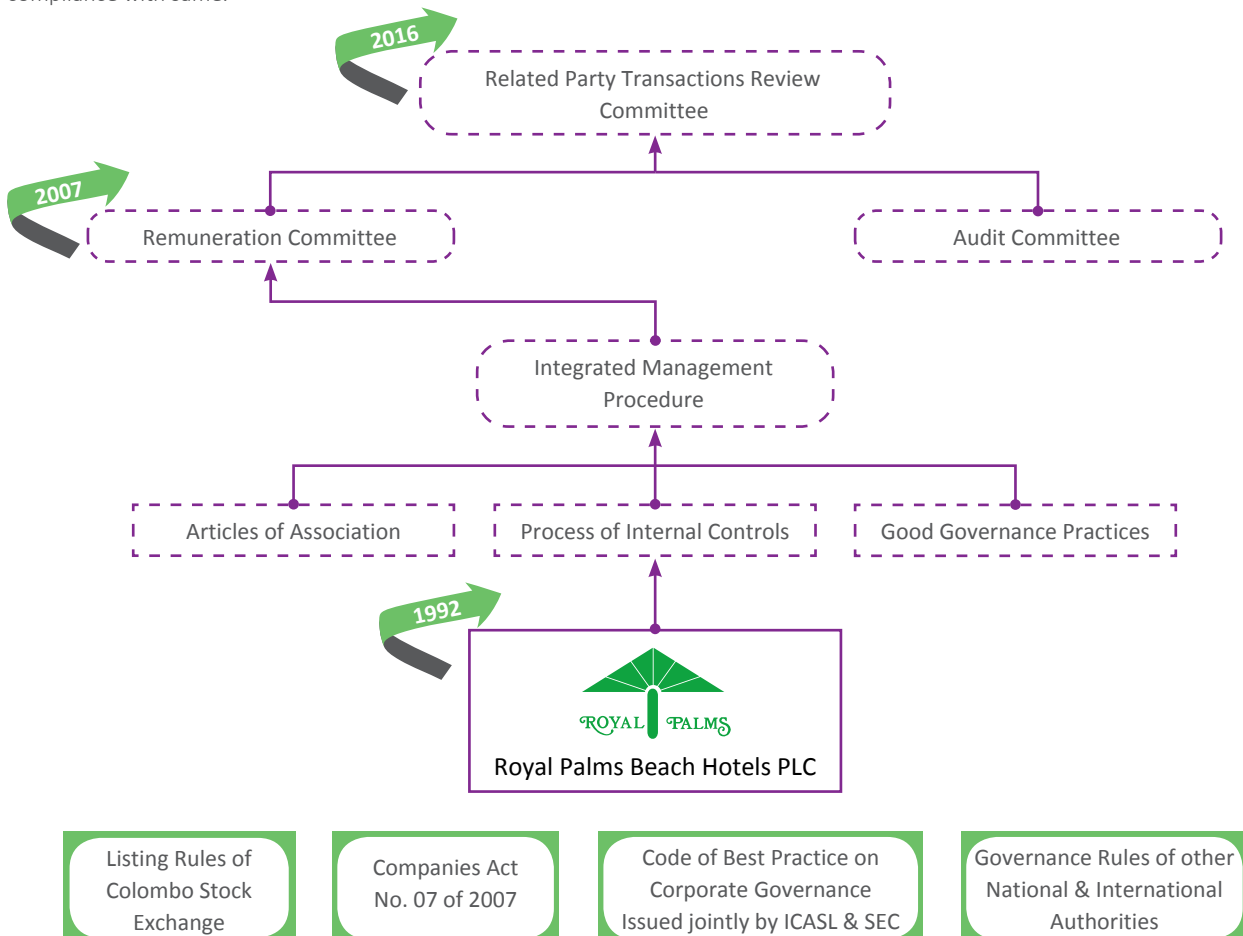
# Corporate Governance Report

## Governance Structure

The “Royal Palms Beach Hotel” commitment towards Corporate Governance has been a key element for consistent organisational performance over the years, sustainability as well as in enhancing corporate image and stakeholder confidence. At Royal Palms Beach Hotel., our system of Corporate Governance provides the basis for effective, accountable, transparent and performance-oriented management, control and direction which is aimed towards sustainable value creation. With the guidance and direction of the highest decision making body, the Board; Company is equipped with a strong structure, processes and diligent practices of corporate governance which is imperative to stimulate organisational performance, inspire stakeholder confidence, and reduce opportunity for fraud thus creating a stable and robust organisational environment. We intend to commit considerable resources for continuous improvement of our Corporate Governance system and practices, recognising our stewardship responsibilities towards the investors, employees, guests and the public at large; facilitating positive relationships between Company’s management, its Board, its shareholders and other stakeholders by aligning the interests of different stakeholders, while concentrating on risk management in achievement of the organisational objectives.

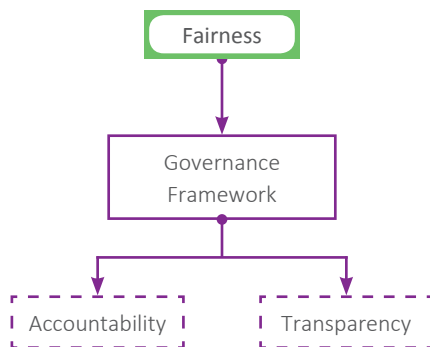
The Company is compliant with the Code of Best Practices on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka, and the Securities and Exchange Commission of Sri Lanka, as well as the rules on Corporate Governance published by the Colombo Stock Exchange.

This report sets out the Company’s Corporate Governance practices and processes for the financial year 2017/18 and the extent of compliance with same.



**Governance Framework**

The Corporate Governance framework of Royal Palms Beach Hotels PLC consists of a governance structure that promotes corporate fairness, transparency and accountability. The framework indicates the board committees and management committees, while demonstrating the communications among board committees, auditors and our shareholders facilitated by a regulatory framework and an audit, assurance and certification process in a logical arrangement that is in line with the Code of Best Practice and rules on Corporate Governance.



**Governance Structure**

Components embedded within the Company that is aligned to the Code of Best Practice in order to execute governance related initiatives, systems and processes.

**Assurance**

Supervisory element of the Corporate Governance Framework, that assures the compliance with laws, regulations and best practices.

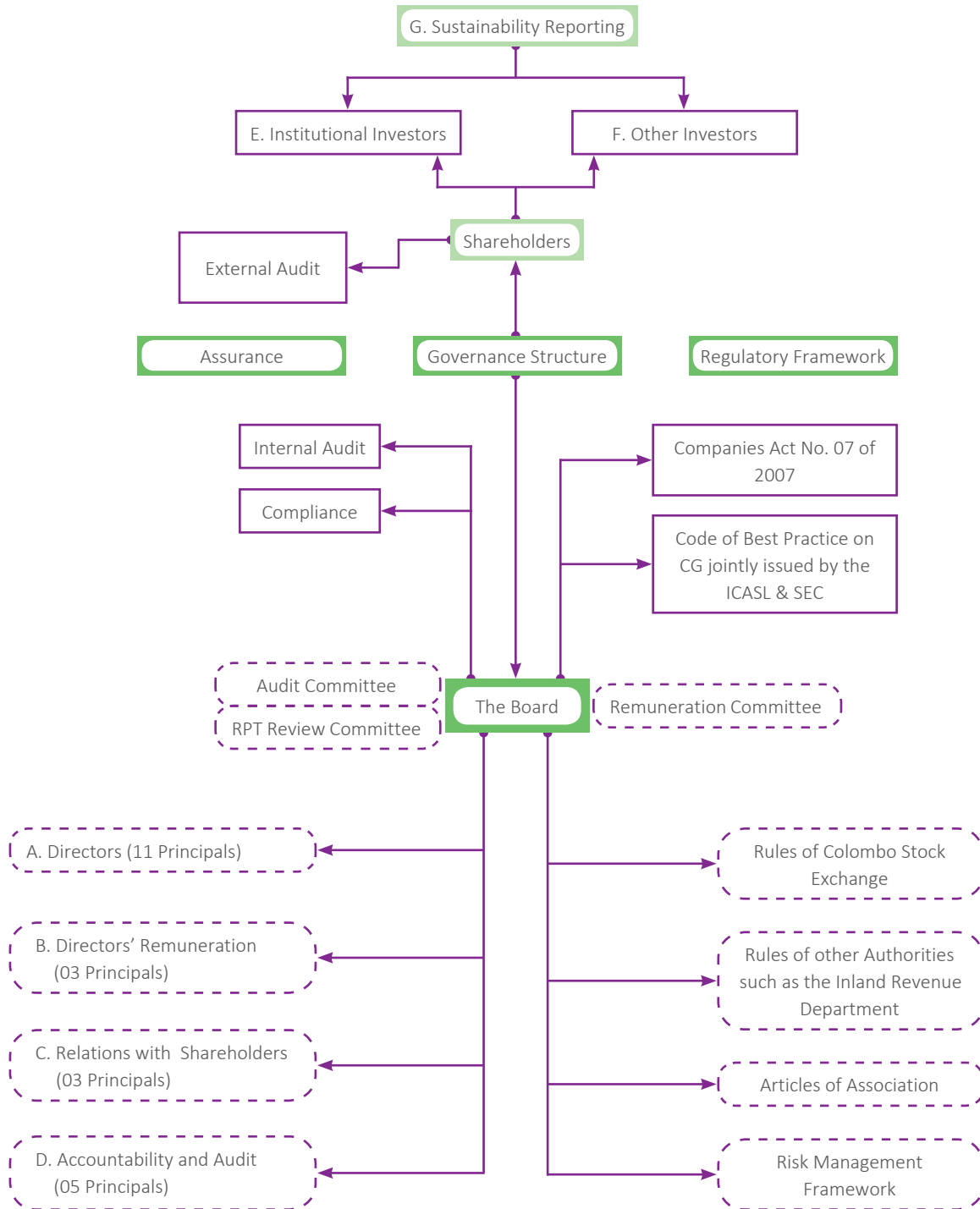
**Regulatory Framework**

Regulatory structure within which the Company operates towards conforming to established governance related laws, regulations and best practices.

**Committees**

Audit Committee	Remuneration Committee	Related Party Transactions Review Committee
<ul style="list-style-type: none"> <li>• Reviews and monitors full year and interim results;</li> <li>• Monitors internal financial controls;</li> <li>• Oversees external audit relationship; and</li> <li>• Oversees risk management.</li> </ul>	<ul style="list-style-type: none"> <li>• Sets remuneration policy;</li> <li>• Sets executive director remuneration and incentives;</li> <li>• Approves annual performance objectives; and</li> <li>• Approves granting of long-term incentives</li> </ul>	<ul style="list-style-type: none"> <li>• Review related party transactions of the company;</li> <li>• Ensuring the compliance rules and other requirements with regard to the related party transactions;</li> <li>• Overseeing existing policies and making recommendations with regard to related party transactions.</li> </ul>

# Corporate Governance Report contd.



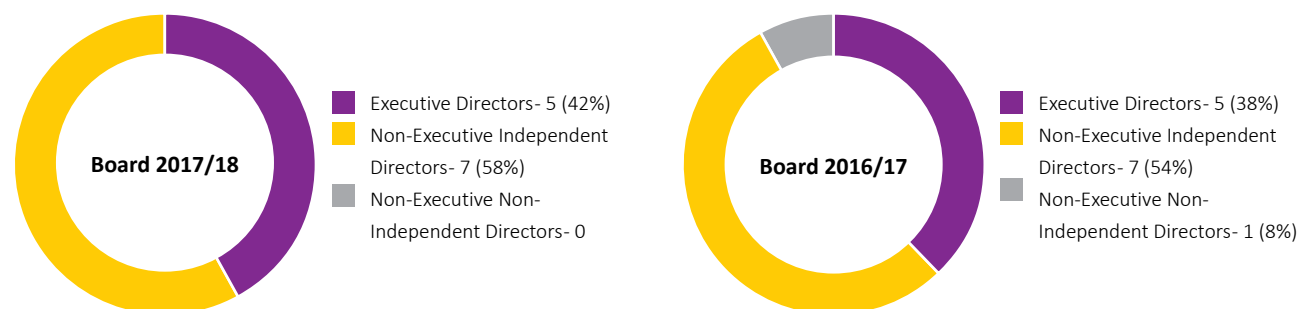


## A. DIRECTORS (11 PRINCIPALS)

### Principal A.1: The Board

Royal Palms Beach Hotels PLC is headed by an effective board, which is responsible for the Leadership, Stewardship and Governance of the Company. The Board of Directors comprises of,

- Five Executive Directors (ED) – includes the Chairman and Joint Managing Director
- Seven Non-Executive Independent Directors (NED/ID)



\* Mr. A.N. Esufally Resigned on 29th November 2017

#### A.1.1 Board Meetings - Compliant

Two Board Meetings were held during the year and the Company is compliant with the Code of Best Practice as the Board has met in every six months of the financial year 2017/18. The Board meets as a practice as and when required. Agendas and papers are circulated in advance to enable informed deliberation at meetings and decisions are made by consensus. The Board met on key matters of importance to the Company, including the approval of strategic and operating plans, capital expenditure, financial statements by giving due attention to accounting standards and policies, ensuring compliance with legal and ethical standards, ensuring effective risk management and audit systems and addressing matters that have a material effect on the Company.

Name of Director	Attendance at Board Meetings			
	29 - Nov - 2017	28 - Mar - 2018	Meetings Attended	Percentage Attended
<b>Executive Directors</b>				
Mr. G L A Ondaatjie	0	0	0/2	0%
Ms. A M Ondaatjie	✓	✓	2/2	100%
Mr. G G Ondaatjie	0	✓	1/2	50%
Mr. T J Ondaatjie	✓	0	1/2	50%
Mr. J D Vaz	✓	✓	2/2	100%
<b>Non Executive Independent Directors</b>				
Mr. N.H.V Perera	✓	✓	2/2	100%
Mr. M. Keerthiratne	0	0	0/2	0%
Mr. R.S. Weerawardane **	0	0	0/2	0%
Mr. M.U.Maniku (Alternate Mr. W.P.Hettiaratchi)	0	0	0/2	0%
Mr. Ajita de Zoysa	0	✓	1/2	50%
Mr. M J Fernando (Alternate Mr. D C Fernando )	0	0	0/2	0%
Mr. P.S.R.Casie Chitty	✓	✓	2/2	100%

\* Mr. A.N. Esufally Resigned on 29th November 2017

\*\* Deceased on 7th July 2018

# Corporate Governance Report contd.

## A.1.2 Board Responsibilities – **Compliant**

The Board of Directors of Palms Beach Hotels PLC bears the responsibility for providing strategic direction, achieving objectives, responsible corporate behavior, risk management, utilisation of resources responsibly, for ensuring leadership through effective oversight and review, whilst setting the strategic direction and delivering sustainable shareholder value over the long term. The Board seeks to achieve this through setting out its strategy, monitoring its strategic objectives and providing oversight of its implementation by the management team. In establishing and monitoring its strategy, the Board considers the impact of its decisions on wider stakeholders including employees, suppliers and the environment. Effective Corporate Governance is central to the Company's ability to operate successfully, as a Board, we take seriously our responsibility for setting high standards of accountability & ethical behavior. In performing its role, the Board is responsible for,

- a. Providing the leadership for formulation and implementation of an effective business strategy, by emphasising on sustainable development in Corporate Strategy, decisions and business activities, whilst ensuring all stakeholder interests are considered in corporate decisions.
- b. Ensuring that the Managing Director and the Management Team possesses sufficient skills, competencies, experience and knowledge to implement company strategies
- c. Ensuring that the business practices are in compliance with the laws, regulations and Company's code of ethics.
- d. Establishment of effective internal controls, risk management and business continuity practices, ensuring that the adoption of appropriate accounting policies and compliance with financial regulations.
- e. Reviewing, Monitoring and taking corrective action with regard to the achievement of the corporate strategies.

Key decisions are reserved for the Board's approval and are not delegated to management. These include matters relating to the Company's strategy, approval of major acquisitions, disposals, capital expenditure, financial results and overseeing the Company's systems of internal control, governance and risk management. The Board delegates certain responsibilities to the management, to assist it in carrying out its functions of ensuring independent oversight.

## A.1.3 Compliance with Laws and Access to Professional Advice – **Compliant**

The Board acts in conformity with the laws of the country and the Board and the Audit Committee is tabled a compliance statement on statutory requirements on quarterly basis at the Audit Committee meeting.

The Board of Directors are provided with the opportunity of seeking professional advice at the expense of the Company, whenever it is necessary; with regard to certain technical matters and other business affairs ensuring that the Directors possess sufficient knowledge and experience in making high quality and independent decisions.

## A.1.4 Company Secretary – **Compliant**

Mercantile Investments & Finance PLC functions as Secretaries to the Board. They ensure that appropriate Board processes are adopted, Board procedures and applicable rules and regulations adhered to and details and documents are made available to the Directors and Senior Management for effective decision making at the meetings. Further Company Secretary acts as the mediator between Directors, Auditors and Sub-committees of the Board facilitating the communication and information flow among above parties.

### A.1.5 Directors' Independence – **Compliant**

The objectivity and independent judgment in all decisions of the Directors are established by ensuring that the Board acts unrestrictedly from undue influence of other parties or circumstances.

Name of Director / Capacity	Significant Shareholding	Management	Material Business Relationship	Employee Of the Company	Family Member Director	Nine years Of continuous Service
<b>Non Executive Independent Directors</b>						
Mr. N.H.V Perera	No	No	No	No	No	Yes
Mr. M. Keerthiratne	No	No	No	No	No	Yes
Mr. R.S. Weerawardane**	No	No	No	No	No	Yes
Mr. M.U.Maniku (Alternate Mr. W.P.Hettiaratchi)	Yes	No	No	No	No	Yes
Mr. Ajita de Zoysa	No	No	No	No	No	Yes
Mr. M J Fernando (Alternate Mr. D C Fernando )	Yes	No	No	No	No	Yes
Mr. P.S.R.Casie Chitty	No	No	No	No	No	No

\* Mr. A.N. Esufally Resigned on 29th November 2017

\*\* Mr. R.S. Weerawardane Decease on 07th July 2018

- Shareholding carrying not less than 5% of the voting rights of the Company.
- Persons having authority and responsibility for key management decisions of the entity.
- Relationships that result in income/non-cash benefits equivalent to 10% of director's annual income.
- Close family member or any person who is financially dependent on such director.

