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Club Hotel Dolphin

WAIKKAL

NOTICE OF MEETING

Notice is hereby given that the **TWENTY SIXTH ANNUAL GENERAL MEETING OF STAFFORD HOTELS PLC** will be held at the Auditorium of the Ceylon Chamber of Commerce, No. 50, Nawam Mawatha, Colombo 2, on **THURSDAY 05 JULY 2007** at 3.20 p.m. for the following purposes:

1. To receive and consider the Report of the Directors and the Statement of Accounts for the year ended 31 March 2007 with the Report of the Auditors thereon.
2. To re-elect Mr. H. N. Esufally who retires by rotation in terms of the Articles of Association, as a Director of the Company.
3. To re-elect Mr. E. J. De Soysa who retires by rotation in terms of the Articles of Association, as a Director of the Company.
4. To re-elect Mr. W. M. De F. Arsakularatne, who was appointed to the Board since the last AGM and retires in terms of the Articles of Association of the Company.
5. To pass the ordinary resolution set out below to re-appoint as a Director Mr. O. R. Kreltshheim who has reached the age of 86 years on 09 August 2007 and vacates office as Director of the Company in terms of Section 210 (2) (a) of the Companies Act No. 7 of 2007.

“**RESOLVED** that Mr. O. R. Kreltshheim who has reached the age of 86 years on 09 August 2007, be and is hereby re-appointed a Director of the Company and it is hereby declared as provided for in Section 211 (1) of the Companies Act No. 7 of 2007 that the age limit of 70 years referred to in Section 210 of the said Companies Act shall not apply to Mr. O. R. Kreltshheim.”

6. To pass the ordinary resolution set out below to re-appoint as a Director Mr. C. Ramachandran who has reached the age of 73 years on 04 July 2007 and vacates office as Director of the Company in terms of Section 210 (2) (a) of the Companies Act No. 7 of 2007.

“**RESOLVED** that Mr. C. Ramachandran who has reached the age of 73 years on 04 July 2007, be and is hereby re-appointed a Director of the Company and it is hereby declared as provided for in Section 211 (1) of the Companies Act No. 7 of 2007 that the age limit of 70 years referred to in Section 210 of the said Companies Act shall not apply to Mr. C. Ramachandran”

7. To re-appoint Messrs. Ernst & Young as the Auditors of the Company for the ensuing year and authorize the Directors to determine their remuneration.
8. To authorize Directors to determine and make contributions to charity.
9. To consider any other business of which due notice has been given.

By Order of the Board
STAFFORD HOTELS PLC

HEMAS CORPORATE SERVICES (PTE) LIMITED
Secretaries

Colombo
22 May 2007

Notes:

- (i) A member unable to attend is entitled to appoint a proxy to attend and vote on his/her behalf.
- (ii) A proxy need not be a member of the Company.
- (iii) In order to be valid, the completed proxy form should be deposited at 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 a Fellow of the Institute of Chartered Accountants Sri Lanka. Counts over 25 years experience in the Tourism Industry. Other Directorships include Hemas Group, Serendib Hotels PLC, Hotel Sigiriya PLC, Printcare (Ceylon) Ltd., and several other companies.



A R Gamage (Ms)

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



E J De Soysa

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



W M De F Arsakularatne

Appointed to the Board in 2007. An Associate Member of the Chartered Institute of Management Accountants UK. & a Chartered Financial Analyst. He also holds an MSc in Investment Management from the City University Business School, UK, a BSc in Computer Science & Engineering from the University of Moratuwa SL, and a Postgraduate Diploma in Marketing from the Chartered Institute of Marketing UK. He has 9 years of experience in the fund management industry. Other Directorships include Serendib Hotels PLC and Hotel Sigiriya PLC.



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 Serendib Hotels PLC, Hotel Sigiriya PLC, Intercom Group of Companies and several other Companies.



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, Serendib Hotels PLC, Hotel Sigiriya PLC, and other Companies.



T Wijemanna

Appointed to the Board in 1996 as a Nominee Director of DFCC. Holds a LLB (Hons) Degree from University of Colombo and LLM from University of London. Currently serves in the capacity of Senior Vice President / General Counsel at DFCC. Other Directorship includes Swadeshi Group of Companies.



O R Kretzheim

A Founder Director of the Company. Other Directorships Include the Intercom Group.



C Ramachandran

Appointed to the Board in 1982. Other Directorships include Hotel Sigiriya PLC, Impex Corporation and other Companies.

CHAIRMAN'S REVIEW

Industry Overview

The tourism industry of Sri Lanka was hoping that the financial year under review will be the first full year of recovery post- tsunami. However, the deteriorating security situation, culminating with the incidents in the Dambulla and Galle areas took its toll. The customer demand for Sri Lanka started declining and the arrival figures to the country dropped. As a result, the relatively good start in summer 2006 petered out and winter 2006/07 was a mediocre season.

From an industry perspective, the new team at the Tourist Board and the Ministry brought a welcome change, with the private sector being consulted and included in the decision making process. However, it is disappointing to note that the much talked about Tourism Act has once again been shelved, to be further modified and re-considered at a later date. The hotel industry still believes that this is one piece of legislation that will put in place most of the modalities for a good public/ private sector partnership for the benefit of Sri Lanka's tourism industry.

Hotel Operations

Despite the difficult environment, we are proud to report that Club Hotel Dolphin recorded an exceptionally good summer performance, ending up with 88% occupancy, and a record breaking Rs.31.8Mn profit before taxation and depreciation. This was primarily due to the strategic partnership with leading British tour operator First Choice Holidays who flew their own Charter and took a large allotment of rooms at the hotel. The Dolphin hotel is particularly well known in the British market and there is a strong demand for it. This has resulted in an exceptional performance for the summer 2006 period.

Consequently, although the winter ended up weaker due to the escalating security situation, Club Hotel Dolphin was able to ride on the strong summer performance and end the year with a record Rs.61.6Mn profit before depreciation and taxation for the year. After tax and depreciation, the profit was Rs.31.6Mn. An additional charge of approx. Rs.3.5Mn was made to the profits due to a change in the depreciation method.

Future prospects

The hotel will go into 2007/08 strongly riding on its popularity in the British market and endeavouring to surpass the good showing of the previous summer.

However, at the time of writing this report, the security situation in the country has taken a turn for the worse. Subsequent to the air attacks carried out on selected targets in Colombo, the adverse Travel advisories from several tourist generating countries and the closure of the airport during night time, it is expected to have a serious impact on the future bookings. We hope that the country situation will soon improve in order that the visitors will return in larger numbers. For the Tourism industry to prosper, an environment of Peace is essential.

Appreciation

My thanks and appreciation goes out to the General Manager, Mr. Saman Ranasinghe and the general staff of the hotel together with Mr. Srilal Miththapala, CEO of Serendib Leisure Management Ltd. 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.

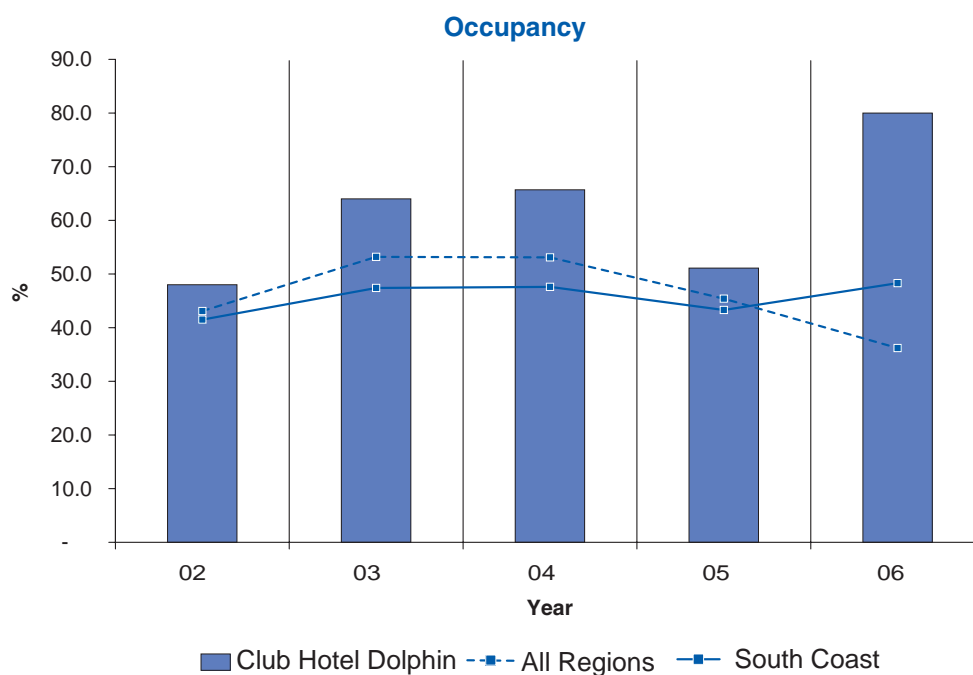


Abbas Esufally
Chairman

22 May 2007

TOURIST ARRIVALS BY COUNTRY OF RESIDENCE

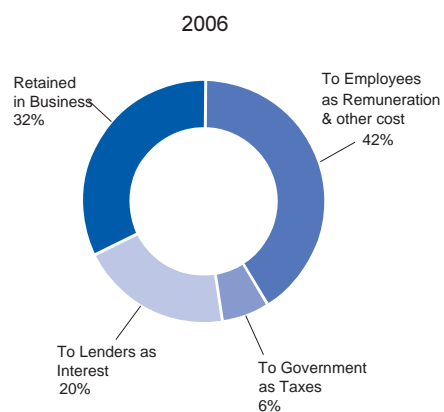
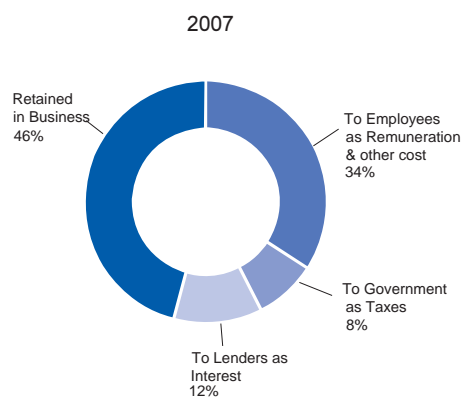
CALENDER YEAR	2002	2003	2004	2005	2006
NATIONALITY					
North America	20,004	25,099	29,759	46,457	35,323
Latin America & The Caribbean	549	636	741	705	775
Western Europe	200,676	255,179	284,440	227,191	228,447
Eastern Europe	8,046	10,600	14,336	9,290	14,221
Middle East	6,462	6,759	10,463	10,236	10,345
Africa	1,545	1,925	1,855	2,340	3,235
Asia	142,578	177,377	198,068	223,351	242,132
Australasia	13,311	23,067	26,540	29,738	25,127
TOTAL	393,171	500,642	566,202	549,308	559,605
ACCOMMODATION CAPACITY (Guest Rooms)					
All Regions	13,818	14,137	14,322	13,162	13,765
North of Colombo	1,945	1,999	1,784	1,967	1,962
OCCUPANCY (%)					
All Regions	43.1	53.2	59.3	45.4	36.2
North of Colombo	41.5	47.4	47.6	43.3	48.3
Club Hotel Dolphin	48.0	64.0	65.7	51.1	80.0



