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NOTICE OF MEETING

THE THIRTY EIGHTH ANNUAL GENERAL MEETING OF SERENDIB HOTELS LIMITED will be held at the Liberty Ballroom 'B' Holiday Inn Colombo, 30, Sir Mohamed Macan Markar Mawatha Colombo 3 on **WEDNESDAY 05 JULY 2006** at 3.45 p.m. for the following purposes:

1. To receive, consider and adopt the Report of the Directors and the Statement of Accounts for the year ended 31 March 2006 with the Report of the Auditors thereon.
2. To re-elect as a Director, Mr. E. J. de Soysa who retires by rotation in terms of Article 84 of the Articles of Association of the Company.
3. To re-elect as a Director, Mr. H. N. Esufally who retires by rotation in terms of Article 84 of the Articles of Association of the Company.
4. To re-appoint Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and authorize the Directors to determine their remuneration.
5. To authorize Directors to determine and make contributions to charities.
6. To consider any other business of which due notice has been given.

By Order of the Board
SERENDIB HOTELS LIMITED

HEMAS CORPORATE SERVICES (PRIVATE) LIMITED
Secretaries

Colombo
23 May 2006

Notes:

- (i) A member unable to attend is entitled to appoint a Proxy to attend and vote on his/her behalf. A Form of Proxy is attached for this purpose.
- (ii) A Proxy need not be a member of the Company.
- (iii) In order to be valid, the completed Proxy Form should reach the Registered Office of the Company not less than 48 hours before the meeting.

BOARD OF DIRECTORS



A N Esufally

Chairman

Appointed to the Board in 1994 and appointed as Chairman of the Company in 2002. A Fellow of the Institute of Chartered Accountants (England & Wales) and an Associate Member of the Institute of Chartered Accountants of Sri Lanka. Counts over 25 years experience in the Tourism Industry. Other Directorships include Hemas Group, Stafford Hotels Ltd., Hotel Sigiriya Ltd., Printcare (Ceylon) Ltd., and several other Companies.



E J De Soysa

Deputy Chairman

Appointed to the Board in 1990. Other Directorships include Stafford Hotels Ltd, Hotel Sigiriya Ltd., Felix Hotels Ltd., and several other Companies. Over 40 years association in the Tourism and Leisure Industries.



A R Gamage (Ms)

Appointed to the Board in 1994. A Fellow of the Chartered Institute of Management Accountants U.K. Other Directorships include Stafford Hotels Ltd., Hotel Sigiriya Ltd., and Wicks Advertising & Marketing Ltd.



H N Esufally

Appointed to the Board in 2003. Holds a BSc. (Hons) Degree in Electronics from the University of Sussex, UK. Other Directorships include the Hemas Group, Stafford Hotels Ltd., Hotel Sigiriya Ltd., and other Companies.



B S M De Silva

Appointed to the Board in 1990. Counts over 20 years experience in the Tourism & Leisure Industry. Has extensive experience in the Spice Industry and is the current Chairman of the Spice Council. Other Directorships include Stafford Hotels Ltd, Hotel Sigiriya Ltd., Intercom Group of Companies and several other Companies.



M S Fonseka (Ms)

Appointed to the Board in 1997. A Fellow of the Chartered Institute of Management Accountants U.K. A Member of the Certified Management Accountants Australia and A Member of the Institute of Directors. Other Directorships include Hemas Holdings and several other Companies in the Hemas Group, Stafford Hotels Ltd., Hotel Sigiriya Ltd., etc.



J C L de Mel

Appointed to the Board in 2002. Other Directorships include Hemas Holdings, Delmege Forsyth & Co. Ltd. etc.

CHAIRMAN'S REVIEW

Industry Overview

World Tourism continues to grow at a robust rate recording the highest ever figure of 808 million arrivals for 2005. This represents an increase of 6% when compared to 2004. Gross revenues for 2005 have increased by 19% to US\$ 623 billion.

The World Tourism Organisation (WTO) states that the South Asian region is the smallest in the WTO's regions showing consistent strong growth. WTO projects a growth rate of 6.7% for 2006 for long-haul travel to South Asia. The WTO 2020 vision identifies India, Iran, Nepal, **Sri Lanka** and Maldives as the top inbound destinations in South Asia.

Despite the Indian Ocean Tsunami, international tourist arrivals into the South Asian region was 7.9 million in 2005, representing a growth rate of 4%. However, Sri Lanka had a lackluster performance recording a decline in the year 2005 as compared to 2004 of 3% in terms of **arrivals** and a decline of 12.9% in terms of **gross revenues**. Whilst the Tsunami had a serious impact on arrivals, the recovery was slow and delayed as a result of the inadequate marketing and promotion of Sri Lanka in the key generating markets.

Although the total arrival figures show a decline of only 3%, in reality the drop in 'tourist' arrivals is much greater. This is reflected in the drop of 'foreign guest nights' in the resort hotels showing a drop in occupancy in the region of 45%. It is this figure which correctly reflects the problems the industry underwent.

The hotel industry is virtually 100% owned by the private sector which is looking to play a more pro-active role in it's destiny and in the key areas that will grow and strengthen the industry. One of the key elements was the 'Tourism Act' which was passed unanimously in Parliament. The Act envisages the restructuring of the current institutions which govern the industry. For the Act to become law, it now only awaits the Hon. Minister of Tourism's signature nominating the date from which it will be implemented. We call upon the Hon. Minister to urgently facilitate the implementation of the Tourism Act.

His Excellency the President, in his vision statement "*Mahinda Chintana*" has targeted tourist arrivals to grow to 1.5 million visitors by 2010. If this goal is achieved, it will result in a significant increase in both direct and indirect employment and FDI.

We call upon the stakeholders in the public sector to work together with the united private sector in achieving this laudable goal.

Hotel Operations

The 14 rooms in the new block of the hotel overlooking the pool, which were damaged by the Tsunami, were completely upgraded with new bathrooms, furniture and fittings and are now sold as superior rooms. These rooms have been well accepted in the market, and yield very high room rates. The rest of the hotel continues to be maintained at a very high standard and today it rates as one of the leading resort 3+ star properties on the coast.

Company Performance

Very poor occupancy levels in summer, resulted in the hotel making a Rs. 13.2M loss before depreciation and tax at the end of summer with an occupancy of 47%. From then onwards, it was an up-hill task to mitigate these accrued losses, and it was only due to the spurt in the last three months of the financial year that the hotel was able to just about breakeven, wiping off the accumulated losses. The hotel ended up with a net revenue of Rs.121.2M. The year-round occupancy was 58% and the profit from operating activities was a reasonable Rs.17.8M. However, the large quantum of finance charges amounting to Rs.17.3M eroded this down to Rs.0.5M profit before tax. With the revaluation of properties and other additions the depreciation has also increased and eventually the hotel ended up with a nominal Rs.0.6M loss after taxation.

Group Performance

The performance of the two subsidiary companies were some what similar, where Hotel Sigiriya ended up with a year-round occupancy of 43% and a net profit after taxation of Rs.0.6M. Stafford Hotels on the other hand fared relatively better, since it was in a position to off set the drop in foreign market share with alternate segments, such as Airline Stop Over Business, Corporate Seminars and Conferences, and Airport Connecting Passenger Service. As a result, Stafford Hotels was able to end the financial with a reasonable Rs.10.5M profit after taxation.

With the consolidation of these two subsidiaries, the overall consolidated net revenue was Rs.393.6M and the profit from operating activities was Rs.41M. On this basis, profit from ordinary activities before tax was Rs.6.8M and after tax Rs.0.6M showing a marginal breakeven situation .

Future Prospects

At the time of writing this report, immediately after the suicide bomb attack at the Army Head Quarters , there has been considerable worry about how this incident will affect tourism. So far, there have been no major cancellations, except in the city hotels. Travel advisories have not been radically changed. Therefore, we expect a strong showing for summer 2006 to be still very much a reality provided, there are no further serious security threats.

For the tourism industry to prosper, an environment of peace should prevail in our country, where we can all look forward to prosperity and economic growth.

Appreciation

My thanks and appreciation goes out to the newly appointed General Manager, Mr Telson Fernando and the general staff of the hotel together with Mr Srilal Miththapala, CEO of Serendib Leisure Management and the management staff at the head office. To my colleagues on the Board my sincere thanks go out for their support and guidance, and also to all the shareholders for their continued faith in the company.

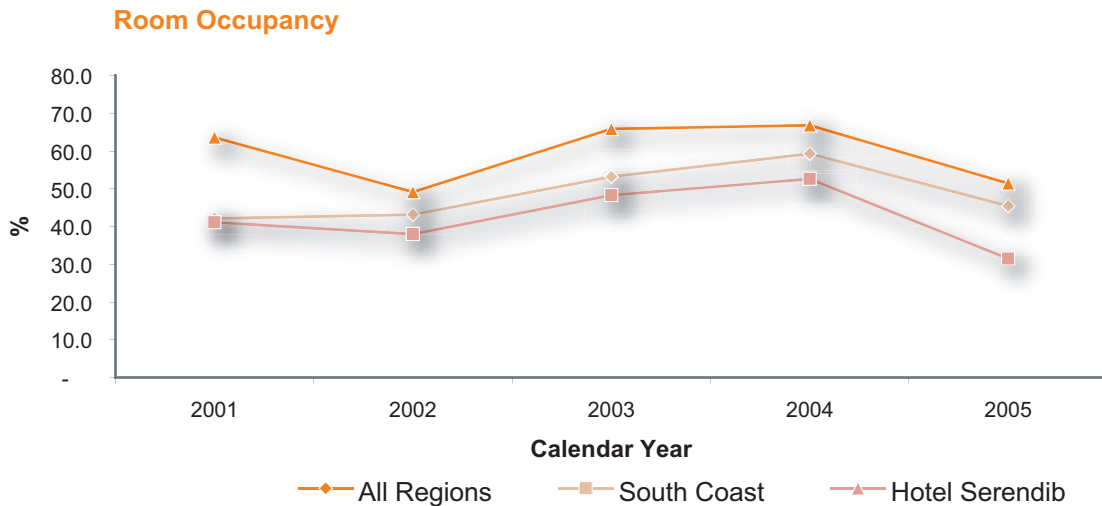


Abbas Esufally
Chairman

23 May 2006

TOURIST ARRIVALS BY COUNTRY OF RESIDENCE

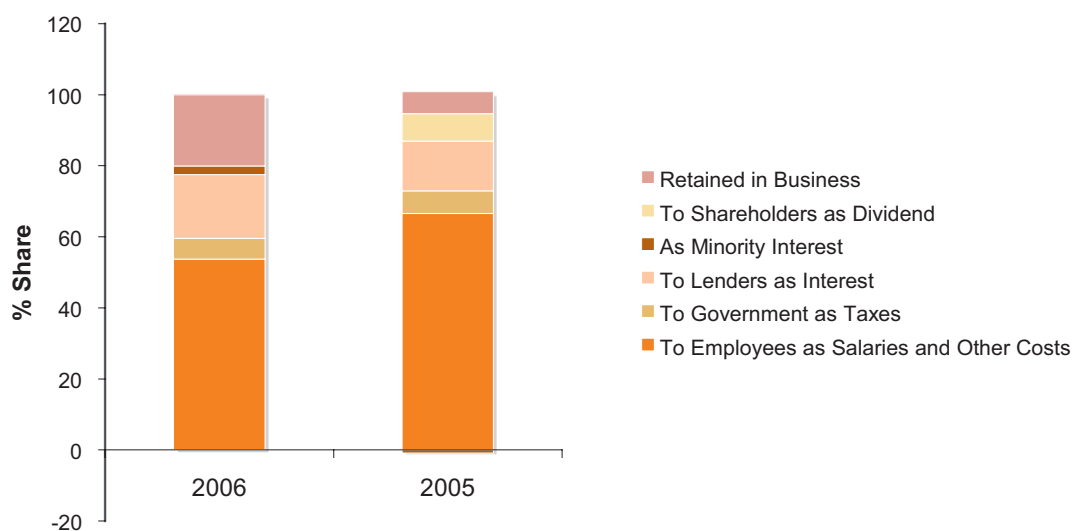
CALENDER YEAR	2001	2002	2003	2004	2005
NATIONALITY					
North America	15,983	20,004	25,099	29,759	46,457
Latin America & The Caribbean	429	549	636	741	705
Western Europe	203,984	200,676	255,179	284,440	227,191
Eastern Europe	7,065	8,046	10,600	14,336	9,290
Middle East	5,544	6,462	6,759	10,463	10,236
Africa	952	1,545	1,925	1,855	2,340
Asia	89,732	142,578	177,377	198,068	223,351
Australasia	13,105	13,311	23,067	26,540	29,738
TOTAL	336,794	393,171	500,642	566,202	549,308
ACCOMMODATION CAPACITY (ROOMS)					
South Coast	5,382	5,504	5,521	5,632	4,431
All Regions	13,626	13,818	14,137	14,322	13,162
OCCUPANCY (%)					
All Regions	42.1	43.1	53.2	59.3	45.4
South Coast	41.1	38.0	48.3	52.6	31.5
Hotel Serendib	63.6	49.1	65.9	66.8	51.4



STATEMENT OF VALUE ADDED (CONSOLIDATED)

Year ended 31 March	2006 Rs.000's	2005 Rs.000's
Value Added		
Turnover	397,441	337,375
Add: other income	3,594	2,800
Total income	401,035	340,175
Cost of material & services purchased	(210,934)	(197,962)
Total value added	190,101	142,213

Distribution of Value Added	% Share		% Share	
To Employees as Salaries and Other Costs	54	102,114	67	94,673
To Government as Taxes	6	11,036	6	9,117
To Lenders as Interest	18	34,202	14	19,848
As Minority Interest	2	4,649	(1)	(1,182)
To Shareholders as Dividends	-	-	8	11,025
Retained in Business	20	38,100	6	8,732
	100	190,101	100	142,213

