

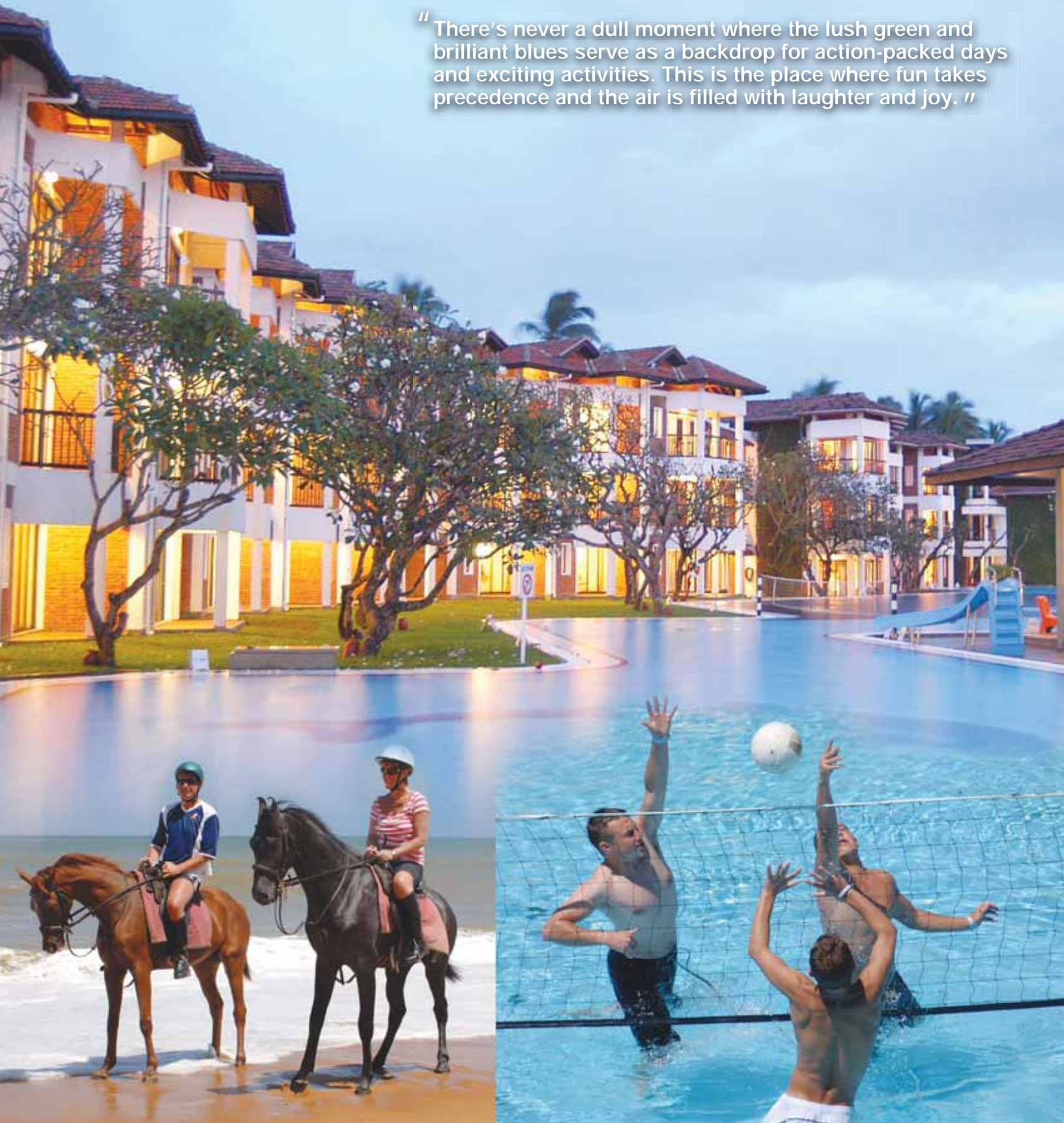


Annual Report 2010

Soaring on the path to Serendipity

Stafford Hotels PLC

"There's never a dull moment where the lush green and brilliant blues serve as a backdrop for action-packed days and exciting activities. This is the place where fun takes precedence and the air is filled with laughter and joy."



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Financial Highlights (Group)

Year Ended 31 March		2010	2009
Earnings Highlights and Ratios			
Group Revenue	Rs.000's	380,265	350,130
Group Profit Before Interest, Tax, Depreciation & Amortization (EBITDA)	Rs.000's	100,116	79,355
Group Profit Before Tax	Rs.000's	70,684	46,119
Group Profit After Tax	Rs.000's	57,168	38,101
Group Profit Attributable to Shareholders	Rs.000's	57,168	38,101
Earnings Per Share	Rs.	1.81	1.20
Cash Earnings Per Share	Rs.	1.89	3.30
Interest Cover	Times	11.92	5.81
Return On Equity (ROE)	%	8.63	6.14
Pre-Tax Return On Capital Employed (ROCE)	%	11.11	8.41
Balance Sheet Highlights and Ratios			
Total Assets	Rs.000's	824,867	779,079
Total Debt	Rs.000's	32,190	41,944
Total Shareholders' Funds	Rs.000's	662,235	620,440
No. of Shares in Issue	000's	31,621	31,621
Net Assets Per Share	Rs.	20.94	19.62
Debt / Total Equity	%	4.86	6.76
Debt / Total Assets	%	3.90	5.38
Market/ Shareholder Information			
Market Price Per Share	Rs.	35.00	11.50
Market Capitalization	Rs.000's	1,106,752	363,647
Price Earnings Ratio	Times	19.34	9.58
Value Added			
Value Added Per Revenue	Rs.	0.45	0.42
Value Added Per Employee	Rs.000's	696	621
Value Added Per Ordinary Shares	Rs.	5.42	4.63

Chairman's Review

Industry Overview

The year under review was indeed a special one. Terrorism was finally defeated after almost 30 years, thereby creating an environment where the Tourism industry can prosper. This was followed by a resounding victory for the President and his party at the recent round of elections. A new and strong team is now at the helm of the Tourism industry and we can expect that this industry will grow exponentially.

The arrival figures for 2009 grew marginally by 2.1% when compared to 2008. However, the first 5 months of 2010 have shown a remarkable increase of 48.5%. The trend continues and the industry is targeting 600,000 arrivals for the calendar year 2010, an increase of 34% year on year.

World Tourism has also turned the corner and is expected to grow between 3% to 4% in 2010. The highest growth rates are being projected from the Asian region and the regional countries would emerge as the largest provider of visitors to the country.

Sri Lanka has declared 2011 as 'visit Sri Lanka year' and has targeted 2.5Mn visitors by the year 2016.

Hotel Operations

In view of the expected boom in the industry and to enhance certain facilities, an extensive development program has been undertaken at the Hotel. New staff quarters are being constructed, while the 50 Miami Cabanas are being totally upgraded, the 100 Dolphin rooms are being refurbished, the public areas and the main restaurant are being renovated, while a Specialty Restaurant, a Spa and a purpose built amphitheater are being constructed. The project is targeted to be completed by August this year. The project costing approximately Rs 500Mn is being funded through a mix of debt and internal cash resources.

The Company has once again outperformed its competitors, ending up with an annual occupancy rate of 87%. The revenue increased by 8.6% to Rs. 380.3Mn, up from Rs. 350.1Mn last year. The net profit before tax grew from Rs. 46.1Mn last year to Rs. 70.7Mn a healthy growth of 53.4%.

The Hotel remains popular amongst guests of all nationalities, especially those from Britain and Germany. Going forward, the depreciation of both the Sterling Pound and the Euro against Sri Lanka Rupee will impact the earnings of the Company. However, with the upgrading of the Hotel, it is expected that the revenues will improve thereby lessening the impact of the depreciation of these currencies.

Appreciation

The CEO of Serendib Leisure, Mr. Srilal Miththapala, retired during the year and I take this opportunity to wish him well for the future.

The team at Serendib Leisure, now led by the COO Mr. S. Anandaraj together with the team at the Hotel, led by Mr. Chamin Wickramasinghe, have performed admirably to ensure that the Hotel operations and results are second to none.