Composition of the Board as at 31st March 2018 was as follows.

No. of Members	Executive	Non - Executive	Independent	Non - Independent	Gender Representation		Age Distribution				
					Male	Female	Below 50	51 - 60	61 - 70	71 - 80	Above 81
12	05	07	07	-	11	01	4	1	2	3	2

### A.1.6 Adequate Time and Effort from Directors - **Compliant**

Board of Directors dedicates adequate time and effort to discharge their duties and responsibilities owed to the Company. The Board papers are distributed to the Directors ahead of the meetings, providing the opportunity to call for additional information and clarifications before the meeting.

The Board has delegated the authority of directing the routine operations of the Company to the Joint Managing Director and the Executive Directors of the Company.

### A.1.7 Training for Directors – **Compliant**

Existing Directors are encouraged to improve their knowledge base and skills on a continuous basis and the newly appointed Directors are introduced to the Board and the Senior Management after induction sessions conducted on Governance Framework, Company's culture and values, business model and strategy, duties and responsibilities of the Directors, current laws and regulations applicable to the tourism and hotel industry and important matters that were discussed during prior meetings.

# Corporate Governance Report contd.

Training for Directors are provided via,

- a. Access to internal and external experts and professionals, on Tax, Legal, Finance, Investments and other important business affairs.
- b. Detailed periodic reports on the performance of the hotels, its outlets and other activities.
- c. Updates on contemporary developments in areas such as law, industry best practices and the domestic economy.
- d. The services of the Company Secretary and other internal departments such as the Legal department.

### Principal A.4: Financial Acumen – Compliant

The Board of Directors of Royal Palms Beach Hotel comprise of two experienced Senior Accounting Professionals, one of whom is an Executive Director, including a Fellow member of the Association of Chartered Certified Accountants (ACCA) UK. Hence the Board possesses sufficient financial acumen, knowledge and expertise to provide guidance on matters of finance.

### Principal A.5: Board Balance – Compliant

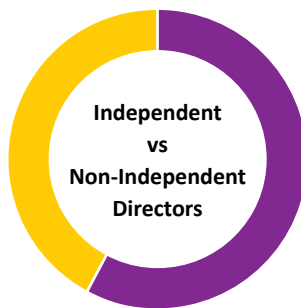
The Board comprises of five Executive Directors and seven Non-executives Directors out of which seven are Independent Directors ensuring that no individual or small Company can dominate the Board’s decisions.

#### A.5.1: Board Balance – Compliant

The present composition of the Board is at a healthy balance between executive expediency and independent judgment. The Board is comprised of experienced and influential individuals with diverse backgrounds and expertise. Their mix of skills and business experience is a major contributor to the proper functioning of the Board and its committees. The Non-executive Directors possess vast experience in business and strong financial acumen, through their membership on external boards, and thereby are able to assess the financial reporting systems and internal controls, review and suggests any changes in keeping with best practice

#### A.5.2 Number of Independent Directors – Compliant

The Board comprised of five Executive and seven Non-executive Directors, with Five Non-independent Directors and Seven Independent Directors.

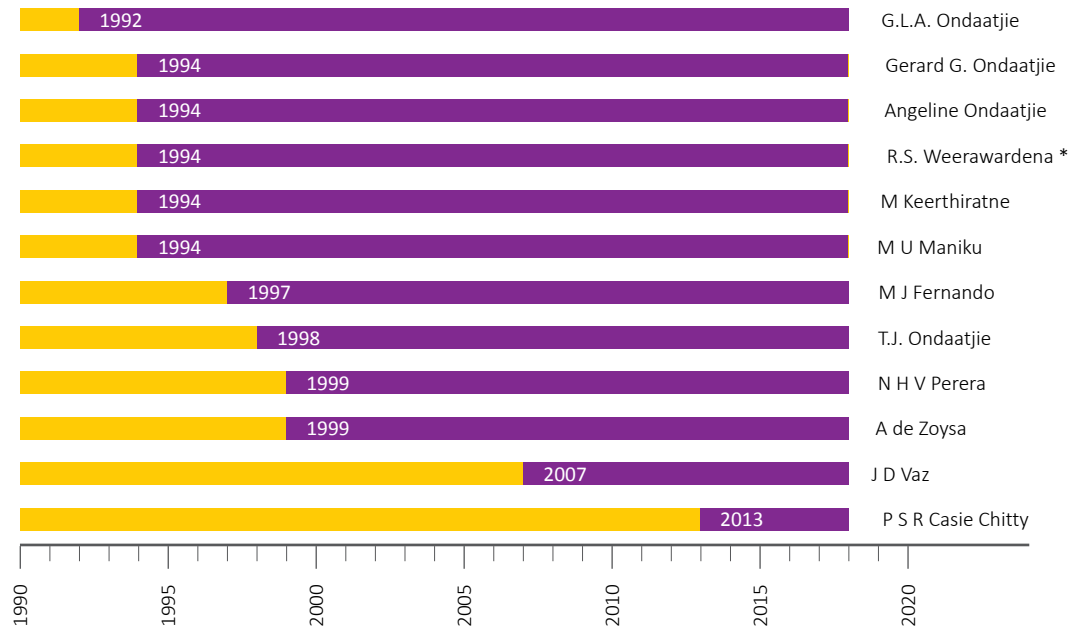


<ul style="list-style-type: none"> <li><span style="display: inline-block; width: 15px; height: 15px; background-color: purple; margin-right: 5px;"></span> Executive Directors</li> <li><span style="display: inline-block; width: 15px; height: 15px; background-color: yellow; margin-right: 5px;"></span> Non-Executive Directors</li> </ul>	<ul style="list-style-type: none"> <li>42%</li> <li>58%</li> </ul>	<ul style="list-style-type: none"> <li><span style="display: inline-block; width: 15px; height: 15px; background-color: purple; margin-right: 5px;"></span> Independent Directors</li> <li><span style="display: inline-block; width: 15px; height: 15px; background-color: yellow; margin-right: 5px;"></span> Non-Independent Directors</li> </ul>	<ul style="list-style-type: none"> <li>58%</li> <li>42%</li> </ul>
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------

#### A.5.3, A.5.4 & A.5.5 Independence of Non-Executive Directors – Compliant

The presence of Non-executive Independent Directors enables independent judgment. None of the Independent Directors have held executive responsibilities in their capacity as Independent Directors and have submitted a declaration confirming their Independence as at 31st March 2018 in accordance with section 07 of the CSE listing regulations on Corporate Governance. The biographical details of the Directors are set out on page 29 to 31 of this report.





\* Deceased on 7th July 2018

#### A.5.10 Minutes on Directors Concerns – **Compliant**

Any concerns of Directors on matters of the Company that cannot be unanimously resolved will be recorded in Board Minutes, as and when such concern arises.

#### Principal A.6: Supply of Information

##### A.6.1 & A.6.2 Provision of adequate information on a timely basis to the Board – **Compliant**

The minutes, agenda and the Board papers required for the Board meetings are provided to the Directors at least seven days before the meeting and management is obliged to provide the Board with relevant and timely information for effective decision making. Directors are also provided the opportunity to make enquiries from industry experts and professionals, senior management, auditors, central internal departments and the Company Secretary for further details and information as and when necessary.

##### Principal A.7: Appointments to the Board – **Compliant**

Royal Palms Beach Hotels PLC has a formal and transparent procedure for the appointment of Directors to the Board.

#### Principal A.8: Re-election

##### A.8.1 & A.8.2 Approval from shareholders for election and re-election of Directors - **Compliant**

All Directors including the Chairman over the age of seventy years and the Directors retiring by rotation in terms of the Articles of Association of the Company, submit themselves to be re-elected at the AGM to be held on the 28 of September 2018 by the shareholders and the proposals for re-election are specified in Notice of Meeting section on page 127.

#### A.10: Disclosure of Information in Respect of Directors – **Compliant**

Information in respect of Directors is specified in the below sections of this Annual Report, in line with requirements of the Code of Best Practice:

# Corporate Governance Report contd.

Information	Section	Page number
Name & brief Profile	Board of Directors	29 - 31
Expertise in functional areas	Board of Directors	29 - 31
Material Business Relationships	A.5.3, A.5.4 & A.5.5	62 - 63
Executive, Non-executive & independence	A.1 & A.5	59 & 62
Other directorships	Board of Directors	29 - 31
Attendance at Board meetings	A.1.1	59
Sub-committee representation	Audit /Remuneration/Related Party Transactions Committee	83 - 85

## Principal A.11: Appraisal of Managing Director (CEO)

### A.11.1 & A.11.2 Short, Medium and Long Term Objective and Evaluation of MD's Performance

The Board sets out the short, medium and long term, financial and non-financial objectives at the commencement of each financial year, in consultation with the Managing Director. However the evaluation of the performance of the Managing Director in respect of the achievement of such set targets is yet to be compliant with.

## B. DIRECTORS REMUNERATION (03 PRINCIPALS)

### Principal B.1: Remuneration Procedure – Compliant

#### B.1.1, B.1.2, B.1.3 & B.1.5 Remuneration Committee, its composition and access to professional advice on determining the remuneration of Executive Directors – Compliant

Royal Palms Beach Hotels PLC has established a formal and transparent procedure for determining the remuneration packages of the Directors, by delegating the responsibility and the authority to a sub-committee of the Board.

The Remuneration Committee of the Company consists of Three Non-executive Directors namely:

Mr. N H V Perera - (NED / ID) - Chairman

Mr. R S Weerawardane \* (NED / ID)

Mr. P S R Casie Chitty (NED /ID)

(\* Deceased on 7th July 2018)

The Group Financial Controller assists the committee by providing the relevant information and participating in the analysis and deliberations, in addition to the consultations done by the remuneration committee from the Joint Managing Director, on proposals relating to the remuneration of Executive Directors. Further the remuneration committee is provided the access to professional advice on such proposal whenever it is necessary.

The objective of the Remuneration Committee is to review and recommend the remuneration payable to the Executive Directors.

The Remuneration Committee met once during the financial year.

Name of Director	Attendance at Remuneration Committee Meeting			
	Position	13 –Feb -2018	Meetings Attended	Percentage Attended
Mr. N H V Perera	Chairman	✓	1/1	100%
Mr. R S Weerawardane *	Member	-	0/1	0%
Mr. P S R Casie Chitty	Member	✓	1/1	100%

\* Deceased on 7th July 2018

**B.1.4 Remuneration of Non-executive Directors – Compliant**

The Board as a whole determines the remuneration of the Non-executive Directors, including the members of the Remuneration Committee, based on the Articles of Association of the Company.

**B.2: The Level and Make up of Remuneration – Compliant****B.2.1, B.2.2, B.2.3, & B.2.4 The level and determinants Executive Directors' remuneration – Compliant**

The objective of the Remuneration Committee at “Royal Palms” is to determine the optimal level of remuneration, which is sufficient enough to attract, retain and motivate the Executive Directors, by ensuring that the Directors are not remunerated over and above the level that is required.

The Remuneration Committee reviews the remuneration levels of other similar companies, macro-economic factors such as inflation and other industry norms in determining annual salary increments.

However, in order to avoid over remuneration/payment, compared to the services, time and effort rendered by the Directors, the remuneration policy has been incorporated with performance-related elements, which serves as an incentive for the Directors to perform at the highest level as well as to link the rewards to corporate and individual performance.

**B.2.5 Executive Share Options – Not Applicable**

This section is not applicable to the Company as, there were no share option schemes in effect during the financial period under review.

**B.2.6 Remuneration Policy – Compliant**

The design of the remuneration scheme, components of Directors' remuneration and the details of the amendments done to the existing remuneration have been set out in the Remuneration Committee Report on page 84.

**B.2.7 & B.2.8 Compensation on Early Termination – Compliant**

Compensation paid on early termination of Directors will be determined based on the initial contract/Articles of Association of the company, where the initial contract does not provide directions for compensation commitments.

**B.2.9 Levels of Remuneration for Non-executive Directors – Compliant**

The Non-executive Directors will be paid a fee for attendance at the Board meetings and the Audit Committee meetings. The fee will be determined by the Board on an annual basis.

**B.3: Disclosure of Remuneration – Compliant**

The aggregate remuneration paid to Directors is disclosed on page 103 under the note 5 as a part of the financial statements of this report.

**C. RELATIONS WITH SHAREHOLDERS (03 PRINCIPALS)****Principal C.1: Constructive use of the AGM and General Meetings – Compliant****Principal C.1.1 – C.1.5 Constructive use of the AGM and General Meetings – Compliant**

The Company uses the AGM to effectively communicate and enhance the relationship with shareholders. The Shareholders have the right to voice their concerns to Board of Directors and exercise their votes at Annual General Meetings/ Extraordinary General Meetings of the Company. The notice of the meeting, a summary of the procedures governing the voting process at the meeting, and other relevant documents as required by the Companies Act No.07 of 2007 and Listing Rules of Colombo Stock Exchange are circulated to all the shareholders within the time frame stipulated in the relevant statutes.

# Corporate Governance Report contd.

Separate resolutions shall be proposed for each substantially separate issue, including a resolution for the adoption of the report and the accounts.

The Chairman of the Audit and Remuneration Committee will be present to clarify and provide explanations for the questions raised by the shareholders.

## **Principal C.2: Communication with Shareholders**

### **Principal C.2.1 – C.2.7 Communication with Shareholders – Compliant**

Mercantile Investments & Finance PLC functions as Secretaries of the Company, and the shareholders are provided a channel to communicate with the Board/individual Directors effectively via the Company Secretaries.

All matters in relation to shareholders should be communicated to the Company Secretary and in absence; such matter can be referred to the Joint Managing Director.

The Company Secretary shall maintain all correspondence with the shareholders and disseminate timely responses to the shareholders.

## **Principal C.3: Major and Material Transactions – Compliant**

There were no major transactions during the period under review that would materially affect the Company net asset base.

## **D. ACCOUNTABILITY AND AUDIT (05 PRINCIPALS)**

### **Principal D.1: Financial Reporting**

#### **D.1.1 Balanced Presentation of Financial Statements – Compliant**

The Board is responsible for the preparation of Financial Statements that gives a true and fair assessment of the Company's financial, position, performance and prospects, in accordance with the Companies Act No. 07 of 2007, Sri Lanka Financial Reporting Standards (SLFRS)/Sri Lanka Accounting Standards (LKAS) and listing rules of the Colombo Stock Exchange.

The Board is conscious of its responsibility to the Shareholders, the Government and the Society at large, in which it operates and is unequivocally committed to upholding ethical behavior in conducting its business. The Board, through the Company's Administrative and Finance Divisions, strives to ensure that the businesses of the Company and its subsidiary comply with the laws and regulations of the country.

#### **D.1.2 Annual Report of the Directors – Compliant**

The Annual Report of the Board of Directors sets out the,

- a. Compliance with laws and regulations
- b. Directors' Interests have been disclosed in accordance with the provisions in the Companies Act No. 07 of 2007.
- c. Equitable treatment to shareholders.
- d. Appropriateness of the going concern assumption.
- e. Appropriateness of the Company's Internal Control system.

#### **D.1.3 Directors' Responsibility for Preparation and Presentation of Financial Statements – Compliant**

The Annual Report of the Directors as well as the Independent Auditors' Report declares the responsibility of the Board for the preparation and presentation of Financial Statements. The Financial Statements of the company were audited by Messrs Ernst and Young, Chartered Accountants.



**D.1.5 Going Concern of the business – Compliant**

Directors have declared the appropriateness of the using going concern basis with supporting assumptions on page 77 of the Annual Report of the Board of Directors section.

**D.1.6 Serious Loss of Capital – Not Applicable**

This principal is not applicable as the net assets of the Company remained higher than 50% of the value of the Company's shareholders' funds during the period under review.

**D.1.7 Disclosure of Related Party Transactions – Compliant**

The Related Party Transactions Review Committee, which is a sub-committee of the Board, is responsible for review and disclosure of Related Party Transactions.

**Related Party Transactions Review Committee**

The Related Party Transactions Review Committee consists of two Non-executive Independent Directors and one Executive Director, namely:

Mr. N H V Perera – Chairman (NID)

Mr. J D Vaz (ED)

Mr. P S R Casie Chitty (NID)

The Group Financial Controller assists the committee by providing the relevant information and participating in the analysis and deliberations.

The objective of the Related Party Transactions Review Committee is to be consistent with the Code of Best Practices on Related Party transactions issued by the Securities & Exchange Commission.

A report of the Related Party Transactions Review Committee is given on page 85.

The Related Party Transactions Review Committee met four (4) times during the financial year.

Name of Director	Position	Attendance at Related Party Transactions Review Committee Meeting				Meetings Attended	Percentage Attended
		24 - May - 2017	10 - Aug - 2017	09 - Nov - 2017	13 - Feb - 2018		
Mr. N H V Perera	Chairman	✓	✓	✓	✓	4/4	100%
Mr. J D Vaz	Member	-	-	✓	✓	2/4	50%
Mr. P S R Casie Chitty	Member	✓	✓	✓	✓	4/4	100%

The Company maintains a Directors' Interest Register and all Directors of the Company have disclosed their interests in other Companies, conforming to the provisions of the Companies Act No. 07 of 2007. Further all related party transactions in accordance with Sri Lanka Accounting Standard 24 – (LKAS 24) – Related Party Transactions are disclosed under note no. 26 to the Financial Statements.