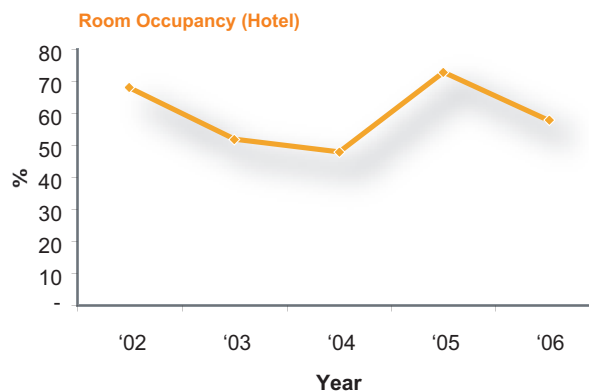
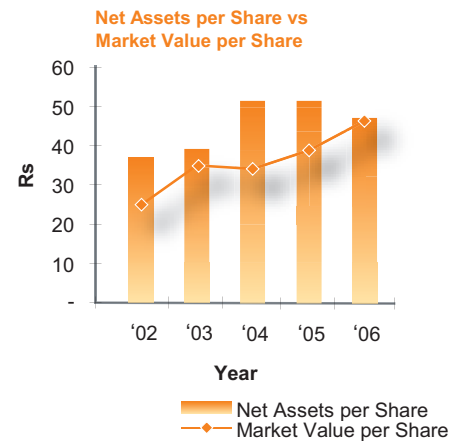
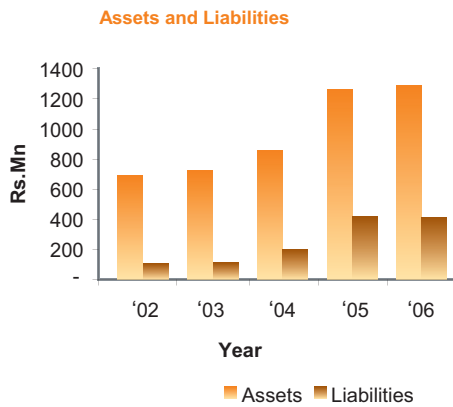
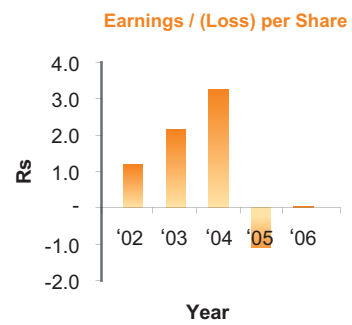
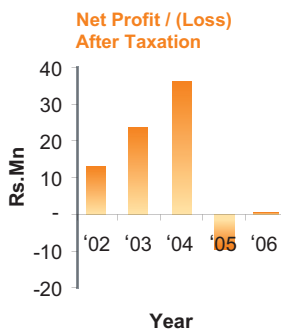
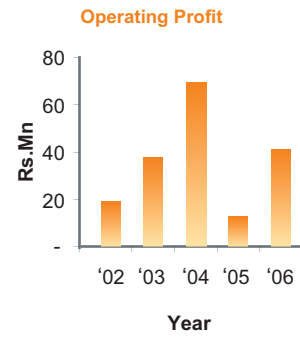
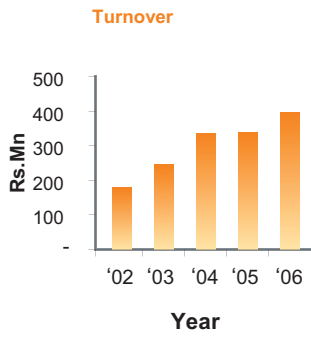


TEN YEAR FINANCIAL REVIEW (CONSOLIDATED)

Year ended 31 March (Figures in Rs.'000 unless otherwise stated)	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Trading Results										
Turnover	397,441	337,375	337,198	245,036	177,925	238,377	238,597	116,682	92,412	69,940
Profit/(Loss) from Ordinary Activities Before Tax	6,803	(7,210)	62,312	34,440	14,363	45,686	63,549	41,609	8,780	(9,621)
Income Tax Expense	(1,550)	(5,932)	(9,541)	(5,915)	(1,478)	(6,507)	(1,233)	(3,701)	(2,727)	2,000
Extra Ordinary Items	-	2,296	-	-	-	-	-	-	-	-
	5,253	(10,846)	52,771	28,525	12,885	39,179	62,316	37,908	6,053	(7,621)
Minority Interest	(4,649)	1,182	(16,780)	(4,864)	165	(6,016)	(12,123)	(3,449)	(940)	(255)
Net Profit/(Loss) for the year	604	(9,664)	35,991	23,661	13,050	33,163	50,193	34,459	5,113	(7,876)
ASSETS										
Non-Current Assets										
Property, Plant & Equipment	1,110,899	1,066,053	691,150	597,101	592,924	618,908	604,566	592,778	237,867	244,073
Goodwill on Consolidation	-	-	-	-	-	-	-	-	4,195	20,518
Investments	11,771	16,428	16,428	12,422	16,365	12,126	8,290	7,679	81,155	77,634
	1,122,670	1,082,481	707,578	609,523	609,289	631,034	612,856	600,457	323,217	342,225
Current Assets	164,348	179,662	146,000	113,469	82,492	103,459	93,688	85,966	44,012	31,078
Total Assets	1,287,018	1,262,143	853,578	722,992	691,781	734,493	706,544	686,423	367,229	373,303
EQUITY AND LIABILITIES										
Capital and Reserves										
Share Capital	126,266	110,250	110,250	110,250	110,250	110,250	110,250	110,250	110,250	110,250
Reserves	323,337	312,070	176,459	176,459	176,459	176,459	176,459	182,746	191,746	205,272
Accumulated Profits	146,814	146,209	175,166	144,688	122,690	109,639	85,310	37,646	10,725	7,009
Deferred Development Expenses	-	-	-	-	(2,053)	(5,260)	(8,668)	(10,974)	(5,697)	(9,982)
Total Equity	596,417	568,529	461,875	431,397	407,346	391,088	363,351	319,668	307,024	312,549
Minority Interest	278,123	276,169	191,450	180,455	179,027	185,593	180,364	188,143	19,943	19,894
Non-Current Liabilities										
Borrowings	193,539	216,467	39,952	6,630	15,651	26,588	25,697	39,365	10,733	10,592
Deferred Tax Liabilities	21,531	22,249	21,403	16,316	13,776	13,681	8,424	8,709	5,294	4,484
Other Deferred Liabilities	9,890	8,859	7,029	6,166	5,898	5,694	5,207	4,224	2,902	2,648
Deferred Income	-	-	355	2,558	21,942	41,326	58,933	68,725	-	-
	224,960	247,575	68,739	31,670	57,267	87,289	98,261	121,023	18,929	17,724
Current Liabilities	187,518	169,870	131,514	79,470	48,141	70,523	64,568	57,589	21,333	23,136
Total Liabilities	412,478	417,445	200,253	111,140	105,408	157,812	162,829	178,612	40,262	40,860
Total Equity and Liabilities	1,287,018	1,262,143	853,578	722,992	691,781	734,493	706,544	686,423	367,229	373,303
Indication of Performance										
Earnings/(loss) per Share Before										
Extraordinary Items (Rs.)	0.05	(1.08)	3.26	2.15	1.18	3.01	4.55	3.13	0.46	(0.71)
Net assets per Share (Rs.)	47.23	51.57	41.89	39.13	36.95	35.47	32.96	28.99	27.85	28.35
Market value per share (Rs.)	46.50	39.00	34.25	35.00	25.00	30.00	31.00	12.00	12.50	12.50
Price Earnings Ratio (Times)	972.08	N/A	10.49	16.31	21.12	9.97	6.81	3.84	26.95	N/A
Debt Equity Ratio (%)	32.45	38.07	8.65	1.54	3.84	6.80	7.07	12.31	3.50	3.39
Current Ratio (Times)	0.88	1.06	1.11	1.43	1.71	1.47	1.45	1.49	2.06	1.34
Quick Asset Ratio (Times)	0.81	1.00	1.03	1.34	1.60	1.38	1.34	1.44	1.78	1.23
Interest Cover (Times)	1.20	0.64	9.91	11.96	4.16	7.57	13.17	15.33	2.55	(1.00)
Dividend (%)	-	10.00	7.50	5.00	-	7.50	7.50	15.00	-	-
Return on equity (%)	0.10	(1.70)	7.79	5.48	3.20	8.48	13.81	10.78	1.67	(2.52)
Hotel Operation										
Annual Sales Growth (%)	17.8	0.1	37.6	37.7	(25.4)	(0.1)	104.5	26.3	32.1	(20.0)
Room Occupancy	58.0	73.0	48.0	52.0	68.0	55.0	67.4	63.6	55.0	52.0

* Hotel Sigiriya was closed during May & June '05 for refurbishment.

GRAPHICAL REVIEW



* Hotel was closed from May to Aug '03 for refurbishment.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting to members their Report together with the Audited Financial Statements of the Company for the year ended 31 March 2006.

PRINCIPAL ACTIVITY

The Principal activity of the Company which is hoteliering remained unchanged. The Company owns and operates Hotel Serendib at Bentota.

The Company is also the major shareholder of Hotel Sigiriya Ltd., which owns Hotel Sigiriya and also Stafford Hotels Ltd. which owns the Club Hotel Dolphin and Miami Cottages.

REVIEW OF BUSINESS/OPERATIONS & FUTURE DEVELOPMENTS

A review of the operations of the Company and Group during the financial year and the results of those operations and the future development activities of the company are described in the Chairman's Review.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for preparing and presenting the financial statements which are set-out on pages 14 to 38 which reflect a true and fair view of the state of its affairs. The Directors are of the view that the financial statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards as laid down by the Institute of Chartered Accountants of Sri Lanka, the Companies Act. No. 17 of 1982 and the Listing Rules of the Colombo Stock Exchange.

GOING CONCERN

The Board of Directors is satisfied that the Company has adequate resources to continue its operations in the foreseeable future and accordingly, have adopted the 'Going Concern Concept' in the preparation of the financial statements.

PROPERTY PLANT & EQUIPMENT & CAPITAL EXPENDITURE

The Land and Buildings of the Company were last re-valued during the financial year 2004/05. Movements in Property, Plant & Equipment during the year is disclosed under Note 11 to the Financial Statements.

The Capital Expenditure incurred on Property, Plant and Equipment during the year under review, was Rs. 29,015,737/- (2005 – Rs. 25,201,630/-) and the Group expenditure amounted to Rs. 89,727,944/- (2005 - Rs. 232,043,893/-)

REVENUE

The Revenue of the Company during the year was Rs. 122,432,238/- (2005 – Rs. 110,053,873/-) and the Group was Rs. 397,441,000/- (2005 -Rs. 337,375,216/-) which is analysed in Note 3 to the Financial Statements.

PROFIT

The Company's Profit before taxation amounted to Rs. 497,945 (2005 – Rs. 3,351,793/-) and the Group profit before taxation amounted to Rs. 6,802,774/- (2005 - loss of Rs. 7,209,661/-).

RESERVES

The details of Capital and Revenue Reserves of the Company and that of its subsidiaries are given in Note 18 to the Financial Statements.

BOARD OF DIRECTORS

The Directors of the Company during the year 2005/06 and as at the date of this Report were:

Mr. A.N. Esufally	–	Chairman
Mr. E.J. de Soysa	–	Deputy Chairman
Mr. B.S.M. De Silva		
Ms. A.R. Gamage		
(Alt. Ms. H.L. Ratnayake)		
Ms. M.S. Fonseka		
Mr. J.C.L. de Mel		
Mr. H.N. Esufally		
(Alt. Ms. K.A. Wilson)		

DIRECTORS' SHAREHOLDING

The shares held by the Directors at the beginning and end of the financial year is as follows. The Articles of Association of the Company stipulate a share qualification of 100 shares for Directors.

	31.03. 2006	31.03. 2005
Mr. A.N. Esufally	100	100
Mr. E.J. de Soysa	558,500	568,500
Mr. B.S.M. De Silva - V	282,752	282,752
- NV	50,000	50,000
Ms. A.R. Gamage	7,311	7,311
Ms. M.S. Fonseka - V	3,026	300
- NV	2,705	–
Mr. J.C.L. de Mel	212,385	173,100
Mr. H.N. Esufally	100	100

DIRECTORS' INTEREST IN CONTRACTS

Directors' interest in contracts with the Company are disclosed in Note 32 to the Financial Statements.

REPORT OF THE DIRECTORS *Contd.***RETIREMENT OF DIRECTORS & THEIR RE-ELECTION**

In terms of Article 84 of the Articles of Association of the Company, Mr. E. J. De Soysa and Mr. H. N. Esufally retire by rotation and being eligible offer themselves for re-election. The Directors recommend their re-election.

AUDIT COMMITTEE

The Audit Committee which operates as a sub-committee of the Board comprises of the following 2 Non-Executive Directors. The Report of the Audit Committee appears on page 11.

Ms. M.S. Fonseka - Chairperson
Mr. B.S.M. De Silva

SECRETARIES

Serendib Corporate Services (Pvt) Ltd. were Secretaries of the Company upto 31 March 2006. Hemas Corporate Services (Pte) Ltd was appointed as the Secretaries w.e.f. 01 April 2006.

CORPORATE GOVERNANCE

Details of practices adopted by the Company are given in the Corporate Governance Statement.

SHARE CAPITAL

Resulting from the conversion of Debentures on 01 January 2006, the issued share capital of the Company increased from Rs. 110,250,000/- to Rs. 126,265,940/- and consists of 8,021,504 Ordinary Voting Shares of Rs. 10/- each and 4,605,090 Ordinary Non-Voting Shares of Rs. 10/- each.

SHAREHOLDERS

The total shareholder base of the Company as at 31 March 2006 was 881 (2005 - 869). The distribution of the shareholding and a listing of the 20 major shareholders (Voting & Non-Voting) is given under Investor Information on pages 39 - 42.

DEBENTURES

882,000 Unsecured Convertible Redeemable 5 Year Debentures at a par value of Rs. 100/- each was issued in October 2004. 299,010 Debentures were converted to Ordinary Shares on 01 January 2006 on the following basis:
51,644 Debentures were converted @ a conversion price of Rs. 35.25 into 146,504 Voting Ordinary Shares.

247,366 Debentures were converted @ a conversion price of Rs. 17/- into 1,455,090 Non-Voting Ordinary Shares.

The Total No. of Debentures as at 31.03.2006 was 582,990.

DIVIDENDS

The Directors have not recommended the payment of a dividend for the year 2005/06. (2004/2005 - 10%).

HUMAN RESOURCES

The number of employees of the Company at the end of the year was 175 (2005 - 165).

Appropriate HR policies and practices are in place to train and develop employees to obtain their optimum contribution and to facilitate the achievement of both personal and corporate goals.

STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments in relation to the employees and the government have been made upto date, or provided for.

EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have been no material events occurring after the Balance Sheet date that require adjustments to or disclosure in the Financial Statements.

AUDITORS

The Financial Statements for the period under review were audited by Messrs Ernst & Young Chartered Accountants, who offer themselves for re-appointment at the AGM at a fee to be decided by the Directors. The re-appointment of the Auditors have been recommended by the Audit Committee and approved by the Board of Directors.

By Order of the Board

SERENDIB HOTELS LIMITED

HEMAS CORPORATE SERVICES (PRIVATE) LIMITED.