A. N. Esufally

Chairman

26 May 2010

Colombo

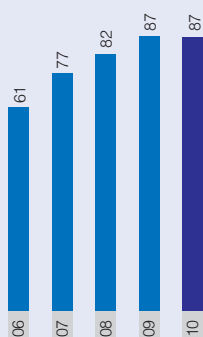
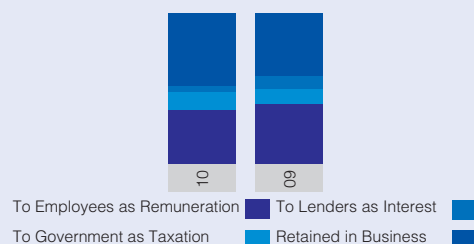
Financial Review

Statement of Value Added

Distribution of Value Added

To Employees as Remuneration
To Government as Taxation
To Lenders as Interest
Retained in Business

2010		2009	
%	Rs. '000	%	Rs. '000
36	63,170	40	59,138
12	19,832	10	14,607
4	6,472	7	9,589
48	81,790	43	63,140
100	171,264	100	146,474

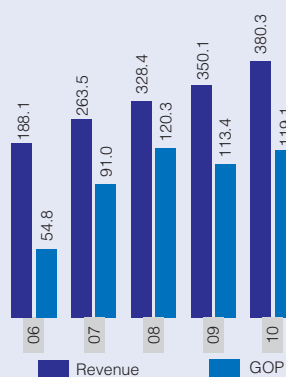
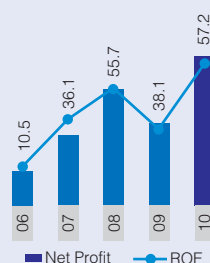


Occupancy (%)

Company has been able to maintain its higher occupancy rates during the year. Due to the favorable changes in the economy after the end of three decade war, the Management is confident of achieving higher occupancy rates in the coming financial years.

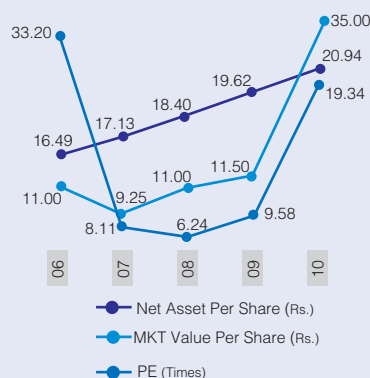
Net Profit and Return on Equity (Rs. Mn)

The net profit for the year has been increased to Rs. 57.2Mn, compared to Rs. 38.1Mn during the last financial year. The increase is 50% compared to the previous year. During the year ROE has increased to 8.63% compared to 6.14% in the previous year.



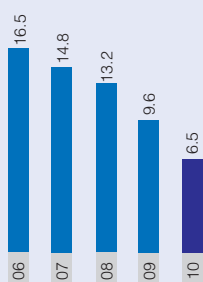
Revenue and Gross Operating Profit (Rs. Mn)

During the year, Revenue has increased by 9% while the GOP has increased by 5% compared to the previous year.



Shareholder Value (Rs.)

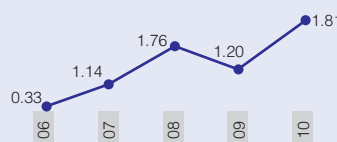
With the favorable macro economic conditions prevailed after the end of three decade war, the hotel was successful in achieving an EPS of Rs. 1.81 for the year, compared to the Rs. 1.20 achieved in the previous year. The price of a Stafford Hotels PLC share traded at Rs. 35.00 as at the year end compared with the Rs. 11.50 at the beginning of the year. The P/E ratio of the shares rose to 19.34 times compared to 9.58 times during the previous Financial Year. The share price ranged from a high of Rs. 38.50 to a low of Rs. 11.00 during the year.



Finance Cost (Rs. Mn)

Finance cost has declined by 32% during the year, from Rs. 9.6Mn to Rs. 6.5Mn and the interest cover has increased at a faster pace from 5.81 to 11.92 times. Interest cost on bank loans and overdrafts has reduced tremendously during the year under review.

Earning Per Share



Cash Flow

The net movement in Cash and cash equivalents for the year ended 31 March 2010 was an outflow of Rs. 13.5Mn.

This comprise of net cash inflow from operating activities of Rs. 59.8Mn, net cash outflow of Rs. 43.5Mn from investing activities and net cash outflow of Rs. 29.8Mn from financing activities. Cash and cash equivalents as at 31 March 2010 was Rs. 51.6Mn.

Board of Directors



1. A. N. ESUFALLY - CHAIRMAN

Appointed to the Board in 1994 and elected Chairman in 2002. He is a Fellow of both the Institute of Chartered Accountants of England & Wales and The Institute of Chartered Accountants of Sri Lanka. He has experience of over 30 years in the Hotel and Tourism sector both in Sri Lanka and overseas and has been in the forefront of the leisure industry in Sri Lanka. He serves as a Director of the Sri Lanka Tourism Development Authority, the apex body of the Tourism Institutions which came into effect after the new Tourism Act was signed into law effective 1 October 2007. He is also the Honorary Consul General of Bhutan in Sri Lanka and an all Island Justice of the Peace. Other Directorships include Hemas Holdings PLC, Serendib Hotels PLC, Hotel Sigiriya PLC, Printcare PLC, Mahaweli Reach Hotel PLC and several other Companies.

2. E. J. DE SOYSA

Appointed to the Board in 1990. Other directorships include Hotel Sigiriya PLC, The Mahayaya Estate Co. Ltd. Kahatapitiya (Pvt) Ltd. and several other Companies. Over 40 years of association with the Tourism and Leisure Industries.

3. B. S. M. DE SILVA

Appointed to the Board in 1990. Counts over 20 years experience in the Tourism and Leisure industries. Has extensive experience in the Spice industry and is the Founder Chairman of the Spice Council. He is the Chairman & Managing Director of Intercom Group of Companies and holds directorships in Serendib Hotels PLC, Hotel Sigiriya PLC and several other Companies.

4. T. WIJEMANNA

Appointed to the Board in 1996 as a Nominee Director of DFCC. Holds a LLB (Hon) Degree from University of Colombo and LLM from University of London. He is also an Attorney -at - Law with 25

years experience in the corporate sector. Currently serves in the capacity of Senior Vice President - General Counsel at DFCC. Other Directorships include Swadeshi Group of Companies.

5. A. R. GAMAGE (MS)

Appointed to the Board in 1994. A Fellow of the Chartered Institute of Management Accountants U.K. Other directorships include Hotel Sigiriya PLC and Wicks Advertising & Marketing Limited.

6. H. N. ESUFALLY

Appointed to the Board in 2003. Holds a Bachelor of Science (Honours) degree in Electronics from the University of Sussex, U.K. He is the CEO of Hemas Holdings PLC and has management experience of over 20 years. Other directorships include Hemas Holdings PLC, Serendib Hotels PLC, Hotel Sigiriya PLC and several other Companies. He is also a Trustee at the National Council for Mental Health (Sahanaya).

7. W. M. DE F. ARSAKULARATNE

Appointed to the Board in 2007. A Fellow member of the Chartered Institute of Management Accountants U.K. and a Chartered Financial Analyst. He also holds a MSc in Investment Management from the Cass Business School, U.K. a BSc in Computer Science & Engineering from the University of Moratuwa, S.L and a Postgraduate Diploma in Marketing from the Chartered Institute of Marketing, U.K. He has over 9 years experience in the Fund Management industry. Other Directorships include Serendib Hotels PLC, Hotel Sigiriya PLC and Hemas Power PLC.

Annual Report of the Board of Directors

The Directors have pleasure in presenting the Annual Report of your Company together with the Consolidated Audited Financial Statements of the Company and the Group for the year ended 31 March 2010.

NATURE OF BUSINESS OF THE COMPANY

The principal activity of the Company which is hoteliering remained unchanged. The Company owns and operates 99 rooms in Club Hotel Dolphin and 50 cottages of Miami Beach Hotels situated adjacent to the Hotel.

The Company is the major Shareholder of Miami Beach Hotels Ltd.

The Directors to the best of their knowledge and belief confirm that the Company has not been engaged in any activities that contravenes laws and regulations.

REVIEW OF OPERATIONS & FUTURE DEVELOPMENTS

A review of the operations of the Company and the Group during the financial year, with comments on operational results and future prospects are described in the Chairman's Review.

FINANCIAL STATEMENTS

The Financial Statements of the Company and Group are given from pages 15 to 35 of this Report

AUDITOR'S REPORT

The Auditor's Report on the Financial Statements of the Company and the Group is given on page 14 this Report.

ACCOUNTING POLICIES

The Accounting Policies adopted by the Company in preparing the Financial Statements are given from pages 19 to 23. There were no changes to the Accounting Policies adopted by the Company during the accounting period.

GOING CONCERN

The Board of Directors is satisfied that the Company and its Subsidiaries have adequate resources to continue its operations in the foreseeable future and accordingly, have adopted the "Going Concern Concept" in preparing the Financial Statements.

RESULTS & DIVIDENDS

The Revenue of the Group during the financial year ended 31 March 2010 amounted to Rs. 380,264,510/- (2009 - Rs. 350,129,914/-) with a Pre - Tax Profit of Rs. 70,684,399/- (2009 - Rs. 46,118,967/-). The Net Profit after deducting tax and minority interest was Rs. 57,167,980/- (2009 - Rs. 38,100,778/-).

The Directors resolved to declare an interim dividend of Rs. 0.50 per share for the financial year ending 31 March 2010 (2009 - Nil)

As required by Section 56(2) of the Companies Act No. 7 of 2007 the Board of Directors confirm that the Company satisfied the Solvency Test in accordance with Section 57 of the Companies Act and have obtained a certificate from the Auditors prior to dispatching the dividend on 09 March 2010.