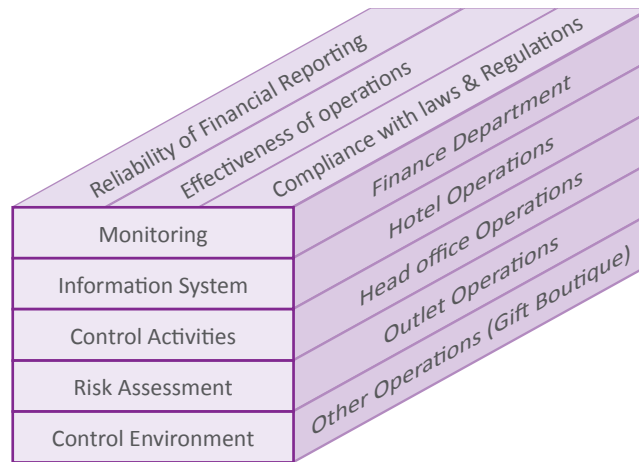
**Principal D.2: Internal Controls****D.2.1 Effective System of Internal Controls & Risk Review – Compliant**

The Board is responsible for the formulation of appropriate systems of internal controls for the Company and ensuring its effectiveness. The Board acknowledges its responsibilities for the system of internal control to facilitate the identification, assessment and management of risk, the protection of shareholders' investments and the Company's assets. The Directors recognise that they are responsible for providing return to shareholders, which is consistent with the responsible assessment and mitigation of risk.

# Corporate Governance Report contd.

The Board is aware that any internal control systems contains inherent limitations and no system of internal control can provide absolute assurance against the occurrence of material errors, poor judgment in decision making, human errors, loss, frauds or other irregularities. Therefore, the Board takes appropriate action to minimize such situations.

There is an on-going process for identifying, evaluating and managing the significant risks faced by the Company which has been in place during the financial year and up to the date of approval of the Annual Report and Accounts. The Board regularly reviews this process. Internal Control process of the Company can be demonstrated in detail as below,



The three main objectives of Internal Controls of the company are,

1. Ensuring the reliability of Financial Reporting
2. Improving the effectiveness and the efficiency of hotel operations.
3. Compliance with the laws and regulations.

In achieving the above objectives Company has organised its Internal Controls system as follows,

## 1. Control Environment

Management, with the oversight of the Board, has created and maintained a "culture of honesty" and promotes ethical behavior, which provides the foundation for the other components of the Internal Control system.

## 2. Risk Assessment

Company regularly assesses the risk associated with the business and a detailed explanation of the risk assessment has been provided under the Risk Management section of this report on

## 3. Control Activities

Control Activities consists of the set of Internal Controls designed and implemented by the Company to manage risk associated with the business, including;

- a. Segregation of duties
- b. Authorisations
- c. Performance review
- d. IT general controls and application controls
- e. Other physical controls

#### 4. Information System

Information System consist of the infrastructure, software, people, procedures and data that facilitates financial reporting and other hotel operations such as front office reservation system.

#### 5. Monitoring and Review

This aspect of the Internal Control system involves in evaluating whether the Internal Controls which have been designed and implemented are operating effectively, taking corrective action whenever there are inefficiencies and ensuring that the Internal Control system is sound and effective to minimize the risks faced by the Company.

#### Departments / Business Units

Internal Controls are designed and implemented over different departments/units of the Company, such as the finance, hotel operations, head office functions, outlet operations, gift boutique operations and other operations in achieving the three main objectives aforementioned.

The Company may be exposed to certain external and internal risks and recognises the importance of controlling these risks and minimizing the possibility of any negative impact to the Company. The control systems are designed to safeguard the Company's assets and maintain proper accounting records. Further Internal Audit Reports are reviewed and discussed at management level and thereafter forwarded to the Audit committee. Internal Audit Reports are structured in a way that it facilitates the resolution of the concerns highlighted and follow up action is monitored by the Board on an ongoing basis.

#### D.2.2 & D.2.3 Internal Audit Function & Audit Committee Review of Internal Control System – Compliant

The Audit Committee oversees the Internal Audit Function of the Company by agreeing on an annual work plan, reviewing its performance and ensuring that the internal audit function has sufficient and appropriate resources to perform their duties effectively and efficiently in maintenance of a sound risk management process and internal control system.

#### D.2.4 Responsibilities of the Directors in Maintaining a Sound System of Internal Controls – Compliant

The "Statement of Directors Responsibility" on page 85 provides the declaration made by Directors accepting the responsibility to ensure that the Company is equipped with a sound system of internal controls.

#### Principal D.3: Audit Committee

##### D.3.1, D.3.2 & D.3.3 Composition and the Duties of the Audit Committee – Compliant

The Audit Committee comprises of three Independent Non-executive Directors.

The members of the Audit Committee are as follows:

Mr. N H V Perera - Chairman

Mr. R S Weerawardane \*

Mr. P S R Casie Chitty

\* Deceased on 7th July 2018

As prescribed in the listing rules of the Colombo Stock Exchange one member of the Audit Committee is member of a professional accounting body. Mr. P S R Casie Chitty is a fellow member of the Association of Chartered Certified Accountants of (ACCA) UK. The External Auditors, the General Manager and Group Financial Controller attend the Audit Committee meetings by invitation.

The Audit committee focuses principally in assisting the Board to fulfill its duties by providing an independent and objective view of the financial reporting process, internal controls, risk review and the audit function. The Audit Committee is assisted by the Internal Audit. Internal Controls have been designed to ensure transparency and good governance within the Company. The committee is responsible for the consideration and recommendation of External Auditors. A report of the Audit Committee is given on pages 89.

# Corporate Governance Report contd.

The Audit Committee met four (4) times during the year, holding one meeting per quarter according to a predetermined agenda.

Name of Member	Position	Attendance at Audit Committee Meetings					
		24 - May - 2017	10 - Aug - 2017	09 - Nov - 2017	13 - Feb - 2018	Meetings Attended	Percentage Attended
Mr. N H V Perera	Chairman	✓	✓	✓	✓	4/4	100%
Mr. R S Weerawardane *	Member	-	-	-	-	0/4	0%
Mr. P S R Casie Chitty	Member	✓	✓	✓	✓	4/4	100%

\* Deceased on 7th July 2018

## D.3.4 Disclosure of the Names of the Audit Committee and the Audit Committee Report – **Compliant**

The names of Directors in the Audit Committee are disclosed in the D.3.1 section and the manner of compliance with the Code of Best Practice by the Company is set out in the Audit Committee Report on page 83 of the annual report.

## Principal D.4: Code of Business Conduct & Ethics

### D.4.1 & D.4.2 Adoption of Code of Business Conduct & Ethics and Chairman's affirmation –

Adoption of a Code of Business Conduct and Ethics for Directors and members of senior management team is yet to be complied by the Company.

## E. INSTITUTIONAL INVESTORS

The Corporate Governance section of the annual report from page 56 to 73 sets out the manner and extent to which the company has adopted the principals and provisions of the Code of Best Practice on Corporate Governance.

The Company ensures that all shareholder rights are properly observed. Permanent procedures are carried out in line with the rules and regulations of the Colombo Stock Exchange, as well as the related laws.

The Company is committed to create long-term growth and returns to the shareholders and to conduct its business in a transparent manner.

### Principal E.1: Shareholder voting

#### E.1.1 Structured Dialogue with Shareholders – **Compliant**

A regular and structured dialogue shall be conducted with shareholders and the outcome of such dialogue should be communicated to the Board by the Chairman.

### Principal E.2: Evaluation of Governance Disclosures by Institutional Investors – **Compliant**

Institutional investors are being encouraged to consider the relevant factors drawn to their attention with regard to board structure and composition.

## F. OTHER INVESTORS

### Principal F.1: Investing/Divesting Decision – **Compliant**

Individual shareholders are encouraged to carry out adequate analysis and seek professional advice when making their investment / divestment decisions.

### Principal F.2: Shareholder Voting – **Compliant**

Individual shareholders are encouraged to participate and exercise their voting rights.



## G. SUSTAINABILITY REPORTING

### Principal G.1: Principals of Sustainability Reporting

#### G.1.1 Economic Sustainability – Compliant

Set out on page 124 of the 'Value added statement'.

#### G.1.2 The Environment – Compliant

Set out on pages 47 and 52 of the 'Sustainability Report'.

#### G.1.3 Labour Practice – Compliant

Set out on pages 44 and 45 of the 'Sustainability Report'.

#### G.1.4 Society – Compliant

Set out on pages 45 and 47 of the 'Sustainability Report'.

#### G.1.5 Product Responsibility – Compliant

Set out on pages 41 and 43 of the 'Sustainability Report'.

#### G.1.6 Stakeholder Identification, Engagement and Effective Communication – Compliant

Set out on pages 39 and 40 of the 'Sustainability Report'.

#### G.1.1 Sustainability Reporting – Compliant

Set out on pages 38 and 53 of the 'Sustainability Report'.

Levels of compliance with the CSE's New Listing Rules- Section 7.10, Rules on Corporate Governance are given in the following table.

Reference to SEC & ICASL Code CSE Listing Rules No.	Subject	Applicable Requirement	Compliance Status	Applicable Section in the Annual Report
7.10. 1( a)	Non-Executive Directors	Two or at least one third of the total number of Directors should be Non-Executive Directors	Compliant	Corporate Governance
7.10.2( a)	Independent Directors	Two or one third of Non- Executive Directors, whichever is higher should be Independent	Compliant	Corporate Governance
7.10.2 ( b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/non independence in the prescribed format	Compliant	Available with the Secretaries for review
7.10.3( a)	Disclosure relating to Directors	<ul style="list-style-type: none"> <li>The Board shall annually make a determination as to the independence or otherwise of the Non-Executive Directors</li> <li>Names of Independent Directors should be disclosed in the Annual Report</li> </ul>	Compliant	Corporate Governance  Corporate Governance/ Board of Directors' - Profile
7.10.3(b)	Disclosure relating to Directors	The basis for the Board to determine a Director is independent, if criteria specified for independence is not met.	Compliant	Corporate Governance
7.10.3( c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the areas of Expertise	Compliant	Board of Directors' - Profile

# Corporate Governance Report contd.

Reference to SEC & ICASL Code CSE Listing Rules No.	Subject	Applicable Requirement	Compliance Status	Applicable Section in the Annual Report
7.10.3( d)	Disclosure relating to Directors	Forthwith provide a brief resume of new Directors appointed to the Board with details specified in 7.10.3 (a), (b) and (c) to the Exchange	Not Applicable	No new Directors were appointed during the period
7.10.4 (a-h)	Determination of Independence	Requirements of meeting criteria	Compliant	Corporate Governance
7.10.5	Remuneration Committee	A listed company shall have a Remuneration Committee	Compliant	Corporate Governance
7.10.5(a)	Composition of Remuneration Committee	Shall comprise of Non-Executive Directors, a majority of whom will be independent	Compliant	Corporate Governance
7.10.5 (b)	Functions of Remuneration Committee	The Remuneration Committee shall recommend the remuneration of the Executive Directors	Compliant	Corporate Governance
7.10.5(c)	Disclosure in the Annual Report relating to Remuneration Committee	<ul style="list-style-type: none"> <li>Names of Directors comprising the Remuneration Committee</li> <li>Statement of Remuneration Policy</li> <li>Aggregated Remuneration paid to Directors</li> </ul>	Compliant Compliant Compliant	Corporate Governance Corporate Governance Notes to the Financial Statements
7.10 .6	Audit Committee	The Company shall have an Audit Committee	Compliant	Corporate Governance and The Audit Committee Report
7.10.6( a)	Composition of Audit Committee	<ul style="list-style-type: none"> <li>Shall comprise of Non- Executive Directors a majority of whom will be independent</li> <li>A Non-Executive Director shall be appointed as the Chairman of the Committee</li> <li>CEO (Managing Director) &amp; Chief Financial Officer shall attend Audit Committee Meetings</li> <li>The Chairman of the Audit Committee or one member should be a member of a professional accounting body</li> </ul>	Compliant Compliant Compliant Compliant	Corporate Governance And The Audit Committee Report Corporate Governance And The Audit Committee Report Corporate Governance And The Audit Committee Report Corporate Governance And The Audit Committee Report

Reference to SEC & ICASL Code CSE Listing Rules No.	Subject	Applicable Requirement	Compliance Status	Applicable Section in the Annual Report
7.10.6(b)	Audit Committee Functions	<p>Functions shall include: Overseeing of the –</p> <ul style="list-style-type: none"> <li>• Preparation, presentation and adequacy of disclosures in the Financial Statements in accordance with Sri Lanka Financial Reporting Standards</li> <li>• Compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements</li> </ul>	Compliant	Corporate Governance and The Audit Committee Report
		<ul style="list-style-type: none"> <li>• Processes to ensure that the Internal Controls and Risk Management are adequate to meet the requirements of the Sri Lanka Auditing Standards</li> <li>• Assessment of the independence and performance of the External Auditors</li> <li>• Make recommendations to the Board pertaining to appointment, re-appointment and removal of External Auditors, and approve the remuneration and terms of engagement of the External Auditors</li> </ul>	Compliant	Corporate Governance and The Audit Committee Report
7.10.6 (c)	Disclosure in the Annual Report relating to Audit Committee	<ul style="list-style-type: none"> <li>• Names of Directors comprising the Audit Committee</li> </ul>	Compliant	Corporate Governance and The Audit Committee Report
		<ul style="list-style-type: none"> <li>• The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination</li> </ul>	Compliant	Corporate Governance and The Audit Committee Report
		<ul style="list-style-type: none"> <li>• The Annual Report shall contain a Report of the Audit Committee setting out the manner of compliance with their functions</li> </ul>	Compliant	Corporate Governance and The Audit Committee Report
D 1.7	Related party Transactions.	Disclosure of Related Party Transactions	Compliant	Notes to the Financial Statements

# Risk Management

Risk management is the process of identifying, quantifying, and managing the risks that an organisation faces. As the outcomes of business activities are uncertain, they are said to have some element of risk.

It is important that they properly understand and manage the risks that they are willing to accept in the context of the overall corporate strategy.

Royal Palms Beach Hotels PLC effectively manage both risk and reward. The hotel believes that in order to ensure reward, risk needs to be managed effectively. The risk framework involves risk identification, risk assessment and risk mitigation.

Risk is the probability of an undesirable outcome occurring due to a chosen activity or action.

The process of identifying potential risks and developing strategies to mitigate those risks is known as Risk Management.

The benefit of identifying, managing and mitigating risks is immense for the diverse hospitality industry in which Royal Palms Beach Hotel operates.



Listed below are some of the risks and risk mitigation strategies used by Royal Palms Beach Hotels PLC:

**Business Risk** results from the adverse impact on the Company's revenue and profitability. If business risk is not effectively managed, the revenues and cash flows will reduce. As a result, Royal Palms Beach Hotel may not be able to achieve its business objectives and grow as it will lose its competitiveness within the industry.

#### Control Measures

- Royal Palms Beach Hotel manages its business risk by strategising on increasing its market share and constantly seeking to tap emerging markets. The Company boasts of an impressive foreign clientele consisting of Russian, Ukraine, German and UK clients apart from its local market.
- The business also utilises the aid of various booking engines such as Agoda.com and Booking.com to increase its revenue and market position worldwide.
- Internal measures are taken by the Company as well to constantly review and streamline its costs and expenditure. This internal exercise helps the Company to revise rates and increase profitability while maintaining its competitive position.

**Economic Risk** emerges from changes in economic variables such as inflation rates and interest rates which may distort the Company's growth as a result. Higher inflation rates may cause costs to increase and lower profitability for the Company. On the other hand, an increase in interest rates may increase finance costs and result in inability to repay debt.

#### Control Measures

- Royal Palms Beach Hotel exercises regular cost reviews and places strict cost controls while maintaining quality concurrently. Maintaining high quality and improving its impressive brand image enables the hotel to maintain its rates in a competent manner enabling any adverse effects of inflation to even out.
- Though higher interest rates are detrimental to the finance costs payable by the Company, Royal Palms Beach Hotel uses these increased rates to invest its excess funds. Thus, the Company benefits from matching payments against receipts.
- The hotel is cautious in investing its funds or entering into loans and takes into account both reliability and the most beneficial rates. The hotel manages to do this effectively using the strength of its associate company Mercantile Investments and Finance PLC.

**Foreign Exchange Risk** disrupts revenue due to exposure to fluctuations in foreign currency. Royal Palms Beach Hotel deals with a wide foreign clientele. Volatility in foreign exchange rates can cause a fall in revenue for the Company when translating its foreign currency payments to rupees.



#### Control Measures

- The hotel seeks to denominate most of its foreign sales contracts in the stable US Dollar & Euro which are considered safe currencies. The recent hike in the US Dollar due to the devaluation of the rupee was immensely beneficial with regard to foreign currency receipts.
- The Company is also able to monitor Foreign Exchange movements through its head office treasury function. The treasury function enables the Company to review and convert foreign currency at the best rates and thereby maximize gains.

**Natural Disaster Risk** is the damage any natural hazards could cause to the business. Several examples of natural disasters that could affect the hotel include fire, tsunami and floods.

#### Control Measures

- The Company has taken numerous measures to transfer the risk to third parties in the form of insurance policies. These insurance policies cover the risk of the Company's assets being damaged due to natural hazards.
- The hotel has invested in physical security and contingency measures in the hotel premises such as emergency exits, fire hoses, fire extinguishers and fire alarms to safeguard the assets of the company.

**Legal & Statutory Risk** is borne through litigation by the Government, customers and business partners as a result of the Company being unable to comply with legal and statutory requirements. This could result in losses arising from non-compliance with statutes and flawed contracts.

#### Control Measures

- The Company obtains assistance from the centralized legal division in all legal proceedings. The division provides guidance, direction and advice to the hotel upon entering business contracts and signing agreements. Hence, the hotel is safeguarded from incurring unexpected losses as a result
- Statutory compliance is given high priority and is regularly monitored and reviewed by the management. The quarterly internal audit program scopes in statutory compliance. A compliance certification is handed over to the Audit Committee for review by the management.

**Operational Risk** results through slack in internal controls, inefficient business processes, fraud, undue care and system breakdowns. The Company would face several implications in the form of disrupted operations, losses and ineffective use of resources.

#### Control Measures

- The hotel has laid down clear systems and procedures with regard to ensuring compliance with its internal controls. The hotel uses a formal process where internal auditors are appointed to help detect the above mentioned operational risks by means of quarterly internal audits.
- The auditors review the processes for its efficiency and effectiveness. More stringent internal controls are placed if deemed necessary. This process promotes transparency and minimizes the risks associated with the Company operations.
- Further, there are CCTV cameras attached to key locations in the hotel premises to detect fraud and negligence.