STATEMENT OF VALUE ADDED (CONSOLIDATED)

Value Added	2007 Rs.000's	2006 Rs.000's
Turnover	266,113	189,984
Other Income	6,255	594
Total Income	272,368	190,578
Purchases of Goods & Services	(146,930)	(108,374)
Total Value Added	125,438	82,204

Distribution of Value Added	% Share	% Share
To Employees as Remuneration and other Costs	34	42
To Government as Taxes	8	6
To Lenders as Interest	12	20
Retained in Business	46	32
	100	100



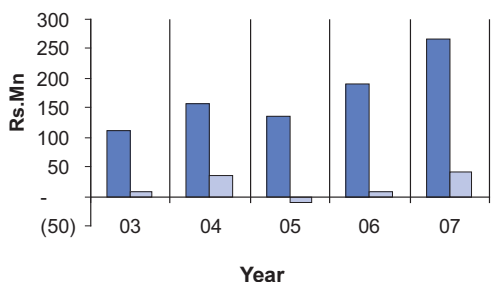
TEN YEAR FINANCIAL REVIEW (CONSOLIDATED)

Year ended 31 March	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
(Figures in Rs.'000 unless otherwise stated)										
Trading Results										
Turnover	266,113	189,984	137,036	158,044	110,728	80,189	115,262	121,430	104,471	77,275
Profit/(Loss) from Ordinary Activities Before Tax	40,126	9,168	(10,591)	34,025	9,293	257	15,930	28,005	22,150	9,502
Income Tax Expense	(8,500)	1,308	(798)	(4,732)	(2,369)	(857)	(4,460)	(200)	(2,900)	-
Net Profit/(Loss) after Tax from Ordinary Activities	31,626	10,476	(11,389)	29,293	6,924	(600)	11,470	27,805	19,250	9,502
Extraordinary Activities	-	-	1,214	-	-	-	-	-	-	-
Net Profit for the Year	31,626	10,476	(10,175)	29,293	6,924	(600)	11,470	27,805	19,250	9,502
ASSETS										
Non-Current Assets										
Property, Plant & Equipment	654,214	662,153	665,980	411,405	373,948	373,768	386,352	380,201	379,176	375,675
Investments	3,333	3,333	3,333	3,333	-	-	-	-	-	-
	657,547	665,486	669,313	414,738	373,948	373,768	386,352	380,201	379,176	375,675
Current Assets	90,546	81,309	69,474	64,464	54,030	39,281	45,220	39,950	37,998	23,949
Total Assets	748,093	746,795	738,787	479,202	427,978	413,049	431,572	420,151	417,174	399,624
EQUITY AND LIABILITIES										
Capital and Reserves										
Share Capital	316,215	316,215	316,215	252,972	252,972	252,972	252,972	252,972	252,972	252,972
Reserves	161,393	163,812	207,980	109,961	109,961	109,961	109,961	109,961	110,143	110,143
Accumulated Profits	75,800	41,310	14,111	36,935	7,641	12,198	12,798	22,141	6,985	(12,264)
Deferred Development Expenditure	-	-	-	-	-	(2,053)	(5,260)	(8,668)	(9,563)	(10,642)
Preliminary & Pre-Operating Expenses	-	-	-	-	-	-	-	(9,959)	(11,127)	(12,372)
Total Equity	553,408	521,336	538,306	399,868	370,574	373,078	370,471	366,447	349,410	327,837
Non-Current Liabilities										
Borrowings	57,792	82,180	99,320	17,333	-	2,813	10,727	21,455	32,183	28,493
Deferred Tax Liabilities	37,508	33,546	12,773	12,200	8,340	7,900	7,560	3,100	2,900	-
Other Deferred Liabilities	3,695	3,191	2,947	2,194	1,803	1,553	1,369	969	780	684
Deferred Income	-	-	-	-	-	-	-	258	-	-
	98,995	118,918	115,040	31,727	10,143	12,266	19,656	25,782	35,863	29,177
Current Liabilities	95,690	106,541	85,441	47,607	47,261	27,705	41,445	27,922	31,901	42,610
Total Liabilities	194,686	225,459	200,481	79,334	57,404	39,971	61,101	53,704	67,764	71,787
Total Equity and Liabilities	748,093	746,795	738,787	479,202	427,978	413,049	431,572	420,151	417,174	399,624
Indication of performance										
Dividend (%)	-	-	-	5.00	4.00	-	5.00	5.00	-	-
Earnings/(loss) per share before extraordinary items - Restated	1.00	0.33	(0.39)	1.17	0.28	(0.02)	0.46	1.11	0.77	0.38
Net assets per share (Rs.)	17.50	16.49	17.02	15.81	14.65	14.75	14.64	14.49	13.81	12.96
Market value per share (Rs.)	9.25	11.00	12.50	13.00	6.00	6.50	4.00	6.00	5.00	3.25
Price earning ratio(Times) - Restated	9.25	33.20	N/A	11.11	21.70	N/A	8.73	5.40	6.50	8.57
Debt equity ratio (%)	10.44	15.76	18.45	4.33	N/A	0.75	2.90	5.85	9.25	8.67
Current ratio (Times)	0.95	0.76	0.81	1.35	1.14	1.42	1.09	1.43	1.19	0.56
Quick asset ratio (Times)	0.90	0.71	0.76	1.26	1.07	1.33	1.03	1.27	1.09	0.52
Interest cover (Times)	3.71	1.55	(0.10)	15.87	8.34	1.17	6.80	9.98	5.89	3.12
Return on equity (%)	5.71	2.01	(2.12)	7.33	1.87	(0.16)	3.10	7.59	5.51	2.90
Hotel Operation										
Annual sales growth(%)	40.1	38.6	(13.3)	42.7	38.1	(30.4)	(5.1)	16.2	35.2	25.5
Room occupancy(%)	77.0	61.0	54.0	68.0	56.4	46.9	68.2	67.1	62.7	47.2

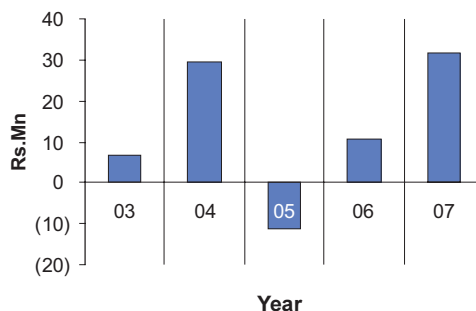
Club Hotel Dolphin was closed from May to August '04 for refurbishment of existing rooms and construction of new rooms.

GRAPHICAL REVIEW (CONSOLIDATED)

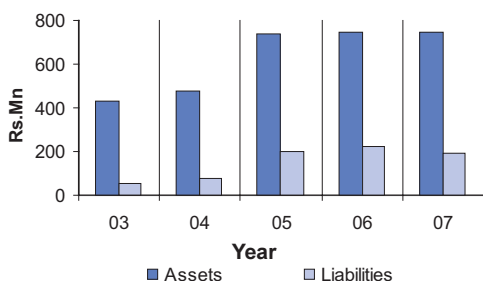
Turnover vs Profit/(Loss) Before Tax



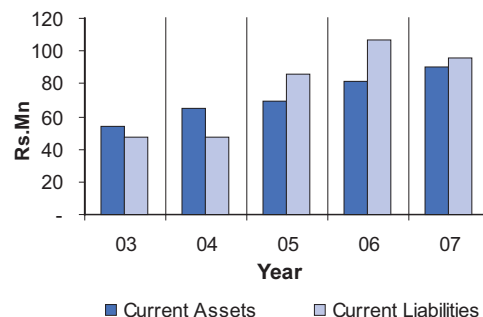
Net Profit/(Loss) After Tax



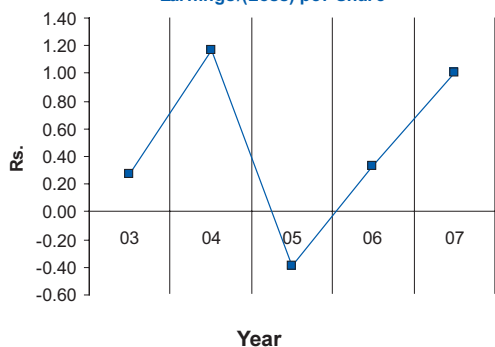
Assets and Liabilities



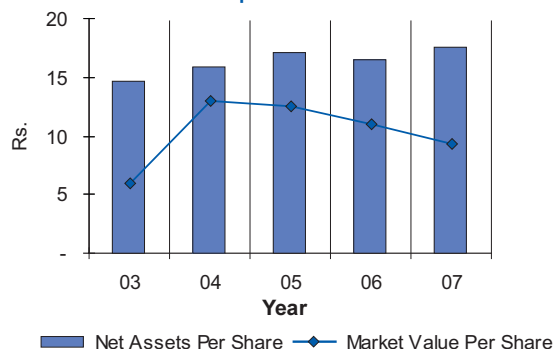
Current Assets and Current Liabilities



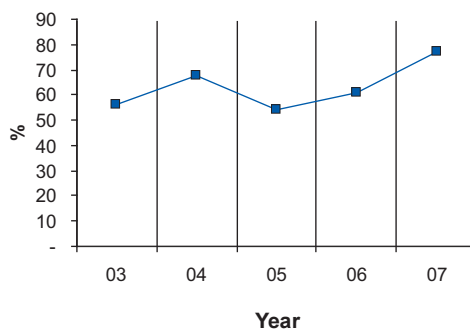
Earnings/(Loss) per Share



Net Assets per Share vs Market Value per Share



Occupancy %



*Club Hotel Dolphin was closed from May to August '04 for refurbishment of existing rooms and construction of new rooms.

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 2007.

PRINCIPAL ACTIVITY

The Principal activity of the Company which is hoteliering remains unchanged. The Company owns and operates the 98 rooms in Club Hotel Dolphin and 50 Cottages of Miami Beach Hotels Ltd., situated adjacent to the Hotel.

REVIEW OF BUSINESS/OPERATIONS & FUTURE DEVELOPMENTS

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for preparing and presenting the Financial Statements which are set out on pages 14 to 32 and 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 the 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 have been revalued during the financial year 2004/05 by a professional independent valuer, details of which are given in Note 10 to the financial statements. Capital Expenditure incurred on Property, Plant and Equipment during the year under review, was Rs. 10,275,278/- (2006 – Rs. 11,900,607/-) and the Group expenditure amounted to Rs. 15,806,673/- (2006 - Rs. 18,866,173/-) Movements in Property, Plant & Equipment during the year are disclosed in Note 10 to the Financial Statements.