CORPORATE DONATIONS

Donations made by the Group and Company during the year under review amounted to Rs. 32,428/- (2009 - Rs. 76,957/-) and Rs.21,727/- (2009 - Rs. 51,561/-) respectively.

PROPERTY PLANT & EQUIPMENT

Capital expenditure incurred by the Group and Company during the year amounted to Rs. 48,205,578/- (2009 - Rs.13,765,004/-) and Rs. 41,383,512/- (2009 - Rs. 12,066,443/-) respectively.

Information relating to the movement in Property, Plant & Equipment during the financial year is disclosed under Note 3.2.6 to the Financial Statements.

Details of Land and Buildings held by the Company is given below:

Location	Extent
Kammala South, Waikkal	
Hotel Dolphin	6 Acres 1 Rood 24 Perches
Miami Beach Hotel	7 Acres 3 Roods 31 Perches

STATED CAPITAL

The Stated Capital of the Company as at the Balance Sheet date was Rs. 316,214,770/- divided into 31,621,477 shares. (2009 - Rs. 316,214,770/- divided into 31,621,477 shares)

DIRECTORS

The names of the Directors who held office during the financial year under review are given below;

Mr. A. N. Esufally (Chairman)
 Mr. E. J. De Soysa
 Mr. B. S. M. De Silva
 Mr. T. Wijemanna
 Ms. A. R. Gamge
 Mr. H. N. Esufally
 Mr. W. M. De F. Arsakularatne
 Mr. V. H. A. Perera - Alt. Director to Mr. A. N. Esufally
 Ms. K. A. Wilson - Alt. Director to Mr. H. N. Esufally
 Prof. L. D. K. B. Gamage - Alt. Director to Ms. Gamage

Messrs B. S. M. De Silva and H. N. Esufally retire by rotation in terms of the Articles of Association of the Company and being eligible offer themselves for re-election, with the unanimous support of the Board.

Mr. E. J. De Soysa, who reached the age of 71 years on 15 March 2010 vacates office in terms of section 210 (2) of the Companies Act No. 7 of 2007. Special Notice has been received from Messrs Serendib Hotels PLC, major Shareholder of the Company to re-appoint Mr. E. J. De Soysa in accordance with Section 211 (1) of the Statute. Mr. E. J. De Soysa is therefore eligible for re-appointment with the unanimous support of the Board.

DIRECTORS' SHAREHOLDING

The shareholdings of the Directors during the financial year were as follows:

	31.04.2010	01.04.2009	31.03.2009
Mr. A. N. Esufally	450,007	450,007	450,007
Mr. E. J. De Soysa	50,000	50,000	50,000
Mr. B. S. M. De Silva	204,700	204,700	204,700
Ms. A. R. Gamage	3,750	3,750	3,750
Mr. T. Wijemanna*	-	-	-
Mr. H. N. Esufally	100	100	100
Mr. W. M. De F. Arsakularatne	-	-	-

* Nominee Director of DFCC Bank, which holds 818,800 shares in the Company.

BOARD COMMITTEES

The Audit and Remuneration Committees of the Parent Company, Serendib Hotels PLC functions as the Committees of the Company. The names of the members of the Committees are given below:-

Annual Report of the Board of Directors Contd...

Audit Committee

Prof. L. D. K. B. Gamage (Chairman)
Deshamanya J. C. L. De Mel
Mr. A. N. Esufally

Remuneration Committee

Deshamanya J. C. L. De Mel (Chairman)
Prof. L. D. K. B. Gamage

REMUNERATION & OTHER BENEFITS OF DIRECTORS

No remuneration was paid to the Board of Directors during the year under review (2009 - Nil)

INTEREST REGISTER

In compliance with the requirements of the Companies Act No. 7 of 2007, an Interest Register was maintained by the Company during the accounting period ended 31 March 2010.

In terms of section 192 of the Companies Act, the Directors have declared their interests in contracts in the Company and have refrained from voting on matters in which they were materially interested. The Company carried out transactions in the ordinary course of business with undernoted entities where the Directors of the Company were also Directors of such entities.

Company

Serendib Hotels PLC

Directors

Mr. A. N. Esufally
Mr. E. J. De Soysa
Mr. B. S. M. De Silva
Mr. H. N. Esufally
Mr. W. M. De F. Arsakularatne

Hotel Sigiriya PLC

Mr. A. N. Esufally
Mr. E. J. De Soysa
Mr. B. S. M. De Silva
Ms. A. R. Gamage
Mr. H. N. Esufally
Mr. W. M. De F. Arsakularatne

Serendib Leisure Management Ltd.

Mr. A. N. Esufally
Mr. E. J. De Soysa
Mr. B. S. M. De Silva
Ms. A. R. Gamage
Mr. H. N. Esufally
Mr. W. M. De F. Arsakularatne

Miami Beach Hotels Ltd.

Mr. A. N. Esufally
Mr. E. J. De Soysa
Mr. B. S. M. De Silva

Hemas Holdings PLC

Mr. A. N. Esufally
Mr. H. N. Esufally

Diethelm Travels Lanka (Pvt) Ltd.

Mr. A. N. Esufally
Mr. H. N. Esufally
Mr. W. M. De F. Arsakularatne

Hemtours (Pvt) Ltd.

Mr. A. N. Esufally
Mr. H. N. Esufally
Mr. W. M. De F. Arsakularatne

Peace Heaven Resorts Ltd.

Mr. A. N. Esufally
Mr. H. N. Esufally

Hemas Corporate Services (Pvt) Ltd.

Mr. H. N. Esufally
Mr. W. M. De F. Arsakularatne

The details of the transactions/ proposed transactions of the Company appear on Note 28 to the Financial Statements.

COMPANY SECRETARIES

Messrs Hemas Corporate Services (Pvt) Ltd. of No. 36, Bristol Street, Colombo 01 function as the Secretaries of the Company.

EMPLOYMENT

The number of persons employed by the Company as at the year end was 246 (2009 - 236).

The Company practices equality of opportunity for all employees irrespective of ethnic origin, religion, political opinion, gender, marital status or physical disability. It is the Company's policy to give full and fair consideration to persons in selection, training, development and promotion ensuring that all decisions are based on merit.

EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have been no events subsequent to the Balance Sheet date which require adjustments to or disclosure in the Financial Statements.

STATUTORY PAYMENTS

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company and its subsidiaries, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and its subsidiaries as at the Balance Sheet date have been paid or where relevant provided for in the Financial Statements.

RISK MANAGEMENT & INTERNAL CONTROL

A detailed overview of the Risk Management process is outlined in the Risk Management Report on Page 11.

AUDITORS

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

Audit Fees	-	Rs. 270,600/-
Fees for Non - Audit Services	-	Rs. 145,258/-

The Directors have confirmed that to the best of their knowledge the External Auditors have had no interest in or relationship with the Company or its Subsidiaries other than that of External Auditors.

The Auditors have confirmed 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 determine their remuneration will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



A. N. Esufally
Chairman



W. M. De F. Arsakularatne
Director

26 May 2010
Colombo

Management Team



From left: Ronald Perera – Director HR Management & Administration, Thuraiajah Thivakaran – Director Finance, S. Anandaraj – Chief Operating Officer, Suranjith De Fonseka – Head of Sales & Marketing

Decade at a Glance (Group)

Year ended 31 March	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
(Figures in Rs.'000 unless otherwise stated)				Restated	Restated					
Trading Results										
Revenue	380,265	350,130	328,358	263,452	188,085	135,673	156,894	110,728	80,189	115,262
Profit / (Loss) Before Tax	70,684	46,119	62,422	40,126	9,168	(9,377)	34,025	9,293	257	15,930
Net Profit / (Loss) for the Year	57,168	38,101	55,706	36,060	10,476	(10,175)	29,293	6,924	(600)	11,470
Earnings / (Loss) Per Share (Rs.)	1.81	1.20	1.76	1.14	0.33	(0.32)	1.16	0.27	(0.02)	0.45
Interest Cover (Times)	11.92	5.81	5.72	3.71	1.55	(0.10)	15.87	8.34	1.17	6.80
Return On Equity (%)	8.63	6.14	9.57	6.66	2.01	(1.89)	7.33	1.87	(0.16)	3.10
Hotel Operation										
Annual Sales Growth (%)	8.6	6.6	24.6	40.1	38.6	(13.5)	41.7	38.1	(30.4)	(5.1)
Room Occupancy (%)	87	87	82	77	61	54	68	56	47	68
Assets Employed										
Total Assets	824,867	779,079	757,481	748,093	746,795	738,787	479,202	427,978	413,049	431,572
Total Liabilities	162,632	158,639	175,579	206,525	225,459	200,481	79,334	57,404	39,971	61,101
Total Equity	662,235	620,440	581,902	541,569	521,336	538,306	399,868	370,574	373,078	370,471
Current Ratio (Times)	1.58	1.50	1.15	0.95	0.76	0.81	1.35	1.14	1.42	1.09
Net Assets Per Share (Rs.)	20.94	19.62	18.40	17.13	16.49	17.02	15.81	14.65	14.75	14.64
Debt Equity Ratio (%)	4.86	6.76	10.27	16.38	25.23	22.85	9.12	3.04	4.93	5.79
Market/ Shareholder Information										
Dividend Per Share (Rs.) - Company	0.50	-	0.50	-	-	-	0.50	0.40	-	0.50
Market Value Per Share (Rs.)										
Highest	38.50	15.00	15.00	16.50	15.00	19.00	23.00	8.25	7.75	6.50
Lowest	11.00	7.50	8.00	8.50	7.00	9.50	7.00	5.50	3.00	3.50
Last Traded	35.00	11.50	11.00	9.25	11.00	12.50	13.00	6.00	6.50	4.00
Price Earning Ratio (Times)	19.34	9.58	6.24	8.11	33.20	N/A	11.23	21.92	N/A	8.82