Secretaries

23 May 2006

CORPORATE GOVERNANCE

Corporate Governance is a collective responsibility of the Board of Directors, the management, shareholders, auditors and other stakeholders and all parties play a key role in implementing an effective governance structure within the organization.

Board of Directors

The Board of Directors of the Company currently comprises of 7 members. All Directors serve in a Non-Executive capacity. Two directors retire by rotation at each Annual General Meeting and are eligible for re-election.

The Board of Directors places special emphasis on Good Governance and key areas of the Code of Best Practice for Corporate Governance of the Institute of Chartered Accountants of Sri Lanka are being complied with.

The Board through the Company Secretaries and the Finance Division of the Managing Agents endeavour to ensure that the Company and its subsidiaries comply with statutory, regulatory and disclosure requirements.

The Directors take responsibility for preparing and presenting the financial statements which have been prepared in accordance with the Sri Lanka Accounting Standards and in compliance with the Companies Act and the Listing Rules of the Colombo Stock Exchange.

Management

The day to day management of the Company's affairs and the operations of the Hotel has been entrusted to Serendib Leisure Management Limited, a fully owned subsidiary, through a formal Management Agreement. The Annual Business Plan is approved by the Board, and the Board has delegated appropriate authority to the managing agents to implement policies and other strategic objectives. Board Members meet once a month and additionally, as the need arises with the Senior Management of the Managing Agents to review the operations and performance of the Company and make appropriate decisions.

Audit Committee

The Audit Committee is a sub-committee of the Board and comprises of 2 Non-Executive Directors. The Committee reports to the Board and operates under the terms of reference recommended by the Institute of Chartered Accountants Sri Lanka in its Code of Best Practice on Audit Committees.

The Committee is empowered among other things to examine matters relating to the financial affairs of the Company, to review internal and external audit programmes including the annual audit plan, internal control systems of the company and accounting policies.

Company Secretaries

Serendib Corporate Services (Pvt) Ltd were the secretaries upto 31 March 2006. Hemas Corporate Services (Pte) Ltd. were appointed Secretaries w.e.f. 01 April 2006.

The Company Secretaries play a key role in compliance matters by ensuring that the company complies with the requirements of the Companies Act, the Colombo Stock Exchange and other regulatory bodies. The Secretaries also ensure that Board procedures are followed and information is provided to the shareholders on a timely basis.

Internal Auditors

The Company operations are subject to review by the Internal Auditors, BDO Burah Hathy, Chartered Accountants. The Internal Auditors report to the Audit Committee and carry out internal audits on a quarterly basis. A report highlighting the areas of risk and issues for concern together with recommendations to minimize risk and exposure are provided to the Audit Committee. This feedback facilitates management to take appropriate action on a timely basis.

External Auditors

The financial statements of the Company as at the financial year end have been audited by Ernst & Young, Chartered Accountants and their report to the members of the Company expresses an opinion as to whether the financial statements of the Company are 'true and fair' and free from material misstatements.

The Auditors in their Management Letter highlight issues which have come to their attention during the course of their Audit and make suitable recommendations.

Shareholders

The shareholders play an important role in assisting the Board of Directors in the implementation of the good governance structure by appointing the Directors and External Auditors of the Company and by their active participation at the Annual General Meeting.

The Board of Directors ensure that all shareholders have equal access to information and disclose all material information through the quarterly performance reports and the annual report.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee comprising 2 Non-Executive Directors met 4 times during the year under review. The Chairman, the CEO and Group Finance Manager attend the committee meetings by invitation. The Company Secretary functions as the Secretary of the committee.

The Audit Committee operates under the terms of reference recommended by the Institute of Chartered Accountants Sri Lanka in its Code of Best Practice on Audit Committees.

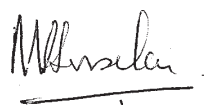
In view of the importance attached to good financial governance, the audit committee places special emphasis on good financial reporting, management of business risks, management of internal controls, regulatory compliance and internal and external audits.

As the operations of the company including its financial operations has been delegated to the Managing Agents under a Management Agreement, the Audit Committee meets with representatives of the Managing Agents once a quarter to review the interim financial statements and performance reports before submission to the Board and circulation to shareholders.

The policies and procedures adopted by management together with the internal controls implemented are reviewed by the internal auditors of the company periodically on a risk based approach and based on their reporting, the audit committee makes recommendations to ensure that the controls continue to be effective. The Committee also pays special emphasis on risk management by identifying areas of risk and also the probability and impact of such risks and ensures that systems are in place to minimize the impact of identifiable risks.

As internal audit is part and parcel of internal control, the Audit Committee approves the annual work plan of the internal auditors and directs the internal auditors in carrying out special assignments. This makes the internal audit process a more meaningful exercise which provides 'value addition' to management.

The Audit Committee also considers the nature and scope of the external audit and reviews the external auditors' management letter and management's response to issues highlighted and makes appropriate recommendations to the Board. The Audit Committee has also reviewed the effectiveness of the external audit and has recommended to the Board the re-appointment of M/s Ernst & Young as the external auditors of the Company subject to the approval of the shareholders at the Annual General Meeting.



M. S. Fonseka (Ms)
Chairperson Audit Committee

18 May 2006.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR PREPARATION OF FINANCIAL STATEMENTS

The Company's financial statements for the year ended 31 March 2006 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and provide the information required by the Companies Act No. 17 of 1982. The financial statements reflect a true and fair view of the state of affairs of the Company as at the end of the financial year and of the Loss of the Company for the financial year. In preparing the financial statements, appropriate accounting policies have been selected and applied consistently, reasonable and prudent judgments and estimates have been made and applicable accounting standards have been followed.

The Board of Directors is satisfied that the Company has adequate resources to continue in operation in the foreseeable future and therefore apply the 'Going Concern Concept' in the preparation of these financial statements.

The Board of Directors through the Managing Agents and the Audit Committee is responsible for establishing appropriate systems of internal control to ensure that all transactions are duly authorized and recorded in a proper manner and reasonable measures are taken to safeguard the Company's assets.

Ernst & Young, Chartered Accountants, the Auditors of the Company who have been appointed by the shareholders, have examined the financial statements made available by the Board of Directors together with all other financial records and information and express their opinion as appears in the Report of the Auditors on page 13.

Board of Directors

SERENDIB HOTELS LIMITED

23 May 2006.

REPORT OF THE AUDITORS



■ Chartered Accountants
201 De Saram Place
P. O. Box 101
Colombo 10
Sri Lanka

■ Telephone : (0) 11 2463500
Fax Gen : (0) 11 2697369
Fax : (0) 11 5578180
E-Mail : eysl@lk.ey.com

To the Members of Serendib Hotels Limited

We have audited the Balance Sheet of Serendib Hotels Limited as at 31 March 2006, the Consolidated Balance Sheet of the Company and its subsidiaries as at that date, and the related Statements of Income, Cash Flows and Changes in Equity for the year then ended, together with the Accounting Policies and Notes as set out on pages 14 to 38.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper books of account for the year ended 31 March 2006, and to the best of our information and according to the explanations given to us, the said balance sheet and related statements of income, cash flows and changes in equity and the accounting policies and notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982 and give a true and fair view of the Company's state of affairs as at 31 March 2006, its loss, changes in equity and cash flows for the year then ended.

In our opinion, consolidated balance sheet and statements of income, cash flows and changes in equity and the accounting policies and notes thereto have been properly prepared and presented in accordance with the Companies Act, No. 17 of 1982 and the Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at 31 March 2006 and the profit, changes in equity and cash flows for the year then ended of the Company and its subsidiaries dealt with thereby, so far as concerns the members of the Company.

Directors' Interest in Contracts with the Company

According to the information made available to us, the directors of the Company were not directly or indirectly interested in contracts with the Company during the year then ended 31 March 2006 except as stated in Note 32 to these financial statements.

Ernst & Young
Chartered Accountants

Colombo
23 May 2006

■ **Partners** : A D B Talwatte FCA FCMA T K Bandaranayake FCA M P D Cooray ACA FCMA
Ms. Y A De Silva ACA W R H Fernando FCA FCMA A P A Gunasekera FCA FCMA
A Herath FCA D K Hulangamuwa ACA FCMA LLB (Lond) A S M Ismail ACA FCMA
H M A Jayasinghe ACA FCMA Ms. G G S Manatunga ACA Ms. L C G Nanayakkara FCA FCMA

INCOME STATEMENT

Year ended 31 March

	Note	Consolidated		Company	
		2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
Revenue	3	393,569,793	334,099,340	121,205,701	108,941,893
Cost of Sales		(81,481,752)	(68,088,685)	(28,106,481)	(29,712,093)
Gross Profit		312,088,041	266,010,655	93,099,220	79,229,800
Other Operating Income	4	3,594,255	2,800,386	5,372,824	15,077,746
Marketing & Promotional Expenses		(28,412,431)	(23,083,978)	(7,168,255)	(7,540,638)
Administrative Expenses		(245,091,463)	(233,424,935)	(72,534,399)	(71,580,769)
Other Operating Expenses	5	(1,173,290)	(19,003)	(934,732)	–
Negative Goodwill on acquisition written back	22	–	355,271	–	–
Profit from Operating Activities	6	41,005,112	12,638,396	17,834,658	15,186,139
Finance Cost	7	(34,202,338)	(19,848,057)	(17,336,713)	(11,834,346)
Profit/(Loss) from Ordinary Activities Before Tax		6,802,774	(7,209,661)	497,945	3,351,793
Income Tax Expense	8	(1,549,716)	(5,931,794)	(1,079,271)	(69,877)
Net Profit/(Loss) from Ordinary Activities		5,253,058	(13,141,455)	(581,326)	3,281,916
Extra Ordinary Items	9	–	2,296,081	–	1,081,915
		5,253,058	(10,845,374)	(581,326)	4,363,831
Minority Interest		(4,648,997)	1,182,280	–	–
Net Profit/(Loss) for the Year		604,061	(9,663,094)	(581,326)	4,363,831
Earnings per share (or Loss per Share)					
Before Extraordinary Items - Basic	10	0.05	(1.08)	(0.05)	0.30
Earnings per share (or Loss per Share)					
After Extraordinary Items - Basic	10	0.05	(0.88)	(0.05)	0.40
Dividends per Share		–	1.00	–	1.00

The accounting policies and notes on pages 18 through 38 form an integral part of the financial statements.

Colombo
23 May 2006

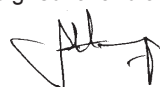
BALANCE SHEET

As at 31 March

ASSETS	Note	Consolidated		Company	
		2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
Non-Current Assets					
Property, Plant & Equipment	11	1,110,899,341	1,066,053,265	265,999,809	249,666,724
Investments in Subsidiaries	12	–	–	200,380,813	200,380,813
Other Investments	13	11,771,210	16,427,746	5,084,550	9,741,086
		1,122,670,551	1,082,481,011	471,465,172	459,788,623
Current Assets					
Inventories	14	12,591,267	10,390,758	3,460,365	3,899,602
Trade and Other Receivables	15	128,775,132	80,170,060	36,158,096	19,481,691
Taxation Recoverable		10,099,157	6,775,915	2,542,494	1,376,529
Amounts Due from Related Parties	16	235,083	125,990	17,817,728	22,475,301
Cash and Bank Balances	28	12,647,557	82,199,144	4,527,058	23,223,920
		164,348,196	179,661,867	64,505,741	70,457,043
Total Assets		1,287,018,747	1,262,142,878	535,970,913	530,245,666
EQUITY AND LIABILITIES					
Capital and Reserves					
Issued Capital	17	126,265,940	110,250,000	126,265,940	110,250,000
Reserves	18	323,337,233	312,069,679	220,305,790	206,420,934
Accumulated Profits		146,813,516	146,209,455	21,622,011	22,203,337
Total Equity		596,416,689	568,529,134	368,193,741	338,874,271
Minority Interest		278,123,272	276,168,962	–	–
Non-Current Liabilities and Deferred Income					
Interest Bearing Loans & Borrowings	19	193,539,319	216,466,729	98,163,423	121,448,000
Deferred Tax Liabilities	20	21,530,781	22,249,125	4,501,156	3,619,888
Other Deferred Liabilities	21	9,890,449	8,859,294	3,227,080	3,245,943
		224,960,549	247,575,148	105,891,659	128,313,831
Current Liabilities					
Trade and Other Payables	23	97,942,856	108,346,837	27,115,602	35,552,104
Dividends Payable	24	2,485,439	2,230,065	1,446,265	1,213,029
Income Tax Liabilities		–	1,949,559	–	–
Amounts Due to Related Parties	26	348,471	5,730	1,863,219	–
Non-Interest Bearing Loans & Borrowings	27	1,207,000	1,207,000	–	–
Interest Bearing Loans & Borrowings	19	85,534,471	56,130,443	31,460,427	26,292,431
		187,518,237	169,869,634	61,885,513	63,057,564
Total Equity and Liabilities		1,287,018,747	1,262,142,878	535,970,913	530,245,666

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Signed for and on behalf of the Board by.



E. J. De Soysa
Deputy Chairman



B. S. M. De Silva
Director

The accounting policies and notes on pages 18 through 38 form an integral part of the financial statements.

Colombo

23 May 2006

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2006

Consolidated	Note	Share Capital Rs.	Share Premium Rs.	Revaluation Reserve Rs.	General Reserves Rs.	Accumulated Profit Rs.	Total Rs.
Balance as at 31 March 2004		110,250,000	76,545,000	79,973,870	19,940,000	175,166,299	461,875,169
Surplus on Revaluation of Property, Plant & Equipment		–	–	135,610,809	–	–	135,610,809
Net Loss for the year		–	–	–	–	(9,663,094)	(9,663,094)
Dividends	25	–	–	–	–	(19,293,750)	(19,293,750)
Balance as at 31 March 2005		110,250,000	76,545,000	215,584,679	19,940,000	146,209,455	568,529,134
Net Profit for the year		–	–	–	–	604,061	604,061
Conversion of Debentures		16,015,940	13,884,856	–	–	–	29,900,796
Over Estimation of Revaluation Surplus		–	–	(2,617,302)	–	–	(2,617,302)
Balance as at 31 March 2006		126,265,940	90,429,856	212,967,377	19,940,000	146,813,516	596,416,689

Company	Note	Share Capital Rs.	Share Premium Rs.	Revaluation Reserve Rs.	General Reserves Rs.	Accumulated Profit Rs.	Total Rs.
Balance as at 31 March 2004		110,250,000	76,545,000	66,608,007	14,500,000	37,133,256	305,036,263
Surplus on Revaluation of Property, Plant & Equipments		–	–	48,767,927	–	–	48,767,927
Net Profit for the year		–	–	–	–	4,363,831	4,363,831
Dividends	25	–	–	–	–	(19,293,750)	(19,293,750)
Balance as at 31 March 2005		110,250,000	76,545,000	115,375,934	14,500,000	22,203,337	338,874,271
Net Loss for the year		–	–	–	–	(581,326)	(581,326)
Conversion of Debentures		16,015,940	13,884,856	–	–	–	29,900,796
Balance as at 31 March 2006		126,265,940	90,429,856	115,375,934	14,500,000	21,622,011	368,193,741

The accounting policies and notes on pages 18 through 38 form an integral part of the financial statements.