REVENUE

The Revenue of the Company and the Group during the year was Rs. 182,894,905/- (2006 – Rs. 129,321,590/-) and Rs. 266,112,826/- (2006 – Rs. 189,983,962/-) respectively, which is analysed in Note 3 to the Financial Statements.

PROFIT

The Company's profit before taxation amounted to Rs. 32,373,777/- (2006 – Rs. 10,870,757/-). Group profit before taxation amounted to Rs. 40,125,992/- (2006 – Rs. 9,168,098/-).

RESERVES

Details of Capital and Revenue Reserves of the Company and that of its subsidiary are shown in Note 17 to the Financial Statements.

BOARD OF DIRECTORS

The Board of Directors of Stafford Hotels PLC consists of 9 directors, all serving in a non-executive capacity.

The Directors of the Company during the year 2006/07 and as at the date of this Report are:

Mr. A.N. Esufally	-	Chairman
Mr. E.J. De Soysa		
Mr. B.S.M. De Silva		
Mr. C. Ramachandran		
(Alternate – Ms. V.R. Jayewardene)		
Mr. O.R. Kreltshheim		
(Alternate – Ms. B.Y. Labrooy)		
Ms. A.R. Gamage		
(Alternate – Prof. L. D. K. B. Gamage)		
Mr. T. Wijemanna		
Mr. H.N. Esufally		
(Alternate – Ms. K.A. Wilson)		
Mr. W. M. De F. Arsakularatne	-	Appointed w. e. f. 22.02.2007
Ms. M.S. Fonseka	-	Resigned w.e.f. 22.02.2007.

DIRECTORS' SHAREHOLDING

Shareholdings of the Directors at the beginning and end of the financial year were as follows.

	31.03 2007	31.03.2006
Mr. A.N. Esufally	450,007	450,007
Mr. E.J. De Soysa	50,000	50,000
Mr. B.S.M. De Silva	204,700	204,700
Mr. C. Ramachandran	10,000	-
Mr. O.R. Kreltshheim	7,625	7,625
Ms. A.R. Gamage	3,750	3,750
Ms. M.S. Fonseka	18,250	18,250
(Resigned w.e.f. 22.02.07)		
Mr. H.N. Esufally	100	100
Mr. W. M. De F. Arsakularatne	-	-
Mr. T. Wijemanna*	-	-

*Nominee Director of DFCC Bank which holds 5,950,525 shares in the Company.

DIRECTORS' INTEREST IN CONTRACTS

Directors' interest in contracts with the Company are disclosed in Note 30 to the Financial Statements.

AUDIT COMMITTEE

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

Mr. B. S. M. De Silva	-	Chairman
Mr. W. M. De F. Arsakularatne		

REPORT OF THE DIRECTORS *Contd.*

Mrs. M. S. Fonseka, resigned as Chairperson and member of the Audit Committee w. e. f. 23 January 2007. Mr. B. S. M. De Silva was appointed the Chairman of the Committee up to 31 March 2007.

The Report of the Audit Committee appears on page 11.

CORPORATE GOVERNANCE

Good Governance is considered as a joint responsibility of the Board of Directors and the Management, and systems and procedures are in place to safeguard the Company's assets, shareholders' investment and the interest of all other stakeholders of the Company.

SHARE CAPITAL

There has been no change in the Share Capital of the Company during the year under review. The Share Capital as at 31 March 2007 was Rs. 316,214,770/- consisting of 31,621,477 Ordinary Shares.

SHAREHOLDERS

The total shareholder base of the Company as at 31 March 2007 was 1,267 (2006 – 1,314) The distribution of the shareholding and a list of the 20 major shareholders are given under Investor Information on pages 33 and 34.

DIVIDENDS

The Directors do not recommend a dividend for the year 2006/07.

HUMAN RESOURCES

The number of persons employed by the company as at the end of the year was 254 (2006 - 273)

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 OCCURING 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.

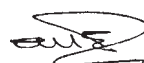
AUDITORS

Messrs. Ernst & Young Chartered Accountants, served as the Auditors during the year under review. The Audit Fees payable and fees paid for other services rendered are as noted below:

Audit fees payable	- Rs. 201,530/-
Fees for other services rendered	- Rs. 176,100/-

The Auditors have confirmed that they have had no interest in or relationship with the Company or its subsidiaries other than that of Auditors. They confirm that they are independent in accordance with the Code of Ethics of the Institute of Chartered Accountants of Sri Lanka.

Messrs. Ernst & Young have expressed their willingness to continue in office. A resolution to re-appoint them and to authorize the directors to fix their remuneration will be proposed at the Annual General Meeting.

STAFFORD HOTELS PLC


A. N. Esufally
Director



E. J. De Soysa
Director

22 May 2007

CORPORATE GOVERNANCE

The rules and practices that govern the relationship between an organization and its stakeholders contribute to the growth of the organization, its financial stability and market confidence. The Code of Best Practice and financial aspects of Corporate Governance have focused on the processes used to direct and manage the business and affairs of a company with due emphasis being placed on the attainment of corporate objectives, and accountability to shareholders.

Stafford Hotels PLC has continued its commitment to comply with the key areas of the Code.

Board of Directors

The Board comprises nine directors all of whom are non-executives. The names of the directors who served during the year and their short profiles are disclosed on page 2 of this Annual Report . The non executive directors possess considerable depth of knowledge and experience in varied commercial sectors. Their contributions carry significant weight in all Board decisions.

The appointment of a new director is decided by the Board and approved by the shareholders. Professional qualifications, business experience and personal qualities are considered when selecting directors to serve on the Board. Two directors retire by rotation each year in conformity with the Articles of Association of the Company.

The Board meets each alternative month and more frequently should the need arise. The Chairman and the Secretaries set the Agenda for the meeting. All directors have timely access to detailed information required to carry out their duties.

Audit Committee

The Audit Committee operates within clearly defined terms of reference. The Committee met five times during the year under review. The Chairman and Director Finance attended these meetings by invitation.

The Committee is empowered to examine matters relating to the financial affairs of the Company and its external and internal audits. Duties include reviewing of internal controls, accounting policies compliance with accounting standards and related functions as the Board may require.

Internal Controls

The Board has overall responsibility for the Company's system of internal controls and for reviewing the effectiveness of such controls. The Directors have taken reasonable steps to ensure that the Company's assets are safeguarded against unauthorized use, proper records are maintained and reliable information is generated.

Compliance and Disclosure

The Board through the Corporate Secretarial and Corporate Finance divisions makes every endeavour to determine that the business of the Company complies with laws and regulations.

The Board places great emphasis on full disclosure of both financial and non financial information. These statements have been prepared in accordance with the Sri Lanka Accounting Standards and the requirements of the Colombo Stock Exchange.

Shareholder Relationship

It is of prime importance that good relationships and communication are maintained with stakeholders of the Company. The Annual General Meeting and the Annual and Quarterly reports are the principal means by which shareholder communication is maintained. The Directors are always willing to entertain questions raised by shareholders at general meetings.

Going Concern

The directors, having reviewed the financial position of the Company are of the view that the Company has adequate resources to continue in operation in the foreseeable future. Hence they have adopted the going concern basis in preparing the Financial Statements.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee, which comprises 2 non-executive directors, met 5 times during the year under review. The Chairman, CEO and the Director Finance of the management company attended the meetings by invitation, with the Company Secretary in attendance.

The Audit Committee operates within the terms and references outlined in the Code of Best Practice on Audit Committees issued by the Institute of Chartered Accountants, Sri Lanka. The focus is centered around five core areas,

- Financial Reporting
- Business Risks
- Internal Controls
- Regulatory Compliance
- Internal & External Audits

Financial Reporting

The business activities of the Company including financial operations have been delegated to the Managing Agents through a Management Agreement. Every quarter the interim financial statements and performance reports are reviewed by the Audit Committee together with the representatives of the Managing Agents. The Financial Statements that are reviewed by the Committee are submitted to the Board of Directors for approval and subsequently circulated among the shareholders.

Business Risks

The Company's policies, procedures and internal controls are systematically assessed by a group of internal auditors on a risk based approach. Based on the reports submitted, the Audit Committee recommends measures to ensure the effectiveness of the controls implemented by the company. The Committee places emphasis on risk management by identifying the areas of risks, the probability of occurrence, and the impact of these risks and ensures the effectiveness of the processes and systems in place to minimize any adverse effects.

Internal Controls

The current policies and the degree of compliance are reviewed by the Committee, and recommendations are made on areas that need

to be developed further. Adequacy and effectiveness of the internal controls are evaluated regularly to ensure absolute compliance with the policies laid out by the Company.

Regulatory Compliance

The Audit Committee ensures that the Company complies with statutory and disclosure requirements. It is the responsibility of the Committee to provide guidance to the management on changes in accounting policies and practices.

Internal and External Audits

The Audit Committee strongly believes in an Internal Audit process that adds value to effective management of the Company. Therefore, the Audit Committee approves the annual work plan of the Internal Auditors and directs them when carrying out special assignments. The Committee meets with the Internal Auditors to make recommendations on the significant findings identified in the internal audit reports.

The Audit Committee meets with the external auditors to review and approve the audit plan prior to the commencement of the annual audit. As an effective control measure the Committee reviews the issues highlighted in the External Auditor's Management letter and the management's response to these issues, before making appropriate recommendations to the company's management team.

The effectiveness of the External Audit has been reviewed by the Audit Committee and a recommendation has been made to the Board to re-appoint M/s Ernst & Young as the external auditors for the Company, subject to the approval of the shareholders at the Annual General Meeting.



W. M. De F. Arsakularatne
Chairman – Audit Committee

22 May 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR PREPARATION OF FINANCIAL STATEMENTS

The Directors are required by the Companies' Act to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit and loss for that period. The Company's Financial Statements for the year ended 31 March 2007 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards. 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 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
STAFFORD HOTELS PLC

22 May 2007.

REPORT OF THE AUDITORS



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

■ Telephone : (31) 11 2463500
Fax Gen : (31) 11 2697369
Tax : (31) 11 5578180
E-Mail : eysl@lk.ey.com

To the Members of Stafford Hotels PLC

We have audited the Balance Sheet of Stafford Hotels PLC as at 31 March 2007, the Consolidated Balance Sheet of the Company and its subsidiary 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 32.

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 2007, 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 2007, its Profit, Changes in Equity and Cash Flows for the year then ended.

In our opinion, the 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 2007 and the profit, Changes in Equity and Cash Flows for the year then ended of the Company and its subsidiary 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 2007 except as stated in Note 30 to these Financial Statements.