**Health and Safety Risk** is caused by unhealthy and dangerous work practices. This could be of two fold, health and safety of customers and health and safety of the workers in the Company.

#### Control Measures

- The Company does constant maintenance to its chillers, elevators and the other assets it owns to ensure safe use. The hotel also carries out constant refurbishment of its premises to ensure safety for both its customers and workers.
- The hotel has taken contingency measures and have ensured the availability of emergency exits and safety warnings.

**Competition Risk** results through strong competitive actions from new entrants and existing players in the market. The risk of competition involves the threat of new entrants as well.

#### Control Measures

- Royal Palms Beach Hotels PLC places significant emphasis on maintaining its competitive position in the market. The excellent brand quality, unique interior and superlative service by the staff remain exclusive to the hotel, hence giving Royal Palms Beach a competitive edge over new and existing players in the market.
- To take further advantage of its attractive brand, Royal Palms enhances its brand standard through regular refurbishment of the hotel property and upgrading of the facilities being offered. This helps the hotel to remain consumer focused and blend in innovative changes to suit the various tastes of its guests and make their visits memorable and repeated.
- Another measure the Hotel takes to maintain its competitive position is through support from its associate travel arm Tangerine Tours (Pvt) Ltd. Besides this, long term affable relationships with other major tour operators are maintained to ensure successful business relationships. The hotel also maintains constant monitoring of its main competitors in the market as this enables them to respond faster to competitive strategies.

# SWOT Analysis



## Strengths



- Product
- Banquets
- Garden
- Swimming pool
- Close to Colombo and on the Beach
- Food
- Dining options
- Staff



## Weaknesses



- Lack of skilled staff
- Attracting female staff
- Facilities for differently able guest
- Railway lines
- Staff Accommodation
- Brand awareness



## Opportunities



- Training & Development
- SOP's (Minimum service standards)
- Restructuring
- Job description
- Employee performance evaluation
- Empowerment
- Two products in the premises
- Attracting wedding MICE market
- Promoting excursion



## Threats



- Sea erosion
- Harassments to guests
- Retaining of skilled staff
- Increasing number of hotels
- Informal sector
- Competition/Trends

# Annual Report of the Board of Directors

The Directors have pleasure in submitting their report, together with the Audited Accounts for the financial year ended 31st March 2018.

## Review of the year

The Chairman's Report on page 24 contains a review of the operations during the financial year.

## Principal Activity

The principal activity of the Company, which is hotelliering, remained unchanged.

## Corporate Governance

The Board of Directors of the Company is responsible for the governance of the company, which include setting out strategic aims, providing leadership and supervising the management. The corporate governance practices of the Company are given on Pages 56 to 73.

## Turnover

The net turnover for the year was Rs. 656,686,102/- (2016/17 Rs. 582,319,231/-)

## Profit & Loss Account

	31.03.2018	31.03.2017
Net profit for the year amounts to	133,334,899	96,744,309
Less: Provision for Taxation	(45,561,957)	(10,004,994)
Net Profit/(Loss) for the year	87,772,942	86,739,315
Unappropriated profit brought forward	691,284,484	646,207,122
Dividend Paid	(40,000,000)	(40,000,000)
Effect on Revaluation Surplus of Derecognised of Property, Plant & Equipment	-	421,584
Actuarial Gain/(Loss)	(3,450,128)	(2,083,537)
Income tax effect on Actuarial Gain / (Loss)	483,018	
Profit Available for Appropriation	736,090,316	691,284,482

## Dividends

The Directors approved a first and final dividend of Rs.1.00 per share for the ordinary shareholders for the financial year 2017/18.

## Capital Expenditure

The total capital expenditure incurred on the acquisition of fixed assets during the year amounted to Rs. 43,765,444/- (2017 Rs.105,994,405) details of which are given in note 10 to the financial statements

## Property Plant & Equipment

The details of property, plant & equipment of the Company are shown in note 10 to the financial statements.

## Reserves

The movements during the year of Capital and Revenue Reserves are shown in the statement of changes in equity on page 93.

## Donations

During the year donations amounting to Rs. 72,670/- (2017 – Rs. 170,000/- ) were made to various charities by the Company.

## Post Balance Sheet Events

No Circumstances have arisen since the Balance Sheet date, which would require adjustment to or disclosure in the Accounts.

## Directors

The names of the Directors are shown on pages 29 to 31.

In terms of Section 88(i) of the Articles of Association, Mr. G G Ondaatjie and Mr. J D Vaz retire by rotation and being eligible offer themselves for re-election.

Special notice has been given of the intention to propose ordinary resolutions as set out in the notice of meeting to re-elect Mr. G L A Ondaatjie, Mr. M J Fernando, Mr. M Keerthiratne, Mr. A de Zoysa and Mr. M U Maniku as Directors of the company in terms of Section 211 of the Companies Act No. 07 of 2007.

## Board Committees

The following members of the Board serve on the Audit Committee.

Mr. N H V Perera

Mr. R S Weerawardane (Deceased on 07/07/2018)

Mr. P S R Casie Chitty

The report of the audit committee is given on page 83 of this report.

# Annual Report of the Board of Directors contd.

The following members of the Board serve on the Remuneration Committee.

Mr. N H V Perera  
Mr. R S Weerawardena (Deceased on 07/07/2018)  
Mr. P S R Casie Chitty

The following members of the Board serve on the Related Party Transactions Review Committee

Mr. N H V Perera  
Mr. P S R Casie Chitty  
Mr. J D Vaz

## Directors' Interests Register

The Company maintains an Interest Register in compliance with the Companies Act No.07 of 2007.

## Directors Interest in Contracts

The Directors of the Company have made the general disclosures provided for in Section 192(2) of the Companies Act No.07 of 2007. The related party disclosures and the Directors of each of those related parties are given on page 116.

## Directors Remuneration

The aggregate emoluments paid to the Directors during year, amounted to Rs. 451,000/-

## Directors Shareholdings

As at 31st March	2018	2017
Mr. G L A Ondaatjie	2,742,700	2,742,700
Ms. A M Ondaatjie	212,500	212,500
Mr. G G Ondaatjie	167,500	167,500
Mr. T J Ondaatjie	500,000	500,000
Mr. M Keerthiratne	220,000	220,000
Mr. R S Weerawardena*	192,775	192,775
Mr. M U Maniku	2,552,823	2,552,823
Mr. M J Fernando	3,649,403	3,649,403
Mr. A de Zoysa	625	625
Mr. N H V Perera	265,795	265,795
Mr. J D Vaz	33	33
Mr. P S R Casie Chitty	-	-

\* Deceased on 07th July 2018

Mr. G L A Ondaatjie and Ms. A M Ondaatjie serve as Joint Managing Directors of the Company.

## Public Holding

The number of Ordinary Shares held by the public as at 31st March 2018 was 6,731,215 shares (2017- 6,499,077), which amounted to 13.46% (2017-13.00%) of the issued ordinary shares of the Company.

The number of public shareholders as at 31st March 2018 was 1,477.

## Auditors

Messrs. Ernst & Young Chartered Accountants are deemed re-appointed in terms of Section 158 of the Companies Act No.7 of 2007 as the Auditors of the Company. A resolution proposing the Directors be authorised to determine the remuneration of the Auditors will be submitted to the Annual General Meeting.

The Auditors Messrs. Ernst & Young were paid Rs. 416,400/- . as audit fees by the Company.

As far as the Directors are aware, the Auditor does not have any relationship (other than that of an auditor) with the company other than those disclosed above. The Auditors also do not have any interests in the Company.

For and behalf of the Board



A.M. Ondaatjie  
Joint Managing Director



T.J. Ondaatjie  
Director

(Sgd.)  
Mercantile Investments  
and Finance PLC  
Secretaries

24 August 2018



# Statement of the Director's Responsibilities in Relation to the Financial Statements

The responsibilities of the Directors, in relation to the Financial Statements of the Company differ from the responsibilities of the Auditors, which are set out in the Report of the Auditors on pages 86 to 89.

As per the provisions of the Companies Act No 7 of 2007 the Directors are required 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 results of its operations for the financial year.

The Directors consider that, in preparing these Financial Statements set out through pages 90 to 121 appropriate Accounting Policies have been selected and applied in a consistent manner, supported by reasonable and prudent judgment and that all applicable Accounting Standards, as relevant, have been followed.

The Directors are confident that the Company has adequate resources to continue in operation and have applied the going concern basis in preparing these Financial Statements. Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose with reasonable accuracy, the financial position of the Company and to ensure that the Financial Statements presented comply with the Companies Act No. 7 of 2007.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and in this regard to give proper consideration to the establishment of appropriate internal control systems to prevent and detect fraud and other irregularities.

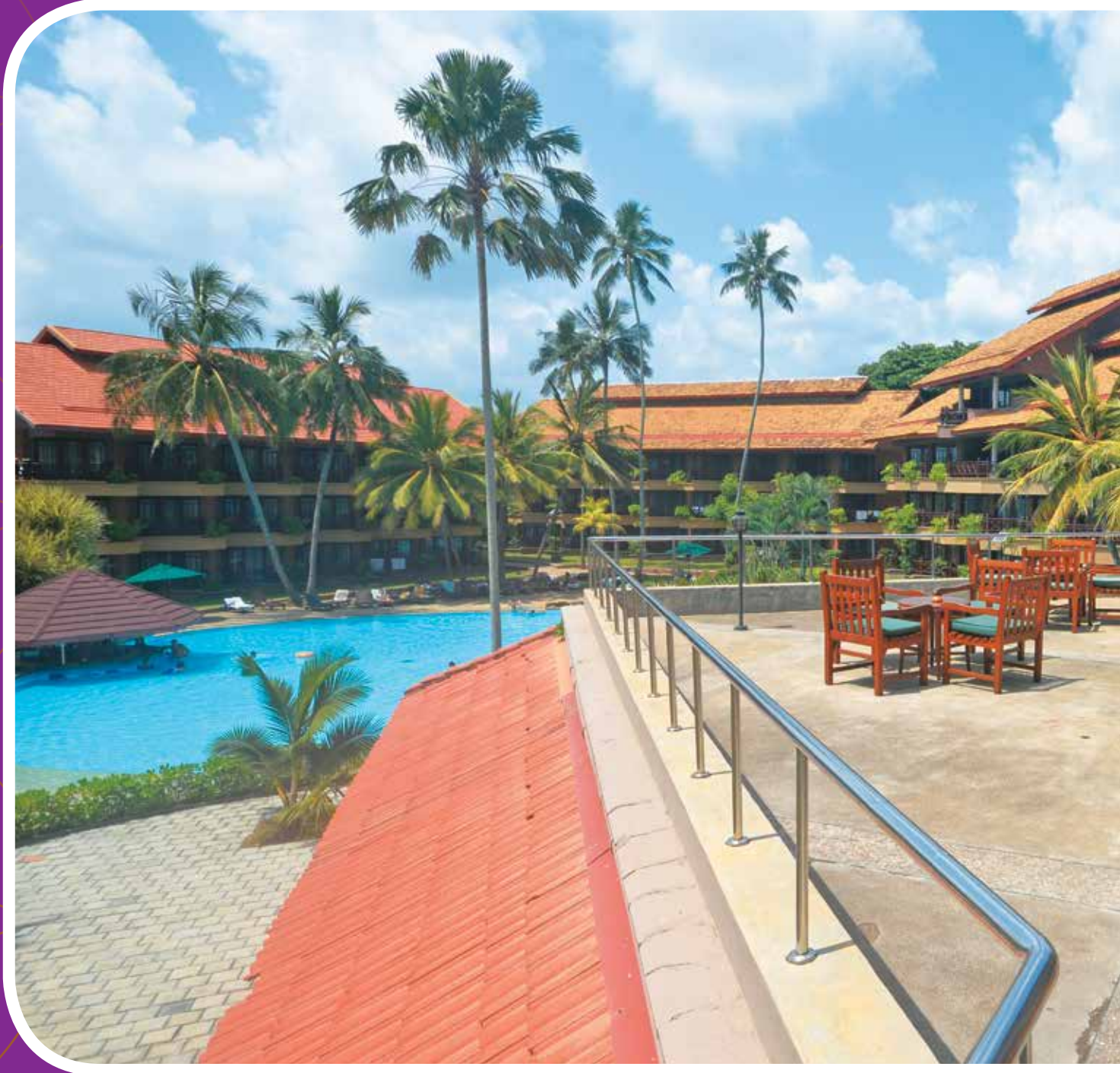
The Directors are confident that they have discharged their responsibilities as set out in the statement. The Directors also confirm that to the best of their knowledge, all statutory payments payable by the Company as at the Balance Sheet date have been paid or where relevant, provided for.

By Order of the Board

*(Sgd.)*

**Mercantile Investments & Finance PLC**  
Secretaries

Colombo  
24 August 2018





The sun-kissed beaches, delectable cuisine and wonderful hospitality that makes your trip one that lasts a lifetime.



## Financial Calendar

### Interim Reporting

1st Quarter 30th June 2017	10th August 2017
2nd Quarter 30th September 2017	09th Nov 2017
3rd Quarter 31st December 2017	13th Feb 2018
4th Quarter 31st March 2018	25th May 2018

### Annual Reports

2017/18	24th August 2018
2016/17	22nd August 2017

### Meetings

26th Annual General Meeting	28th September 2018
25th Annual General Meeting	29th September 2017

# Financial Report

Audit Committee Report	83
Remuneration Committee	84
Related Party Transactions Review Committee Report	85
Independent Auditor's Report	86
Statement of Financial Position	90
Income Statement	91
Statement of Comprehensive Income	92
Statement of Changes in Equity	93
Cash Flow Statement	94
Notes to the Financial Statements	95

# Audit Committee Report

## Functions

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its overall responsibilities. The Audit Committee functions include the review of Financial Statements, internal control procedures, compliance with accounting standards and statutory compliance. The Audit Committee assists the Board of Directors in discharging their duties. Where necessary the Audit Committee makes suggestions and recommendations to the Board in areas within its purview.

## Members of the Audit Committee

The Audit Committee consists of three Non-Executive Independent Directors namely Mr. Hasantha Perera, Mr. R.S Weerawardena (Deceased on 7th July 2018) and Mr. P.S.R Casie Chitty.

## Meetings

The Audit Committee held 04 meetings during the year under review. The Statutory Auditors, the Group Financial Controller, Finance Controller, Chief Accountant and the General Manager also attend these meetings on invitation.

Name of Member	Position	Attendance at Audit Committee Meetings				Meetings Attended	Percentage Attended
		24 - May 2017	10 - Aug 2017	09 - Nov 2017	13 - Feb 2018		
Mr. N H V Perera	Chairman	✓	✓	✓	✓	4/4	100%
Mr.R S Weerawardane *	Member	-	-	-	-	0/4	0%
Mr. P S R Casie Chitty	Member	✓	✓	✓	✓	4/4	100%

\* Deceased on 7th July 2018

## Internal Audit Function

The Committee reviews the internal audit reports to ensure that the Company's systems and procedures are effective and that the internal controls provide reasonable assurance to the Directors that assets are safeguarded and that the financial reporting system can be relied upon in preparation and presentation. The Internal Audit function has been outsourced to Messrs. SIMS Associates Chartered Accountants. Generally, the audits are carried out on a quarterly basis. Based on the audit findings and recommendations of the Internal Auditors, the Audit Committee after discussing with the management recommends the implementation of those recommendations that are considered to be practical and necessary.

## Financial Statements

The Audit Committee assists the Board in assuring the integrity of the Financial Statements and disclosures. The Committee discusses matters relating to the Financial Statements with the External Auditors before recommending to the Board the adoption of the Financial Statements.

## External Auditors

The Audit Committee has determined that Messrs Ernst & Young, Auditors are independent on the basis that they do not carry out any management related functions of the Company. The Audit Committee has recommended the Board of Directors the re-appointment of Messrs Ernst & Young (Chartered Accountants), for the financial year ending 31st March 2019, subject to the approval of the shareholders at the Annual General Meeting.



N H V Perera

Chairman -Audit Committee

24 August 2018



# Remuneration Committee

The Remuneration Committee, appointed by and responsible to the Board of Directors, consists of three independent Non-Executive Directors Mr. N.H.V. Perera, Mr. R.S. Weerawardena and Mr. P.S.R. Casie Chitty. The Committee is chaired by Mr N.H.V Perera. The Committee met once during the financial year. The Group Financial Controller assists the committee by providing relevant information required by the committee.

The committee ensures that best practices in the industry are applied to attract, motivate and retain Key Management Personnel. The Managing Director assists the Committee in its deliberations.



**Mr. N.H.V. Perera**

*Chairman- Remuneration Committee*

24 August 2018

# Related Party Transactions Review Committee Report

The Royal Palms Beach Hotels PLC established the Related Party Transactions Review Committee (RPTRC) and as at the end of the financial year. The RPTRC comprised of the following Directors of the Hotel:

Mr. N H V Perera  
Mr. P S R Casie Chitty  
Mr. J D Vaz

The RPTRC was formed by the Board to assist the Board in reviewing all related party transactions carried out by the Royal Palms Beach Hotels PLC by adopting of the Code of Best Practice on Related Party Transactions as issued by the Securities and Exchange Commission of Sri Lanka (SEC).

## The Mandate of the Committee Includes

### 1. The Purpose

The Committee is an entity under the Board of Directors, and was established to enhance corporate transparency and promote fair transactions. The committee is responsible for reviewing related party transactions.

### 2. Composition

The Related Party Transactions Committee shall comprise of two Non-executive Independent Directors and one Executive Director. Currently, the committee consists of three Directors. The head of the committee is Mr. N.H.V.Perera - Independent Director.


### 3. Responsibilities

- To seek and receive reports on Related Party Transactions between the Company and its affiliates.
- To review related Party Transactions.
- To recommend corrective measures.

### 4. Meetings

The Related Party Transactions Committee held four meetings during the last financial year ending 31st March 2018. The committee reviewed the related party transactions on quarterly basis.