Colombo
23 May 2006

CASH FLOW STATEMENT

Year ended 31 March

	Note	Consolidated		Company	
		2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
Cash Flows From / (Used in) Operating Activities					
Profit/(Loss) from Operating Activities before tax		6,802,774	(7,209,653)	497,945	3,351,793
Adjustments for					
Profit on Sale of Shares	4	(2,111,036)	–	(2,111,036)	–
Depreciation	11	39,754,548	28,928,975	12,486,981	10,487,032
Foreign Currency Gains/(Losses)		1,050,166	(832,608)	799,928	(566,940)
Income from Investments	4	–	(48,600)	(1,995,485)	(13,179,345)
Interest Income	4	(1,448,614)	(1,407,120)	(993,198)	(1,087,195)
Negative Goodwill on acquisition written back		–	(355,272)	–	–
Loss on disposal of Fixed Assets		123,124	9,103,431	134,804	–
Finance Costs	7	34,202,338	19,848,057	17,336,713	11,834,346
Provision for Defined Benefit Plans	6	2,489,368	2,593,014	488,074	961,803
Operating Profit/(Loss) before Working Capital Changes		80,862,668	50,620,224	26,644,726	11,801,494
(Increase)/ Decrease in Inventories		(2,200,509)	517,062	439,236	462,412
(Increase)/ Decrease in Trade and Other Receivables		(50,193,819)	11,984,310	(16,676,404)	7,284,680
(Increase)/Decrease in Amounts Due from Related Parties		(109,093)	(387)	4,657,573	(11,378,636)
Increase/ (Decrease) in Amounts Due to Related Parties		342,741	(299,270)	1,863,219	–
Increase/(Decrease) in Trade and Other Payables		(10,148,608)	48,132,294	(8,203,266)	17,172,674
Cash Generated from Operations		18,553,380	110,954,233	8,725,084	25,342,624
Finance Costs paid		(34,202,338)	(19,848,057)	(17,336,713)	(11,834,346)
Defined Benefit Plan Costs paid		(1,458,213)	(762,430)	(506,937)	(357,776)
Income Tax Paid		(5,952,115)	(4,774,195)	(1,363,971)	–
Net Cash From Operating Activities before Extraordinary Items		(23,059,286)	85,569,551	(10,482,537)	13,150,502
Net Proceeds from Flood Disaster Settlement		–	9,125,898	–	7,269,691
Net Cash From Operating Activities		(23,059,286)	94,695,449	(10,482,537)	20,420,193
Cash Flows from / (Used in) Investing Activities					
Acquisition of Property, Plant & Equipment	11	(89,727,944)	(232,043,893)	(29,015,737)	(25,201,630)
Proceeds from Sale of Property, Plant & Equipment		404,370	–	60,870	–
Purchase of Shares in Subsidiary		–	–	–	(80,339,260)
Proceeds from sale of shares		6,767,572	–	6,767,572	–
Proceeds from Sale of Investment		–	41,500,940	–	–
Interest Received		1,448,614	1,407,120	993,198	1,087,195
Dividend Received		–	48,600	1,995,485	13,179,345
Net Cash Flows from/(Used in) Investing Activities		(81,107,388)	(189,087,233)	(19,198,612)	(91,274,350)
Cash Flows from (Used in) Financing Activities					
Repayment of Interest Bearing Loans & Borrowings	19	(34,843,659)	(21,700,761)	(23,336,000)	(78,500,000)
Proceeds from Interest Bearing Loans & Borrowings	19	53,804,139	105,000,000	20,000,000	93,600,000
Principal Payment under Finance Lease Liabilities	19	(242,394)	(173,334)	–	–
Debenture Issue		–	88,200,000	–	88,200,000
Dividends Paid		(712,161)	(26,037,618)	–	(19,071,728)
Net Cash Flows from/(Used in) Financing Activities		18,005,925	145,288,287	(3,336,000)	84,228,272
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(1,050,166)	832,608	(799,928)	566,940
Net Increase/(Decrease) in Cash and Cash Equivalents		(87,210,915)	51,729,111	(33,817,077)	13,941,055
Cash and Cash Equivalents at the beginning of the year	28	60,421,087	8,691,976	18,783,489	4,842,434
Cash and Cash Equivalents at the end of the year	28	(26,789,828)	60,421,087	(15,033,588)	18,783,489

The accounting policies and notes on pages 18 through 38 form an integral part of the financial statements.

Colombo
23 May 2006

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2006

1. CORPORATE INFORMATION

1.1 General

Serendib Hotels Limited ("Company") is a limited liability company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at Automobile Association Building, No. 40, Sir Mohamed Macan Markar Mawatha, Colombo 03, and the principal place of business is situated at Bentota.

1.2 Principal Activities and Nature of Operations

During the year, the principal activity of the Company was that of operating a tourist hotel.

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's parent undertaking is Leisure Asia Investments Ltd. In the opinion of the directors, the Company's ultimate parent undertaking and controlling party is Hemas Holdings Ltd., which is incorporated in Sri Lanka.

1.4 Date of Authorisation for Issue

The financial statements of Serendib Hotels Ltd, for the year ended 31 March 2006 were authorized for issue in accordance with a resolution of the Board of Directors on 23 May 2006.

1.5 Number of Employees

The number of employees of the Company at the end of the year was 175 (2005 – 165).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 General Policy

2.1.1 Basis of Preparation

The balance sheet, statements of income, changes in equity and cash flow, together with accounting policies and notes, ("Financial Statements") of the Group as at 31 March 2006 and for the year then ended, comply with the Sri Lanka Accounting Standards.

These financial statements presented in Sri Lanka Rupees have been prepared on a historical cost basis except for the revaluation of certain property, plant and equipment, which are stated at market values.

2.1.2 Consolidation Policy

a) The Group Accounts comprise the consolidation of accounts of the Serendib Hotels Limited and its subsidiaries, Hotel Sigiriya Limited, Serendib Leisure Management Limited, Serendib Corporate Services (Pvt) Limited and Stafford Hotels Limited all of which have a common financial year ending on 31 March.

b) The effective percentage equity holdings in the subsidiary companies are as follows:

Hotel Sigiriya Ltd	75.69%
Serendib Leisure Management Ltd	100%
Serendib Corporate Services (Pvt) Ltd	100%
Stafford Hotels Ltd	56.9%
Miami Beach Hotels Ltd.	56.9%
(wholly owned subsidiary of Stafford Hotels Ltd.)	

c) The financial statements of Casabah Hotels Ltd, are not consolidated as the Company is non-operational and the directors intend to liquidate it. The investment in this company is written off in the books of Serendib Hotels Ltd in year 2003/04.

d) The total profits and losses of the subsidiary companies are included in the consolidated income statement and the proportion of the profit or loss after taxation applicable to outside shareholders is adjusted under the heading "Minority Interest" in arriving at the profit or loss attributable to the Shareholders of Serendib Hotels Ltd.

Income from inter-company transactions have been eliminated.

e) All assets and liabilities of the Company and its subsidiaries are included in the Group Balance Sheet. The interest of the outside shareholders in the net assets of the Subsidiaries is stated separately in the Consolidated Balance Sheet under the heading "Minority Interest".

f) Associate Company

South Asian School of Hotel Management & Tourism Ltd. is Associate Company of Serendib Hotels Ltd.

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

The results of this company are not incorporated under the equity method as the Company is non-operational and the directors intend to liquidate it. The cost of this investment was written off in 2002/03.

g) Goodwill

Goodwill comprises the excess of the purchase price over the fair value of the net tangible assets acquired.

Negative Goodwill

Negative goodwill comprises the excess of the fair value of net tangible assets acquired over the purchase price.

- h)** The subsidiary companies and the associate company are incorporated in Sri Lanka.

2.1.3 Comparative Information

The accounting policies have been consistently applied by the Company and previous year's figures and phrases have been rearranged wherever necessary to conform to the current presentation.

2.1.4 Foreign Currency Translation

All foreign exchange transactions are converted to Sri Lanka Rupees, which is the reporting currency, at the rates of exchange prevailing at the time the transactions were effected. Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lanka Rupee equivalents using year-end spot foreign exchange rates. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. The resulting gains and losses are accounted for in the income statement.

2.1.5 Taxation**a) Current Taxes****Serendib Hotels Ltd.**

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act at the rate of 15% on trading income and 20% on other income.

Hotel Sigiriya Ltd.

The provision for income tax is based on the elements of income & expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act at the rate of 15% on trading income and at the rate of 30% on other income.

Stafford Hotels Ltd.

The provision for income tax is based on the elements of income & expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act at the rate of 15% on trading income and at the rate of 30% on other income.

Miami Beach Hotels Ltd.

The provision for income tax is based on the elements of income & expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act at the rate of 15% on trading income and at the rate of 20% on other income.

Serendib Leisure Management Ltd.

The provision for income tax is based on the elements of income & expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act.

Serendib Corporate Services (Pvt) Ltd.

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act.

b) Deferred Taxation

Deferred taxation is provided on the liability method. The tax effect of all timing differences which occur where items are allowed for income tax purposes in a period different from that when they are recognised in financial statements is included in the provision for deferred taxation at current rates of taxation.

Deferred tax assets are recognised for all deductible timing differences to the extent that it is probable that taxable profit will be available against which the deductible timing differences and carry-forward of unused tax losses can be utilised. The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced by the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Provision has been made as required by Sri Lanka Accounting Standards in the financial statements of Serendib Hotels Ltd., Stafford Hotels Ltd., Miami Beach Hotels Ltd., (wholly owned subsidiary of Stafford Hotels Ltd.,) and Hotel Sigiriya Ltd., for deferred taxation on the liability method.

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

There is no deferred taxation liability in any of the other companies of the group. The balance of the deferred taxation account primarily represents income tax applicable of the excess of net book value of assets on which depreciation allowances have been claimed over their tax written down value reduced by the provision for retirement gratuity.

2.1.6 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

2.1.7 Deferred Development Expenditure

Development expenditure which is deemed to have a benefit or relationship to more than one financial year is classified as deferred development expenditure. Such expenditure is written off over the period to which it relates, on a straight-line basis.

2.2 Valuation of Assets and their Measurement Bases

2.2.1 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 are accounted using weighted average basis.

2.2.2 Trade and Other Receivables

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

Other receivables and dues from Related Parties are recognised at cost less provision for bad and doubtful receivables.

2.2.3 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

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

2.2.4 Property, Plant & Equipment

a) Cost and Valuation

All items of property, plant and equipment are initially recorded at cost. The cost of property, plant and equipment is the cost of purchase or construction together with any incidental expenses thereon. Where items of property, plant and equipment are subsequently revalued, the entire class of such assets is revalued. Revaluations are made with sufficient regularity to ensure that their carrying amounts do not differ materially from their fair values at the balance sheet date. Subsequent to the initial recognition as an asset at cost, revalued property, plant and equipment are carried at revalued amounts less any subsequent depreciation thereon. All other property, plant and equipment are stated at historical cost less depreciation.

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

b) Restoration Costs

Expenditure incurred on repairs or maintenance of property, plant and equipment in order to restore or maintain the future economic benefits expected from originally assessed standard of performance, is recognised as an expense when incurred.

c) Depreciation

Serendib Hotels Ltd. and Hotel Sigiriya Ltd., provide for depreciation on the written down value of the property, plant and equipment, except for leasehold land and buildings while Serendib Leisure Management Ltd. and Serendib Corporate Services (Pvt) Ltd., provide for depreciation on cost/valuation, so as to write off the assets over the estimated lives as indicated below:

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

Leasehold Land	Over the lease period	
Leasehold Buildings	Over the remaining lease period	
Furniture & Fittings	15% - 20%	per annum
Office Equipment	10% - 25%	per annum
Motor Vehicles	20% - 25%	per annum
Crockery & Cutlery	100%	per annum
Plant & Machinery	7.5% - 25%	per annum
Computers	15% - 33.3%	per annum
Tube Well	10%	per annum
Soft Furniture	20%	per annum

In Hotel Sigiriya Ltd., the land leased from Sri Lanka Tourist Board for 30 years commencing from 25 July 1974 has now been extended up to 31 March 2034.

Accordingly, the balance written down value of leasehold land and building as at 01 April 2001 will be amortised over a period of 33 years. However, if the lease is not renewed after the date of termination on 31 March 2034, the lessor, Sri Lanka Tourist Board is committed to compensate the company for the cost of the buildings and landscaping.

Depreciation in Stafford Hotels Ltd., is calculated on the written down value of the following assets in order to write off such amounts over the estimated useful lives on the basis stated below,

Furniture & Fittings	10% - 20%	per annum
Motor Vehicles	20% - 25%	per annum
Plant, Machinery, & Equipment	10% - 20%	per annum

The following assets are depreciated on the cost or valuation in order to write off such assets over their estimated useful life in equal annual installments.

Building	66 years
Swimming Pool	66 years
Soil Erosion Prevention	20 years

Depreciation in Serendib Hotels Limited, the original purchases of cutlery and crockery was capitalized but not depreciated. Instead all subsequent replacements were charge to revenue. The stock value in the balance sheet has been adjusted, based on a physical count reflect the actual position.

No depreciation is provided on freehold land.

Full provision is made in the year of sale and none in the year of purchase.

2.2.5 Leases**a) Finance Leases**

Property, plant and equipment on finance leases, which effectively transfer to the Company substantially all of the risk and benefits incidental to ownership of the leased item are capitalised at their cash price and disclosed as property, plant and equipment and depreciated over the period the Company is expected to benefit from the use of the leased assets.

The corresponding principal amount payable to the lessor is shown as a liability. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The interest payable over the period of the lease is transferred to an interest in suspense account. The interest element of the rental obligations applicable to each financial year is charged to the income statement over the period of the lease using sum of digits method.

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

b) Operating Leases

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

Rentals paid under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term.

2.2.6 Investments**a) Long Term Investments**

Long term investments are stated at cost.

The cost of the investment is the cost of acquisition inclusive of brokerage fees, duties and bank fees.

The carrying amount of long term investments is reduced to recognise a decline other than temporary in the value of investments, determined on an individual investment basis.

b) Associate Company Investment

Investment in the non-operational associate company is not accounted for on the equity method, as the directors intend to liquidate the company. The cost of this investment was written off in 2002/03.