Ernst & Young
Chartered Accountants

Colombo
22 May 2007

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

INCOME STATEMENT

Year ended 31 March 2007

	Note	Consolidated		Company	
		2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Revenue	3	263,451,696	188,084,667	181,065,955	128,033,034
Cost of Sales		(55,618,524)	(38,943,839)	(39,715,066)	(26,015,200)
Gross Profit		207,833,172	149,140,828	141,350,889	102,017,834
Other Income	4	6,255,494	594,147	6,255,494	594,147
Distribution Costs		(17,476,144)	(14,858,875)	(12,946,183)	(10,663,608)
Administrative Expenses		(141,702,943)	(108,921,790)	(96,345,158)	(73,749,024)
Other Expenses	5	–	(250,237)	–	(250,237)
Finance Cost	6	(14,783,587)	(16,535,975)	(5,941,265)	(7,078,355)
Profit Before Tax	7	40,125,992	9,168,098	32,373,777	10,870,757
Income Tax Expense	8	(8,500,471)	1,307,642	(7,175,567)	(2,358,224)
Net Profit for the year		31,625,521	10,475,740	25,198,210	8,512,533
Earnings Per Share	9	1.00	0.33	0.80	0.27

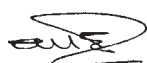
The Accounting Policies and Notes on pages 18 to 32 form an integral part of the Financial Statements.

BALANCE SHEET

As at 31 March 2007

	Note	Consolidated		Company	
		2007 Rs.	2006 Rs. Restated	2007 Rs.	2006 Rs. Restated
ASSETS					
Non-Current Assets					
Property, Plant & Equipment - At Cost	10	95,595,720	96,228,284	57,137,288	56,795,527
- At Valuation	10	558,618,010	565,924,230	407,326,666	413,063,333
Investment in Subsidiary	11	-	-	135,921,800	135,921,800
Other Investments	12	3,333,330	3,333,330	3,333,330	3,333,330
		657,547,060	665,485,844	603,719,084	609,113,990
Current Assets					
Inventories	13	4,903,234	6,093,507	4,903,234	6,093,507
Taxation Recoverable		1,323,391	2,300,910	425,032	875,513
Trade and Other Receivables	14	74,126,582	64,955,054	48,587,134	42,376,607
Amounts Due from Related Parties	15	2,182,098	2,105,034	2,182,098	2,105,034
Cash and Bank Balances	25	8,011,118	5,854,887	8,000,767	5,844,286
		90,546,423	81,309,392	64,098,265	57,294,947
Total Assets		748,093,483	746,795,236	667,817,349	666,408,937
EQUITY AND LIABILITIES					
Capital and Reserves					
Share Capital	16	316,214,770	316,214,770	316,214,770	316,214,770
Reserves	17	161,393,066	163,811,852	148,090,461	150,572,005
Accumulated Profits		75,800,094	41,309,682	46,966,274	18,848,601
Total Equity		553,407,930	521,336,304	511,271,505	485,635,376
Non-Current Liabilities					
Interest Bearing Loans & Borrowings	18	57,792,000	82,180,315	24,000,000	34,027,593
Deferred Tax Liabilities	19	37,507,908	33,546,066	24,304,282	20,716,464
Other Deferred Liabilities	20	3,695,168	3,191,468	3,695,168	3,191,468
		98,995,076	118,917,849	51,999,450	57,935,525
Current Liabilities					
Trade and Other Payables	21	58,276,225	53,626,960	56,220,024	51,974,535
Amounts Due to Related Parties	22	5,423,349	2,475,565	31,631,318	43,602,878
Non-Interest Bearing Loans & Borrowings	23	550,000	550,000	550,000	550,000
Interest Bearing Loans & Borrowings	18	30,892,610	49,339,236	15,596,759	26,161,293
Dividends Payable	24	548,293	549,322	548,293	549,330
		95,690,477	106,541,083	104,546,394	122,838,036
Total Equity and Liabilities		748,093,483	746,795,236	667,817,349	666,408,937

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



Abbas Esufally
Chairman



E. J. De Soysa
Director

The Accounting Policies and notes on pages 18 to 32 form an integral part of the Financial Statements.

Colombo
22 May 2007

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2007

CONSOLIDATED	Note	Share Capital Rs.	Revaluation Reserve Rs.	Other Reserves Rs.	Accumulated Profit Rs.	Total Rs.
Balance as at 31 March 2005		316,214,770	205,139,426	2,840,391	14,111,603	538,306,190
Net Profit/(Loss) for the year		–	–	–	10,475,740	10,475,740
Over Estimation of Revaluation Surplus		–	(4,599,825)	–	–	(4,599,825)
Effect of adopting SLAS 18 -						
Property, Plant and Equipment	26	–	(20,700,113)	–	20,700,113	–
Effect of adopting SLAS 14 - Income Tax	26	–	(18,868,027)	–	–	(18,868,027)
Effect of adopting SLAS 14 - Income Tax	26	–	–	–	(3,977,774)	(3,977,774)
Balance as at 31 March 2006 (Restated)		<u>316,214,770</u>	<u>160,971,461</u>	<u>2,840,391</u>	<u>41,309,682</u>	<u>521,336,304</u>
Net Profit for the year		–	–	–	31,625,521	31,625,521
Transfer of Excess Depreciation on						
Revaluation Reserve		–	(2,864,891)	–	2,864,891	–
Deffered Tax Attributable to Revaluation Surplus		–	446,105	–	–	446,105
Balance as at 31 March 2007		<u>316,214,770</u>	<u>158,552,675</u>	<u>2,840,391</u>	<u>75,800,094</u>	<u>553,407,930</u>

COMPANY		Share Capital Rs.	Revaluation Reserve Rs.	Accumulated Profit Rs.	Total Rs.
Balance as at 31 March 2005		316,214,770	193,130,754	(12,372,523)	496,973,001
Net Profit/(Loss) for the year		–	–	8,512,533	8,512,533
Reversal of Over Estimation of Revaluation Surplus		–	(4,599,825)	–	(4,599,825)
Effect of adopting SLAS 18 -					
Property, Plant and Equipment	26	–	(20,089,190)	20,089,190	–
Effect of adopting SLAS 14 - Income Tax	26	–	(17,869,734)	–	(17,869,734)
Effect of adopting SLAS 14 - Income Tax	26	–	–	2,619,401	2,619,401
Balance as at 31 March 2006 (Restated)		<u>316,214,770</u>	<u>150,572,005</u>	<u>18,848,601</u>	<u>485,635,376</u>
Net Profit for the year		–	–	25,198,210	25,198,210
Transfer of Excess Depreciation on					
Revaluation Reserve		–	(2,919,463)	2,919,463	–
Deffered Tax Attributable to Revaluation Surplus		–	437,919	–	437,919
Balance as at 31 March 2007		<u>316,214,770</u>	<u>148,090,461</u>	<u>46,966,274</u>	<u>511,271,505</u>

The Accounting Policies and Notes on pages 18 to 32 form an integral part of the Financial Statements.

CASH FLOW STATEMENT

Year ended 31 March 2007

Cash Flows From / (Used in) Operating Activities	Note	Consolidated		Company	
		2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Net Profit/(Loss) before Income Tax Expense		40,125,992	9,168,098	32,373,777	10,870,757
Adjustments for					
Depreciation	10	21,449,640	18,093,439	14,314,523	12,619,888
Income from Investments		(792,138)	(594,147)	(792,138)	(594,147)
Finance Costs	6	14,783,587	16,535,975	5,941,265	7,078,355
Provision for Defined Benefit Plan	20	839,363	578,916	839,363	578,916
Disposal of Fixed Assets		2,295,815	–	1,355,660	–
Operating Profit before Working Capital Changes		78,702,259	43,782,281	54,032,450	30,553,769
(Increase)/Decrease in Inventories		1,190,273	(1,676,356)	1,190,273	(1,676,356)
(Increase)/Decrease in Trade and Other Receivables		(9,171,528)	(18,207,397)	(6,210,527)	(9,977,326)
(Increase)/Decrease in Amounts Due from Related Parties		(77,064)	(2,105,034)	(77,064)	(2,105,034)
Increase/(Decrease) in Amounts Due to Related Parties		2,947,784	1,354,408	(11,971,560)	(11,187,463)
Increase/(Decrease) in Taxation Recoverable		527,027	–	–	–
Increase/(Decrease) in Trade and Other Payables		4,648,239	2,307,706	4,244,452	2,797,328
Cash Generated from Operations		78,766,990	25,455,608	41,208,024	8,404,918
Finance Costs paid	6	(14,783,587)	(16,535,975)	(5,941,265)	(7,078,355)
Defined Benefit Plan Costs paid	20	(335,663)	(334,278)	(335,663)	(334,277)
Income Tax paid		(3,642,033)	(1,318,755)	(2,699,348)	(715,932)
Net Cash from/(used in) Operating activities		60,005,707	7,266,600	32,231,748	276,354
Cash Flows from/(Used in) Investing Activities					
Acquisition of Property, Plant & Equipment	10	(15,806,673)	(18,866,173)	(10,275,278)	(11,900,607)
Interest Received		792,138	594,147	792,138	594,147
Net Cash from/(used in) Investing Activities		(15,014,535)	(18,272,026)	(9,483,140)	(11,306,460)
Cash Flows from/(Used in) Financing Activities					
Loans Obtained during the year		–	23,804,139	–	20,282,808
Repayment of Interest Bearing Loans & Borrowings		(38,694,157)	(21,257,666)	(23,541,412)	(15,713,803)
Net Cash Flows from/(Used in) Financing Activities		(38,694,157)	2,546,473	(23,541,412)	4,569,005
Net Increase/(Decrease) in Cash and Cash Equivalents		6,297,015	(8,458,953)	(792,804)	(6,461,101)
Cash and Cash Equivalents at the Beginning of the Year		(4,790,192)	3,668,761	3,224,405	9,685,506
Cash and Cash Equivalents at the End of the Year	25	1,506,823	(4,790,192)	2,431,601	3,224,405

The Accounting Policies and Notes on pages 18 to 32 form an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

1. CORPORATE INFORMATION

1.1 General

Stafford Hotels PLC ("Company") is a limited liability company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at 2nd Floor, Automobile Association Building, No. 40, Sir Mohamed Macan Markar Mawatha, Colombo 03, and the principal place of business is situated at Waikkal.

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 Serendib Hotels PLC. In the opinion of the directors, the Company's ultimate parent undertaking and controlling party is Hemas Holdings PLC, which is incorporated in Sri Lanka.

1.4 Date of Authorisation for Issue

The Financial Statements of Stafford Hotels PLC, for the year ended 31 March 2007 were authorized for issue in accordance with a resolution of the Board of Directors on 22 May 2007.

1.5 Number of Employees

The number of employees of the Company at the end of the year was 254 (2006 – 273).

2.1 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 Company as at 31 March 2007 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 and Investments which are stated at market values.

2.1.1 Consolidation Policy

- a) The Group Accounts comprise the consolidation of accounts of Stafford Hotels PLC and its 100% owned subsidiary Miami Beach Hotels Ltd, (a company incorporated in Sri Lanka) which have a common financial year ending on 31 March.
- b) Inter Company transactions have been eliminated in the consolidated financial statements.