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

Operational Review

Calendar Year	2009	2008	2007	2006	2005
Sri Lanka Tourist Arrivals by Country of Residence (No. of Guest)					
North America	24,948	24,311	28,355	35,323	46,457
Latin America & The Caribbean	617	3,739	3,962	775	705
Western Europe	170,123	167,187	194,448	228,447	227,191
Eastern Europe	26,310	29,440	25,573	14,221	9,290
Middle East	23,741	16,776	13,554	10,345	10,236
Africa	1,549	2,141	2,712	3,235	2,340
Asia	174,534	173,042	202,480	242,132	223,351
Australasia	26,068	21,839	22,924	25,127	29,738
TOTAL	447,890	438,475	494,008	559,605	549,308
Accommodation Capacity (No. of Guest Rooms)					
All Regions	14,593	14,793	14,604	14,218	13,162
North of Colombo	2,659	2,114	2,050	2,014	1,967
Utilization (%)					
All Regions	47.4	43.9	46.2	47.8	45.4
North of Colombo	51.1	51.2	50.1	48.3	43.3
Club Hotel Dolphin	84.4	87.3	77.5	80.0	51.1



Corporate Governance

The Company is committed to a responsible Business Strategy geared to create Corporate Value. It recognizes the role of good Corporate Governance and the importance of adopting the Corporate Governance practices recommended by various regulatory bodies such as the Colombo Stock Exchange, the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

A. DIRECTORS

The Board

The present Board comprises seven Directors, all of whom including the Chairman hold Office in a Non-Executive capacity. The Directors provide a considerable depth of knowledge and experience from a variety of commercial sectors. The names and short profiles of the Directors of the Company are given on page 04.

The Board of Directors is Responsible for:

- Formulation of the overall Business Policy and Strategy
- Ensuring effective systems to secure integrity of information, internal controls and risk management
- Ensuring compliance with relevant laws, statutes and regulations
- Ensuring all Stakeholder interests are considered in corporate decisions
- Promotion of open and proper communication between the Company and its Stakeholder

Board meetings are held atleast six times a year and the Board meets more frequently whenever necessary. It reviews exposure to key business risks, the strategic direction of the operational units, Annual Budgets and the progress towards achieving those budgets.

The members have dedicated adequate time and effort in discharging their duties and responsibilities. The Board met on seven occasions during the year under review. The number of meetings attended by each Director is tabulated below:

	No. of Meetings Attended
Mr. A. N. Esufally	7
Mr. E. J. De Soysa	7
Mr. B. S. M. De Silva	7
Ms. A. R. Gamage	4
Mr. H. N. Esufally	3
Mr. T. Wijemanna	6
Mr. W. M. De F. Arsakularatne	5

The Board has delegated some of its functions to Board Committees, while retaining final decision rights pertaining to matters under the purview of the Committees. The composition and the function of these Sub-Committees are discussed in detail under the relevant sections of this Report.

Chairman's Role

The Chairman, whilst leading the Board in effectively discharging its duties towards the Stakeholders, ensures with the assistance of the Company Secretary, that proper board procedures are followed and Directors receive timely and accurate information before Board Meetings and updates on matters arising between meetings.'

Financial Acumen

The Board collectively possess strong financial acumen and are in a position to assess the integrity of the financial reporting systems and controls.

Board Balance

Messrs E. J. De Soysa B. S. M. De Silva and Ms. A. R. Gamage meet the criteria of independence specified by the rules of Corporate Governance of the Colombo Stock Exchange except that they have served on the Board for more than 9 years. However, the Board having evaluated all factors concluded that their independence have not been impaired due to them serving on the Board for more than 9 years. These Directors have submitted written declaration of their independence as required by section 7.10.2(b) of the listing rules.

Supply of Information

Directors are provided with accurate and timely information to discharge its duties. The Directors are also entitled to request additional information where they consider such information necessary to make informed decisions. The Agenda for the meeting and connected discussion papers are circulated to the Board at least a week in advance.

Appointments to the Board

The Board has not established a Nominations Committee for making recommendations on Board appointments; instead appointments to the Board are made collectively and with the consent of all the members of the Board.

Re-Election

At every Annual General Meeting, two Directors retire by rotation in conformity with the Articles of Association of the Company. In addition, a Director who has reached 70 years of age, vacate office at the conclusion of the Annual General Meeting commencing next after he attains the age of 70 years. A Director appointed during the year retires at the next Annual General Meeting of the Company and seeks re-appointment in terms of the Articles of the Company.

Company Secretaries

The Company Secretary advises the Board on matters relating to the Companies Act, Colombo Stock Exchange regulations and other applicable rules and regulations and ensures that appropriate, timely and accurate information is submitted to the Board and its Committees. Company Secretary also ensures that appropriate Board processes are adopted and proper records of all proceedings is maintained. The services and advice of the Company Secretary is made available to Directors as necessary.

Management Team

The Company's business activities have been delegated to the Managing Agents through a Management Agreement. The Management Team, led by the Chief Operating Officer plays an important role in achieving the objectives set by the Board. Their authority is exercised within the policy framework established by the Board and the ethical and business practices inherent in the Company.

B. DIRECTORS REMUNERATION

Remuneration Committee

As permitted by the Rules of the Colombo Stock Exchange, the Remuneration Committee of Serendib Hotels PLC, the

Corporate Governance Contd...

Parent Company functions as the Remuneration Committee of the Company. The Committee comprise of Deshamanya J. C. L. De Mel (Chairman) and Prof. L. D. K. B. Gamage. The Committee met once during the year under review.

The Committees is responsible for making recommendations to the Board on remuneration policy and practice that is consistent with the objectives of the Company.

The Report of the Remuneration Committee appears on page 12 of this Report.

C. RELATIONS WITH SHAREHOLDERS

Constructive use of the Annual General Meeting

The Board believes that maintaining good relationships with shareholders is of prime importance. It places high emphasis on complete disclosure of both financial and non financial information. The Annual and Quarterly published Reports are the principal means of communicating with Shareholders and Stakeholders.

The Directors use the Annual General Meeting as an opportunity to communicate directly with the Shareholders, encouraging participation. Shareholders are free to communicate with the Company and issues raised are appropriately addressed.

The notice of the Annual General Meeting and the relevant documents will be published and dispatched to the Shareholders 15 working days prior to the meeting as required by the Companies Act No. 7 of 2007.

Major Transactions

There have been no major transactions during the year under review which materially altered the net asset base of the Company.

D. ACCOUNTABILITY & AUDIT

Financial Reporting

The Board is responsible to direct, guide and oversee the conduct of the Company's business and to ensure that the interests of the Shareholders are being served. The Board is also accountable for the Consolidated Financial Statements of the Company and its Subsidiaries, and the financial information indicated in the Annual Report. The Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards and disclose proper financial information.

The Statement of Directors' Responsibilities in preparing the Financial Statements are given in page 13 of this Report.

Internal Control

A sound system of internal control is maintained by the Board to safeguard Shareholders investments and the Company's assets.

The overall internal control system is monitored by the internal audit function. It provides an objective view of the efficiency and effectiveness of internal controls and makes assessment of management action in dealing with issues on control. The External Auditors carry out an annual key review to assess the effectiveness of internal controls in all areas.

Audit Committee

As permitted by the Rules of the Colombo Stock Exchange, the Audit Committee of the Parent Company, Serendib Hotels PLC functions as the Audit Committee of the Company. The Committee comprises Prof. L. D. K. B. Gamage (Chairman), Deshamanya J. C. L. De Mel & Mr. A. N. Esufally.

The Committee is empowered to examine and report on the following:-

- The financial reporting system
- Internal control framework and identification of business risks
- The quality of External and Internal Audit performance
- Compliance with laws regulations and professional standards
- Appointment and fees of External Auditors

The Committee met four times during the year. The Head of Finance of the Managing Agents attended the meetings by invitation with the Company Secretary in attendance. The External and Internal Auditors were provided with opportunity to discuss issues as and when required.