Name of Director	Position	Attendance at Related Party Transactions Review Committee Meeting					
		24 - May 2017	10 - Aug 2017	09 - Nov 2017	13 - Feb 2018	Meetings Attended	Percentage Attended
Mr. N H V Perera	Chairman	✓	✓	✓	✓	4/4	100%
Mr. J D Vaz	Member		-	✓	✓	2/4	50%
Mr. P S R Casie Chitty	Member	✓	✓	✓	✓	4/4	100%



Mr. N H V Perera  
Chairman  
Related Party Transactions Review Committee

24 August 2018

# Independent Auditor's Report



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

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

## TO THE SHAREHOLDERS OF ROYAL PALMS BEACH HOTELS PLC

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Royal Palms Beach Hotels PLC (“the Company”), which comprise the statement of financial position as at 31 March 2018, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements gives a true and fair view of the financial position of the Company as at 31 March 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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

A member firm of Ernst & Young Global Limited

Key Audit Matter	How our audit addressed the key audit matter
<p><b>Valuation of freehold land and buildings</b></p> <p>As at 31 March 2018 the company carried free hold land and building at fair value amounting to Rs. 1,752,217,947/- which represents 68% of the total assets of the company and Revaluation reserve of Rs. 962,801,685/- as further disclosed in note 18 to the Financial statements.</p> <p>Fair value was determined by an external valuer engaged by the Company. The valuation is subjective to the significant judgment and estimates used by the valuer, which are disclosed in Note 10.4 and 27.4 to the Financial Statements.</p> <p>Due to the magnitude of these assets relative to the total assets (68%), and the significance of estimates and judgements associated with the valuation, this was considered as a key audit Matter.</p>	<p>Our audit procedures focused on the valuation performed by the external valuer, which included the following among others.</p> <ul style="list-style-type: none"> <li>• We understood and evaluated the process &amp; procedures adopted by the Management in ascertaining the fair value.</li> <li>• We engaged our internal specialised resources to assist us in evaluating the appropriateness of the method used and assessing the reasonableness of the range of values per perch &amp; per square feet, in comparison to available market data.</li> <li>• In addition, we evaluated the overall appropriateness of the related financial statement disclosers in note no 10.4, 18 and 27.4</li> </ul>
<p><b>Revenue Recognition</b></p> <p>Revenue represents the company's gross inflow of economic benefits in terms of cash, receivables or other assets arising from the operating activities.</p> <p>The total revenue for the 2017/18 year amounted to Rs. 657 Mn. Based on the business model the company has large volumes of sales from multiple revenue streams which include room sales, food and beverage sales as well as other hotel related revenue and is routed through travel agents, free individual travelers and online platforms.</p> <p>Such streams carry different pricing schemes and terms and conditions that would require details analysis regarding the timing of revenue recognition as well as analysis of gross/net revenue analysis.</p> <p>Considering these facts revenue recognition has been identified as a Key Audit Matter</p>	<p>Our audit procedures focused on the appropriateness of the Company's revenue recognition, and included the following procedures:</p> <ul style="list-style-type: none"> <li>• Testing the design and operating effectiveness of critical controls over revenue recognition, including reviewing agreements with travel agents.</li> <li>• Reviewing the revenue recognition policy applied by the Company to ensure its compliance with Sri Lanka Accounting Standards.</li> <li>• Performing substantive analytical procedure on monthly disaggregated revenue to assess the reasonability of revenue recognised.</li> <li>• Performing test of details throughout the audit period by vouching a sample of invoices.</li> <li>• Performing cut-off testing procedures (by selecting a sample of transactions either side of year-end) to check that revenue had been recognised in the appropriate accounting period.</li> <li>• Performing journal entry testing procedures and investigating any manual sales entries which were not recorded in the course of month-end closing procedures.</li> </ul>

# Independent Auditor's Report contd.

## Other Information Included in the 2017/18 Annual Report of the Company

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect

a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### Report on other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1884.



24 August 2018  
Colombo

# Statement of Financial Position

As at 31 March 2018	Note	2018 Rs.	2017 Rs.
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, Plant & Equipment	10	1,999,612,214	2,015,801,601
Intangible Assets	11	507,954	853,977
Investment	15.1	18,000,000	18,000,000
		<u>2,018,120,168</u>	<u>2,034,655,578</u>
<b>Current Assets</b>			
Inventories	12	17,241,408	15,762,869
Trade and Other Receivables	13	149,511,377	136,479,030
Other Non Financial Assets	14	12,830,716	11,370,403
Income Tax Receivable		-	14,439,810
Amounts Due from Related Parties- Other Financial Assets	15.3	-	2,141,498
Short Term Investments - Other Financial Assets	15.2	194,170,533	170,599,537
Cash and Bank Balances	16	177,992,639	114,805,233
		<u>551,746,673</u>	<u>465,598,380</u>
<b>Total Assets</b>		<u><b>2,569,866,841</b></u>	<u><b>2,500,253,958</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserve</b>			
Stated Capital	17	521,583,448	521,583,448
Revaluation Reserve	18	962,801,685	1,034,216,100
Retained Earnings		736,090,316	691,284,484
Total Equity		<u>2,220,475,449</u>	<u>2,247,084,032</u>
<b>Non-Current Liabilities</b>			
Interest Bearing Loans and Borrowings	22	-	478,414
Deferred Tax Liabilities	9.2	228,539,074	136,087,098
Post Employment Benefit Liability	21	31,842,923	27,428,821
		<u>260,381,997</u>	<u>163,994,333</u>
<b>Current Liabilities</b>			
Trade and Other Payables	19	69,500,916	78,386,632
Income Tax Payable		682,732	-
Amounts Due to Related Parties	20	6,442,515	3,827,953
Interest Bearing Loans and Borrowings	22	12,383,232	6,961,008
		<u>89,009,395</u>	<u>89,175,593</u>
<b>Total Equity and Liabilities</b>		<u><b>2,569,866,841</b></u>	<u><b>2,500,253,958</b></u>

These Financial Statements are in compliance with the requirements of the Companies Act No :07 of 2007.



M.I. Shahabdeen  
Group Financial Controller

The Board of Directors is responsible for these financial statements. Approved and signed for and on behalf of the Board;



A.M. Ondaatjie  
Joint Managing Director



T.J. Ondaatjie  
Director

The Accounting Policies and Notes on pages 95 through 121 form an integral part of the Financial Statements.

24 August 2018  
Colombo

# Income Statement

Year ended 31 March 2018	Note	2018 Rs.	2017 Rs.
Revenue	3	656,686,102	582,319,231
Cost of Sales		(226,244,855)	(201,417,878)
Gross Profit		430,441,247	380,901,353
Other Income	4	23,803,330	9,304,198
Selling and Distribution Costs		(22,560,554)	(17,306,535)
Administrative Expenses		(317,733,355)	(292,343,325)
Loss from Derecognition of Property, Plant & Equipment	6	-	(907,800)
Other Expenses		(4,627,171)	(620,577)
Finance Income	7.1	24,134,832	17,982,679
Finance Cost	7.2	(123,429)	(265,684)
<b>Profit Before Taxation</b>	5	133,334,899	96,744,309
Income Tax Expense	9	(45,561,957)	(10,004,994)
<b>Profit for the Year</b>		<b>87,772,942</b>	<b>86,739,315</b>
Earnings Per Share - Basic	8	1.76	1.73

The Accounting Policies and Notes on pages 95 through 121 form an integral part of the Financial Statements.

# Statement of Comprehensive Income

Year ended 31 March 2018	Note	2018 Rs.	2017 Rs.
Profit for the Year		87,772,942	86,739,315
<b>Other Comprehensive Income</b>			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):		-	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):			
Actuarial gains/(Losses) on defined benefit plans	21.1	(3,450,128)	(2,083,537)
Income tax effect on Actuarial gains/(Losses) on defined benefit plans		483,018	
Income tax effect on revaluation of land and buildings	18	(71,414,415)	1,970,870
<b>Other Comprehensive Income/(Loss) for the Year</b>		<b>(74,381,525)</b>	<b>(112,667)</b>
<b>Total Comprehensive Income for the Year</b>		<b>13,391,417</b>	<b>86,626,648</b>

The Accounting Policies and Notes on pages 95 through 121 form an integral part of the Financial Statements.

# Statement of Changes in Equity

Year ended 31 March 2018	Stated Capital Rs.	Revaluation Surplus Rs.	Retained Earnings Rs.	Total Rs.
As at 01 April 2016	521,583,448	1,032,666,814	646,207,122	2,200,457,384
Net Profit for the Year	-	-	86,739,315	86,739,315
<b>Other Comprehensive Income</b>				
Other Comprehensive Income	-	1,970,870	-	1,970,870
Actuarial Gain / (Loss)	-	-	(2,083,537)	(2,083,537)
<b>Total Comprehensive Income</b>	-	1,970,870	84,655,778	86,626,648
Effect on Revaluation Surplus of Derecognised Property, Plant & Equipment	-	(421,584)	421,584	-
Ordinary Dividends - 2015/2016 (Rs 0.80 Per Share)	-	-	(40,000,000)	(40,000,000)
<b>As at 31 March 2017</b>	521,583,448	1,034,216,100	691,284,484	2,247,084,032
Net Profit for the Year	-	-	87,772,942	87,772,942
Income Tax Effect on Revaluation of Land & Building	-	(71,414,415)	-	(71,414,415)
Actuarial Gain / (Loss)	-	-	(3,450,128)	(3,450,128)
Income tax effect on Actuarial Gain / (Loss)	-	-	483,018	483,018
<b>Total Comprehensive Income</b>	-	(71,414,415)	84,805,832	13,391,417
Ordinary Dividends - 2016/2017 (Rs 0.80 Per Share)	-	-	(40,000,000)	(40,000,000)
<b>As at 31 March 2018</b>	521,583,448	962,801,685	736,090,316	2,220,475,449

The Accounting Policies and Notes on pages 95 through 121 form an integral part of the Financial Statements.



# Cash Flow Statement

Year ended 31 March 2018

	Note	2018 Rs.	2017 Rs.
<b>Cash Flows From Operating Activities</b>			
Profit Before Taxation		133,334,899	96,744,309
<b>Adjustments for :</b>			
Depreciation	10	58,156,413	57,728,618
Amortisation	11.1	571,023	858,804
Finance Income	7.1	(24,134,832)	(17,982,679)
Finance Costs	7.2	123,429	265,684
Loss from Derecognition of Property, Plant and Equipment	6	-	907,800
(Gain) / Loss on Disposal of Property, Plant and Equipment	5	1,223,074	(6,118,144)
Provision for Retirement Benefit Obligations	21	5,874,707	4,821,306
Operating Profit before Working Capital Changes		175,148,713	137,225,698
(Increase)/ Decrease in Inventories		(1,478,539)	(2,450,012)
(Increase)/ Decrease in Trade and Other Receivables		(19,414,076)	29,465,671
(Increase)/ Decrease in Other Non Financial Assets		(1,460,312)	4,258,313
Increase/ (Decrease) in Amounts Due from Related Parties		2,141,498	4,957,033
(Increase) / Decrease in Trade and Other Payables		(8,885,716)	10,962,270
Increase / (Decrease) in amounts Due to Related Parties		2,614,562	(73,080)
Cash Generated from Operations		148,666,129	184,345,892
Income Tax paid		(8,918,836)	(32,370,963)
Finance Costs paid		(123,429)	(265,684)
Retirement Benefit Costs paid	21	(4,910,733)	(2,286,100)
Net Cash From Operating Activities		134,713,131	149,423,145
<b>Cash Flows from /(Used in) Investing Activities</b>			
Acquisition of Property, Plant & Equipment	10	(43,765,444)	(105,994,405)
Acquisition of Intangible Assets		(225,000)	-
Investments in Fixed Deposits		(22,322,383)	(3,736,864)
Interest Received		22,886,218	15,924,288
Proceeds on disposal of Property, Plant & Equipment		575,344	10,051,517
Net Cash Flows Used in Investing Activities		(42,851,265)	(83,755,464)
<b>Cash Flows Used in Financing Activities</b>			
Repayment of Interest Bearing Loans & Borrowings	22.1	(1,911,768)	(2,230,396)
Dividends Paid - on Ordinary shares		(40,000,000)	(40,000,000)
Net Cash Flows Used in Financing Activities		(41,911,768)	(42,230,396)
Net increase/(decrease) in Cash and Cash Equivalents		49,950,099	23,437,284
Effect of exchange rate changes on Cash and Cash Equivalents		6,381,729	(898,252)
Cash and Cash Equivalents at the beginning of the year	16	109,755,993	87,216,961
Cash and Cash Equivalents at the end of the year	16	166,087,821	109,755,993

The Accounting Policies and Notes on pages 95 through 121 form an integral part of the Financial Statements.

# Notes to the Financial Statements

## 1. CORPORATE INFORMATION

### 1.1 General

Royal Palms Beach Hotels PLC (“Company”) is a PLC limited liability company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at No. 236 Galle Road, Colombo 03, and the principal place of business is situated at St. Abrew’s Drive Road, Waskaduwa, Kalutara North.

### 1.2 Principal Activities and Nature of Operations

During the year, the principal activity of the Company was hoteliering.

### 1.3 Parent Enterprise and Ultimate Parent Enterprise

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

### 1.4 Date of Authorisation for Issue

The financial statements of Royal Palms Beach Hotels PLC for the year ended 31 March 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 24 August 2018.

## 2. STATEMENT OF COMPLIANCE

The Financial Statements which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and the Statement of Cash Flows, together with the accounting policies and notes have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the requirement of the Companies Act No. 7 of 2007.

## 2.1 BASIS OF PREPARATION

### 2.1.1 Basis of Measurement

The Financial Statements have been prepared on a historical cost basis except for Freehold Land and building and Financial Instruments available for sale that have been measured at fair value. The preparation and presentation of these Financial Statements is in compliance with the Companies Act No. 07 of 2007.

### 2.1.2 Materiality and Aggregation

Each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

## 2.2 Significant Accounting Judgments, Estimates and Assumptions

### Judgments

In the process of applying the Company’s accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Statements.

### Going Concern

The directors have made an assessment of the company’s ability to continue in business for the foreseeable future. Therefore the financial statements are continued to be prepared in a Going Concern Basis.

### Impairment of Trade Debtors:

The Company reviews at each reporting date all receivables to assess whether an allowance should be recorded in the income statement. The Management uses judgement in estimating such amounts in the light of the duration of outstanding

and any other factors management is aware of, that indicate uncertainty in recovery. Further details are given in Note 13.

### Critical Accounting Estimates and Assumptions

The financial statements are sensitive to assumptions and estimates made in measuring certain carrying amounts represented in the Statement of Financial Position and amounts charged to the Income Statement. These could result in a significant risk of causing material adjustments to the carrying amounts of assets and liabilities which are disclosed in the relevant Notes to the Financial Statements.

### Fair Value of Property, Plant & Equipment:

The Land and Building of the Company are reflected at fair value. When current market prices of similar assets are available, such evidences are considered in estimating fair values of these assets. In the absence of such information the Company determines within reasonable fair value estimates, amounts that can be attributed as fair values, with the assistance of an independent valuer. Further details are given in note 10.4.

### Components of Buildings:

In determining the depreciation expense, the Company with the assistance of an independent professional valuer determined the components of buildings that have varying useful lives. Approximation techniques and appropriate groupings were used in such determination as well as in the assessment of the useful lives of each component.

# Notes to the Financial Statements contd.

## *De-recognition of Property Plant & Equipments subject to refurbishments:*

In order to comply with the LKAS 16 - Property Plant & Equipment, the Company determined the cost of derecognised assets based on the quantity surveyor's valuation.

## **2.3 Summary of Significant Accounting Policies**

### **2.3.1 Foreign Currencies**

The Financial Statements are presented in Sri Lanka Rupees, which is also the Company's functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the Income Statement. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

### **2.3.2 Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognised.

#### *a) Room Revenue*

Revenue is recognised on the rooms occupied on daily basis.

#### *b) Food & Beverage Revenue*

Food & Beverage Revenue is accounted at the time of sale.

#### *c) Other Hotel Related Revenue*

Other Hotel Related Revenue is accounted when such service is rendered.

#### *d) Interest*

Interest Income is recognised by using the Effective Interest Rate method.

#### *e) Others*

Other income is recognised on an accrual basis.

Net gains and losses of a revenue nature on the disposal of Property, Plant & Equipment has been accounted for in the Income Statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses. Gains and losses arising from incidental activities to main revenue generating activities and those arising from a group of similar transactions which are not material, are aggregated, reported and presented on a net basis.

### **2.3.3 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 expenditure incurred in the running of the business and in maintaining the Property, Plant and 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 income statement the directors are of the opinion that function of expenses method presents fairly the elements of the Company's performances, hence such presentation method is adopted.

### **2.3.4 Taxation**

#### **a) Current Income Taxes**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

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 relevant tax legislations.

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

#### **b) Sales Tax**

Revenues, expenses and assets are recognised net of the amount of sales tax except where the sales tax incurred on a purchase of assets or service is not recoverable from the taxation authorities in which case the sales tax is recognised as a part of the cost of the asset or part of the expense items as applicable and receivables and payables are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### c) Deferred Tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill or initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### 2.3.5 Inventories

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

The cost incurred in bringing inventories to its present location and condition is accounted using the following cost methods:

Food and Beverage	-	At purchase cost on weighted average basis.
Other Inventories	-	At purchase cost on weighted average basis.
Uniforms	-	At purchase cost

### 2.3.6 Cash and Short-term Deposits

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with a maturity of three months or less.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

### 2.3.7 Property, Plant and Equipment

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

Land and building is measured at fair value, less impairment losses. Valuations are performed with sufficient frequency (Once in 3 Years) to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recognised in the statement of other comprehensive income and credited to the revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in the Income Statement, in which case the increase is recognised in the Income Statement. A revaluation deficit

# Notes to the Financial Statements contd.

is recognised in the Income Statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

An item of Property, Plant and Equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement when the asset is derecognised.

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

Depreciation is calculated on a straight line basis over the useful lives of the assets.