2.1.2 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.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except as follows: The Group has adopted the revised SLAS that are applicable in the current financial year. The 2006/07 Financial Statement have

been prepared in accordance with the relevant transitional provisions in the respective SLAS. The following are SLASs that are relevant to the Company.

The Company has adopted the following new SLASs during the year.

- SLAS - 03 (Revised) – Presentation of Financial Statement
- SLAS - 05 (Revised) – Inventories
- SLAS - 10 (Revised) – Accounting Policies, Changes in Accounting Estimates & Errors
- SLAS - 14 (Revised) – Income Tax
- SLAS - 18 (Revised) – Property, Plant and Equipment
- SLAS - 19 (Revised) – Leases
- SLAS - 21 (Revised) – The Effects of Changes in Foreign Exchange Rates
- SLAS - 25 (Revised) – Business Combinations
- SLAS - 26 (Revised) – Consolidated & Separate Financial Statement
- SLAS - 30 (Revised) – Related Party Disclosure
- SLAS - 34 (Revised) – Earning per Share
- SLAS - 41 (Revised) – Impairment of Assets

The SLAS that have a significant impact on the preparation and presentation of the Financial Statements are as follows:

SLAS - 14 (Revised) – Income Tax

The adoption of SLAS 14 (Revised) requires deferred income tax to be provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amount for reporting purposes. The Group made required adjustment and disclosed under Note 26 to the Financial Statement.

SLAS - 30 (Revised) – Related Party Disclosure

Revised SLAS 30 requires additional disclosure on related party transactions and outstanding balances, together with the names of any parties who can control the reporting entity. Additionally, it requires the disclosure of compensation to key management personnel in total.

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation, uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Deferred Tax Assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

Year ended 31 March 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**2.4.1 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.

2.4.2 Taxation**a) Current Taxes****Stafford Hotels PLC**

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 15% 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 15% on other income.

b) Deferred Taxation

Deferred income tax is provided using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences:

- Except where the deferred income tax liability arises from goodwill amortisation or the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- Except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

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

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

2.4.3 Borrowing Costs

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

2.4.4 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 as follows;

Food and Beverage – At actual cost on weighted average basis

Maintenance and Others – At actual cost on weighted average basis

2.4.5 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.

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

Year ended 31 March 2007

2.4.6 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.

2.4.7 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

Stafford Hotels PLC, and Miami Beach Hotels Ltd., have been providing for depreciation on the written down value of the property, plant and equipment except for freehold land. However, the depreciation method for Stafford Hotels PLC, and Miami Beach Hotels Ltd., has been changed from the reducing balance method to the straight line method of depreciation on the cost or valuation of all property, plant and equipment other than freehold land, in order

to write off such amounts over the following estimated useful lives commencing from the financial year end 31 March 2007, as indicated below.

Buildings	Over 66 years
Furniture & Fittings	Over 5 – 10 years
Office Equipments	Over 5 – 10 years
Motor Vehicles	Over 5 – 10 years
Swimming Pool	Over 66 years
Plant, Machinery and Equipment	Over 5 – 10 years
Soil Erosion Prevention	Over 10 – 15 years
Soft Furniture	Over 5 – 10 years

An amount equal to the excess of the annual depreciation charge on revalued assets over the notional historical cost depreciation charge on those assets is transferred annually from the surplus in the revaluation reserve to Accumulated Profits.

2.4.8 Investments**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 are reduced to recognise a decline other than temporary in the value of investments, determined on an individual investment basis.

2.4.9 Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

2.4.10 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.

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

Year ended 31 March 2007

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 % - 15% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

2.4.11 Impairment of Assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the Income Statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot "exceed" the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

2.4.12 Income Statement**2.4.12.1 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) Rendering of Services

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.

2.4.12.2 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.*

Year ended 31 March 2007

	Consolidated		Company	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
3. REVENUE				
3.1 Summary				
Sales	266,112,826	189,983,962	182,894,905	129,321,590
Less - Sales Taxes				
Tourism Development Levy	(2,661,130)	(1,899,295)	(1,828,950)	(1,288,556)
	<u>263,451,696</u>	<u>188,084,667</u>	<u>181,065,955</u>	<u>128,033,034</u>
4. OTHER INCOME				
Interest Income Receivable from - Related Parties	213,113	124,949	213,113	124,949
- Others	579,025	469,198	579,025	469,198
Exchange Gain	5,463,356	-	5,463,356	-
	<u>6,255,494</u>	<u>594,147</u>	<u>6,255,494</u>	<u>594,147</u>
5. OTHER EXPENSES				
Exchange Loss	-	250,237	-	250,237
	<u>-</u>	<u>250,237</u>	<u>-</u>	<u>250,237</u>
6. FINANCE COST				
Interest Expense on Overdrafts	262,910	964,166	48,903	115,356
Interest Expense on Loans & Borrowings	14,520,677	15,571,809	5,892,362	6,962,999
	<u>14,783,587</u>	<u>16,535,975</u>	<u>5,941,265</u>	<u>7,078,355</u>
7. PROFIT BEFORE TAX				
Stated after Charging				
Provision for Doubtful Debts	3,088,171	1,856,378	3,088,171	1,856,378
Directors' Emoluments	81,000	99,000	81,000	99,000
Auditors' Remuneration (Fees and Expenses)	201,530	174,420	152,750	132,120
- Under Provision in Respect of Previous Year	18,830	21,540	18,830	1,340
Depreciation	21,449,640	18,093,439	14,314,523	12,619,888
Advertising Costs	6,147,191	5,301,660	4,203,580	3,578,968
Staff Costs				
- Defined Benefit Plan Costs - Gratuity	839,363	578,916	562,373	387,874
- Defined Contribution Plan Costs - EPF & ETF	2,832,636	2,497,762	1,897,866	1,673,500
- Other Staff Costs	38,862,265	31,077,513	26,037,718	20,784,294
Loss on Disposal of Property, Plant & Equipment	2,295,816	-	1,355,660	-
Management Fees	17,794,097	11,318,615	12,251,861	7,669,249
Donations	18,120	16,095	18,120	15,319
	<u></u>	<u></u>	<u></u>	<u></u>

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

Year ended 31 March 2007

8	INCOME TAX EXPENSE	Consolidated		Company	
		2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
	Income Tax Expense (8.1)	4,092,524	840,000	3,149,830	840,000
	Under/(Over) Provision in Respect of Previous Years	–	(74,961)	–	(74,961)
	Deferred Taxation Charge/(Reversal) (8.2)	4,407,947	(2,072,681)	4,025,737	1,593,185
		<u>8,500,471</u>	<u>(1,307,642)</u>	<u>7,175,567</u>	<u>2,358,224</u>

8.1	Income Tax	Consolidated		Company	
		2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
	Profit/(Loss) Before Tax	40,125,992	9,168,098	32,373,777	10,870,757
	Aggregate Disallowable Items	25,991,046	20,758,306	17,712,953	15,092,937
	Aggregate Allowable Items	(24,462,292)	(22,607,195)	(18,100,636)	(16,932,522)
		<u>41,654,746</u>	<u>7,319,209</u>	<u>31,986,094</u>	<u>9,031,172</u>
	Interest Income	(792,138)	(420,356)	(792,138)	(420,356)
	Taxable Profit	<u>40,862,608</u>	<u>6,898,853</u>	<u>31,193,956</u>	<u>8,610,816</u>
	Tax Loss Brought Forward	(63,369,415)	(66,383,200)	(44,561,231)	(47,575,016)
	Tax Loss Utilised	14,579,159	3,013,785	11,195,131	3,013,785
	Tax Loss Carried Forward (Provisional)	<u>(48,790,256)</u>	<u>(63,369,415)</u>	<u>(33,366,100)</u>	<u>(44,561,231)</u>
	Current Income Tax Expense 15%	4,052,004	840,000	3,118,644	840,000
	Social Responsibility Levy 1%	40,520	–	31,186	–
	Total Tax Expense	<u>4,092,524</u>	<u>840,000</u>	<u>3,149,830</u>	<u>840,000</u>

8.2	Deferred Tax Expenses	Consolidated		Company	
		2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
	Deferred Tax Expenses Arising due to : Origination of Timing Differences	4,407,947	(2,072,681)	4,025,737	1,593,185
		<u>4,407,947</u>	<u>(2,072,681)</u>	<u>4,025,737</u>	<u>1,593,185</u>

9. EARNINGS PER SHARE

9.1 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.

9.2 The following reflects the income and share data used in the basic Earnings Per Share computation.

Amounts Used as the Numerator:	Consolidated		Company	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Net Profit for the Year	<u>31,625,521</u>	<u>10,475,740</u>	<u>25,198,210</u>	<u>8,512,533</u>
Number of Ordinary Shares Used as Denominator:	2007 Number	2006 Number	2007 Number	2006 Number
Weighted Average Number of Ordinary Shares in Issue	<u>31,621,477</u>	<u>31,621,477</u>	<u>31,621,477</u>	<u>31,621,477</u>

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

Year ended 31 March 2007

10. PROPERTY, PLANT & EQUIPMENT

	Balance As at 01.04.2006 Rs.	Additions/ Transfers/ Acquisitions Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2007 Rs.
10.1 Consolidated				
10.1.1 Gross Carrying Amounts				
At Cost/ Cost Incurred since Last Revaluation				
Improvements to Land	104,300	254,600	–	358,900
Buildings on Freehold Land	8,240,618	5,462,992	–	13,703,610
Swimming Pool	318,000	–	–	318,000
Furniture & Fittings	43,826,855	4,918,986	(9,287,671)	39,458,170
Motor Vehicles	5,671,295	22,500	(122,902)	5,570,893
Cutlery & Crockery	2,648,659	–	(2,648,659)	–
Plant, Machinery & Equipment	92,480,390	4,819,710	(6,831,076)	90,469,024
Soil Erosion Prevention	19,108,922	–	–	19,108,922
	<u>172,399,039</u>	<u>15,478,788</u>	<u>(18,890,308)</u>	<u>168,987,519</u>
At Valuation				
Land & Improvements to Land	91,020,000	–	–	91,020,000
Buildings on Freehold Land	414,605,500	–	–	414,605,500
Swimming Pool	67,605,000	–	–	67,605,000
	<u>573,230,500</u>	<u>–</u>	<u>–</u>	<u>573,230,500</u>
Total Value of Depreciable Assets	<u>745,629,539</u>	<u>15,478,788</u>	<u>(18,890,308)</u>	<u>742,218,019</u>
	Balance As at 01.04.2006 Rs.	Incurred During the year Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2007 Rs.
In the Course of Construction				
Capital Work in Progress	–	327,885	–	327,885
Total Gross Carrying Amount	<u>745,629,539</u>	<u>15,806,673</u>	<u>(18,890,308)</u>	<u>742,545,904</u>
10.1.2 Depreciation				
At Cost/ Cost Incurred since Last Revaluation				
Buildings on Freehold Land	–	124,858	–	124,858
Swimming Pool	–	4,818	–	4,818
Furniture & Fittings	25,130,044	3,096,516	(8,471,459)	19,755,100
Motor Vehicles	3,378,659	219,310	(111,490)	3,486,479
Cutlery & Crockery	2,527,377	121,282	(2,648,659)	–
Plant, Machinery & Equipment	37,193,005	9,729,527	(5,362,882)	41,559,651
Soil Erosion Prevention	7,941,670	847,109	–	8,788,778
	<u>76,170,755</u>	<u>14,143,420</u>	<u>(16,594,490)</u>	<u>73,719,684</u>
At Valuation				
Buildings on Freehold Land	6,281,902	6,281,902	–	12,563,804
Swimming Pool	1,024,368	1,024,318	–	2,048,686
	<u>7,306,270</u>	<u>7,306,220</u>	<u>–</u>	<u>14,612,490</u>
Total Depreciation	<u>83,477,025</u>	<u>21,449,640</u>	<u>(16,594,491)</u>	<u>88,332,174</u>
Net Book Values			2007 Rs.	2006 Rs.
At Cost/Cost Incurred since Last Revaluation			95,595,720	96,228,284
At Valuation			558,618,010	565,924,230
Total Carrying Amount of Property, Plant & Equipment			654,213,730	662,152,514