No. of Meetings Attended

Prof. L. D. K. B. Gamage (Chairman)	4
Deshamanya J. C. L. De Mel	4
Mr. A. N. Esufally	4

Code of Business Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics and the Directors and members of the Senior Management are committed to the code and the principles contained therein.

Securities Trading Policy

The Company's trading policy prohibits Directors, Senior Executives and Agents dealing in the securities of the Company if they are in possession of any price-sensitive information even after release of the information to the Colombo Stock Exchange for a period which is not less than two market days after the release of such information

E. INSTITUTIONAL & OTHER INVESTORS

The Chairman conducts a structured dialogue with the Shareholders based on the mutual understanding of objectives and ensures that the views of the Shareholders are communicated to the Board as a whole.

All Shareholders are encouraged to participate at meetings of the Company and a Form of Proxy accompanies each Notice providing shareholders who are unable to attend such meeting the opportunity to cast their vote.

F. COMPLIANCE WITH THE RULES ON CORPORATE GOVERNANCE ISSUED BY THE COLOMBO STOCK EXCHANGE

The Directors confirm that the Company has complied with the Rule No. 7.10 on Corporate Governance issued by the Colombo Stock Exchange.



Risk Management and Internal Control

Defining Risk Management as the 'Process of analyzing exposure to risk and determining how to best handle such exposure', we consider Risk Management as an integral part of corporate governance and it has being aligned with the Company's growth and return.

An Enterprise-wide Risk Management system (ERM) of the Parent Company has been rolled out in a way that enables the Company to identify risks that the Company faces. All risks are analysed and graded under two dimensions namely the likelihood of occurrence of such risk and the impact on Company's business objectives. As part of ERM, all major risks are identified and mitigating actions are taken appropriately for each risk.

Internal audits, which play a key role in the Risk Management process of the Company, are carried out frequently to identify effectiveness of the controls and the established Risk Management system of the Company and the Internal Auditors directly report to the Audit Committee.

The Company presently focuses on the following aspects:

- 1. Political Risk**
Achieving of Company's goals could be adversely affected due to decisions taken by the Government. The Company is continuously looking to capture emerging markets. Furthermore local market development will strengthen the market portfolio to reduce over dependency on western markets.
- 2. Economic Risk**
Risks to the revenue of the Company arising from global economic changes and inflation in Sri Lanka. Cordial relationship is maintained with our tour operators along with aggressive marketing initiatives to maintain competitive rates. Ensure a good working relationship with multiple suppliers and thus able to reduce impact from escalation of input costs.
- 3. Foreign Exchange Risk**
Loss of revenue due to volatility of foreign exchange rates. Exchange rate movements are buffered when entering into contracts with travel agents.
- 4. Interest Rate Risk**
Adverse impact to earnings from increase in interest rates on loans obtained. Ensure adherence to Parent Company's treasury policies. Negotiate better rates through strength as a Group of Companies.
- 5. Legal Risk**
Risk of litigation from customers, business partners and Government. Obtain advice from Legal Division of the Parent Company when entering into contracts and for any litigation matter. Close monitoring of compliance to regulatory requirements.
- 6. Human Resources Risk**
Risk of high staff turnover and inability to attract a suitable talent pool. Strengthening employer brand image, skills, competencies and training and development plans are integrated with business objectives.
- 7. Business Risk**
Adverse impact on revenue from local and regional competition. Strategies being identified to increase market share in major performing markets and enter into developing markets.
- 8. Reputation Risk**
Negative image to the Company due to poor business practices and/or inadequate corporate governance. Analyse customer feedback / complaints and prompt action to be taken on findings.
- 9. Operational Risk**
Revenue loss from inefficient processes, lack of internal controls, fraud, negligence, system breakdowns, natural and human made disasters. Operational risks are identified and reported through frequent internal audit reports. Adequate insurance cover would be taken to transfer risk when appropriate.

Report of the Audit Committee

The Audit Committee appointed by the Board of the Parent Company, Serendib Hotels PLC functions as the Audit Committee of the Company. The members of the Committee comprise Prof. L. D. K. B. Gamage (Chairman) Deshamanya J. C. L. De Mel and Mr. A. N. Esufally.

The Committee met four times during the year under review. The Director Finance of the Managing Agents participates at meetings on invitation, with the Company Secretary in attendance. The Internal and External Auditors attend meetings when matters pertaining to their functions are taken up for consideration. The proceedings of the Audit Committee are regularly reported to the Board of Directors.

The Audit Committee operates within the terms of reference outlined in the Code of Best Practice on Audit Committees issued by the Institute of Chartered Accountants of Sri Lanka and the focus is centered on the following core areas:

Financial Reporting

The business activities including financial operations of the Company have been delegated to the Managing Agents through a Management Agreement. The Committee has reviewed and discussed with the representatives of the Managing Agents the quarterly and annual Financial Statements prior to recommending to the Board for approval and circulation to the Shareholders.

Internal Audit, Risks & Controls

The Internal Audit function of the Company is carried out by Messrs B. R. De Silva & Company, Chartered Accountants. The Committee approves the annual work plan of the Internal Auditors and directs them when carrying out special assignments.

The main focus of the Internal Audit is to assess the Company's policies, procedures and overall system of internal controls. Based on the reports submitted, the Audit Committee recommends measures to ensure the effectiveness of the controls implemented by the Company.

Regulatory Compliance

The Audit Committee ensures that the Company complies with statutory and disclosure requirements.

External Audit

The External Audit function of the Company is carried out by Messrs Ernst & Young, Chartered Accountants. 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.

The Committee is satisfied that the independence of the External Auditors has not been impaired by any event or service that gives rise to a conflict of interest.

Having reviewed the effectiveness of the External Audit, the Committee recommends to the Board that Messrs Ernst & Young, Chartered Accountants be appointed External Auditors of the Company for the year ending 31 March 2011, subject to approval by the Shareholders at the forthcoming Annual General Meeting.

The members of the Audit Committee were not paid any remuneration during the year under review.



Prof. L. D. K. B. Gamage
Chairman – Audit Committee

26 May 2010
Colombo

Report of the Remuneration Committee

Composition

In accordance with the Rules of the Colombo Stock Exchange on Corporate Governance, the Remuneration Committee appointed by the Board of the Parent Company Serendib Hotels PLC, functions as the Remuneration Committee of the Company. The members of the Committee are Deshamanya J C L De Mel (Chairman) and Prof. L D K B Gamage.

Attendance

The Chairman of the Company attends the meetings by invitation whilst the Company Secretary functions as the Secretary of the Committee.

Frequency of Meetings

Meetings shall be held at least twice per year. Other meetings shall be convened on request by a member of the Remuneration Committee.

Minutes

The minutes of meeting of the Remuneration Committee is circulated to all members of the Board.

Role of the Committee

The Committee is responsible for evaluating and recommending to the Board a remuneration policy and practice which is consistent

with and supports the strategic direction and objectives of the Company.

Remuneration Policy

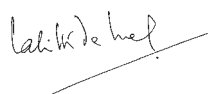
The remuneration policy supports a strong performance – oriented culture and ensures that individual rewards and incentives relate directly to the performance of the individual, the operations and functions for which they are responsible and the group as a whole.

Advisers

The Committee is authorised by the Board to seek appropriate professional advice inside and outside the Company as and when it considers this necessary.

Remuneration to Directors

Directors and the members of the Remuneration Committee were not paid any remuneration during the year under review.



Deshamanya J. C. L. De Mel
Chairman – Remuneration Committee

26 May 2010
Colombo



Directors' Responsibilities for Financial Reporting

In accordance with the Companies Act, No. 7 of 2007, the Directors are required to prepare Financial Statements which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and the Profit and Loss for that period.

The accompanying Financial Statements have been prepared in conformity with The Sri Lanka Accounting Standards and provide the information required by the Companies Act, No. 7 of 2007. In preparing the Financial Statements of the Company and the Group, appropriate Accounting Policies and Standards have been selected, consistently applied and supported by reasonable and prudent judgments and estimates. Any material departures, if any, have been disclosed and explained in the Financial Statements.

The Directors having reviewed the Group's future financial projections, cash flows and current performance are satisfied that the Company has adequate resources to continue its operations in the foreseeable future. The Directors have thus adopted a going concern basis in preparing the Financial Statements.

The Directors have also taken reasonable steps to safeguard the assets of the Company and of the Group and to establish proper systems of internal control with a view to detect and prevent any irregularities.

COMPLIANCE REPORT

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

In terms of Section 56(2) of the Companies Act, No. 7 of 2007, the Board of Directors have confirmed that the Company satisfied the Solvency test immediately after the distribution in accordance with section 57 of the Act, and have obtained a certificate from the Auditors prior to payment of an interim dividend of Rs. 0.50 per share for the financial year.