The useful lives of the assets are estimated as follows;

	2018	2017
Buildings and building integrals	50 – 70 years	50 – 70 years
Motor Vehicles	5- 10 Years	5- 10 Years
Kitchen Equipment	10-20 Years	10-20 Years
Furniture and Fittings	10-20 Years	10-20 Years
Office Equipment	10-20 Years	10-20 Years
Recreational Equipment	5-10 Years	5-10 Years
Hotel Equipment	10-20 Years	10-20 Years
Air Condition and Ventilation	10-15 Years	10-15 Years
Computer Equipment	3-10 Years	3-10 Years
Linen & Furnishing	1-3 Years	1-3 Years
Cutlery, Crockery & Glassware	1-3 Years	1-3 Years
Solar Water Heater System	10 Years	10 Years

Depreciation of an asset begins when it is available for use that is when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

## 2.3.8 Financial Instruments : Initial Recognition and Subsequent Measurement

### i. Financial Assets

#### *Initial Recognition and Measurement*

Financial assets within the scope of LKAS 39 are classified as Financial Assets at Fair Value through Profit or Loss, Loans and Receivables, Held-to-Maturity investments, or Available-for-Sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, in the case of assets not at fair value through profit or loss.

#### *Subsequent Measurement*

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

#### *Loans and Receivables*

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

#### *Available-for-Sale Financial Investments*

Available-for-Sale financial investments held at the reporting date consist of equity securities. Equity investments classified as available-for-sale are those, neither classified as held-for-trading nor designated at fair value through profit or loss. After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the available-for-sale reserve.



***Derecognition***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and either (a) the company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

**ii. Impairment of Financial Assets**

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

***Financial Assets Carried at Amortised Cost***

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write off is later recovered, the recovery is credited to finance costs in the income statement.

***Available-for-Sale Financial Instruments***

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair values has been below its original cost. Where there is evidence of impairment, the cumulative loss- measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairments are recognised directly in other comprehensive income.

**iii. Financial Liabilities*****Initial Recognition and Measurement***

The Company's financial liabilities include trade and other payables, bank overdrafts and loans and borrowings, which are carried at amortised cost. This includes directly attributable transaction cost.

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

# Notes to the Financial Statements contd.

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

## *Derecognition*

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

## iv. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

## v. Fair Value of Financial Instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Reference to the current fair value of another instrument that is substantially the same;
- Discounted cash flow analysis or other valuation models.

## 2.3.9 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, except capitalised development costs, are not capitalised and expenditure is recognised in the income statement when it is incurred.

The Company's intangible assets include the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Company. Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Computer software 5 years

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible assets.

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

## 2.3.10 Provisions

Provisions are recognised when the Company has a present obligation (legal or 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. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

## 2.3.11 Capital Commitments and Contingencies

Capital commitments and contingent liabilities of the company are disclosed in Note No. 23 & 24

## 2.3.12 Retirement Benefit Obligations

### a) Defined Benefit Plans – Gratuity

A defined benefit plan is a post – employment benefit plan other than a defined contribution plan.

The Company measures the present value of the promised retirement benefits of gratuity, which is a defined benefit plan with the advice of an independent professional actuary once in every year using the Projected Unit Credit method. Actuarial gains and losses are recognised in full in the period in which they occur in Other Comprehensive Income and current service cost and interest costs at the income statement.

The present value of the defined benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Key assumptions used in determining the defined retirement benefit obligation are given in Note 21. Any changes in these assumptions will impact the carrying amount of defined benefit obligation.

Provision has been made for retirement gratuities from the first year of service for all employees, in conformity with LKAS 19 on "Employee benefits' However, under the payment of gratuity act no 12 of 1983, the liability to an employee rises only on completion of 5 years of continued service.

The gratuity liability is not externally funded.

**b) Defined Contribution Plans – Employees' Provident Fund & Employees' Trust Fund**

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

**2.3.13 Impairment of Non Financial Assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in

use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have

been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

**2.4 Standards Issued but Not Yet Effective**

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

**SLFRS 9 - Financial Instruments**

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39. SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Company plans to adopt the new standard on the required effective date. During the year, the Company has performed a high-level impact assessment of all three aspects of SLFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future.

# Notes to the Financial Statements contd.

## (a) Classification and measurement

The Company does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of SLFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Unquoted equity shares currently held as available-for-sale (AFS) with gains and losses recorded in OCI companies are intended to be held for the foreseeable future.

The Company will apply the option to present fair value changes in OCI, and, therefore, the application of SLFRS 9 will not have a significant impact.

Trade receivables and amounts due from related parties are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the company expects that these will continue to be measured at amortised cost under SLFRS 9. The Company analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under SLFRS 9. Therefore, reclassification for these instruments is not required.

## (b) Impairment

SLFRS 9 requires the company to record expected credit losses on all of its loans and trade receivables, either on a 12-month or lifetime basis. The Company expects to apply the simplified approach and record lifetime expected losses on all trade receivables.

## SLFRS 15 - Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Revenue of the company is generated through the sale of goods and the rendering of services as reflected in Note 03 to these financial statements. In preparation for SLFRS 15, the Company is in the process of reviewing its contracts with customers.

## SLFRS 16 - Leases

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases under a single balance sheet model similar for finance leases under LKAS 17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for the users of financial statement to assess the effect that leases have on the financial position. SLFRS 16 is effective for annual reporting periods beginning on or after 01 January 2019, with early adoption permitted.

**3. REVENUE**

	2018 Rs.	2017 Rs.
Room Revenue	194,447,399	181,381,134
Food and Beverage Revenue	429,688,447	383,203,786
Other Hotel Related Revenue	32,550,256	17,734,311
	<b>656,686,102</b>	<b>582,319,231</b>

**4. OTHER INCOME**

	2018 Rs.	2017 Rs.
Gain on foreign currency conversion	23,105,738	2,593,537
Profit from Disposal of Property, Plant & Equipment	-	6,118,144
Income from Staff Meals	697,592	592,517
	<b>23,803,330</b>	<b>9,304,198</b>

**5. PROFIT BEFORE TAXATION**

Stated after charging / (crediting)	2018 Rs.	2017 Rs.
Depreciation	58,156,413	57,728,618
Amortisation of Intangible Assets	571,023	858,804
Auditors' remuneration	416,400	375,100
Operation and Marketing Fee - Related Party	24,438,499	21,446,915
Staff Costs		
-Wages and salaries	124,411,627	118,520,474
-Cost of meals	10,604,731	9,591,345
-Defined Benefit Plan Costs - Gratuity	5,874,707	4,821,306
-Defined Contribution Plan Costs - EPF & ETF	13,699,336	13,148,181
Donations	72,670	170,000
Directors' Fee	451,000	564,000
Marketing and Promotional Fees	12,852,241	7,231,896
Power and Energy Expenditure	53,280,140	51,236,662
Repair and maintenance expenditure	37,750,622	25,574,885
(Profit)/Loss on Disposal of Property, Plant & Equipment	1,223,074	(6,118,144)
Nations Building Tax	13,078,521	11,609,030



# Notes to the Financial Statements contd.

## 6. DE-RECOGNITION OF PROPERTY, PLANT AND EQUIPMENT

	2018 Rs.	2017 Rs.
De-recognition of property, plant and equipment	-	907,800
	-	907,800

## 7. NET FINANCE INCOME/(EXPENSES)

	2018 Rs.	2017 Rs.
<b>7.1 Finance Income</b>		
Interest Income - Related Party	22,151,285	17,855,537
Interest Income - Other	1,983,547	127,142
	24,134,832	17,982,679
<b>7.2 Finance Expense</b>		
Interest on Bank Overdrafts	(32,483)	(60,026)
Interest on Term Loan	(90,946)	(205,657)
	(123,429)	(265,684)
	24,011,403	17,716,995

## 8. EARNINGS PER SHARE

Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The 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.

The following reflects the income and share data used in the Basic Earnings Per Share computations.

Amount Used as the Numerator:	2018 Rs.	2017 Rs.
Net Profit for the period	87,772,942	86,739,315
Net Profit attributable to Ordinary Shareholders for Basic Earnings Per Share	87,772,942	86,739,315
 Number of Ordinary Shares Used as Denominator	 Number	 Number
Weighted average number of Ordinary Shares Applicable to Basic Earnings Per Share	50,000,000	50,000,000
Earnings Per Share	1.76	1.73

## 9. INCOME TAX

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

Income Statement	2018 Rs.	2017 Rs.
<b>Current Income Tax</b>		
Current Income Tax charge	21,575,913	8,167,996
Under/(Over) Provision of current taxes in respect of prior years	(34,555)	12
Additional Assessment charge on the year of Assessment 2014/2015	2,500,020	-
	<u>24,041,378</u>	<u>8,168,008</u>
<b>Deferred Income Tax</b>		
Deferred Taxation Charge/(Reversal) (Note 9.2)	21,520,579	1,836,986
Income tax expense reported in the Income Statement	<u>45,561,957</u>	<u>10,004,994</u>
<b>Statement of Changes in Equity</b>		
Deferred Income Tax related to items charged or credited directly to equity :		
Income tax expense reported in equity	(70,931,397)	1,970,870

### 9.1 A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows:

	2018 Rs.	2017 Rs.
Accounting Profit before tax	133,334,899	96,744,309
Income Tax Expense at the statutory income tax rate of 12% (2017 :12%)	16,000,188	11,609,317
Adjustments in respect to current income tax of previous year	2,465,465	12
Tax Effect of Disallowable Expenses	8,525,676	8,011,285
Tax Effect of Income Exempt from Income Tax and Other Allowable Credits	(6,808,276)	(14,327,007)
Tax Expense on Higher Tax Rates ( Other than the business income )	3,858,325	2,874,400
	<u>24,041,378</u>	<u>8,168,008</u>
Deferred Taxation Charge / Reversal	21,520,579	1,836,986
Income Tax Expense at the effective income tax rate of 34.17% (2017 : 10.3%)	<u>45,561,957</u>	<u>10,004,994</u>



## 10. PROPERTY, PLANT AND EQUIPMENT

### 10.1 Gross Carrying Amounts

	Balance As at 01.04.2017 Rs.	Additions Rs.	Disposals Rs.	Balance As at 31.03.2018 Rs.
<b>At Cost or Valuation</b>				
Freehold Land	492,650,000	-	-	492,650,000
Buildings on freehold land	1,319,171,080	-	-	1,319,171,080
Motor Vehicles	23,600,525	15,745,000	-	39,345,525
Kitchen Equipment	50,540,380	2,382,541	(210,777)	52,712,144
Furniture and Fittings	114,753,833	6,072,934	(4,157,481)	116,669,286
Office Equipment	1,557,990	36,353	(104,040)	1,490,303
Recreational Equipment	6,919,871	-	-	6,919,871
Hotel Equipment	127,161,167	11,519,494	(1,694,611)	136,986,050
Air Condition & Ventilation System	44,567,530	67,391	-	44,634,921
Solar Water Heater System	4,262,028	-	-	4,262,028
Computer Equipment	10,268,562	291,035	(258,250)	10,301,347
Linen & Furnishing	27,862,189	6,826,935	(4,240,398)	30,448,726
Cutlery, Crockery & Glassware	5,770,075	823,761	(1,171,346)	5,422,490
<b>Gross Carrying Amounts</b>	<b>2,229,085,230</b>	<b>43,765,444</b>	<b>(11,836,903)</b>	<b>2,261,013,771</b>

### 10.2 Depreciation

	Balance As at 01.04.2017 Rs.	Charge for the year Rs.	Disposals Rs.	Balance As at 31.03.2018 Rs.
Buildings on freehold land	29,354,353	30,248,780	-	59,603,133
Motor Vehicles	11,306,295	4,063,613	-	15,369,908
Kitchen Equipment	21,584,288	2,093,260	(210,777)	23,466,771
Furniture and Fittings	38,106,912	5,359,083	(2,686,265)	40,779,730
Office Equipment	827,684	59,222	(102,791)	784,115
Recreational Equipment	6,060,427	127,206	-	6,187,633
Hotel Equipment	51,151,735	5,762,435	(1,368,658)	55,545,512
Air Condition & Ventilation System	18,324,445	4,461,807	-	22,786,252
Solar Water Heater System	355,169	426,203	-	781,372
Computer Equipment	7,515,905	934,932	(258,250)	8,192,587
Linen & Furnishing	24,539,242	3,501,572	(4,240,398)	23,800,416
Cutlery, Crockery & Glassware	4,157,174	1,118,300	(1,171,346)	4,104,128
<b>Total Depreciation</b>	<b>213,283,629</b>	<b>58,156,413</b>	<b>(10,038,485)</b>	<b>261,401,557</b>

# Notes to the Financial Statements contd.

## 10.3 Net Book Values

	2018 Rs.	2017 Rs.
Freehold Land	492,650,000	492,650,000
Buildings on freehold land	1,259,567,947	1,289,816,727
Motor Vehicles	23,975,617	12,294,230
Kitchen Equipment	29,245,373	28,956,092
Furniture and Fittings	75,889,556	76,646,921
Office Equipment	706,188	730,306
Recreational Equipment	732,238	859,444
Hotel Equipment	81,440,538	76,009,432
Air Condition & Ventilation System	21,848,669	26,243,085
Solar Water Heater System	3,480,656	3,906,859
Computer Equipment	2,108,760	2,752,657
Linen & Furnishing	6,648,310	3,322,947
Cutlery, Crockery & Glassware	1,318,362	1,612,901
<b>Total Net Carrying Amount of Property, Plant &amp; Equipment</b>	<b>1,999,612,214</b>	<b>2,015,801,601</b>

## 10.4

- a) The fair value of land and buildings was determined by means of a revaluation during the financial year 2015/2016 by Messrs P.P.T.Mohideen an independent value with reference to market based evidence. The results of such evaluation had been incorporated in the Financial Statements from its effective date which is 31 March 2016. The surplus arising from the revaluation had also been transferred to a revaluation reserve as at that date.
- b) The carrying amount of revalued assets that would have been included in the financial statements had the assets been carried at cost less depreciation, is as follows:

Class of Asset	Cost Rs.	Cumulative Depreciation If assets were at cost Rs.	Net Carrying Amount 2018 Rs.	Net Carrying Amount 2017 Rs.
Freehold Land	61,805,611	-	61,805,611	61,805,611
Buildings on Freehold Land	733,688,742	124,944,886	608,743,856	622,990,294
	<b>795,494,353</b>	<b>124,944,886</b>	<b>670,549,467</b>	<b>684,795,905</b>

- 10.5** During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 43,765,444/- (2017 -Rs. 105,994,405/-) for cash consideration.
- 10.6** Property, Plant & Equipment includes fully depreciated assets which are still in use having a gross carrying amount of Rs. 72,948,835/=(2017- Rs. 31,768,799/=)
- 10.7** Land and Buildings with a carrying value of Rs. 1,710,082,152/- are subject to a primary mortgage to Mercantile Investment and Finance PLC, as more fully described in Note 25.
- 10.8** With effect from 1 April 2012, the Company reviewed the useful life of each significant component of buildings. In the review process, the Company has taken the assistance of an independent professional value. Accordingly, depreciation was calculated for the year ended 31 March 2018 using a straight line method for each individual significant component of building.



Components included in buildings and building integrals:

- Buildings superstructure	70 years
- Bathroom Fittings	25 years
- Roof	40 years
- Flooring	25 years
- Elevators	20 years
- Gazebo Hut	50 years

## 11. INTANGIBLE ASSETS

	Computer Software	
	2018	2017
	Rs.	Rs.
<b>11.1 Cost</b>		
As at the beginning of the year	4,919,652	4,919,652
Incurred during the year	225,000	-
As at the end of the year	5,144,652	4,919,652
<b>Amortisation</b>		
As at the beginning of the year	4,065,675	3,206,871
Amortised during the year	571,023	858,804
As at the end of the year	4,636,698	4,065,675
<b>Net Book Value</b>		
As at the beginning of the year	853,977	1,712,781
As at the end of the year	507,954	853,977

## 12. INVENTORIES

	2018	2017
	Rs.	Rs.
Food and Beverage Inventories	9,543,682	7,631,555
Housekeeping and General Inventories	1,187,351	1,085,476
Uniforms	2,721,056	2,637,123
Others Consumables	4,198,619	4,258,375
Gift Boutique Inventories	2,008,901	1,661,398
	19,659,609	17,273,927
Less: Allowances for Obsolete Inventories	(2,418,201)	(1,511,058)
	17,241,408	15,762,869

# Notes to the Financial Statements contd.

## 13. TRADE AND OTHER RECEIVABLES

	2018 Rs.	2017 Rs.
Trade Receivables - Related Party (Note 13.1)	12,565,865	17,731,084
- Other	136,239,387	119,098,264
Less : Allowances for Doubtful Trade Receivables	(1,682,252)	(2,579,361)
	147,123,000	134,249,987
Other Receivables	1,165,815	1,386,471
Loans to Company Officers	1,222,562	842,573
	149,511,377	136,479,030

### 13.1 Trade due from Related Parties

Name of the Company	Relationship	2018 Rs.	2017 Rs.
Tangerine Tours (Pvt.) Limited	Other Related Party	12,565,865	17,731,084
		12,565,865	17,731,084

## 14. OTHER NON FINANCIAL ASSETS

	2018 Rs.	2017 Rs.
Prepayments and Advances	12,217,477	10,778,394
Other receivables	613,238	592,009
	12,830,716	11,370,403

## 15. OTHER FINANCIAL ASSETS

### 15.1 Available for Sale Investments

	No. of Shares		Directors Valuation **		Directors Valuation **	
	2018	2017	Cost 2018 Rs.	Cost 2018 Rs.	Cost 2017 Rs.	Cost 2017 Rs.
Non Quoted Equity Securities with Non Related Parties						
Fair View Hotel (Pvt) Ltd.- Related Party	1,800,000	1,800,000	18,000,000	18,000,000	18,000,000	18,000,000
Gross Carrying Value of Investments			18,000,000	18,000,000	18,000,000	18,000,000
Total Current Non Quoted Equity Securities			18,000,000	-	18,000,000	-

The Company has a 3% share holding in Fair View Hotel (Pvt) Ltd, which is also involved in the hoteliering business.