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

2.3 Liabilities and Provisions

2.3.1 Retirement Benefit Obligations

a) Defined Benefit Plan – Gratuity

Gratuity is a Defined Benefit Plan. The Company is liable to pay gratuity in terms of the relevant statute. In order to meet this liability, a provision is carried forward in the balance sheet, equivalent to an amount calculated based on a half month's salary of the last month of the financial year of all employees for each completed year of service, commencing from the first year of service. The resulting difference between brought forward provision at the beginning of a year and the carried forward provision at the end of a year is dealt with in the income statement, after making due adjustment for any payments made.

The gratuity liability is not externally funded nor actuarially valued. This item is grouped under other Deferred Liabilities in the Balance Sheet.

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.

2.4 Income Statement

2.4.1 Revenue Recognition

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

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

b) Interest

Interest Income is recognised as the interest accrues (taking into account the effective yield on the assets) unless collectibility is in doubt.

c) Dividends

Dividend income is recognised on a cash basis.

d) Rental income

Rental income is recognised on an accrual basis.

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 and other non current assets including investments have been accounted for in the income statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses. On disposal of revalued property, plant and equipment, amount remaining in Revaluation Reserve relating to that asset is transferred directly to Accumulated Profit or Loss.

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.

2.4.2 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 & equipment in a state of efficiency has been charged to income in arriving at the profit or loss for the year.

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

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

	Consolidated		Company	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
3. REVENUE				
3.1 Summary				
Services Rendered	397,441,000	337,375,216	122,432,238	110,053,873
Less: Sales Related Levy				
Tourism Development Levy	(3,871,207)	(3,275,876)	(1,226,537)	(1,111,980)
	393,569,793	334,099,340	121,205,701	108,941,893
4. OTHER OPERATING INCOME				
Income from Investments with				
Related Parties				
- Quoted	-	48,600	1,995,485	13,179,345
Income from Other Investments				
- Non Quoted	-	261,541	-	-
Interest Income Receivable from				
- Related Parties	-	-	614,384	678,137
- Others	1,448,614	1,407,120	378,814	409,058
Rental Income Receivable from				
- Related Parties	-	-	240,000	240,000
- Others	-	188,696	-	-
Profit on Disposal of Investment	2,111,036	-	2,111,036	-
Exchange gain	-	832,608	-	566,940
Sundry Income	34,605	61,821	33,105	4,266
	3,594,255	2,800,386	5,372,824	15,077,746
5. OTHER OPERATING EXPENSES				
Loss in exchange	1,050,166	19,003	799,928	-
Loss on disposal of Property, Plant & Equipment	123,124	-	134,804	-
	1,173,290	19,003	934,732	-
6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES				
Stated after Charging /(Crediting)				
Provision for Doubtful Debts	3,164,561	1,547,634	950,467	551,155
Transport Costs	419,031	1,389,706	168,795	590,450
Advertising Costs	7,447,445	8,560,322	4,614,794	5,932,982
Directors' Emoluments	579,020	833,800	191,020	354,800
Auditors' Remuneration (Fees and Expenses)	564,560	430,627	222,360	146,389
Depreciation	39,754,548	28,928,975	12,486,981	10,487,032
Defined Benefit Plan Costs -Gratuity (included in staff cost)	2,489,368	2,593,014	488,074	961,803
Defined Contribution Plan Costs - EPF & ETF (included in staff cost)	8,606,798	6,622,191	1,862,435	1,892,844
Other Staff Costs	75,842,175	70,797,263	23,593,171	23,601,060
Management Fees	22,176,696	13,772,613	7,366,399	4,297,372
Legal Fees	91,000	1,208,344	91,000	1,208,344
Loss on Disposal of Property, Plant and Equipment	134,000	9,103,431	134,000	-
Donations	201,469	31,826	167,674	31,826
7. FINANCE COST				
Interest Expense on Overdrafts	3,258,740	1,838,338	1,706,069	569,625
Interest Expense on Loans & Borrowings Payable to				
- Related Parties	-	-	433,500	2,832,674
- Others	22,026,047	14,521,191	6,437,855	5,170,841
Underwriting Devolment Fees	-	484,900	-	484,900
Debenture Interest	8,759,289	2,776,306	8,759,289	2,776,306
Finance Charges on Lease Liabilities	158,262	227,322	-	-
	34,202,338	19,848,057	17,336,713	11,834,346

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

8. INCOME TAX EXPENSE	Consolidated		Company	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
Current Income Tax				
Current Tax Expense on Ordinary Activities for the Year (8.1)	1,882,661	3,628,023	249,000	152,989
Under/(Over) Provision of current taxes in respect of prior years	163,545	–	(50,997)	–
WHT on Inter-company Dividends	221,854	1,457,432	–	–
Deferred Income Tax				
Deferred Taxation Charge/(Reversal) (8.2)	(718,344)	846,339	881,268	(83,112)
	<u>1,549,716</u>	<u>5,931,794</u>	<u>1,079,271</u>	<u>69,877</u>

8.1 Reconciliation between Current Tax Expense/ (Income) and the product of Accounting Profit.

	Consolidated		Company	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
Accounting Profit/(Loss) before Tax	6,802,774	(7,209,661)	497,945	3,351,793
Aggregate Disallowed items	49,223,798	43,088,028	15,093,460	11,760,669
Aggregate Allowable Items	(46,664,239)	(84,623,773)	(12,657,833)	(31,274,603)
Interest Income	778,278	(5,165,531)	(375,310)	(1,087,195)
Taxable Profit/(Loss)	<u>10,140,611</u>	<u>(53,910,937)</u>	<u>2,558,262</u>	<u>(17,249,336)</u>
Tax Losses Brought Forward	(138,493,301)	(85,260,736)	(62,136,713)	(45,161,972)
Tax Losses Utilized	4,403,781	678,372	895,391	274,595
Tax Losses Carried Forward	<u>(134,089,520)</u>	<u>(138,493,301)</u>	<u>(61,241,322)</u>	<u>(62,136,713)</u>
Trading Income	1,410,929	2,330,134	249,000	–
Interest Income	471,732	1,297,889	–	152,989
Current Income Tax Expense	<u>1,882,661</u>	<u>3,628,023</u>	<u>249,000</u>	<u>152,989</u>
8.2 Deferred Tax Expense/(Income)				
Deferred Tax Expense arising due to - Origination and reversal of timing Differences	(718,344)	846,339	881,268	(83,112)
	<u>(718,344)</u>	<u>846,339</u>	<u>881,268</u>	<u>(83,112)</u>
9. EXTRA ORDINARY ITEMS				
Insurance claim	–	21,444,298	–	18,066,974
Less: Loss/Expenses incurred due to Tsunami disaster	–	(19,148,217)	–	(16,985,059)
Extra Ordinary Gain	<u>–</u>	<u>2,296,081</u>	<u>–</u>	<u>1,081,915</u>

9.1 Tax on Extra Ordinary Gain has not been provided as the Company has carried forward Tax Losses

10. EARNINGS PER SHARE

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

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

Amount Used as the Numerator:	Consolidated		Company	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
Net Profit/(Loss) Attributable to Ordinary Shareholders for basic Earnings Per Share - Before Extra Ordinary Items	604,061	(11,959,175)	(581,326)	3,281,916
Net Profit/(Loss) Attributable to Ordinary Shareholders for basic Earnings Per Share - After Extra Ordinary Items	<u>604,061</u>	<u>(9,663,094)</u>	<u>(581,326)</u>	<u>4,363,831</u>
Number of Ordinary Shares Used as Denominator:	2006 Number	2005 Number	2006 Number	2005 Number
Weighted Average number of Ordinary Shares in issue Applicable to Basic Earnings Per Share	<u>12,626,594</u>	<u>11,025,000</u>	<u>12,626,594</u>	<u>11,025,000</u>

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

11. PROPERTY, PLANT & EQUIPMENT

11.1.1 Consolidated Gross Carrying Amounts	Balance As at 01.04.2005 Rs.	Additions/ Transfers/ Acquisitions Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2006 Rs.
At Cost/ Cost Incurred since Last Revaluation				
Building on Leasehold Land	–	56,152,048	–	56,152,048
Buildings on Freehold Land	–	845,893	–	845,893
Improvement to Land	–	8,240,618	–	8,240,618
Plant & Machinery	111,514,476	9,843,363	(1,316,714)	120,041,125
Furniture, Fittings & Equipment	139,300,962	26,090,020	(825)	165,390,157
Cutlery, Crockery, Glassware, Paintings & Murals etc	10,316,076	267,274	–	10,583,350
Motor Vehicles	16,889,651	–	–	16,889,651
Swimming Pool	–	4,127,914	–	4,127,914
Soil Erosion Prevention	19,108,922	–	–	19,108,922
Energy Saving Technique	–	1,889,390	–	1,889,390
	<u>297,130,087</u>	<u>107,456,520</u>	<u>(1,317,539)</u>	<u>403,269,068</u>
Assets on Finance Leases				
Motor Vehicles	2,194,000	–	–	2,194,000
At Valuation				
Freehold Land	101,463,001	–	(331,820)	101,131,181
Buildings on Freehold Land	422,380,139	–	–	422,380,139
Land Leased from Sri Lanka Tourist Board	48,980,710	–	–	48,980,710
Buildings on Leasehold Lots of Land	170,004,024	–	–	170,004,024
Land Improvements	1,250,000	–	–	1,250,000
Swimming Pool	60,105,001	–	–	60,105,001
Leasehold Property	76,381,261	–	–	76,381,261
	<u>880,564,136</u>	<u>–</u>	<u>(331,820)</u>	<u>880,232,316</u>
Total Value of Depreciable Assets	<u>1,179,888,223</u>	<u>107,456,520</u>	<u>(1,649,359)</u>	<u>1,285,695,384</u>
	Balance As At 01.04.2005 Rs.	Incurred During the year Rs.	Reclassified/ Transfers Rs.	Balance As At 31.03.2006 Rs.
11.1.2 In the Course of Construction				
Capital Work in Progress	22,873,999	–	(22,328,403)	545,596
Total Gross Carrying Amount	<u>1,202,762,222</u>	<u>107,456,520</u>	<u>(23,977,762)</u>	<u>1,286,240,980</u>
11.1.3 Depreciation				
At Cost/ Cost incurred since Last Revaluation				
Plant & Machinery	46,656,753	7,442,708	(1,121,041)	52,978,420
Furniture, Fittings & Equipment	66,122,214	11,044,103	(825)	77,165,492
Cutlery, Crockery, Glassware, Paintings & Murals etc	7,070,354	3,689	–	7,074,043
Motor Vehicles	9,427,465	1,709,575	–	11,137,040
Soil Erosion Prevention	6,993,371	948,299	–	7,941,670
	<u>136,270,157</u>	<u>21,148,374</u>	<u>(1,121,866)</u>	<u>156,296,665</u>
Assets On Finance Leases				
Motor Vehicle	438,800	438,800	–	877,600

NOTES TO THE FINANCIAL STATEMENTS *Contd.***PROPERTY, PLANT & EQUIPMENT (contd.)****Consolidated**

	Balance As at 01.04.2005 Rs.	Charge for the year/ Transfers Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2006 Rs
At Valuation				
Buildings on Freehold Land	–	6,281,902	–	6,281,902
Land Leased from Sri Lanka Tourist Board	–	1,492,551	–	1,492,551
Buildings on Leasehold Land	–	9,243,553	–	9,243,553
Swimming Pool	–	1,149,368	–	1,449,368
	–	18,167,374	–	18,167,374
Total Depreciation	136,708,957	39,754,548	(1,121,866)	175,341,639

11.1.4 Net Book Values	2006 Rs.	2005 Rs.
At Cost/ Cost Incurred since last Revaluation	247,517,999	183,733,929
On Finance Leases	1,316,400	1,755,200
	248,834,399	185,489,129
At Valuation	862,064,942	880,564,136
Total Carrying Amount of Property, Plant & Equipment	1,110,899,341	1,066,053,265

11.1.5 The land and buildings of the Company, Stafford Hotels Ltd and Miami Beach Hotels Ltd., were revalued during the financial year 1995/1996 and 2004/05 by Mr. D.S.A. Senaratne, an independent valuer. The results of such revaluation was incorporated in these financial statements from its effective date which is 31.03.1996 and 31.03.2005. Such assets were valued on an open market value for existing use basis and the surplus arising from the revaluation was transferred to a revaluation reserve.

Leasehold property and furniture and equipment in Hotel Sigiriya Ltd were revalued in 2005 and 1991 respectively by independent professional valuers. Valuations were made on a basis of the depreciated replacement cost of these assets.

The book values of the properties were adjusted to the revaluations and any increase in the carrying amount arising on revaluation were credited to the revaluation reserve.

The carrying amount of the company's 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 carried at cost Rs.	Net Carrying Amount 2006 Rs.	Net Carrying Amount 2005 Rs
Buildings on Freehold Land	276,202,417	28,699,490	247,502,927	251,645,963
Buildings on Leasehold Land	76,835,407	7,921,921	68,913,486	71,241,832
Leasehold Property	31,962,385	14,636,469	17,325,916	18,294,473
Swimming Pool	49,516,950	1,935,888	47,581,062	48,323,816

11.1.6 During the financial year, the Group acquired Property, Plant & Equipment to the aggregate value of Rs. 89,727,944/- (2005 - Rs. 232,043,893/-) Total Property, Plant & Equipment was acquired by cash payments.