By order of the Board of
Stafford Hotels PLC

Hemas Corporate Services (Pvt) Ltd.
Secretaries

26 May 2010
Colombo

Independent Auditors' Report



Chartered Accountants

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

Tel : (0) 11 2463500
Fax Gen : (0) 11 2697369
Tax : (0) 11 5578180
eysl@lk.ey.com

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF STAFFORD HOTELS PLC

Report on the Financial Statements

We have audited the accompanying Financial Statements of Stafford Hotels PLC, the Consolidated Financial Statements of the Company and its Subsidiaries which comprise the Balance Sheets as at 31 March 2010, and the Income Statements, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of significant Accounting Policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the Accounting Principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation.

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

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March, 2010 and the Financial Statements give a true and fair view of the Company's state of affairs as at 31 March 2010 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the Consolidated Financial Statements give a true and fair view of the state of affairs as at 31 March 2010 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its Subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

Report on Other Legal and Regulatory Requirements

In our opinion, these Financial Statements also comply with the requirements of Section 151 (2) and Sections 153 (2) to 153 (7) of the Companies Act, No. 07 of 2007.

30 April 2010

Colombo

Partners: A D B Talwatte FCA FCMA, M P D Cooray FCA FCMA, R N de Saram ACA 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), H M A Jayasinghe FCA FCMA, Ms. G G S Manatunga ACA, Ms. L C G Nanayakkara FCA FCMA, B E Wijesuriya ACA ACMA

Balance Sheet

As At 31 March 2010

	Note	Group		Company	
		2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
ASSETS					
Non-Current Assets					
Property, Plant and Equipment	3	668,432,539	643,403,842	480,139,014	455,469,668
Investment in Subsidiary	4	-	-	135,921,800	135,921,800
Other Investments	5	3,333,330	3,333,330	3,333,330	3,333,330
		671,765,869	646,737,172	619,394,144	594,724,798
Current Assets					
Inventories	6	6,755,423	5,814,645	6,755,423	5,814,645
Taxation Recoverable		-	202,642	-	-
Trade and Other Receivables	7	79,610,772	47,909,522	52,819,894	33,201,748
Amounts Due from Related Parties	8	6,494,981	9,160,639	6,494,981	9,160,639
Cash and Bank Balances	9	60,239,944	69,254,696	59,355,012	69,177,539
		153,101,120	132,342,144	125,425,310	117,354,571
Total Assets		824,866,989	779,079,316	744,819,454	712,079,369
EQUITY AND LIABILITIES					
Equity Attributable to Equity Holders of the Parent					
Stated Capital	10	316,214,770	316,214,770	316,214,770	316,214,770
Reserves	11	153,948,434	156,429,978	140,645,829	143,127,373
Accumulated Profits		192,072,285	147,795,581	125,575,070	94,954,182
		662,235,489	620,440,329	582,435,669	554,296,325
Minority Interests		-	-	-	-
Total Equity		662,235,489	620,440,329	582,435,669	554,296,325
Non-Current Liabilities					
Interest Bearing Loans and Borrowings	12	7,515,261	14,347,650	2,995,964	9,929,942
Deferred Income Tax	22	50,913,589	49,689,966	34,591,118	34,599,978
Other Deferred Liabilities	13	7,377,983	6,505,908	7,377,983	6,505,908
		65,806,833	70,543,524	44,965,065	51,035,828
Current Liabilities					
Trade and Other Payables	14	64,789,993	52,687,312	62,956,654	51,377,798
Income Tax Liability		2,915,731	1,515,522	2,588,376	1,515,521
Amounts Due to Related Parties	15	3,178,345	5,028,867	34,275,652	43,261,791
Non Interest Bearing Loans and Borrowings	16	550,000	550,000	550,000	550,000
Dividends Payable	17	715,458	716,780	715,403	716,752
Interest Bearing Loans and Borrowings	12	24,675,140	27,596,982	16,332,635	9,325,354
		96,824,667	88,095,463	117,418,720	106,747,216
Total Equity and Liabilities		824,866,989	779,079,316	744,819,454	712,079,369

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



Thurairajah Thivakaran - Director Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Signed for and on behalf of the Board by.



A. N. Esufally - Chairman



W. M. De F. Arsakularatne - Director

The Accounting Policies and notes on pages 19 through 35 form an integral part of the Financial Statements.

30 April 2010
Colombo

Income Statement

Year Ended 31 March 2010

	Note	Group		Company	
		2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Revenue	18	380,264,510	350,129,914	258,886,022	234,952,934
Cost of Sales		(107,876,295)	(95,411,196)	(75,176,178)	(63,594,420)
Gross Profit		272,388,215	254,718,718	183,709,844	171,358,514
Other Income and Gains	19	5,150,637	5,267,784	8,764,961	5,267,784
Sales and Marketing Expenses		(12,278,314)	(9,676,048)	(8,117,909)	(6,482,952)
Administrative Expenses		(188,103,816)	(194,602,096)	(128,316,915)	(135,786,513)
Finance Cost	20	(6,472,323)	(9,589,391)	(2,647,799)	(4,047,913)
Profit Before Tax	21	70,684,399	46,118,967	53,392,182	30,308,920
Income Tax Expense	22	(13,516,419)	(8,018,189)	(9,880,018)	(5,260,397)
Net Profit for the Year		57,167,980	38,100,778	43,512,164	25,048,523
Attributable to:					
Equity-Holders of the Parent		57,167,980	38,100,778		
Minority Interest		-	-		
		57,167,980	38,100,778		
Earnings Per Share	23	1.81	1.20	0.50	-
Dividends Per Share	24				

The Accounting Policies and notes on pages 19 through 35 form an integral part of the Financial Statements.

Statement of Changes in Equity

Year Ended 31 March 2010

GROUP

Note	Attributable to Equity Holders of the Parent				
	Stated Capital	Revaluation Reserve	Other Reserves	Accumulated Profit	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Balance As At 31 March 2008	316,214,770	156,071,131	2,840,391	106,775,340	581,901,632
Net Profit for the Year	-	-	-	38,100,778	38,100,778
Excess Depreciation on Revaluation Reserve	-	(2,919,463)	-	2,919,463	-
Deferred Tax Effect of Items Taken Directly to or Transferred from Equity	-	437,919	-	-	437,919
Balance As At 31 March 2009	316,214,770	153,589,587	2,840,391	147,795,581	620,440,329
Net Profit for the Year	-	-	-	57,167,980	57,167,980
Excess Depreciation on Revaluation Reserve	-	(2,919,463)	-	2,919,463	-
Deferred Tax Effect of Items Taken Directly to or Transferred from Equity	-	437,919	-	-	437,919
Dividend Paid	24	-	-	(15,810,739)	(15,810,739)
Balance As At 31 March 2010	316,214,770	151,108,043	2,840,391	192,072,285	662,235,489

COMPANY

	Stated Capital	Revaluation Reserve	Accumulated Profit	Total
	Rs.	Rs.	Rs.	Rs.
Balance As At 31 March 2008	316,214,770	145,608,917	66,986,196	528,809,883
Net Profit for the Year	-	-	25,048,523	25,048,523
Excess Depreciation on Revaluation Reserve	-	(2,919,463)	2,919,463	-
Deferred Tax Effect of Items Taken Directly to or Transferred from Equity	-	437,919	-	437,919
Balance As At 31 March 2009	316,214,770	143,127,373	94,954,182	554,296,325
Net Profit for the Year	-	-	43,512,164	43,512,164
Excess Depreciation on Revaluation Reserve	-	(2,919,463)	2,919,463	-
Deferred Tax Effect of Items Taken Directly to or Transferred from Equity	-	437,919	-	437,919
Dividend Paid	24	-	(15,810,739)	(15,810,739)
Balance As At 31 March 2010	316,214,770	140,645,829	125,575,070	582,435,669

The Accounting Policies and notes on pages 19 through 35 form an integral part of the Financial Statements.