**15.2 Loans and Receivables**

## Short Term Investments

	Company	Relationship	2018 Rs.	2017 Rs.
Fixed Deposits	Mercantile Investments and Finance PLC	Other Related Party	194,170,533	170,599,537
			194,170,533	170,599,537

**15.3 Loans and Receivables**

## Amount due from Related Parties

Name of the Related Party	Relationship	2018 Rs.	2017 Rs.
Tangerine Beach Hotels PLC	Significant Investor	-	2,080,972
The Nuwara Eliya Hotels Co. PLC	Other Related Party	-	60,526
		-	2,141,498

**16. CASH AND BANK BALANCES**

	2018 Rs.	2017 Rs.
Cash at bank and in hand	177,992,639	114,805,233
	177,992,639	114,805,233

For the purposes of the cash flow statement, the year end cash and cash equivalents comprise of the following:

Cash and bank balances	177,992,639	114,805,233
Bank overdraft (Note 22)	(11,904,818)	(5,049,240)
	166,087,821	109,755,993

**17. STATED CAPITAL**

	Number of Shares	Ordinary Shares Rs.
At 31 March 2017	50,000,000	521,583,448
At 31 March 2018	50,000,000	521,583,448

**Ordinary Shares**

The holders of ordinary shares are entitled to receive dividends as declared from time to time on the residue of Profits and are eligible to participate in any surplus assets in a winding up. They are also entitled to one vote per share at meetings of the Company. There are no other preferences or restrictions on ordinary shares.

# Notes to the Financial Statements contd.

## 18. REVALUATION SURPLUS

	2018 Rs.	2017 Rs.
On: Property, Plant & Equipment		
As at the beginning of the year	1,034,216,100	1,032,666,814
Transfer to retained earning	-	(421,584)
Tax effect on surplus on revaluation	(71,414,415)	1,970,870
As at the end of the year	962,801,685	1,034,216,100

## 19. TRADE AND OTHER PAYABLES

	2018 Rs.	2017 Rs.
Financial Liabilities (Note 19.1)	36,076,007	33,645,984
Non Financial Liabilities (Note 19.2)	33,424,909	44,740,648
	69,500,916	78,386,632

### 19.1 Financial Liabilities

	2018 Rs.	2017 Rs.
Trade Payables	24,199,174	24,519,325
Service Charge Payable	7,436,675	5,406,282
Other Payables	4,440,158	3,720,377
	36,076,007	33,645,984

### 19.2 Non Financial Liabilities

	2018 Rs.	2017 Rs.
Advance received for reservations	8,264,611	23,985,110
Accrued expenses	3,277,492	3,394,027
VAT Payable	6,314,691	4,300,902
NBT Payable	1,902,513	1,374,911
EPF & ETF Payable	1,794,884	1,602,150
TDL payable	2,624,548	2,141,718
Refundable deposits	1,000,000	1,000,000
Other payables	8,246,169	6,941,830
	33,424,909	44,740,648

**20. AMOUNTS DUE TO RELATED PARTIES**

Name of the Related Party	Relationship	2018 Rs.	2017 Rs.
Security Ceylon (Pvt) Ltd.	Other Related Party	867,738	912,139
Tangerine Tours(Pvt.) Ltd.	Other Related Party	4,125,572	2,915,815
Mercantile Investments & Finance PLC	Other Related Party	115,691	-
Tangerine Beach Hotels PLC.	Significant Investor	1,333,514	-
		6,442,515	3,827,953

**21. EMPLOYEE BENEFIT LIABILITY**

	2018 Rs.	2017 Rs.
Balance as at the beginning of the year	27,428,821	22,810,079
Charge for the year (Note 21.1)	9,324,835	6,904,843
Payments during the year	(4,910,733)	(2,286,100)
Balance as at the end of the year	31,842,923	27,428,822

**21.1 Expenses on Defined Benefit Plan**

	2018 Rs.	2017 Rs.
Current Service Cost for the year	2,446,104	2,084,097
Interest cost for the year	3,428,603	2,737,209
	5,874,707	4,821,306
Actuarial (Gain) / Loss	3,450,128	2,083,537
	9,324,835	6,904,843

**21.2 Actuarial Assumptions**

	2018	2017
Discount rate	10.1%	12.5%
Salary increment	10.0%	10.0%
Mortality - A 67/70 Mortality Table issued by the Institute of Actuaries London		
Retirement age	55 years	55 years
Disability rate	Simple disability rate	

**Staff Turnover**

The staff turn over rate used in the valuation:

Executive category : 10.00% up to age 49 and thereafter zero

Non Executive category : 16.00% up to age 49 and thereafter zero

An actuarial valuation of the gratuity was carried out as at 31 March 2018 by Actuarial and Management Consultants (Pvt) Limited, a firm of professional actuaries. The valuation method used by the actuaries is the "Projected Unit Credit Method", recommended by LKAS 19 Employee Benefits.



# Notes to the Financial Statements contd.

## 21.3 Sensitivity of Assumptions Employed in Actuary Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measures.

The sensitivity of the Comprehensive Income Statement and the Statement of Financial Position is the effect of the assumed changes in discount rate & salary increment rate on the profit or loss & employment benefit obligation for the year.

31 March 2018

	Sensitivity Effect on Comprehensive Income Statement Increase / (Reduction) in results for the year	Sensitivity effect on employee benefit Obligation Increase / (Reduction) in the Liability
Increase/ (decrease) in Discount Rate		
1%	1,529,980	(1,529,980)
-1%	(1,677,661)	1,677,661
Increase/ (decrease) in Salary Increment Rate		
1%	(1,802,864)	1,802,864
-1%	1,671,665	(1,671,665)

31 March 2017

	Sensitivity Effect on Comprehensive Income Statement Increase / (Reduction) in results for the year	Sensitivity effect on employee benefit Obligation Increase / (Reduction) in the Liability
Increase/ (decrease) in Discount Rate		
1%	1,182,506	(1,182,506)
-1%	(1,290,231)	1,290,231
Increase/ (decrease) in Salary Increment Rate		
1%	(1,429,153)	1,429,153
-1%	1,329,728	(1,329,728)

## 21.4 Maturity Profile

	2018 Rs.	2017 Rs.
Distribution of defined benefit obligation over the future working life time		
Less than or equal 1 year	4,564,107	5,511,139
Over 1 year and less than or equal 2 years	6,605,395	5,713,442
Over 2 years and less than or equal 5 years	9,781,188	7,234,081
Over 5 years and less than or equal 10 years	7,290,750	6,101,452
Over 10 years	3,601,483	2,868,707
<b>Total</b>	<b>31,842,923</b>	<b>27,428,821</b>

## 22. INTEREST BEARING LOANS AND BORROWINGS

	2018 Rs.	2017 Rs.
<b>Current</b>		
Bank overdraft	11,904,818	5,049,240
Term Loans from Related Parties	478,414	1,911,768
	<u>12,383,232</u>	<u>6,961,008</u>
<b>Non-current</b>		
Term Loans from Related Parties	-	478,414
	-	478,414
<b>Total borrowings</b>	<u>12,383,232</u>	<u>7,439,422</u>

### 22.1 Term Loan - Mercantile Investments PLC - Related Party

	2018 Rs.	2017 Rs.
Balance as at beginning of the year	2,390,182	4,620,578
Repayment during the year	(1,911,768)	(2,230,396)
<b>Balance as at the end of the year</b>	<u>478,414</u>	<u>2,390,182</u>

Loan obtained	20,000,000
Interest rate	6%
Term	102 Months

#### Security:

Company has pledged its land and premises as security, by way of a primary mortgage, as more fully described in Note 25 to Mercantile Investment PLC, now known as Mercantile Investments & Finance PLC.

## 23. COMMITMENTS

### 23.1 Financial Guarantees

There are no financial guarantees given by the company as at the reporting date.

### 23.2 Capital Expenditure Commitments

There are no capital expenditure commitments as at the reporting date.

## 24. CONTINGENCIES

There are no significant contingencies as at the reporting date.

# Notes to the Financial Statements contd.

## 25. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged		Included under
		2018 Rs.	2017 Rs.	
Immovable Properties	First Mortgage	1,710,082,152	1,739,898,830	Property, Plant & Equipment

The outstanding balance of the loan to which above assets have been pledged as at 31 March 2018 was Rs. 478,414/- (2017- Rs. 2,390,182/-).

## 26. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

The following table provides the significant amount of transactions, which have been entered into with related parties for the relevant financial year.

### 26.1 Transactions with Related Parties

Transaction with entities having significant influence over the company

Company	Nature of Transactions	2018 Rs.	2017 Rs.
Transaction with entities having significant influence over the company - Recurring transactions			
Amount Receivable / (Payable) as at 31st March		(1,333,514)	2,080,972
Tangerine Beach Hotels PLC (Significant Investor)	Staff Quarters Rent	(612,245)	(691,837)
	Sewerage Treatment Plant rent	(2,343,340)	(2,549,781)
	Staff Meals	13,326,927	12,666,482
	Laundry Charges	16,818,540	6,469,593
	Water Bottles	(526,661)	-
	Over Booking Transfer	(1,341,062)	-
	Reimbursement of Expenses - (Net)	2,026,892	7,396,487
	Funds Transfers for settlements	(30,763,537)	(27,944,622)

### 26.2 Transactions with Key Management Personnel

Key Management Personnel (KMPs) are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel of the Company are the Board of Directors of the Company and personnel holding the Designation General Manager and above. Transactions with Key Management Personnel and transactions with the Close Family Members (CFMs) of the KMPs, if any, also have been taken into consideration in the following disclosure.

## a) Key Management Personnel Compensation

	2018 Rs.	2017 Rs.
Short-term employee benefits	6,362,625	6,143,375

**26.3 Transaction with other Related Parties - Recurring Transactions**

Transactions with entities that are significantly influenced by Key Management Personnel of the Company:

Some Key Management Personnel of the Company and their members of the families collectively have control directly or indirectly in certain entities with which the Company entered into the transactions, summarised as follows:

The Company carries out transactions with KMPs & their close family members in the ordinary course of its business on standard commercial terms.

Nature of Transaction	2018 Rs.	2017 Rs.
Amount receivable as at 31 March	206,736,398	188,391,147
Amount (payable) as at 31 March	(5,109,001)	(3,827,953)
Tour Operation	69,348,817	107,439,639
Operation & Marketing Fee	24,438,499	21,446,915
Reimbursement of Expenses	10,815,061	10,034,974
Settlement of Liability	41,183,864	42,521,946
Settlement of Receivable	77,570,920	109,142,521
Security Services	10,462,118	10,234,914
Sale of services	737,523	-
Repairs and Services to the Motor Vehicle	836,839	517,922
Head office rent	1,530,600	1,530,600
Finance Arrangements	1,911,768	2,230,396
Net movement in Fixed Deposits investments	22,322,382	3,736,864
Interest Income for Fixed Deposits	22,151,285	17,855,537
Interest Expense for the Loan	90,946	205,657
Installation & Services Rendered	-	2,759,527

\* The Company has pledged land and Buildings with a carrying value of Rs.1,710,082,152/- as security, by way of a primary mortgage, to obtain Rs. 20,000,000/- loan from Mercantile Investments & Finance PLC under concessionary rate of 6% granted by the Central Bank of Sri Lanka for Tsunami effected hotel.

There were no non recurring related party transactions during the year and all related party transactions have been conducted on an agreed commercial terms on and arm's length basis with respective parties.

**27. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

Financial instruments of the Company comprise of financial assets and financial liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The information presented herein represents the determination of fair values as at the reporting date.

# Notes to the Financial Statements contd.

## 27.1 Financial Instruments Carried at Fair Value

The Company does not have any financial instruments that are carried at Fair value as at the reporting date.

## 27.2 Determination of Fair Value and Fair Value Hierarchy

The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the disclosed fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the disclosed fair value that are not based on observable market data

## 27.3 Financial Instruments not Carried at Fair Value

Given below is a comparison, by class, of the carrying amounts and fair values of the company's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	Level	2018		2017	
		Carrying Value Rs.	Fair Value Rs.	Carrying Value Rs.	Fair Value Rs.
<b>Financial liabilities</b>					
Interest-bearing loans and borrowings (Note 22)	Level 2	12,383,232	12,382,900	7,439,422	7,423,468
		<u>12,383,232</u>	<u>12,383,900</u>	<u>7,439,422</u>	<u>7,423,468</u>

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not recorded at fair value in the financial statements:

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to trade and other receivables, cash and bank, interest bearing loans and borrowings & trade and other payables without a specific maturity.

### Interest-bearing loans and borrowings

Susahanaya Loan from Mercantile Investment and Finance PLC - Related Parties are obtained at the rate of 6%. this loan has been provided by the central bank through refinance scheme for re building of tsunami effected hotels within the country. Company uses discounted cash flow method to workout the fair value and AWPLR as at the reporting date has been used for the calculation.



## 27.4 Non Financial Assets Disclosed at Fair Value

2018	Method	Date of valuation	Level **	Value	unobservable Inputs	Average Price per perch/Sq.ft
Free hold land	Market Approach	31.03.2016	03	460,000,000	Estimated Price per Perch	475,000
Buildings	Market Approach	31.03.2016	03	1,250,000,000	Estimated Price per Sq.ft	7,000

2017	Method	Date of valuation	Level **	Value	unobservable Inputs	Average Price per perch/Sq.ft
Free hold land	Market Approach	31.03.2016	03	460,000,000	Estimated Price per Perch	475,000
Buildings	Market Approach	31.03.2016	03	1,250,000,000	Estimated Price per Sq.ft	7,000

\*\* Fair value measurement sensitivity to unobservable inputs - positive impact to the fair value

Valuation was carried out by professionally qualified independent valuer in compliance with Sri Lanka Accounting Standard - SLFRS 13 (Fair Value Measurement).

## 28. RISK MANAGEMENT

### 28.1 Introduction

The Company has exposure to the following risks from its use of financial instruments;

1. Credit Risk
2. Liquidity risk
3. Market risk

The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework, which includes developing and monitoring the Company's risk management policies.

The Audit Committee oversees how management monitors compliance with the risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by it.

### 28.2 Credit Risk

#### (a) Introduction

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

The maximum exposure to credit risk is represented by the carrying value of each financial asset on the reporting date.

#### (b) The maximum exposure to credit risk at the reporting date

	Note	2018 Rs.	2017 Rs.
Cash and cash equivalents	16	177,992,639	114,805,233
Trade and other receivables	13	149,511,377	136,479,030
Fixed Deposits	15.2	194,170,533	170,599,537
Amounts Due from Related Parties	15.3	-	2,141,498
		<b>521,674,549</b>	<b>424,025,297</b>

# Notes to the Financial Statements contd.

## (c) The ageing of the trade receivable as at the reporting date

	2018 Rs.	2017 Rs.
<b>Gross Receivable</b>		
Not past due	18,759,249	13,468,132
Past due 0-30 days	76,898,294	58,709,832
Past due 31-60 days	32,818,706	44,993,465
Past due 61-90 days	13,522,289	14,182,060
Past due 90-120 days	1,760,203	1,498,007
Past due 120-180 days	3,517,880	1,896,637
More than 180 days	1,528,631	2,081,215
<b>Total Gross Receivable</b>	<b>148,805,252</b>	<b>136,829,348</b>
<b>Impairment Allowance*</b>		
Allowance for Impairment	(1,682,252)	(2,579,361)
<b>Carrying Value</b>	<b>147,123,000</b>	<b>134,249,987</b>
<b>Movement in the Impairment Allowance*</b>		
Balances at 1 April	2,579,361	2,426,342
Impairment recognised	(897,109)	153,019
<b>Balances at 31 March</b>	<b>1,682,252</b>	<b>2,579,361</b>

## 28.3 Liquidity Risk

### (a) Introduction

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

### (b) The following summarises the maturity profile of the company's financial liabilities based on contractual undiscounted payments:

	Contractual maturities of financial liabilities				
	Total	Up to 3 Months	3-12 Months	1 - 5 Years	More than 5 Years
	Rs.	Rs.	Rs.	Rs.	Rs.
<b>31 March 2018</b>					
Financial Liabilities	36,076,007	36,076,007	-	-	-
Term Loan	482,708	482,708	-	-	-
Bank Overdraft	11,904,818	11,904,818	-	-	-
Amounts Due to Related Parties	6,442,515	6,442,515	-	-	-
	<b>54,906,048</b>	<b>54,906,048</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>31 March 2017</b>					
Financial Liabilities	33,645,984	33,645,984	-	-	-
Term Loan	2,485,427	511,306	1,491,413	482,708	-
Bank Overdraft	5,049,240	5,049,240	-	-	-
Amounts Due to Related Parties	3,827,953	3,827,953	-	-	-
	<b>45,008,604</b>	<b>43,034,483</b>	<b>1,491,413</b>	<b>482,708</b>	<b>-</b>

**(c) Undrawn committed borrowing facilities**

There are no undrawn borrowing facilities available to the Company as at the reporting date.

**28.4 Market Risk****(a) Introduction**

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to the changes in market prices. Mainly the changes in market prices, such as foreign exchange rates and interest rates will affect the company's income or the value of its holdings of financial instruments.

**(b) Foreign currency risk**

The Company is exposed to foreign currency risk on revenue and receivables and cash deposits denominated in currencies other than the functional currency of the Company. The currencies giving rise to this risk are primarily US dollars, Sterling pounds and Euro. The Company Finance team closely monitors the exchange rate movement, for necessary action.

If market rate appreciate or depreciate by 1% the effect of the same to the exchange gain/(loss) would be:

Currency	Sensitivity Effect on Comprehensive Income increase/ (decrease) in Results for the Year	
	+1%	-1%
Euro (€)	1,798,674	(1,798,674)
Dollar (\$)	293,733	(293,733)
Sterling Pound (£)	405,143	(405,143)
	2,497,550	(2,497,550)

**(c) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's borrowing portfolio consist with fixed rate borrowings thus company does not have an interest rate risk as at the reporting date.