NOTES TO THE FINANCIAL STATEMENTS *Contd.***11 PROPERTY, PLANT & EQUIPMENT**

11.2 Company	Balance As at 01.04.2005 Rs.	Additions/ Transfers Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2006 Rs.
Gross Carrying Amounts				
11.2.1 At Cost/ Cost Incurred since Last Revaluation				
Building on Leasehold Land	–	19,839,822	–	19,839,822
Plant & Machinery	32,421,159	795,858	(1,316,714)	31,900,303
Furniture, Fittings & Equipment	29,240,962	8,888,720	(825)	38,128,857
Cutlery, Crockery, Glassware, Paintings & Murals etc.	4,692,444	145,542	–	4,837,986
Motor Vehicles	5,837,011	–	–	5,837,011
Energy Saving Technique	–	1,889,390	–	1,889,390
	<u>72,191,576</u>	<u>31,559,332</u>	<u>(1,317,539)</u>	<u>102,433,369</u>
At Valuation				
Land Leased from Sri Lanka Tourist Board				
Lot 1	39,264,047	–	–	39,264,047
Lot 2	8,048,405	–	–	8,048,405
Buildings on the above lots	159,890,500	–	–	159,890,500
	<u>207,202,952</u>	<u>–</u>	<u>–</u>	<u>207,202,952</u>
Total Value of Depreciable Assets	<u>279,394,528</u>	<u>31,559,332</u>	<u>(1,317,539)</u>	<u>309,636,321</u>
	Balance As At 01.04.2005 Rs.	Incurred During the Year Rs.	Reclassified/ Transferred Rs.	Balance As At 31.03.2006 Rs.
11.2.2 In the Course of Construction				
Building Work in Progress	2,543,592	–	(2,543,592)	–
Total Gross Carrying Amount	<u>2,543,592</u>	<u>–</u>	<u>(2,543,592)</u>	<u>–</u>
Company	Balance As At 01.04.2005 Rs.	Charge for the year/ Transfers Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2006 Rs.
11.2.3 Depreciation				
At Cost/ Cost incurred since last Revaluation				
Building on Leasehold Land	–	–	–	–
Plant & Machinery	16,022,790	1,871,217	(1,121,040)	16,772,967
Furniture, Fittings & Equipment	13,043,597	2,363,143	(825)	15,405,915
Cutlery, Crockery, Glassware, Paintings & Murals etc	428,454	3,689	–	432,143
Motor Vehicles	2,776,555	612,091	–	3,388,646
	<u>32,271,396</u>	<u>4,850,140</u>	<u>(1,121,865)</u>	<u>35,999,671</u>
At Valuation				
Land Leased from Sri Lanka Tourist Board				
Lot 1	–	1,154,825	–	1,154,825
Lot 2	–	211,800	–	211,800
Buildings on the above lots	–	6,270,216	–	6,270,216
	<u>–</u>	<u>7,636,841</u>	<u>–</u>	<u>7,636,841</u>
Total Depreciation	<u>32,271,396</u>	<u>12,486,981</u>	<u>(1,121,865)</u>	<u>43,636,512</u>

NOTES TO THE FINANCIAL STATEMENTS *Contd.***PROPERTY, PLANT & EQUIPMENT (contd.)****Company**

	2006	2005
	Rs.	Rs.
11.2.4 Net Book Values		
At Cost/ Cost Incurred since last Revaluation	66,433,698	42,463,772
At Valuation	199,566,111	207,202,952
Total Carrying Amount of Property, Plant & Equipment	265,999,809	249,666,724

11.2.5 The land and buildings of the Company were revalued during the financial year 1995/96 and 2004/05 by Messrs. D.S.A. Senaratne, an independent valuer. The results of such revaluation was incorporated in these financial statements from its effective date which is 31.03.1996 and 31.03.2005. Such assets were valued on an open market value for existing use basis the surplus arising from the revaluation was transferred to a revaluation reserve.

The carrying amount of the company's 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	Cumulative	Net Carrying	Net Carrying
	Rs.	Depreciation	Amount	Amount
		If assets were	2006	2005
		carried at cost	Rs.	Rs.
		Rs.		
Buildings on Leasehold Land	77,382,514	8,069,642	69,312,872	71,657,797

11.2.6 During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 29,015,737/- (2005 - Rs. 25,201,630/-) and all have been purchased for cash payments.

11.2.7 The two lots of land revalued have been leased from the Sri Lanka Tourist Board. One of the leases will expire on 01.02.2019 whilst the other expired on 28.02.2003. and has been renewed by Tourist Board for a further period of 30 years up to 28.02.2033. The company has constructed buildings on these properties. On the expiration of the lease term the Sri Lanka Tourist Board will pay to the company the value of the buildings and improvements constructed with the written approval of Sri Lanka Tourist Board as assessed by the chief valuer.

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

12. INVESTMENTS IN SUBSIDIARIES

12.1 Company	Country of Incorporation	Holding		Cost	Market Value	Cost	Market Value
		2006	2005	2006	2006	2005	2005
				Rs.	Rs.	Rs.	Rs.
a) Quoted Investments							
Stafford Hotels Ltd	Sri Lanka	56.90%	56.90%	130,927,502	224,969,725	130,927,502	197,973,366
Hotel Sigiriya Ltd	Sri Lanka	75.69%	75.69%	69,253,291	278,998,359	69,253,291	91,644,494
Total Quoted Investments in Subsidiaries				200,180,793	503,968,084	200,180,793	289,617,860
b) Non-Quoted Investment							
	Country of Incorporation	Holding		Cost		Cost	
		2006	2005	2006		2005	
				Rs.		Rs.	
Serendib Leisure Management Ltd	Sri Lanka	100 %	100 %	100,000		100,000	
Serendib Corporate Services (Pvt) Ltd	Sri Lanka	100 %	100 %	100,020		100,020	
Total Non-Quoted Investments in Subsidiaries				200,020		200,020	
Total Gross carrying value of Investments in Subsidiaries				200,380,813		200,380,813	
Fall in Value of Investment				-		-	
Total Carrying Value of Investments in Subsidiaries				200,380,813		200,380,813	

13. OTHER INVESTMENTS

Summary	Consolidated		Company	
	2006	2005	2006	2005
Non Current	Rs.	Rs.	Rs.	Rs.
Investments in Equity Securities (13.1 & 13.2)	11,751,210	16,407,746	5,084,550	9,741,086
	11,751,210	16,407,746	5,084,550	9,741,086
Current				
Investments in Fixed Deposits	20,000	20,000	-	-
	20,000	20,000	-	-
Total Carrying Value of Other Investments	11,771,210	16,427,746	5,084,550	9,741,086

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

13. Investments in Equity Securities

13.1. Consolidated	No. of Shares		Carrying Value	Market Value	Carrying Value	Market Value
	2006	2005	2006 Rs.	2006 Rs.	2005 Rs.	2005 Rs.
a) Quoted						
Serendib Land Ltd	–	5,400	–	–	262,500	649,350
Total Investments in Quoted Equity Securities			–	–	262,500	649,350
	No. of Shares		Carrying Value	Directors Valuation	Carrying Value	Directors Valuation
	2006	2005	2006 Rs.	2006 Rs.	2005 Rs.	2005 Rs.
b) Non-Quoted						
Rainforest Ecologge (Pvt) Ltd.	1,000,000	1,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Felix Hotels Ltd	1,751,210	1,751,210	1,751,210	1,751,210	1,751,210	1,751,210
Mowbray Hotels Ltd	–	637,594	–	–	4,394,036	4,394,036
Total Investments in Non-Quoted Equity Securities			11,751,210	11,751,210	16,145,246	16,145,246
Total Carrying Value of Investments in Equity Securities			11,751,210	11,751,210	16,407,746	16,794,596
13.2 Company	No. of Shares		Carrying Value	Market Value	Carrying Value	Market Value
	2006	2005	2006 Rs.	2006 Rs.	2005 Rs.	2005 Rs.
a) Quoted						
Serendib Land Ltd	–	5,400	–	–	262,500	649,350
Total Investments in Quoted Equity Securities			–	–	262,500	649,350
	No. of Shares		Carrying Value	Directors Valuation	Carrying Value	Directors Valuation
	2006	2005	2006 Rs.	2006 Rs.	2005 Rs.	2005 Rs.
b) Non-Quoted						
Rainforest Ecologic (Pvt) Ltd.	333,334	333,334	3,333,340	3,333,340	3,333,340	3,333,340
Felix Hotels Ltd	1,751,210	1,751,210	1,751,210	1,751,210	1,751,210	1,751,210
Mowbray Hotels Ltd	–	637,594	–	–	4,394,036	4,394,036
Total Investments in Non-Quoted Equity Securities			5,084,550	5,084,550	9,478,586	9,478,586
Total Carrying Value of Investments in Equity Securities			5,084,550	5,084,550	9,741,086	10,127,936

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

14. INVENTORIES	Consolidated		Company	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
House Keeping & Maintenance Stock	3,794,150	4,279,421	1,151,869	1,324,976
Printing & Stationery Stock	960,120	368,520	243,999	487,554
Food Stock	3,637,042	2,413,288	887,993	875,504
Bar Stock	3,707,789	3,329,529	1,176,504	1,211,568
Linen & Cutlery	492,166	–	–	–
	<u>12,591,267</u>	<u>10,390,758</u>	<u>3,460,365</u>	<u>3,899,602</u>
15. TRADE AND OTHER RECEIVABLES				
Trade Dues Receivables from Related Parties (15.1)	10,209,851	5,723,954	1,372,985	1,153,987
Trade Debtors - Others	109,380,595	35,204,357	33,368,279	15,904,776
Less: Provision for Doubtful Debts	(4,559,359)	(2,427,931)	(1,739,173)	(1,707,972)
	<u>115,031,087</u>	<u>38,500,380</u>	<u>33,002,091</u>	<u>15,350,791</u>
Other Debtors	5,014,905	32,541,066	917,159	2,223,917
Advances and Prepayments	8,549,716	9,254,233	1,776,133	1,857,245
Less: Provision for Doubtful Debts	(778,697)	(768,767)	(167,163)	(167,163)
Loans to Company Officers (15.2)	958,121	643,148	629,876	216,901
	<u>128,775,132</u>	<u>80,170,060</u>	<u>36,158,096</u>	<u>19,481,691</u>
15.1 Trade Dues Receivables from Related Parties				
		Relationship		
Serendib Leisure Management Ltd.	–	Subsidiary	–	1,000
Hemas Holdings Ltd.	22,600	Ultimate Parent Company	22,600	–
Peace Heaven Resorts Ltd.	95,594	Affiliate Company	–	–
Hemtours (Pvt) Ltd	10,091,657	Affiliate Company	5,723,954	1,129,670
Stafford Hotels Ltd.	–	Subsidiary	–	23,317
	<u>10,209,851</u>		<u>5,723,954</u>	<u>1,372,985</u>
15.2 Loans to Company Officers:				
Summary				
Balance as at the beginning of the Year	643,148	765,461	216,901	142,212
Loans Granted during the Year	2,188,523	2,734,256	788,076	594,341
Less: Repayments during the year	(1,873,550)	(2,856,569)	(375,101)	(519,652)
Balance as at the end of the Year	<u>958,121</u>	<u>643,148</u>	<u>629,876</u>	<u>216,901</u>
16. AMOUNTS DUE FROM RELATED PARTIES				
		Relationship		
Stafford Hotels Ltd	–	Subsidiary	2,000,000	8,000,000
Serendib Leisure Management Ltd	–	Subsidiary	15,792,750	14,429,735
Hemtours (Pte) Limited	127,426	Affiliate Company	–	–
Leisure Asia Investment Ltd.	692	Parent Company	692	–
Casabah Hotels Ltd	8,326	Subsidiary	8,326	22,783
South Asian School of Hotel Management & Tourism Ltd	8,326	Associate Company	22,783	8,326
Elephant Trails	8,326	Affiliate Company	–	8,326
Felix Hotels Ltd.	52,842	Affiliate Company	50,587	–
Peace Heaven Resorts Ltd.	29,145	Affiliate Company	29,145	–
	<u>235,083</u>		<u>17,817,728</u>	<u>22,475,301</u>

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

17. SHARE CAPITAL		Par Value	2006	2005	
		Rs.	Number	Number	
17.1 Authorised					
Number of Shares	Ordinary Shares - Voting	10/-	40,000,000	40,000,000	
	Ordinary Shares - Non Voting	10/-	10,000,000	10,000,000	
			50,000,000	50,000,000	
			Rs.	Rs.	
Nominal Value	Ordinary Shares - Voting	10/-	400,000,000	400,000,000	
	Ordinary Shares - Non Voting	10/-	100,000,000	100,000,000	
			500,000,000	500,000,000	
17.2 Issued and Fully Paid					
		Par Value	Number	Number	
Number of Shares	Ordinary Shares - Voting	10/-	8,021,504	7,875,000	
	Ordinary Shares - Non Voting	10/-	4,605,090	3,150,000	
			12,626,594	11,025,000	
			Rs.	Rs.	
Nominal Value	Ordinary Shares -Voting	10/-	80,215,040	78,750,000	
	Ordinary Shares - Non Voting	10/-	46,050,900	31,500,000	
			126,265,940	110,250,000	
18. RESERVES					
		Consolidated		Company	
		2006	2005	2006	2005
		Rs.	Rs.	Rs.	Rs.
Summary					
(a) Capital Reserves					
	Share Premium (18.1)	90,429,856	76,545,000	90,429,856	76,545,000
	Revaluation Reserve (18.2)	212,967,377	215,584,679	115,375,934	115,375,934
(b) Revenue Reserve					
	General Reserve (18.3)	19,940,000	19,940,000	14,500,000	14,500,000
		323,337,233	312,069,679	220,305,790	206,420,934
18.1 Share Premium					
	As at the Beginning of the Year	76,545,000	76,545,000	76,545,000	76,545,000
	Premium on conversion of debentures	13,884,856	-	13,884,856	-
	As at the end of the Year	90,429,856	76,545,000	90,429,856	76,545,000
18.2 Revaluation Reserve					
On: Property, Plant & Equipment					
	Balance as at the beginning of the year	215,584,679	79,973,870	115,375,934	66,608,007
	Transfer/(Reversed) during the year	(2,617,302)	135,610,809	-	48,767,927
	Balance as at the end of the year	212,967,377	215,584,679	115,375,934	115,375,934
The above revaluation surplus consists of net surplus resulting from the revaluation of property plant and equipment. The unrealised amount cannot be directly distributed to shareholders.					
18.3 Revenue Reserve					
		Consolidated		Company	
		2006	2005	2006	2005
		Rs.	Rs.	Rs.	Rs.
General Reserve					
	At the beginning of the year	19,940,000	19,940,000	14,500,000	14,500,000
	At the end of the year	19,940,000	19,940,000	14,500,000	14,500,000

General Reserve, which is a revenue reserve, represents the amounts set aside by the directors for general application.