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

Year ended 31 March 2007

10. PROPERTY, PLANT & EQUIPMENT

	Balance As at 01.04.2006 Rs.	Additions/ Transfers/ Acquisitions Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2007 Rs.
10.2 Company				
10.2.1 Gross Carrying Amounts				
At Cost/ Cost Incurred since Last Revaluation				
Improvements to Land	–	254,600	–	254,600
Buildings on Freehold Land	4,751,193	3,011,377	–	7,762,570
Swimming Pool	68,000	–	–	68,000
Furniture & Fittings	21,700,975	3,072,496	(620,540)	24,152,931
Motor Vehicle	5,671,295	22,500	(122,902)	5,570,893
Cutlery & Crockery	2,648,659	–	(2,648,659)	–
Plant, Machinery & Equipment	53,335,926	3,586,420	(5,969,786)	50,952,560
Soil Erosion Prevention	5,795,520	–	–	5,795,520
	<u>93,971,568</u>	<u>9,947,393</u>	<u>(9,361,887)</u>	<u>94,557,074</u>
At Valuation				
Land & Improvements	40,180,000	–	–	40,180,000
Buildings on Freehold Land	328,620,000	–	–	328,620,000
Swimming Pool	50,000,000	–	–	50,000,000
	<u>418,800,000</u>	<u>–</u>	<u>–</u>	<u>418,800,000</u>
Total Value of Depreciable Assets	<u>512,771,568</u>	<u>9,947,393</u>	<u>(9,361,887)</u>	<u>513,357,074</u>
	Balance As at 01.04.2006 Rs.	Incurred During the Year Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2007 Rs.
In the Course of Construction				
Capital Work in Progress	–	327,885	–	327,885
Total Gross Carrying Amount	<u>512,771,568</u>	<u>10,275,278</u>	<u>(9,316,887)</u>	<u>513,684,959</u>
10.2.2 Depreciation				
At Cost/ Cost Incurred since Last Revaluation				
Buildings on Freehold Land	–	71,988	–	71,988
Swimming Pool	–	1,030	–	1,030
Furniture & Fittings	9,037,247	2,108,179	(531,688)	10,613,738
Motor Vehicle	3,378,659	219,310	(111,490)	3,486,479
Cutlery & Crockery	2,527,377	121,282	(2,648,659)	–
Plant, Machinery & Equipment	19,801,920	5,719,599	(4,714,390)	20,807,129
Soil Erosion Prevention	2,430,839	336,468	–	2,767,307
	<u>37,176,042</u>	<u>8,577,856</u>	<u>(8,006,227)</u>	<u>37,747,671</u>
At Valuation				
Buildings on Freehold Land	4,979,091	4,979,091	–	9,958,182
Swimming Pool	757,576	757,576	–	1,515,152
	<u>5,736,667</u>	<u>5,736,667</u>	<u>–</u>	<u>11,473,334</u>
Total Depreciation	<u>42,912,709</u>	<u>14,314,523</u>	<u>(8,006,227)</u>	<u>49,221,005</u>
Net Book Values			2007 Rs.	2006 Rs.
At Cost/Cost Incurred since Last Revaluation			57,137,288	56,795,527
At Valuation			407,326,666	413,063,333
Total Carrying Amount of Property , Plant & Equipment			464,463,954	469,858,860

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

Year ended 31 March 2007

10.2.3 The land and buildings were revalued during the financial year 1995/96 and 2004/05 by Messrs D.S.A.Senaratne an independent chartered valuer. The results of such revaluation were incorporated in these Financial Statements from its effective date which is 31 March 1996 and 31 March 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 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.	Nat Carrying	Net Carrying
			Amount 2007 Rs.	Amount 2006 Rs.
Group				
Buildings	253,582,060	23,274,907	230,307,153	228,603,541
Swimming Pool	53,658,379	2,123,392	51,534,987	52,347,992
Company				
Buildings	161,293,171	10,679,792	150,613,379	150,000,211
Swimming Pool	32,472,831	1,290,088	31,182,743	31,674,755

10.2.4 During the financial year, the group and company acquired Property, Plant & Equipment to the aggregate value of Rs 15,806,673/- and Rs.10,275,278/- (2006 - Rs.18,866,173/- and Rs. 11,900,607/-) respectively, the consideration for which was settled by cash.

11. INVESTMENT IN SUBSIDIARY

	Country of Incorporation	Consolidated		Company	
		2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Non-Quoted					
Miami Beach Hotels Ltd.	Sri Lanka	-	-	135,921,800	135,921,800

12. OTHER INVESTMENTS

	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Non Current				
Investments in Equity Securities (12.1)	3,333,330	3,333,330	3,333,330	3,333,330
Total Carrying Value of Other Investments	3,333,330	3,333,330	3,333,330	3,333,330

12.1 Investments in Equity Securities-Non Current

	No. of Shares		Carrying	Directors'	Carrying	Directors'
	2007	2006	Value 2007 Rs.	Valuation 2007 Rs.	Value 2006 Rs.	Valuation 2006 Rs.
Non Quoted						
Rainforest Ecolodge (Pvt) Ltd.	333,333	333,333	3,333,330	3,333,330	3,333,330	3,333,330
Total Carrying Value of Other Investments			3,333,330	3,333,330	3,333,330	3,333,330

13. INVENTORIES

	Consolidated		Company	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Food	1,468,749	1,810,719	1,468,749	1,810,719
Beverage	1,442,139	1,554,316	1,442,139	1,554,316
House-Keeping & Maintenance	1,398,755	1,903,497	1,398,755	1,903,497
Printing & Stationery	21,065	332,809	21,065	332,809
Linen & Cutlery	572,526	492,166	572,526	492,166
	4,903,234	6,093,507	4,903,234	6,093,507

14. TRADE AND OTHER RECEIVABLES**14.1 Current**

Trade Debtors - Others	70,042,118	61,102,546	45,092,816	38,883,344
- Related Parties (14.2)	3,881,786	2,288,541	3,539,816	2,241,410
Provision for Doubtful Debts	(5,583,744)	(2,495,573)	(5,583,744)	(2,495,573)
	68,340,160	60,895,514	43,048,888	38,629,181
Staff Loans & Advances (14.3)	555,861	175,498	555,861	175,498
Other Debtors	2,352,451	239,845	2,352,451	239,845
Deposits and Prepayments	2,878,110	3,644,197	2,629,934	3,332,083
	74,126,582	64,955,054	48,587,134	42,376,607

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

Year ended 31 March 2007

		Consolidated		Company	
		2007	2006	2007	2006
		Rs.	Rs.	Rs.	Rs.
14. TRADE AND OTHER RECEIVABLES					
14.2 Trade Dues Receivables from Related Parties	Relationship				
Hemtours (Pte) Ltd. - Direct	Affiliate Company	2,981,815	2,258,291	2,639,845	2,211,160
Serendib Hotels PLC	Parent Company	843,121	–	843,121	–
Serendib Leisure Management Ltd.	Managing Company	56,850	30,250	56,850	30,250
		<u>3,881,786</u>	<u>2,288,541</u>	<u>3,539,816</u>	<u>2,241,410</u>
14.3 Staff Loans & Advances					
Opening Balance		175,498	138,156	175,498	138,156
Granted During the Year		1,011,187	666,180	1,011,187	666,180
Less: Repayments During the Year		(630,824)	(628,838)	(630,824)	(628,838)
Closing Balance		<u>555,861</u>	<u>175,498</u>	<u>555,861</u>	<u>175,498</u>
15. AMOUNTS DUE FROM RELATED PARTIES	Relationship	2007	2006	2007	2006
		Rs	Rs.	Rs	Rs.
Serendib Hotels PLC	Parent Company	28,905	–	28,905	–
Hotel Sigiriya PLC	Group Company	1,000	5,390	1,000	5,390
Serendib Leisure Management Ltd. - Loan	Managing Company	2,099,644	2,099,644	2,099,644	2,099,644
Serendib Leisure Management Ltd. - Loan Interest	Managing Company	52,549	–	52,549	–
		<u>2,182,098</u>	<u>2,105,034</u>	<u>2,182,098</u>	<u>2,105,034</u>
16. SHARE CAPITAL					
		Par Value		2007	2006
		Rs.		Number	Number
16.1 Authorised					
Number of Shares	Ordinary Shares	10/-		<u>50,000,000</u>	<u>50,000,000</u>
				Rs.	Rs.
Nominal Value	Ordinary Shares	10/-		<u>500,000,000</u>	<u>500,000,000</u>
16.2 Issued & Fully Paid				2007	2006
				Number	Number
Number of Shares	Ordinary Shares	10/-		<u>31,621,477</u>	<u>31,621,477</u>
				Rs.	Rs.
Nominal Value	Ordinary Shares	10/-		<u>316,214,770</u>	<u>316,214,770</u>
17. RESERVES					
		Consolidated		Company	
Summary		2007	2006	2007	2006
		Rs.	Rs.	Rs.	Rs.
			Restated		Restated
Capital Reserves					
Balance as at the Beginning of the Year		160,971,461	205,139,426	150,572,005	193,130,754
Over Estimation of Revaluation Reserve		–	(4,599,825)	–	(4,599,825)
Excess Depreciation on Revaluation Reserve (26.2)		(2,864,891)	(20,700,113)	(2,919,463)	(20,089,190)
Differred Tax Attributable to Revaluation Surplus (26.2)		446,105	(18,868,027)	437,919	(17,869,734)
Revaluation Reserve		<u>158,552,675</u>	<u>160,971,461</u>	<u>148,090,461</u>	<u>150,572,005</u>
Other Reserves		<u>2,840,391</u>	<u>2,840,391</u>	<u>–</u>	<u>–</u>
		<u>161,393,066</u>	<u>163,811,852</u>	<u>148,090,461</u>	<u>150,572,005</u>