**29. CAPITAL MANAGEMENT**

The company's capital structure consists comprising share capital, reserves and retained earnings, as disclosed in the statement of changes in equity.

**30. EVENTS OCCURRING AFTER THE REPORTING DATE**

There have been no material events occurring after the reporting date that require adjustments to or disclosure in the financial statements. The Directors approved a first & final Dividend of Rs. 1.00 per Share for the Ordinary Shareholders for the Financial Year 2017/2018.

# Investor Information

Shareholding	No.of Members	Shareholding	%
1 - 1000	1200	184,112	0.37%
1001 - 10000	192	724,259	1.45%
10001 - 100000	75	2,213,492	4.43%
100001 - 1000000	31	8,496,150	16.99%
Over 1000000	7	38,381,987	76.76%
	1505	50,000,000	100.00%

Category	As at 31 March 2018		As at 31 March 2017	
	Shareholding	%	Shareholding	%
Resident	47,286,175	94.57%	47,311,175	94.62%
Non Resident	2,713,825	5.43%	2,688,825	5.38%
	50,000,000	100.00%	50,000,000	100.00%

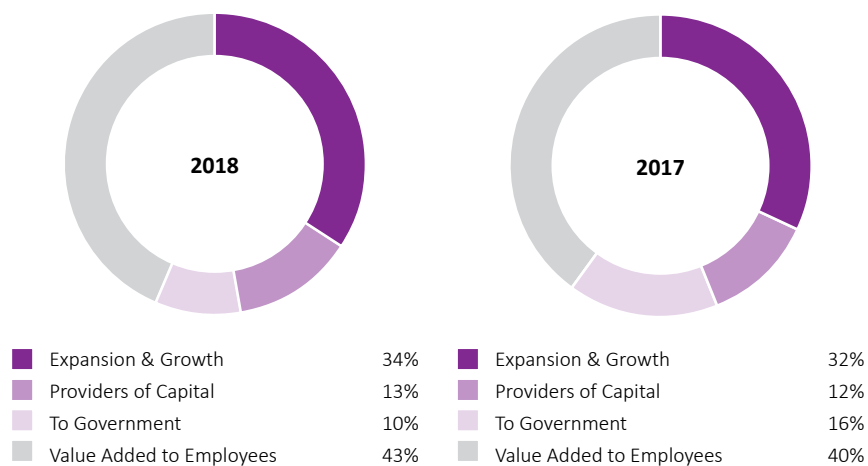
Category	As at 31 March 2018		As at 31 March 2017	
	Shareholding	%	Shareholding	%
Individuals	15,116,411	30.23%	15,130,131	30.26%
Corporate	34,883,589	69.77%	34,869,869	69.74%
	50,000,000	100.00%	50,000,000	100.00%

Shareholding	2018 Rs.	2017 Rs.
Market Value Per Share as at 31st March	18.00	21.90
Highest Market Value Per Share	28.00	26.5
Lowest Market Value Per Share	16.10	19.6
<b>Public Holding</b>		
No. of Ordinary Shares	6,731,215	6,499,077
Percentage	13.46%	13.00%

20 Largest Shareholders	2018		2017	
	No. of Shares held	%	No. of Shares held	%
Tangerine Beach Hotels PLC	14,202,786	28.41%	14,202,786	28.41%
Mercantile Investments and Finance PLC	8,576,700	17.15%	8,576,700	17.15%
Tangerine Tours (Pvt) Ltd	3,907,575	7.82%	3,907,575	7.82%
Mr. M J Fernando	3,649,403	7.30%	3,649,403	7.30%
The Nuwara Eliya Hotels Co. PLC	2,750,000	5.50%	2,750,000	5.50%
Mr. G L A Ondaatjie	2,742,700	5.49%	2,742,700	5.49%
Mr. M U Maniku	2,552,823	5.11%	2,552,823	5.11%
Mercantile Fortunes (Pvt) Ltd	829,870	1.66%	829,870	1.66%
Nilaveli Beach Hotels (Pvt) Ltd	707,375	1.41%	707,375	1.41%
Security Ceylon (Pvt) Ltd	650,000	1.30%	650,000	1.30%
City Properties (Pvt) Ltd	558,428	1.12%	558,428	1.12%
Mr. T J Ondaatjie	500,000	1.00%	500,000	1.00%
Mrs. K M N Perera	414,542	0.83%	414,542	0.83%
N Vaitilingam & Co. (Pvt) Ltd	362,498	0.72%	362,498	0.72%
Mr. J A S S Adihetty	299,050	0.60%	299,050	0.60%
Mr. N H V Perera	265,795	0.53%	265,795	0.53%
People's Leasing & Finance PLC/ L P Hapangama	250,800	0.50%	245,735	0.49%
Mr. D C Fernando	250,000	0.50%	250,000	0.50%
Ceylon Galvernizing Industries Ltd	249,998	0.50%	249,998	0.50%
Renuka Consultants & Services Limited	239,547	0.48%	239,547	0.48%

# Value Added Statement

For the Year ended 31st March	2018	2017
Turnover	656,686,102	582,319,233
Less- Cost Of Sales	(393,875,255)	(285,668,352)
Value added	262,810,847	296,650,879
Other Income	47,938,162	27,286,877
<b>Total Investment Created</b>	<b>310,749,009</b>	<b>323,937,756</b>
Value Added to Employees	135,016,358	128,111,819
Providers of Capital	40,000,000	40,000,000
To Government	29,232,273	50,479,201
	204,248,631	218,591,020
For Expansion & Growth		
Retained Earnings	47,772,942	46,739,315
Depreciation & Amortisation	58,272,436	58,587,422
	106,500,378	105,326,737
	310,749,009	323,917,756





# Decade at a Glance

Year ended 31st March	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
<b>Trading Results</b>										
Turnover Net of Tax	656,686	582,319	637,372	527,742	640,908	594,593	572,394	462,986	408,497	325,565
Operating profit/(Loss) before interest exp. and other income	85,520	69,723	144,464	19,327	91,003	100,502	125,633	96,570	86,681	42,495
Profit/(Loss) before Taxation	133,335	96,744	173,764	23,565	118,865	114,047	149,340	111,202	95,908	40,301
Taxation provision	(45,562)	(10,005)	(25,246)	(1,214)	(19,514)	(14,549)	(22,841)	(2,871)	(17,253)	(5,710)
Profit after taxation on Ordinary activities	87,773	86,739	148,517	22,351	99,351	99,498	126,499	108,332	78,655	34,591
<b>Share Capital &amp; Reserve</b>										
Issued Share Capital	521,583	521,583	521,583	521,583	521,583	521,583	521,583	521,583	521,583	521,583
Revaluation Reserve	962,802	1,034,216	1,032,667	694,331	705,172	723,237	571,608	575,034	565,727	306,855
Revenue Reserve	736,090	691,284	646,207	519,981	485,335	446,461	371,213	272,422	184,090	136,841
Total Equity	2,220,475	2,247,084	2,200,457	1,735,895	1,712,091	1,691,281	1,464,405	1,369,039	1,271,400	965,279
<b>Assets Employed</b>										
Current Assets	551,746	465,598	464,102	280,095	334,754	333,982	344,107	256,505	225,046	156,063
Current Liabilities	(89,009)	(89,176)	(94,313)	(75,386)	(108,003)	(89,383)	(107,888)	(78,749)	(79,912)	(62,181)
Working Capital	462,737	376,423	369,789	204,710	226,751	244,599	236,218	177,756	145,134	93,882
Non Current Assets	2,018,120	2,034,656	1,992,090	1,659,293	1,613,933	1,572,091	1,331,309	1,294,624	1,246,456	967,531
Non- Current Liabilities	(260,382)	(163,994)	(161,421)	(128,107)	(128,593)	(125,409)	(103,122)	(103,341)	(120,190)	(96,134)
	2,220,475	2,247,084	2,200,457	1,735,895	1,712,091	1,691,281	1,464,405	1,369,039	1,271,400	965,279
<b>Ratio &amp; Statistics</b>										
Gearing Ratio (Times)	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.01	0.04
Current ratio (Times)	6.20	5.22	4.92	3.72	3.10	5.25	3.19	3.26	2.82	2.51
Market Price per Share	18.00	21.90	30.50	36.00	30.00	35.00	55.00	70.00	65.50	31.75
Earnings per Share	1.76	1.73	2.97	0.45	1.99	1.99	2.53	2.17	1.55	0.63
Net assets per Share	44.41	44.94	44.01	34.72	34.24	33.83	29.29	27.38	25.43	18.91
Interest Cover (Times)	1,081.26	365.13	482.34	49.39	203.54	148.74	171.81	95.16	85.58	23.78
Return on Shareholder's Funds (%)	3.95	3.86	6.75	1.29	5.80	5.88	8.64	7.91	6.19	3.65
Return on Total Assets (%)	3.42	3.47	6.05	1.15	5.10	5.22	7.55	6.98	5.42	3.24
Price Earning Ratio (Times)	10.23	12.66	10.27	80.00	15.07	17.59	21.74	32.26	42.26	50.40

# Real Estate Portfolio

Company & Location	Building in ( Sq.Ft.)		Land in Acres		Net Book Value	
			Free hold Property		Rs.'000	Rs.'000
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
Royal Palms Beach Hotels PLC, No.35, OFF.De Abrew Drive, Kalutara North, Maha Waskaduwa, Kalutara	175,075	175,075	6.0	6.0	1,710,082	1,733,637

# Notice of Meeting

NOTICE IS HEREBY GIVEN that the 26th Annual General Meeting of Royal Palms Beach Hotels PLC, will be held on 28th September 2018 at 11.45 a.m. at Tangerine Beach Hotel, Kalutara to transact the following business.

1. To receive and adopt the Report of the Directors and the Statements of Accounts for the year ended 31st March 2018, with the Report of the Auditors thereon.
2. To elect Mr. G G Ondaatjie and Mr. J D Vaz who retire in terms of Article 88 (i) of the Articles of Association of the Company.
3. To elect Mr. G L A Ondaatjie, Mr. M J Fernando, Mr. M Keerthiratne, Mr. A de Zoysa and Mr. M U Maniku in terms of Section 211 of the Companies Act No.07 of 2007. The Company has received special notice of intention to pass the following resolutions as ordinary resolutions.
  - a. "Resolved that the age limit of 70 years referred to in Sections 210 of the Companies Act No.07 of 2007 shall not be applicable to Mr. George Lawrence Andrew Ondaatjie who is 83 years of age and whose appointment as a Director of the Company be and is hereby approved and who is elected a Director of the Company notwithstanding the provisions of the said Section 210 of the Companies Act."
  - b. Resolved that the age limit of 70 years referred to in Sections 210 of the Companies Act No.07 of 2007 shall not be applicable to Mr. Merrill Joseph Fernando who is 88 years of age and whose appointment as a Director of the Company be and is hereby approved and who is elected a Director of the Company notwithstanding the provisions of the said Section 210 of the Companies Act."
  - c. "Resolved that the age limit of 70 years referred to in Sections 210 of the Companies Act No.07 of 2007 shall not be applicable to Mr. Mihindu Keerthiratne who is 78 years of age and whose appointment as a Director of the Company be and is hereby approved and who is elected a Director of the Company notwithstanding the provisions of the said Section 210 of the Companies Act."
  - d. Resolved that the age limit of 70 years referred to in Sections 210 of the Companies Act No.07 of 2007 shall not be applicable to Mr. Ajita de Zoysa who is 75 years of age and whose appointment as a Director of the Company be and is hereby approved and who is elected a Director of the Company notwithstanding the provisions of the said Section 210 of the Companies Act."
  - e. Resolved that the age limit of 70 years referred to in Sections 210 of the Companies Act No.07 of 2007 shall not be applicable to Mr. Mohamed Umar Maniku who is 71 years of age and whose appointment as a Director of the Company be and is hereby approved and who is elected a Director of the Company notwithstanding the provisions of the said Section 210 of the Companies Act."
4. To authorize the Directors to determine the remuneration of the Auditors, Messrs. Ernst & Young who are deemed to have been reappointed as Auditors in terms of Section 158 of the Companies Act No.7 of 2007.
5. To authorize the Directors to determine payments for charitable and other purposes for year 2018/19.

By Order of the Board,

*(Sgd.)*

Mercantile Investments and Finance PLC  
Secretaries

Colombo  
24 August 2018

## Notes:

A member entitled to attend and vote at the meeting is entitled to appoint a proxy (whether a member or not) to attend and vote instead of him. A form of proxy is enclosed with the Report for this purpose and Shareholders who are unable to attend the meeting in person are requested to kindly complete and return such form of proxy in due time, in accordance with the instructions noted on the form of proxy.









# Form of Proxy

I/We .....  
of .....

being a member/members of ROYAL PALMS BEACH HOTELS PLC, do hereby appoint;

..... of .....

..... or failing him/her

- |                                    |                |
|------------------------------------|----------------|
| George Lawrence Andrew Ondaatjie   | or failing him |
| Angeline Myrese Ondaatjie          | or failing her |
| Gerard George Ondaatjie            | or failing him |
| Travice John Ondaatjie             | or failing him |
| Nawagamuwage Hasantha Viraj Perera | or failing him |
| Mohamed Umar Maniku                | or failing him |
| Merill Joseph Fernando             | or failing him |
| Ajita de Zoysa                     | or failing him |
| Mihindu Keerthiratne               | or failing him |
| John Damasene Vaz                  | or failing him |
| Prasanna Senani Rajiv Casie Chitty |                |

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 28th September 2018 at 11.45 a.m. at Tangerine Beach Hotel Kalutara, 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 Directors and the Statement of Accounts for the year ended 31st March 2018, with the Report of the Auditors there on.		
(2)	To elect Mr. G G Ondaatjie retiring in terms of Article 88 (i) of the Articles of Association of the Company.		
(3)	To elect Mr. J D Vaz retiring in terms of Article 88(i) of the Articles of Association of the Company.		
(4)	To elect Mr. G L A Ondaatjie retiring in terms of Section 211 of the Companies Act No.7 of 2007		
(5)	To elect Mr. M J Fernando in terms of Section 211 of the Companies Act No.7 of 2007.		
(6)	To elect Mr. M Keerthiratne in terms of Section 211 of the Companies Act No.7 of 2007		
(7)	To elect Mr. A de Zoysa in terms of Section 211 of the Companies Act No.7 of 2007		
(8)	To elect Mr. M U Maniku in terms of Section 211 of the Companies Act No.7 of 2007		
(9)	To authorize the Directors to determine the remuneration of the Auditors Messrs. Ernst & Young, Chartered Accountants who are deemed to have been reappointed as Auditors in terms of Section 158 of the Companies Act No.7 of 2007.		
(10)	To authorize the Directors to determine payments for charitable and other purposes for the year 2018/19		

As witness my/our hand this .....day of .....2018

.....  
Signature of Shareholder/s

Note: Please delete the inappropriate words.  
*(Instructions as to completion are noted on the reverse hereof)*

**Instructions as to Completion**

1. Kindly perfect the form of proxy, after filling legibly your full name and address and 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.
4. The completed form of proxy should be deposited at the Registered Office of the Company at No.236, Galle Road, Colombo 3, 48 hours before the time appointed for the meeting.

# Corporate Information

## Name of the Company

Royal Palms Beach Hotels PLC.

## Status & Legal Form

Public company with limited liability  
Incorporated in Sri Lanka on 20th May 1992.

Company Registration No.  
PQ 167

## Tax Payer Identification Number

114092118

## VAT Registration Number

114092118 7000

## Communication Registered Office

236, Galle Road, Colombo 03, Sri Lanka  
P.O. Box 195, Colombo  
Tel : 2343720-7  
Fax : 2434524, 2448279  
E-mail : tangerinetours@mi.com.lk  
Website : www.tangerinehotels.com

## Hotel

Royal Palms Beach Hotel, St.Abrew's Road,  
Nagashandiya, Waskaduwa.  
Tel : 034-2228113-7  
Fax : 034-2228112  
E-mail : info@royalpalms.lk

## Secretaries

Mercantile Investments & Finance PLC

## Remuneration Committee

Chairman – N.H.V.Perera  
R.S.Weerawardena (Deceased on 07/07/2018)  
P S R Casie Chitty

## Audit Committee

Chairman – N.H.V.Perera  
R.S.Weerawardena (Deceased on 07/07/2018)  
P S R Casie Chitty

## External Auditors

Ernst & Young  
CHARTERED ACCOUNTANTS

## Internal Auditors

SJMS Associates  
CHARTERED ACCOUNTANTS

## Bankers

Hatton National Bank PLC  
Commercial Bank of Ceylon PLC

## Board of Directors

Deshabandu George L.A. Ondaatjie Chairman & Joint Managing Director  
A.M. Ondaatjie Joint Managing Director  
G.G.Ondaatjie  
T.J. Ondaatjie  
R.S.Weerawardena (Deceased on 07/07/2018)  
N.H.V.Perera  
M.Keerthiratne  
A.N.Esufally (Resigned on 29/11/2017)  
M.U.Maniku  
M.J.Fernando  
A.De.Zoysa  
P S R Casie Chitty  
J.D.Vaz

## Corporate Management

Ravi Kurukulasooriya	General Manager
Dayan Ganegoda	Resident Manager
M.I. Shahabdeen	Group Financial Controller
Manil Galagoda	Group Engineer
Ravi Fernando	Group Accountant
Nelson Mayadunnage	Finance Controller
J.D.Vaz	Director/ Manager Finance & Administration
Menaka Fernando	Chief Accountant

## Management Team

Ravi Kurukulasooriya	General Manager
Dayan Ganegoda	Resident Manager
Nelson Mayadunnage	Finance Controller
Menaka Fernando	Chief Accountant
Y.D.K.Chandrasiri	Maintenance Engineer
Anjana Gunawardene	Front Office Manager
Bandula Priyantha	Executive Chef
Janatha Kumara	Executive Housekeeper
Priyanka Liyanage	Cost Controller
Sarath Liyanage	Group Purchasing Manager
Praboth Jayaweera	Credit Manager
Priyanka Liyanage	Cost Controller

Concept & Designed by



Printed by Printel (Pvt) Ltd



[www.tangerinehotels.com](http://www.tangerinehotels.com)