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

19. INTEREST BEARING LOANS AND BORROWINGS	2006 Amount Repayable Within 1 Year Rs.	2006 Amount Repayable After 1 Year Rs.	2006 Total Rs.	2005 Amount Repayable Within 1 Year Rs.	2005 Amount Repayable After 1 Year Rs.	2005 Total Rs.
19.1 Consolidated						
Finance Leases (19.1.1)	311,454	278,911	590,365	242,394	590,365	832,759
Bank Loans (19.1.2)	45,785,632	134,961,204	180,746,836	34,109,992	127,676,364	161,786,356
Debentures (19.1.3)	–	58,299,204	58,299,204	–	88,200,000	88,200,000
Bank Overdrafts (28.2)	39,437,385	–	39,437,385	21,778,057	–	21,778,057
	85,534,471	193,539,319	279,073,790	56,130,443	216,466,729	272,597,172

19.2 Company	2006 Amount Repayable Within 1 Year Rs.	2006 Amount Repayable After 1 Year Rs.	2006 Total Rs.	2005 Amount Repayable Within 1 Year Rs.	2005 Amount Repayable After 1 Year Rs.	2005 Total Rs.
Bank Loans (19.2.1)	7,799,781	39,864,219	47,664,000	16,752,000	33,248,000	50,000,000
Loans from Related Parties (19.2.2)	4,100,000	–	4,100,000	5,100,000	–	5,100,000
Debentures (19.1.3)	–	58,299,204	58,299,204	–	88,200,000	88,200,000
Bank Overdrafts (28.2)	19,560,646	–	19,560,646	4,440,431	–	4,440,431
	31,460,427	98,163,423	129,623,850	26,292,431	121,448,000	147,740,431

19.1.1 Finance Leases	As At 01.04.2005 Rs.	New Leases/ Hire Purchases Obtained Rs.	Principal Repayment Rs.	As At 31.03.2006 Rs.
Commercial Bank of Ceylon	832,759	–	(242,394)	590,365
	832,759	–	(242,394)	590,365
Security: Respective assets obtained on Finance Lease				
Gross Liability	1,101,804			701,148
Finance Charges allocated to future periods	(269,045)			(110,783)
Net liability	832,759			590,365

19.1.2 Bank Loans	As At 01.04.2005 Rs.	Loans Obtained Rs.	Repayment Rs.	As At 31.03.2006 Rs.
Bank Loans (19.3)	161,786,356	53,804,139	(34,843,659)	180,746,836

19.1.3 Debentures	As At 01.04.2005 Rs.	New Issues Rs.	Conversion Rs.	As At 31.03.2006 Rs.
Unsecured/Convertible / Redeemable Debentures	88,200,000	–	(29,900,796)	58,299,204
	88,200,000	–	(29,900,796)	58,299,204

Interest

Weighted average six months Government of Sri Lanka treasury bill rate net of withholding tax plus two percent (2%) per annum

Terms of Redemption / Conversion

Debenture issued to voting ordinary shareholders could be converted in to voting ordinary shares and debentures issued Non-Voting Ordinary shareholders could be converted to Non-Voting ordinary shares at the option of the respective debenture holders on specified conversion dates commencing from 01 January 2006 and ending on 31 December 2009.

The company will redeem at par (Rs. 100/-) the debentures that are not converted in to ordinary shares on the redemption date, which is 31 December 2009.

19.2.1 Bank Loans	As At 01.04.2005 Rs.	Loans Obtained Rs.	Repayment Rs.	As At 31.03.2006 Rs.
Seylan Bank (14%)	35,000,000	–	(7,336,000)	27,664,000
Seylan Bank – Susahana Credit Scheme (6%)	–	20,000,000	–	20,000,000
NDB Bank (14.25%)	15,000,000	–	(15,000,000)	–
	50,000,000	20,000,000	(22,336,000)	47,664,000

Security:

Seylan Bank - Primary Mortgage over the land and buildings of Serendib Hotels Limited for Rs.48 Million

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

19. INTEREST BEARING LOANS AND BORROWINGS (Contd...)

		As At 01.04.2005 Rs.	Loans Obtained Rs.	Repayment Rs.	As At 31.03.2006 Rs.
19.2.2 Loans from Related Parties					
Hotel Sigiriya Ltd. (8.5%)	Subsidiary	5,100,000	-	(1,000,000)	4,100,000
		<u>5,100,000</u>	<u>-</u>	<u>(1,000,000)</u>	<u>4,100,000</u>

19.3 Terms of Repayments	As At 31.03.2006 Rs.	Repayment Rs.	Loans Obtained Rs.	As At 31.03.2005 Rs.	Repayment Terms
Serendib Hotels Ltd.					
Seylan Bank	27,664,000	(7,336,000)	-	35,000,000	60 monthly Instalments @ Interest rate of 14% p.a., Commenced from December 2005.
Seylan Bank - Susahana Credit Scheme	20,000,000	-	20,000,000	-	60 monthly installments @ 6% p.a. Commencing from January 2007.
NDB Bank	-	(15,000,000)	-	15,000,000	Interest rate of 14.25% p.a. (revised monthly)
Stafford Hotels Ltd.					
DFCC Bank	42,000,000	(3,000,000)	-	45,000,000	60 monthly installments at the interest rate of AWPR+1% (revised quarterly), Commenced from December 2005.
DFCC Bank - Interest Capitalised Loan	2,569,005	(513,803)	3,082,808	-	24 monthly installements @ 6% p.a. Commenced from December 2005.
Commercial Bank of Ceylon	10,000,000	(2,200,000)	12,200,000	-	Within 6 months from as and when loan is taken
Miami Beach Hotels Ltd					
Seylan Bank - Loan 1	29,160,000	(1,168,000)	-	30,328,000	54 monthly instalments commenced from Dec. 2005, @ the interest rate of 15% p.a.
Seylan Bank - Interest Capitalised Loan 1	411,500	(1,237,500)	1,649,000	-	8 monthly installements commenced from July 2005 @ 0% interest
Seylan Bank - Loan 2	18,664,000	(1,336,000)	-	20,000,000	60 monthly installments at the interest rate of Gross TB+1.8% (revised monthly), Commenced from December 2005.
Seylan Bank - Interest Capitalised Loan 2	208,153	(630,000)	838,153	-	8 monthly installements commenced from July 2005 @ 0% interest
DFCC Bank	14,000,000	(1,000,000)	-	15,000,000	60 monthly installments at the interest rate of AWPR+1% (revised quarterly), Commenced from December 2005.
DFCC Bank Interest Capitalised Loan	861,814	(172,364)	1,034,178	-	24 monthly installements @ 6% p.a. Commenced from December 2005.
Serendib Leisure Management Limited					
Commercial Bank of Ceylon	208,364	(1,249,992)	-	1,458,356	Monthly instalments of Rs. 104,166/- each and a final instalment of Rs. 104,198 at the interest rate of 12% p.a..
Hotel Sigiriya Limited					
Commercial Bank of Ceylon	15,000,000	-	15,000,000	-	36 monthly installments at the interest rate of Prime lending rate, Commencing from November 2006.
	<u>180,746,836</u>	<u>(34,843,659)</u>	<u>53,804,139</u>	<u>161,786,356</u>	

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

20. DEFERRED TAX LIABILITIES	Consolidated		Company	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
Balance as at the beginning of the Year	22,249,125	21,402,786	3,619,888	3,703,000
Provision/(Release) made during the Year	(718,344)	846,339	881,268	(83,112)
Balance as at the end of the Year	<u>21,530,781</u>	<u>22,249,125</u>	<u>4,501,156</u>	<u>3,619,888</u>
21. OTHER DEFERRED LIABILITIES				
	Balance 01.04.2005 Rs.	Charge for the Year Rs.	Payments/ During the Year Rs.	Balance 31.03.2006 Rs.
Consolidated				
Retirement Benefit Obligation - Gratuity	8,859,294	2,489,368	(1,458,213)	9,890,449
	<u>8,859,294</u>	<u>2,489,368</u>	<u>(1,458,213)</u>	<u>9,890,449</u>
Company				
Retirement Benefit Obligation - Gratuity	3,245,943	488,075	(506,938)	3,227,080
	<u>3,245,943</u>	<u>488,075</u>	<u>(506,938)</u>	<u>3,227,080</u>
22. DEFERRED INCOME				
Negative Goodwill on Consolidation				
	2006 Rs.	2005 Rs.		
Balance as at Beginning of the Year	-	355,271		
Negative Goodwill on increase in holdings	-	-		
Transfer to Income Statement	-	(355,271)		
Balance as at the end of the Year	<u>-</u>	<u>-</u>		
23. TRADE AND OTHER PAYABLES				
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
Trade Payables	25,547,710	19,185,686	7,443,937	8,081,698
Sundry Creditors Including Accrued Expenses	72,395,146	89,161,151	19,671,665	27,470,406
	<u>97,942,856</u>	<u>108,346,837</u>	<u>27,115,602</u>	<u>35,552,104</u>
24. DIVIDENDS PAYABLE				
Unclaimed Dividends	2,485,439	2,230,065	1,446,265	1,213,029
	<u>2,485,439</u>	<u>2,230,065</u>	<u>1,446,265</u>	<u>1,213,029</u>
25. DIVIDENDS				
Final Dividend 2003/04	-	8,268,750	-	8,268,750
1st Interim 2004/05	-	11,025,000	-	11,025,000
	<u>-</u>	<u>19,293,750</u>	<u>-</u>	<u>19,293,750</u>

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

26. AMOUNTS DUE TO RELATED PARTIES	Relationship	Consolidated		Company	
		2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
	Serendib Leisure Management Ltd.	–	–	1,514,748	–
	Hotel Seaspray		5,730	–	–
	Peace Heaven Resorts Ltd.	348,471	–	348,471	–
		<u>348,471</u>	<u>5,730</u>	<u>1,863,219</u>	<u>–</u>
27. NON INTEREST BEARING LOANS AND BORROWINGS					
	Ministry of Tourism	1,207,000	1,207,000	–	–
		<u>1,207,000</u>	<u>1,207,000</u>	<u>–</u>	<u>–</u>
28. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT					
	Components of Cash and Cash Equivalents				
28.1 Favourable Cash & Cash Equivalents Balance					
	Cash & Bank Balances	12,647,557	36,628,833	4,527,058	19,810,308
	Investments in Treasury Bills	–	45,570,311	–	3,413,612
		<u>12,647,557</u>	<u>82,199,144</u>	<u>4,527,058</u>	<u>23,223,920</u>
28.2 Unfavourable Cash & Cash Equivalent Balance					
	Bank Overdraft	(39,437,385)	(21,778,057)	(19,560,646)	(4,440,431)
		<u>(26,789,828)</u>	<u>60,421,087</u>	<u>(15,033,588)</u>	<u>18,783,489</u>
29. COMMITMENTS AND CONTINGENCIES					
29.1 Capital Expenditure Commitments					
	The Company does not have significant capital commitments as at the Balance Sheet date.				
29.2 Contingencies					
	There are no significant contingencies as at the Balance Sheet date.				

NOTES TO THE FINANCIAL STATEMENTS *Contd.***30. ASSETS PLEDGED**

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged		Included under
		2006 Rs.	2005 Rs.	
Serendib Hotels Ltd.				
Leasehold Land & Buildings	Primary Mortgage upto the value of Rs. 48Mn to Seylan Bank	219,405,933	207,202,952	Property, Plant & Equipment
Stafford Hotels Ltd.				
Freehold land	Primary Mortgage upto the value of Rs. 55Mn to DFCC Bank	35,200,909	40,180,000	Property, Plant & Equipment
Plant, Machinery, Equipment & Receivable / recoverable (under insurance policies)	Primary Mortgage up to the value of Rs. 5Mn to DFCC Bank	33,534,006	29,770,822	Property, Plant & Equipment
		38,629,181	13,509,799	Debtors
Freehold Land	Secondary Mortgage up to value of Rs.3.75Mn to DFCC Bank (Interest Capitalised loan)	35,200,909	40,180,000	Property, Plant & Equipment
Miami Beach Hotels Ltd				
Freehold land & Buildings	Primary Mortgage up to the value of Rs. 65Mn to Seylan Bank	156,704,621	154,430,500	Property, Plant & Equipment
Freehold Land	Secondary Mortgage up to the value of Rs. 15 Mn to DFCC Bank	49,641,489	50,840,000	Property, Plant & Equipment
Plant, Machinery, Equipment & Receivable / recoverable (under insurance policies)	Primary Mortgage up to the value of Rs. 5Mn to DFCC Bank	21,896,329	22,183,498	Plant & Equipment
		22,266,353	13,941,063	Debtors
Freehold Land	Tertiary Mortgage up to value of Rs. 1.25Mn to DFCC Bank (Interest Capitalised loan)	49,641,489	50,840,000	Property, Plant & Equipment
Hotel Sigiriya Ltd				
Leasehold Land & Buildings	Primary Mortgage upto the value of Rs.30 Mn. to Commercial Bank of Ceylon	86,421,859		Property, Plant & Equipment

31. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have been no material events occurring after the Balance Sheet date that require adjustments to or disclosure in the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

32. DIRECTORS' INTERESTS IN CONTRACTS AND/OR PROPOSED CONTRACTS WITH THE COMPANY

- a) Mr. A.N.Esufally, Mr. E.J.De Soysa, Mr. B.S.M.De Silva, Ms. A.R.Gamage, Ms. M.S.Fonseka and Mr. H.N.Esufally Directors of the Company are also Directors of Serendib Leisure Management Ltd, Hotel Sigiriya Ltd. and Stafford Hotels Ltd, Mr.J.C.L. de Mel, Director of the Company is also a Director of Serendib Leisure Management Ltd. The Company has had the following significant transactions during the year ended 31 March 2006.

The Company paid as Management fee of Rs.7,366,399/- (2005 - Rs.4,297,372/-), Accounting fee of Rs. 420,000/- (2005 - Rs. 420,000/-) and Reimbursement Expenses of Rs.4,249,977/- (2005 - Rs.4,957,181/-) to Serendib Leisure Management Ltd.

The Company received as Sale of Goods & Services Rs.458,500/- (2005 - Rs. 240,000/-) from Serendib Leisure Management Ltd.

The company paid as Purchases of Goods & Services Rs.182,500/- (2005-Nil), Interest for the inter Company Loan Rs. 433,500/- and Rendering Services Rs.184,960/- (2005 - Rs. 11,980/-) to Hotel Sigiriya Ltd.

The Company received as sale of Good & Services Rs 1,095,093/- (2005 - Rs. 1,195,414/-) from Hotel Sigiriya Ltd.

An Inter Company Loan of Rs. 5.1 Mn (interest rate @ 8.5% p.a) was obtained from Hotel Sigiriya Ltd during the year 2004/05, on which Rs. 4.5 Mn was outstanding as at 31 March 2006.

The Company paid as Purchases of Goods & Services Rs.852,387/- (2005 - Rs.1,068,063/-) to Stafford Hotels Ltd.

The Company received as Sale of Goods & Services Rs.1,105,313/- (2005 - Rs.688,088/-), and Inter Company Loan Interest Rs. 614,383 from Stafford Hotels Ltd.

An Inter Company Loan of Rs 8Mn (Interest rate @ 13% p.a.) was made during 2004/05 to Stafford Hotel Ltd on which Rs 2 Mn is outstanding as a 31 March 2006.