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

Year ended 31 March 2007

18. INTEREST BEARING LOANS & BORROWINGS

	2007 Amount Repayable Within 1 Year Rs.	2007 Amount Repayable After 1 Year Rs.	2007 Total Rs.	2006 Amount Repayable Within 1 Year Rs.	2006 Amount Repayable After 1 Year Rs.	2006 Total Rs.
Consolidated						
Bank Loans (18.1)	24,388,315	57,792,000	82,180,315	35,694,157	82,180,315	117,874,472
Related Party Loans	–	–	–	3,000,000	–	3,000,000
Bank Overdrafts (25.2)	6,504,295	–	6,504,295	10,645,079	–	10,645,079
	<u>30,892,610</u>	<u>57,792,000</u>	<u>88,684,610</u>	<u>49,339,236</u>	<u>82,180,315</u>	<u>131,519,551</u>
Company						
Bank Loans (18.1)	10,027,593	24,000,000	34,027,593	20,541,412	34,027,593	54,569,005
Related Party Loans	–	–	–	3,000,000	–	3,000,000
Bank Overdrafts (25.2)	5,569,166	–	5,569,166	2,619,881	–	2,619,881
	<u>15,596,759</u>	<u>24,000,000</u>	<u>39,596,759</u>	<u>26,161,293</u>	<u>34,027,593</u>	<u>60,188,886</u>

	As At 01.04.2006 Rs.	Loans Obtained/Interst Capitalised Rs.	Repayment Rs.	As At 31.03.2007 Rs.	Terms of Repayment	Rate of Interest
18.1 Bank Loans						
Stafford Hotels PLC						
D.F.C.C. Bank	42,000,000	–	(9,000,000)	33,000,000	60 instalments commenced from Dec'05	AWPR +1% revised quarterly
D.F.C.C. Bank - Interest Capitalised Loan	2,569,005	–	(1,541,412)	1,027,593	24 installments commenced from Dec'05	6% per annum
Commercial Bank of Ceylon - Term Loan	10,000,000	–	(10,000,000)	–		
	<u>54,569,005</u>	<u>–</u>	<u>(20,541,412)</u>	<u>34,027,593</u>		
18.2 Related Party Loans						
Serendib Hotels PLC	2,000,000	–	(2,000,000)	–		
Hotel Sigiriya PLC	1,000,000	–	(1,000,000)	–		
	<u>3,000,000</u>	<u>–</u>	<u>(3,000,000)</u>	<u>–</u>		

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

Year ended 31 March 2007

19. DEFERRED TAX LIABILITY	Consolidated		Company	
	2007 Rs.	2006 Rs. Restated	2007 Rs.	2006 Rs. Restated
Balance as at Beginning of the Year	33,546,066	12,772,943	20,716,464	3,872,943
Increase/(Decrease) in Provision	4,407,947	(2,072,678)	4,025,737	1,593,188
Deferred Tax Attributable to Revaluation Surplus (26.1)	(446,105)	18,868,027	(437,919)	17,869,734
Under / (Over) Provision (26.1)	–	3,977,774	–	(2,619,401)
Balance as at the End of the Year	<u>37,507,908</u>	<u>33,546,066</u>	<u>24,304,281</u>	<u>20,716,464</u>

20. OTHER DEFERRED LIABILITIES (Consolidated & Company)	Balance as at 01.04.2006	Charge for the Year	Payments During the Year	Balance as at 31.03.2007
	Rs.	Rs.	Rs.	Rs.
Retirement Benefit Obligation - Gratuity	3,191,468	839,363	(335,663)	<u>3,695,168</u>

21. TRADE AND OTHER PAYABLES	Consolidated		Company	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Trade Payables	12,647,117	13,541,247	12,647,117	13,541,248
Sundry Creditors Including Accrued Expenses	45,629,108	40,085,713	43,572,907	38,433,287
	<u>58,276,225</u>	<u>53,626,960</u>	<u>56,220,024</u>	<u>51,974,535</u>

22. AMOUNTS DUE TO RELATED PARTIES	Relationship	Consolidated		Company	
		2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Hotel Sigiriya PLC	Group Company	14,356	246,461	14,356	246,461
Serendib Hotels PLC	Parent Company	2,763,015	–	2,763,015	–
Serendib Leisure Management Ltd.	Managing Company	2,600,978	2,229,104	2,600,978	2,229,104
Miami Beach Hotels Ltd.	Subsidiary	–	–	26,207,969	41,127,313
Hemas Corporate Services (Pte) Ltd.	Group Company	45,000	–	45,000	–
		<u>5,423,349</u>	<u>2,475,565</u>	<u>31,631,318</u>	<u>43,602,878</u>

23. NON INTEREST BEARING LOANS AND BORROWINGS	Consolidated		Company	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Ministry of Tourism	<u>550,000</u>	<u>550,000</u>	<u>550,000</u>	<u>550,000</u>

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

Year ended 31 March 2007

24. DIVIDENDS PAYABLE	Consolidated		Company	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Unclaimed Dividend	548,293	549,322	548,293	549,330
	<u>548,293</u>	<u>549,322</u>	<u>548,293</u>	<u>549,330</u>

25. CASH AND CASH EQUIVALENTS

Components of Cash and Cash Equivalents	Consolidated		Company	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
25.1 Cash & Cash Equivalent Balances				
Cash & Bank Balances	8,011,118	5,854,887	8,000,767	5,844,286
	<u>8,011,118</u>	<u>5,854,887</u>	<u>8,000,767</u>	<u>5,844,286</u>
25.2 Unfavourable Cash & Cash Equivalent Balances				
Bank Overdraft	(6,504,295)	(10,645,079)	(5,569,166)	(2,619,881)
Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement	<u>1,506,823</u>	<u>(4,790,192)</u>	<u>2,431,601</u>	<u>3,224,405</u>

26. EFFECTS OF CHANGES IN ACCOUNTING POLICIES

26.1 Effect of Accounting Policy Change in Respect of Deferred Tax

As described in Note 2.2, the company adopted SLAS 14 Income Tax (Revised 2005). Under previous SLAS 14, the company did not recognise the deferred tax liability for the revalued assets. In accordance with SLAS 14 Income Tax (Revised 2005) deferred tax liability to be recognised on temporary difference of revalued asset. On the first adoption of SLAS 14 Income Tax (revised 2005), the company determined its transitional liabilities as the difference between the deferred tax liability as at 1 April 2006, calculated based on the revised SLAS 14 and such liabilities accounted and disclosed under previous SLAS 14. This change in accounting policy has been accounted for retrospectively. The comparative statements for 2006 have been restated to conform to the changed policy. The effects of the restatement on those financial statements is summarised below.

Deferred Tax Liabilities	Consolidated	Company
	2006 Rs.	2006 Rs.
At the Beginning of the Year as Previously Stated	10,700,265	5,466,131
Changes in Accounting Policy - Deferred Tax Under/(Over) Provision	3,977,774	(2,619,401)
- Deferred Tax Attributable to Revaluation Surplus	18,868,027	17,869,734
Adjusted Balance Brought Forward	<u>35,546,066</u>	<u>20,716,464</u>

26.2 Effect of Accounting Policy Change in Respect of Property Plant and Equipment

As described in Note 2.2, with effect from current financial year the company adopted SLAS 18 Property, Plant and Equipment (revised 2005) in respect to the building an annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation on the revalued carrying amount of the assets and depreciation based on the assets original costs. The adoption of new accounting policy has been accounted for retrospectively. The comparative statements for 2006 have been restated to conform to the changed policy. The effect of the restatement on those financial statements is summarised below;

NOTES TO THE FINANCIAL STATEMENTS *Contd.*

Year ended 31 March 2007

Revaluation Reserves	Consolidated 2006 Rs.	Company 2006 Rs.
At the Beginning of the Year as Previously Stated	200,539,601	188,530,929
Changes in Accounting Policy - Deferred Tax on Revaluation Surplus	(18,868,027)	(17,869,734)
Transfer of Revaluation Reserve to Retained Earnings	(20,700,113)	(20,089,190)
Adjusted Balance Brought Forward	<u>160,971,461</u>	<u>150,572,005</u>

27. COMMITMENTS AND CONTINGENCIES

There are no significant commitments or contingencies as at the balance sheet date.

28. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged		Included Under
		2007 Rs.	2006 Rs.	
Stafford Hotels PLC				
Freehold Land	Primary Mortgage up to the value of Rs. 55Mn to DFCC Bank	40,434,600	40,180,000	Property, Plant & Equipment
Plant, Machinery, Equipment and Debtors	Primary Mortgage up to the value of Rs. 5Mn to DFCC Bank	30,145,431	33,534,006	Property, Plant & Equipment
		43,048,888	38,629,181	Debtors
Freehold Land	Secondary Mortgage up to the value of Rs. 3.75Mn to DFCC Bank (Interest Capitalised - loan)	40,434,600	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	157,530,024	156,704,621	Property, Plant & Equipment
Freehold Land	Secondary Mortgage up to the value of Rs. 15Mn to DFCC Bank	50,944,300	50,944,300	Property, Plant & Equipment
Plant, Machinery, Equipment and Debtors	Primary Mortgage up to the value of Rs. 5Mn to DFCC Bank	18,906,895	21,896,329	Property, Plant & Equipment
		25,291,273	22,266,353	Debtors
Freehold Land	Tertiary Mortgage up to the value of Rs. 1.25Mn to DFCC Bank (Interest Capitalised - loan)	50,944,300	50,944,300	Property, Plant & Equipment

29. 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.*

Year ended 31 March 2007

30. DIRECTORS INTEREST IN CONTRACTS AND/OR PROPOSED CONTRACTS WITH THE COMPANY

Mr.A.N.Esufally, Mr.E.J.De Soysa, Mr.B.S.M.De Silva, Mrs.A.R.Gamage, Mr.H.N.Esufally, Mr.C.Ramachandran, Mr.O.R.Kreltszheim and Mr.T.Wijemanna are Directors of the Company from 01 April 2006 to 31 March 2007. Mrs.M.S.Fonseka resigned w.e.f. 22.02.2007 from the Board and Mr.W.M.De F.Arsakularatne was appointed w.e.f. 22.02.2007 to the Board.