Cash Flow Statements

Year Ended 31 March 2010

Note	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Cash Flows From / (Used in) Operating Activities				
Net Profit Before Income Tax Expense	70,684,399	46,118,967	53,392,182	30,308,920
Adjustments for				
Depreciation	22,960,068	23,646,958	16,525,629	15,623,907
Income from Investments	(3,859,201)	(2,389,434)	(3,859,201)	(2,389,434)
Foreign Currency (Gain)/ Losses	(242,490)	15,994,937	(242,490)	15,994,937
Finance Costs	6,472,323	9,589,391	2,647,799	4,047,913
Provision for Defined Benefit Plan	1,440,388	2,416,248	1,440,388	2,416,248
Reversal of Fall in Value of Investments	-	(243,195)	-	(243,195)
Dividend Income	-	-	(3,268,272)	-
(Profit) / Loss on Disposal of Fixed Assets	(619,851)	554,569	(648,126)	554,569
Operating Profit Before Working Capital Changes	96,835,636	95,688,441	65,987,909	66,313,865
(Increase) / Decrease in Inventories	(940,778)	383,067	(940,778)	383,067
(Increase) / Decrease in Trade and Other Receivables	(31,701,250)	31,161,776	(19,618,146)	11,994,870
(Increase) / Decrease in Amounts Due from Related Parties	2,665,658	(3,913,560)	2,665,658	(3,913,559)
Increase / (Decrease) in Amounts Due to Related Parties	(1,850,522)	(2,614,294)	(8,986,139)	25,482,901
Increase / (Decrease) in Trade and Other Payables	12,101,359	(442,698)	11,577,507	(248,065)
Cash Generated from Operations	77,110,103	120,262,732	50,686,011	100,013,079
Finance Costs Paid	(6,472,323)	(9,589,391)	(2,647,799)	(4,047,913)
Defined Benefit Plan Costs Paid	(568,313)	(475,653)	(568,313)	(475,653)
Taxes Paid	(10,252,025)	(5,878,646)	(8,378,104)	(3,812,093)
Net Cash from Operating Activities	59,817,442	104,319,042	39,091,795	91,677,420
Cash Flows from / (Used in) Investing Activities				
Acquisition of Property, Plant and Equipment	(48,205,578)	(13,765,004)	(41,383,512)	(12,066,443)
Proceeds from Sale of Property, Plant and Equipment	836,663	112,192	836,663	112,192
Interest Received	3,859,201	2,389,434	3,859,201	2,389,434
Dividend Received	-	-	3,268,272	-
Net Cash Flows Used in Investing Activities	(43,509,714)	(11,263,378)	(33,419,376)	(9,564,817)
Cash Flows from / (Used in) Financing Activities				
Dividends Paid	(15,810,739)	-	(15,810,739)	-
Loans Obtained / Interest Capitalised During the Year	10,810,474	2,822,891	3,013,910	2,122,028
Repayment of Interest Bearing Loans and Borrowings	(24,839,620)	(23,016,000)	(9,427,995)	(9,000,000)
Net Cash Flows Used in Financing Activities	(29,839,885)	(20,193,109)	(22,224,824)	(6,877,972)
Net Increase in Cash and Cash Equivalents	(13,532,157)	72,862,555	(16,552,405)	75,234,631
Effect of Exchange Rate Change on Cash and Cash Equivalents	242,490	(15,994,937)	242,490	(15,994,937)
Cash and Cash Equivalents at the Beginning of the Year	9 64,908,955	8,041,337	9 67,044,271	7,804,577
Cash and Cash Equivalents at the End of the Year	9 51,619,288	64,908,955	9 50,734,356	67,044,271

The Accounting Policies and notes on pages 19 through 35 form an integral part of the Financial Statements.

Notes to the Financial Statements

Year Ended 31 March 2010

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 2010 were authorized for issue in accordance with a resolution of the Board of Directors on 30 April 2010.

2.1 BASIS OF PREPARATION

The Financial Statements presented in Sri Lanka Rupees have been prepared on a historical cost basis, except for the revaluation of Freehold Land and Buildings and investments which are stated market values. The preparation and presentation of these Financial Statements is in compliance with the requirements of the Companies Act, No 07 of 2007

2.1.1 Statement of Compliance

The Financial Statements of Stafford Hotels PLC and its Subsidiary have been prepared in accordance with Sri Lanka Accounting Standards (SLAS).

2.1.2 Going Concern

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

2.1.3 Comparative Information

The Accounting Policies have been consistently applied by the Company and, are consistent with those used in the previous year. Previous year's figures and phrases have been re-arranged wherever necessary to conform to the current presentation.

2.1.4 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). The Financial Statement of the subsidiary is prepared for the same reporting year as the Parent Company using consistent Accounting Policies.

Subsidiary is consolidated from the date the Parent obtains control until such time as control ceases.

b) The total profits and losses of the subsidiary Company is included in the Consolidated Income Statement.

c) All assets and liabilities of the Company and its Subsidiary are included in the Consolidated Balance Sheet.

d) All intra group balances, transactions, income, expenses and profits and losses resulting from intra group transactions that are recognised in asset, are eliminated in full.

2.2 CHANGES IN ACCOUNTING POLICIES

The Accounting Policies adopted are consistent with those of the previous financial year.

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Judgments

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.4.1 Foreign Currency Translation

The Financial Statements are presented in Sri Lanka Rupees, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the Balance Sheet date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.4.2 Taxation

a) Income Taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the Balance Sheet date.

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

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

b) Deferred Taxation

Deferred income tax is provided, using the liability method, on 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 recognised for all taxable temporary differences except where the deferred income tax liability 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.

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

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.

c) Sales Tax

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

2.4.3 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent where borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of that asset.

2.4.4 Inventories

Inventories are valued at the lower of cost and / or 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 conditions are accounted using the following cost formulae:-

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

Food Stuff and Beverages - 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.

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 and Equipment

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

Land and Buildings are measured at fair value less depreciation on buildings and impairment charged subsequent to the date of the revaluation.

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

Valuations are performed every 4 years (or frequently enough) to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve included in the equity section of the Balance Sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

When each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

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

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

2.4.8 Investments

a) Initial Recognition:

Cost of investment includes purchase cost and acquisition charges such as brokerages, fees, duties and bank regulatory fees. The Company distinguishes and presents current and non current investment in the Balance Sheet.

b) Measurement

Current Investment:

Current investments are carried at the lower of cost and market value, determined on the basis of individual investment.

Unrealized losses arising from reduction to market value and reversals of such reduction required to state current investments at lower of cost and market value are included in Income Statement.

Long Term Investments

Long term investments are stated at cost. Carrying amounts are reduced to recognize a decline other than temporary, determined for each investment individually. These reductions

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

for other than temporary declines in carrying amounts are charged to Income Statement.

Disposal of Investment

On disposal of an investment, the difference between net disposal proceeds and the carrying amounts is recognised as income or expense.

2.4.9 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income Statement net of any reimbursement. 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 recognized as an interest expense.

2.4.10 Retirement Benefit Obligations

a) Defined Benefit Plan – Gratuity

The Company measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan with the advice of an actuary every year using "Project Unit Credit Method". Actuarial gains and losses are recognized as income or expenses over the expected average remaining working lives of the participants of the plan.

Accordingly, the employee benefit liability is based on the actuarial valuation carried out by Messrs Actuarial and Management Consultants (Private) Limited, actuaries.

The key assumptions used by the actuary include the following.

Discount Rate	12%
Rate of Salary Increment	10%
Retirement Age	50-60 years

The gratuity liability is not externally funded. This item is grouped under 'Deferred Liabilities' in the Balance Sheet.

b) Defined Contribution Plans – Employees' Provident Fund and Employees' Trust Fund

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

2.4.11 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 or other available fair value indicators.

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

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of 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

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

Income Statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

2.4.12 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 when the Shareholders' right to receive the payment is established.

d) Rental income

Rental income is recognised on an accrual basis.

e) Others

Other income is recognised on an accrual basis

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.

2.5 Effect of Sri Lanka Accounting StandardS Issued But Not Yet Effective

The following standards have been issued by the Institute of Chartered Accountants of Sri Lanka and are effective for the accounting periods on the dates specified below.

a) Sri Lanka Accounting Standard 44 Financial Instruments; Presentation (SLAS 44) and Sri Lanka Accounting Standard 45 Financial Instruments; Recognition & Measurement (SLAS 45)

SLAS 44 and 45 becomes effective for financial years beginning on or after 01 January 2011. Accordingly, the Financial Statements for the year ending 31 March 2012 will adopt SLAS 44 and 45, for the first time.

These two standards together provide comprehensive guidance on identification, classification, measurement and presentation of financial instruments (including Derivatives) into financial assets, financial liabilities and equity instruments.

In order to comply with the requirements of these standards, the Company is in the process of assessing the effect of adoption of the aforesaid two standards. Due to the complex nature of the effect of these standards the impact of adoption cannot be estimated as at the date of publication of these Financial Statements.

b) Sri Lanka Accounting Standard 39 - Share Based Payments (SLAS 39)

SLAS 39- Share based payments, effective for periods beginning on or after 01 January 2010 will be first adopted in the year ending 31 March 2011. This standard requires an expense to be recognized where the Company buys goods or services in exchange for shares or rights over shares (equity - settled transactions), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (cash - settled transactions).

For equity - settled share-based payment transactions, the Company is required to apply SLAS 39 to grants of shares, share options or other equity instruments that were granted after 01 January 2010.

The Company is in the process of evaluating the impact of this standard, and due to the complex nature of the effect of this standard the impact of adoption cannot be estimated as at the date of the publication of these Financial Statements.