- b) Mr. A.N.Esufally, Mr. B.S.M.De Silva, Ms. A.R.Gamage and Ms. M.S.Fonseka , Directors of the Company are also Directors of Serendib Corporate Services (Private) Ltd, who were the Secretaries of the Company upto 31 March 2006. A fee of Rs. 220,000/- (2005 - Rs. 450,000/-) was paid for professional services provided during the year ended 31 March 2006.
- c) Mr. A.N.Esufally and Mr. H.N.Esufally Directors of the Company are also Directors of Hemtours (Private) Ltd, the local Agents for tour operators, with which the Company has signed contracts for the hotel. During the year the company has sold tour contracts amounting to Rs.3,908,108/- (2005 - Rs. 3,942,174/-) of which a sum of Rs.1,350,385/- (2005 - Rs.1,129,670/-) is outstanding as at 31 March 2006
- d) Ms. H.L.Ratnayake (Alternate to Ms A.R.Gamage) and Ms. K.A. Wilson (Alternate to Mr.H.N.Esufally) had no direct or indirect interest in any actual or proposed contracts with the Company during the year ended 31 March 2006.

INVESTOR INFORMATION

SHARE CAPITAL

Authorised Share Capital	-	Rs. 500,000,000 divided into 50,000,000 shares of Rs. 10/- each.
Issued & Fully Paid Share Capital	-	Rs. 126,265,940 divided into 8,021,504 Ordinary (Voting) shares of Rs. 10/- each and 4,605,090 Ordinary (Non-Voting) shares of Rs. 10/- each (Subsequent to the conversion of Debentures on 01 January 2006, the Issued Capital of the Company increased from Rs. 110,250,000 to Rs. 126,265,940).

The issued Ordinary (Voting & Non-Voting) Shares of Serendib Hotels Ltd. are listed with the Colombo Stock Exchange of Sri Lanka.

SHARE DISTRIBUTION

Ordinary Voting Shares

			31.03.2006			31.03.2005		
			Shareholders	Total Holding	%	Shareholders	Total Holding	%
1	-	1,000	315	92,774	1.16	319	99,177	1.26
1,001	-	5,000	128	322,541	4.02	122	309,646	3.93
5,001	-	10,000	43	323,976	4.04	43	325,641	4.13
10,001	-	50,000	48	1,022,834	12.75	47	957,226	12.15
50,001	-	100,000	7	485,445	6.05	8	541,551	6.88
100,001	-	500,000	7	1,219,268	15.20	7	1,077,093	13.68
500,001	-	1,000,000	2	1,154,500	14.39	2	1,164,500	14.79
		Over 1,000,000	1	3,400,166	42.39	1	3,400,166	43.18
			<u>551</u>	<u>8,021,504</u>	<u>100.00</u>	<u>549</u>	<u>7,875,000</u>	<u>100.00</u>
Institutions			37	4,864,231	60.64	36	4,760,341	60.45
Individuals			514	3,157,273	39.36	513	3,114,659	39.55
			<u>551</u>	<u>8,021,504</u>	<u>100.00</u>	<u>549</u>	<u>7,875,000</u>	<u>100.00</u>

Ordinary Non-Voting Shares

			31.03.2006			31.03.2005		
			Shareholders	Total Holding	%	Shareholders	Total Holding	%
1	-	1,000	238	71,791	1.56	234	69,323	2.20
1,001	-	5,000	66	145,036	3.15	61	136,936	4.35
5,001	-	10,000	10	69,866	1.52	9	61,966	1.97
10,001	-	50,000	10	226,312	4.91	11	244,812	7.77
50,001	-	100,000	3	156,979	3.41	3	156,979	4.98
100,001	-	500,000	0	0	0	0	0	0
500,001	-	1,000,000	1	853,428	18.53	1	853,428	27.09
		Over 1,000,000	2	3,081,678	66.92	1	1,626,556	51.64
			<u>330</u>	<u>4,605,090</u>	<u>100.00</u>	<u>320</u>	<u>3,150,000</u>	<u>100.00</u>
Institutions			33	4,162,971	90.40	29	2,698,569	85.67
Individuals			297	442,119	9.60	291	451,431	14.33
			<u>330</u>	<u>4,605,090</u>	<u>100.00</u>	<u>320</u>	<u>3,150,000</u>	<u>100.00</u>

INVESTOR INFORMATION *Contd.*

SHARE TRADING

Ordinary Voting Shares

	2005/06	2004/05
Highest Market Price	Rs. 55.00 (19.10.05)	Rs. 69.00 (21.10.04)
Lowest Market Price	Rs. 30.00 (28.12.05)	Rs. 30.00 (20.04.04)
Last Traded Price	Rs. 46.50 (31.03.06)	Rs. 39.00 (22.03.05)
No. of Shares Traded	163,200	108,200
No. of Trades	107	146
Turnover	Rs. 6,928,275	Rs. 5,452,650

Ordinary Non-Voting Shares

Highest Market Price	Rs. 33.50 (26.04.05)	Rs. 38.75 (21.10.04)
Lowest Market Price	Rs. 13.00 (18.11.05)	Rs. 25.00 (11.01.05)
Last Traded Price	Rs. 20.50 (22.03.06)	Rs. 30.00 (17.03.05)
No. of Shares Traded	164,900	404,700
No. of Trades	109	255
Turnover	Rs. 3,514,800	Rs. 13,368,700

PUBLIC HOLDING

	As at 31.03.2006	As at 31.03.2005
Ordinary (Voting) Shares	29.77%	30.17%
Ordinary (Non-Voting) Shares	13.24%	17.20%

MAJOR SHAREHOLDINGS

The Twenty major shareholders (**Voting Ordinary Shares**) as at 31 March 2006 & 31 March 2005.

	31.03.2006		31.03.2005	
	Shares	%	Shares	%
Leisure Asia Investments Ltd.	3,400,166	42.39	3,400,166	43.18
The Mahayaya Estates Co. Ltd.	596,000	7.43	596,000	7.57
Mr. E.J. De Soysa	558,500	6.96	568,500	7.22
Mr. B.S.M. De Silva	282,752	3.52	282,752	3.59
Hemas Holdings Ltd.	260,290	3.24	173,100	2.20
Mr. J.C.L. de Mel	212,385	2.65	157,400	2.00
Intercom Ltd.	127,968	1.60	127,968	1.62
Mr. K. T. Wickremaratne	121,887	1.52	121,887	1.55
Ms. M. T. A. Moosajee	108,986	1.36	108,986	1.38
Ms. J. De Soysa	105,000	1.31	105,000	1.33
Elgin Investments Ltd.	94,000	1.17	94,000	1.19
Favourite Investments (Pvt) Ltd.	83,000	1.03	83,000	1.05
Ms. B. C. R. Wickramaratne	80,811	1.01	80,811	1.03
Mr. M. U. M. Rushdi	66,588	0.83	66,588	0.85
Ms. C.A. Wenceslaus	57,174	0.71	57,174	0.73
Mr. O. R. Kreltszheim	52,686	0.66	56,106	0.71
Mr. B. G. S. De Silva	51,186	0.64	52,686	0.67
Ms. L. G. De Silva	49,290	0.61	51,186	0.65
Ms. M. V. Fernando	48,399	0.60	49,290	0.63
Ms. S. Z. Ossman	39,979	0.50	39,975	0.51
	6,397,047	79.75	6,272,575	79.66
Shares held by the balance shareholders	1,624,457	20.25	1,602,425	20.34
	8,021,504	100.00	7,875,000	100.00

INVESTOR INFORMATION *Contd.*

The Twenty major shareholders (**Non-Voting Ordinary Shares**) as at 31 March 2006 & 31 March 2005.

	31.03.2006			31.03.2005	
	Shares	%		Shares	%
Leisure Asia Investments Ltd.	1,626,556	35.32	Leisure Asia Investments Ltd.	1,626,556	51.64
Hemas Holdings Ltd.	1,455,122	31.60	Employees Trust Fund Board	853,428	27.09
Employees Trust Fund Board	853,428	18.53	Shalsri Investments Ltd.	54,692	1.74
Shalsri Investments Ltd.	54,692	1.19	Intercom Ltd.	51,187	1.62
Intercom Ltd.	51,187	1.11	Elgin Investments Ltd.	51,100	1.62
Elgin Investments Ltd.	51,100	1.11	Mr. B.S.M. De Silva	50,000	1.59
Mr. B.S.M. De Silva	50,000	1.09	The Mahayaya Estates Co. Ltd.	27,100	0.86
The Mahayaya Estates Co. Ltd.	27,100	0.59	Mr. M.K. Kutubdeen	26,800	0.85
Mr. M.K. Kutubdeen	26,800	0.58	Ms. H.G.S. Ansell	21,808	0.69
Ms. H.G.S. Ansell	21,808	0.47	Ms. B.Y. La Brooy	21,074	0.67
Ms. B.Y. La Brooy	21,074	0.46	Ms. M.S. De Silva	18,500	0.59
Dr. H.S.D. Soysa	18,045	0.39	Dr. H.S.D. Soysa	18,045	0.57
Ms. E.E.M. Woodward	18,000	0.39	Ms. E.E.M. Woodward	18,000	0.57
Mr. N.A. Jayawickrama	17,084	0.37	Mr. N.A. Jayawickrama	17,084	0.54
Ms. S.Z. Ossman	15,990	0.35	Ms. S.Z. Ossman	15,990	0.51
Mr. A.L. Weerasinghe	10,411	0.23	Est. of the late Mr. A.E. Weerasinghe	10,411	0.33
Ms. M.S. De Silva	9,900	0.21	Mr. M. Radhakrishnan	9,759	0.31
Mr. M. Radhakrishnan	9,759	0.21	Colombo Investment Trust Ltd.	9,300	0.30
Colombo Investment Trust Ltd.	9,300	0.20	Mr. D.R. Perera	7,797	0.25
Mr. R. De Silva	7,797	0.17	Mr. R. De Silva	7,300	0.23
	4,355,153	94.57		2,915,931	92.57
Shares held by the balance shareholders	249,937	5.43	Shares held by the balance shareholders	234,069	7.43
	<u>4,605,090</u>	<u>100.00</u>		<u>3,150,000</u>	<u>100.00</u>

INVESTOR INFORMATION *Contd.***UNSECURED CONVERTIBLE REDEEMABLE 5 YEAR DEBENTURES 2004/2009**

Issued & Fully Paid	882,000 Unsecured Convertible Redeemable 5 Year Debentures at a par value of Rs. 100/- each.
Converted to ordinary shares	299,010 Debentures were converted to ordinary shares on 01.01.2006

DEBENTURE DISTRIBUTION

	31.03.2006			31.03.2005		
	Debenture Holders	Debentures	%	Debenture Holders	Debentures	%
1 - 1,000	40	5,960	1.02	44	6,622	0.75
1,001 - 5,000	3	7,628	1.30	4	9,049	1.03
5,001 - 10,000	0	0	0.00	0	0	0.00
10,001 - 50,000	1	10,237	1.76	2	24,085	2.73
50,001 - 100,000	0	0	0.00	1	53,619	6.08
100,001 - 500,000	0	0	0.00	0	0	0.00
500,001 - 1,000,000	1	559,165	95.92	1	788,625	89.41
Over 1,000,000	0	0	0.00	0	0	0.00
	45	582,990	100.00	52	882,000	100.00
Institutions	4	569,737	97.73	5	856,427	97.10
Individuals	41	13,253	2.27	47	25,573	2.90
	45	582,990	100.00	52	882,000	100.00

The Twenty major Debentureholders as at 31 March 2006 & 31 March 2005.

	31.03.2006		31.03.2005	
	Debentures	%	Debentures	%
Hemas Holdings Ltd.	559,165	95.91	788,625	89.41
Intercom Ltd.	10,237	1.76	53,619	6.08
Mr. L.H.S. Peiris	4,023	0.69	13,848	1.57
Mr. M.R. Radhakrishnan	2,575	0.44	10,237	1.16
Mr. M.W. De Silva	1,030	0.18	4,023	0.46
Mr. B. Selvanayagam	1,000	0.17	2,575	0.29
Ms. S.P.C. Soysa	727	0.12	1,421	0.16
Ms. A.R. Gamage	584	0.10	1,030	0.12
Mrs. H.S.R. Hettiaratchchi	396	0.05	1,000	0.11
Mr. S.K. Hathiramani	306	0.05	727	0.08
Mr. L.D.R. Hettiarachchi	259	0.04	584	0.07
Mr. N.K. Punchihewa	250	0.04	396	0.04
Midas Investments Ltd.	250	0.04	306	0.03
Ms. S.N. Salgado	240	0.04	259	0.03
Mr. K.C. Vignarajah	120	0.02	257	0.03
Mr. P. Senthamilpalan	116	0.02	254	0.03
Mr. M. Thiyagarajah	109	0.02	250	0.03
Mr. T. D. Hettiaratchi	103	0.02	250	0.03
Mr. L.W.K. Pelige	102	0.02	240	0.03
Mr. M. Francis	101	0.02	120	0.01
	581,693	99.78	880,021	99.78
Debentures held by the balance Debentureholders	1,297	0.22	1,979	0.22
	582,990	100.00	882,000	100.00

FORM OF PROXY

Serendib Hotels Limited
 40 Sir Mohamed Macan Markar Mw
 Colombo 3.

I/We of

..... being a member/members of Serendib Hotels Limited, hereby appoint

1. of.....

or failing him

2. being a Director of the Company as my/our proxy to vote as indicated hereunder for me/us and on my/our behalf at the Thirty Eighth Annual General Meeting of the Company to be held on 05 July 2006 at 3.45 p.m. and at any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
1. To receive, and adopt the Report of the Directors and the Statement of Accounts for the Year ended 31 March 2006 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect as a Director, Mr. E. J. De Soysa who retires by rotation at the AGM.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect as a Director, Mr. H. N. Esufally who retires by rotation at the AGM.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint Ernst & Young as Auditors and authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorize Directors to determine and make contributions to charities.	<input type="checkbox"/>	<input type="checkbox"/>

* The proxy may vote as he thinks fit on any other resolution brought before the meeting.

Signature of shareholder :

Witness :

Signature of Witness :

Dated this day of 2006

- (i) A Proxy need not be a Member of the Company
- (ii) Instructions regarding completion appear on the reverse hereof.

Instructions For Completion

1. To be valid this Form of Proxy must reach the Company by 3.45 p.m. on 3 July 2006.
2. In perfecting this form, please ensure that all details are legible.
3. If you wish to appoint a person other than a Director of the Company as your Proxy, please insert the relevant details at (1) overleaf and initial against this entry.
4. Please indicate with an 'X' in the space provided how your Proxy is to vote on each resolution. If no indication is given, the Proxy in his discretion will vote as he thinks fit. Please also delete if you do not wish your Proxy to vote as he thinks fit on any other resolution brought before the meeting.
5. 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.
6. In the case of joint holders the Form of Proxy must be signed by the first holder.
7. If the Form of Proxy is signed under Power of Attorney, the relative Power of Attorney should also accompany the Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.