The Company carried out transactions in the ordinary course of its business at commercial rates with the following director related entities;

30.1 Details of Transactions carried out with director related entities during the year 2006 / 2007.

Name of Related Party	Name of Director	Relationship	Details	Balance Outstanding As At 31.03.2007
Serendib Hotels PLC	A.N.Esufally E.J.De Soysa B.S.M.De Silva A.R.Gamage (Ms.) M.S.Fonseka (Ms.) W.M.De F.Arsakularatne H.N.Esufally	Chairman Director Director Director Director Director	Paid for Purchase of Goods & Services Rs. 4,405,561/- Received as Loan Interest Rs.27,068/- Received for Sale of Goods & Services Rs. 1,141,702/-	Rs. 843,121/- (Trade Receivable) Rs. 28,905/- (Other Receivable) Rs. 2,763,015/- (Other Payable)
Hotel Sigiriya PLC	E.J.De Soysa A.N.Esufally B.S.M.De Silva A.R.Gamage (Ms.) M.S.Fonseka (Ms.) W.M.De F.Arsakularatne H.N.Esufally C.Ramachandran	Chairman Director Director Director Director Director Director	Received for Sale of Good & Services Rs. 303,516/- Received for Rendering of Services Rs. 222,821/- Paid for Purchase of Goods & Services Rs. 74,969/- Paid as Loan Interest Rs.10,203/-	Rs. 1,000/- (Other Receivable) Rs. 14,356/- (Other Payable)
Serendib Leisure Management Ltd	A.N.Esufally E.J.De Soysa B.S.M.De Silva A.R.Gamage (Ms.) M.S.Fonseka (Ms.) W.M.De F.Arsakularatne H.N.Esufally	Chairman Director Director Director Director Director	Paid as Management Fees Rs.12,251,861/- Paid as Accounting Fees Rs.420,000/- Paid as Expense Reimbursement Rs. 7,357,889/- Received for Rendering of Services Rs. 22,432/- Received as Loan Interest Rs.213,114/-	Rs. 56,850/- (Trade Receivable) Rs. 52,549/- (Interest Receivable) Rs. 2,600,978 (Other Payable) Rs.2,099,644/- (Loan)
Serendib Corporate Services (Pvt) Ltd (Up to 31.03.2006)	A.N.Esufally B.S.M.De Silva A.R.Gamage (Ms.) M.S.Fonseka (Ms.)	Chairman Director Director Director	Nil	Nil
Hemas Corporate Services (Pvt) Ltd (From 01.04.2006)	A.N.Esufally M.S.Fonseka (Ms.) H.N.Esufally	Director Director Director	Paid for Professional Services Rs. 180,000/-	Rs. 45,000/- (Payable)
Hemtours (Pte) Ltd	A.N.Esufally H.N.Esufally	Director Director	Received for Sale of Goods & Services Rs. 5,206,223/-	Rs.2,639,845/- (Trade Due)
DFCC Bank Ltd	T.Wijemanna	Director	Paid as Loan Interest Rs. 5,468,674/-	Rs. 34,027,593/- (Loan)
Miami Beach Hotels Ltd.	A.N.Esufally E.J.De Soysa B.S.M.De Silva C. P. J. Thomas	Chairman Director Director Director	Paid for Purchase of Goods & Services Rs. 235,363,135/- Received for Sale of Goods & Services Rs. 220,443,791/-	Rs. 26,207,969/- (Payable)

31. RELATED PARTY TRANSACTIONS

There are no related party transactions other than those disclosed in Note 30 to these Financial Statements.

INVESTOR INFORMATION

GENERAL

Share Capital – Rs. 316,214,770/- divided into 31,621,477 Ordinary shares.

The Ordinary Shares of Stafford Hotels PLC are listed with the Colombo Stock Exchange of Sri Lanka.

SHARE DISTRIBUTION

	31.03.2007			31.03.2006		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Less than 1,000	801	314,152	1.00	799	332,541	1.05
1,001 - 5,000	308	768,845	2.43	357	870,829	2.75
5,001 - 10,000	71	545,519	1.73	71	552,091	1.75
10,001 - 50,000	68	1,636,704	5.18	69	1,479,334	4.68
50,001 - 100,000	7	497,825	1.57	7	532,325	1.68
100,001 - 500,000	9	2,218,582	7.02	8	2,062,507	6.53
500,001 - 1,000,000	0	0	0.00	0	0	0.00
Over 1,000,000	3	25,639,850	81.07	3	25,791,850	81.56
	<u>1,267</u>	<u>31,621,477</u>	<u>100.00</u>	<u>1,314</u>	<u>31,621,477</u>	<u>100.00</u>
Institutions	60	27,691,513	87.57	72	27,959,613	88.42
Individuals	1,207	3,929,964	12.43	1,242	3,661,864	11.58
	<u>1,267</u>	<u>31,621,477</u>	<u>100.00</u>	<u>1,314</u>	<u>31,621,477</u>	<u>100.00</u>

PUBLIC HOLDING

18.75 of the Issued Shares is held by the Public. (2006 – 12.92%)

SHARE TRADING

	2006/2007		2005/2006	
Highest Market Price	Rs. 16.50	(11.10.06)	Rs. 15.00	(09.05.05)
Lowest Market Price	Rs. 8.50	(21.06.06)	Rs. 7.00	(28.12.05)
Last Traded Price	Rs. 9.25	(30.03.07)	Rs. 11.00	(31.03.06)
No. of Shares Traded	4,809,800		2,269,900	
No. of Trades	3,101		1,579	
Turnover	Rs. 59,549,650		Rs. 27,104,925	

INVESTOR INFORMATION *Contd.*

MAJOR SHAREHOLDING

The Twenty major shareholders as at 31 March 2007 and as at 31 March 2006.

	31.03.2007			31.03.2006	
	Shares	%		Shares	%
Serendib Hotels PLC	17,997,578	56.92	Serendib Hotels PLC	17,997,578	56.92
DFCC Bank	5,950,525	18.81	DFCC Bank	6,102,525	19.30
Hemtours (Pte) Ltd.	1,691,747	5.35	Hemtours (Pte) Ltd.	1,691,747	5.35
Impex Corporation (Pte) Ltd.	500,000	1.58	Impex Corporation (Pte) Ltd.	472,000	1.49
Mr. A. N. Esufally	450,007	1.42	Mr. A.N. Esufally	450,007	1.42
The Mahayaya Estates Co. Ltd.	327,000	1.03	The Mahayaya Estates Co. Ltd.	327,000	1.03
Mr. B. S. M. De Silva	204,700	0.65	Mr. S.P. Kannangara	226,300	0.72
DPMC Financial Services (Pvt) Ltd.	170,500	0.54	Mr. B.S.M. De Silva	204,700	0.65
LOLC/Mr. S. P. Kannangara	164,000	0.52	Intercom Ltd.	162,500	0.51
Intercom Ltd	162,500	0.51	Mr. N.H. Kandamby	110,000	0.35
Mr. N. Hewa Kandamby	120,000	0.38	Mr. J. Dewage	110,000	0.35
WML/Dr. H. S. D. Soysa	119,875	0.38	Mr. S.A. Gulamhusein	94,875	0.30
Mr. M. M. C. J. Fernandopulle	84,000	0.27	Dr. H. S. D. Soysa	89,875	0.28
Mr. A. D. G. H. Perera	79,800	0.25	Mr. S.N.C.W.M.B.C. Kandegedara	82,100	0.26
LOLC/Mr. K.A.S. Perera & Mr. N.C.Perera	71,200	0.23	Mrs. G. Soysa	81,025	0.26
Mr. S. A. Gulamhusein	70,975	0.22	Hi-Line Towers (Pvt) Ltd.	66,000	0.21
Dr. D. D. Samarasinghe	65,000	0.21	Mr. M. L. M. Ameen	62,700	0.20
Favourite Investments (Pvt) Ltd.	64,150	0.20	Favourite Investments (Pvt) Ltd.	55,750	0.18
Mr. M. L. M. Ameen	62,700	0.20	Mr. L. D. Ramanayake	50,000	0.16
Mr. P. D. Perera	50,000	0.16	Mr. K. T. Wickremaratne	50,000	0.16
	28,406,257	89.83		28,486,682	90.10
Shares held by the balance shareholders	3,215,220	10.17		3,134,795	9.90
	31,621,477	100.00		31,621,477	100.00

FORM OF PROXY

Stafford Hotels PLC,
40, Sir Mohamed Macan Markar Mw.,
Colombo 3.

I/We of
..... being a member/members of Stafford Hotels PLC, 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 Twenty Sixth Annual General Meeting of the Company to be held on 5 July 2007 at 3.20 p.m. and at any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
1. To receive and consider the Report of the Directors and the Statement of Accounts for the Year ended 31 March 2007 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr. H. N. Esufally, as Director, who retires by rotation in terms of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. E. J. De Soysa, as Director, who retires by rotation in terms of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint Mr. W. M. De F. Arsakularatne, who was appointed to the Board since the last AGM	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-appoint Mr. O. R. Kreltshheim, as Director, in terms of Section 211 (1) of the Companies Act No. 7 of 2007.	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-appoint Mr. C. Ramachandran, as Director, in terms of Section 211 (1) of the Companies Act No. 7 of 2007.	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-appoint Ernst & Young as Auditors and authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
8. To authorize Directors to determine and make contributions to charity.	<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.....

Dated this day of 2007

- (i) *Please delete the inappropriate words.
- (ii) Instructions regarding completion appear on the reverse hereof.

INSTRUCTIONS FOR COMPLETION

1. Kindly perfect the Form of Proxy after filling in legibly your name in full and address and by signing in the space as provided. Please fill in the date of signature.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him/her.
3. In the case of Corporate Members, the Form of Proxy must be completed under the Common Seal, which should be affixed and attested in the manner prescribed by the Articles of Association.
4. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should also accompany the completed Form of Proxy.
5. The completed Form of Proxy should be deposited at No. 36, Bristol Street, Colombo 01, not less than forty eight (48) hours before the appointed time for the meeting.

CORPORATE INFORMATION

BOARD OF DIRECTORS

A.N. Esufally - Chairman
E.J. De Soysa
B.S.M. De Silva
C. Ramachandran - (Alt. Ms. V.R. Jayawardena)
O.R. Kreltszheim - (Alt. Ms. B. Y. Labrooy)
T. Wijemanna
A.R. Gamage (Ms) - (Alt. Prof. L. D. K. B. Gamage)
H.N. Esufally - (Alt. Ms. K.A. Wilson)
W. M. De F. Arsakularatne - (App. 22.02.2007)

REGISTERED OFFICE

2nd Floor, Automobile Association Building
40, Sir Mohamed Macan Markar Mawatha
Colombo 3.

Tel : +94 (11) 2332155
Fax : +94 (11) 2438933
E-mail : inquiries@serendibleisure.lk
Website : www.serendibleisure.com

SECRETARIES

Hemas Corporate Services (Pte) Ltd.

REGISTRARS

SSP Corporate Services (Pvt) Ltd.

MANAGING AGENTS

Serendib Leisure Management Ltd.

AUDITORS

Ernst & Young

BANKERS

Commercial Bank of Ceylon
Seylan Bank
Nations Trust Bank

HOTEL

Club Hotel Dolphin



SERENDIB LEISURE HOTELS

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