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

3. PROPERTY, PLANT AND EQUIPMENT

3.1 Group	Balance As at 01.04.2009 Rs.	Additions /Transfers /Acquisitions Rs.	Disposals /Transfers Rs.	Balance As at 31.03.2010 Rs.
3.1.1 Gross Carrying Amounts				
At Cost/ Cost Incurred since Last Revaluation				
Improvements to Land	358,900	-	-	358,900
Buildings on Freehold Land	27,283,873	6,399,779	-	33,683,652
Swimming Pool	507,557	35,000	-	542,557
Furniture and Fittings	44,360,943	1,345,188	(84,750)	45,621,381
Motor Vehicles	5,588,393	-	(747,559)	4,840,834
Plant, Machinery and Equipment	93,169,893	10,874,423	(569,734)	103,474,582
Soil Erosion Prevention	18,965,972	-	-	18,965,972
	190,235,531	18,654,390	(1,402,043)	207,487,878
At Valuation				
Land and 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
	573,230,500	-	-	573,230,500
Total Value of Depreciable Assets	763,466,031	18,654,390	(1,402,043)	780,718,378
3.1.2 In the Course of Construction				
Capital Work in Progress	9,136,295	38,628,665	(9,077,477)	38,687,483
Total Gross Carrying Amount	772,602,326	57,283,055	(10,479,520)	819,405,861
3.1.3 Depreciation				
At Cost/ Cost incurred since Last Revaluation				
Buildings on Freehold Land	766,328	437,070	-	1,203,398
Swimming Pool	18,762	7,783	-	26,545
Furniture and Fittings	27,747,342	4,967,820	(48,408)	32,666,754
Motor Vehicles	3,913,120	213,791	(719,187)	3,407,724
Plant, Machinery and Equipment	57,045,007	9,180,277	(417,635)	65,807,649
Soil Erosion Prevention	10,482,997	847,109	-	11,330,106
	99,973,556	15,653,850	(1,185,230)	114,442,176
At Valuation				
Buildings on Freehold Land	25,127,608	6,281,901	-	31,409,509
Swimming Pool	4,097,320	1,024,317	-	5,121,637
	29,224,928	7,306,218	-	36,531,146
Total Depreciation	129,198,484	22,960,068	(1,185,230)	150,973,322
3.1.4 Net Book Values				
At Cost / Cost incurred Since Last Revaluation				2010 Rs.
At Valuation				2009 Rs.
Total Carrying Amount of Property ,Plant and Equipment				131,733,185
				536,699,354
				668,432,539
				99,398,270
				544,005,572
				643,403,842

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

3. PROPERTY, PLANT AND EQUIPMENT Contd...

3.2 Company	Balance As at 01.04.2009 Rs.	Additions /Transfers /Acquisitions Rs.	Disposals /Transfers Rs.	Balance As at 31.03.2010 Rs.
3.2.1 Gross Carrying Amounts				
At Cost/ Cost Incurred Since Last Revaluation				
Improvements to Land	254,600	-	-	254,600
Buildings on Freehold Land	14,574,000	5,965,667	-	20,539,667
Swimming Pool	93,000	35,000	-	128,000
Furniture and Fittings	24,475,037	821,842	(27,500)	25,269,379
Motor Vehicles	5,588,393	-	(747,559)	4,840,834
Plant, Machinery and Equipment	54,060,351	10,874,423	(569,734)	64,365,040
Soil Erosion Prevention	5,795,520	-	-	5,795,520
	104,840,901	17,696,932	(1,344,793)	121,193,040
At Valuation				
Land and Improvements to Land	40,180,000	-	-	40,180,000
Buildings on Freehold Land	328,620,000	-	-	328,620,000
Swimming Pool	50,000,000	-	-	50,000,000
	418,800,000	-	-	418,800,000
Total Value of Depreciable Assets	523,640,901	17,696,932	(1,344,793)	539,993,040
	Balance As At 01.04.2009 Rs.	Incurred During the Year Rs.	Disposal /Transfers Rs.	Balance As At 31.03.2010 Rs.
3.2.2 In the Course of Construction				
Capital Work in Progress	9,104,157	32,764,057	(9,077,477)	32,790,737
Total Gross Carrying Amount	532,745,058	50,460,989	(10,422,270)	572,783,777
	Balance As At 01.04.2009 Rs.	Charge for the year Rs.	Disposals /Transfers Rs.	Balance As at 31.03.2010 Rs.
3.2.3 Depreciation				
At Cost/ Cost incurred Since Last Revaluation				
Buildings on Freehold Land	421,951	244,761	-	666,712
Swimming Pool	3,659	1,502	-	5,161
Furniture and Fittings	15,541,967	2,898,489	(19,433)	18,421,023
Motor Vehicles	3,913,120	213,791	(719,188)	3,407,723
Plant, Machinery and Equipment	31,007,783	7,093,951	(417,635)	37,684,099
Soil Erosion Prevention	3,440,243	336,468	-	3,776,711
	54,328,723	10,788,962	(1,156,256)	63,961,429
At Valuation				
Buildings on Freehold Land	19,916,364	4,979,091	-	24,895,455
Swimming Pool	3,030,303	757,576	-	3,787,879
	22,946,667	5,736,667	-	28,683,334
Total Depreciation	77,275,390	16,525,629	(1,156,256)	92,644,763
3.2.4 Net Book Values			2010 Rs.	2009 Rs.
At Cost / Cost Incurred Since Last Revaluation			90,022,348	59,616,335
At Valuation			390,116,666	395,853,333
Total Carrying Amount of Property, Plant and Equipment			480,139,014	455,469,668

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

3. PROPERTY, PLANT AND EQUIPMENT Contd...

3.2.5 During the Financial Year 2008/09 a revaluation is carried out on value in use basis, by an independent valuer Mr. A.R. Ajith Fernando for the purpose of ascertaining the fair value of Freehold Land and Building with its Fixtures and Fittings. Such assets were valued on openmarket value for existing use basis. Since the difference between the carrying value and the revalued amount of the assets are not material to the Financial Statements, it was concluded to carry forward the same balance indicated in the Financial Statements as Net Book Value.

Class of Asset	Cost Rs.	Cumulative Depreciation If Assets Were Carried at Cost Rs.	Net Carrying Amount 2010	Net Carrying Amount 2009
			Rs.	Rs.
Group				
Buildings	243,117,874	34,249,943	208,867,931	212,551,534
Swimming Pool	50,100,955	4,309,603	45,791,352	46,550,457
Company				
Buildings	153,530,600	17,586,468	135,944,132	138,270,353
Swimming Pool	32,404,831	2,724,799	29,680,032	30,171,014

3.2.6 During the financial year, the Group and Company acquired Property, Plant and Equipment to the aggregate value Rs. 48,205,578/- and Rs. 41,383,512/- (2009 - Rs.13,765,004/- and Rs.12,066,443/-) respectively, the consideration for which was settled by cash.

3.2.7 The Useful Lives of the Assets is Estimated as Follows

	2010	2009
Buildings on Freehold Land	66 Years	66 Years
Furniture and Fittings	5 – 10 Years	5 – 10 Years
Motor Vehicles	5 – 10 Years	5 – 10 Years
Plant, Machinery and Equipment	5 – 15 Years	5 – 15 Years
Swimming Pool	66 Years	66 Years
Soil Erosion Prevention	10 – 15 Years	10 – 15 Years

3.2.8 Property, Plant and Equipment of the Group and Company includes fully depreciated assets having a gross carrying amounts of Rs. 19,507,281/- and Rs. 4,633,060/- (2009 - Rs. 15,496,013/- and Rs. 769,120/-)

4. INVESTMENT IN SUBSIDIARY

	Country of Incorporation	Holding %	Group		Company	
			2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Non-Quoted						
Miami Beach Hotels Ltd.	Sri Lanka	100	-	-	135,921,800	135,921,800

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

5.	OTHER INVESTMENTS	Group		Company		
		2010	2009	2010	2009	
Non Current		Rs.	Rs.	Rs.	Rs.	
	Investments in Equity Securities (5.1)	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	
5.1	Investments in Equity Securities - Non Current					
		No. of Shares				
		2010	2009			
	Non Quoted					
		Carrying Value	Directors' Valuation	Carrying Value	Directors' Valuation	
		2010	2010	2009	2009	
		Rs.	Rs.	Rs.	Rs.	
	Rainforest Ecolodge (Pvt) Ltd.	333,333	333,333	3,333,330	3,333,330	
	Total Carrying Value of Other Investments	3,333,330	3,333,330	3,333,330	3,333,330	
6.	INVENTORIES	Group		Company		
		2010	2009	2010	2009	
		Rs.	Rs.	Rs.	Rs.	
	Food Stuff	2,011,033	1,453,977	2,011,033	1,453,977	
	Beverage	2,073,753	1,603,074	2,073,753	1,603,074	
	House-Keeping and Maintenance	2,128,442	2,047,214	2,166,387	2,047,214	
	Printing and Stationery	336,682	290,934	336,682	290,934	
	Linen and Cutlery	205,513	419,446	167,568	419,446	
		6,755,423	5,814,645	6,755,423	5,814,645	
7.	TRADE AND OTHER RECEIVABLES	Group		Company		
7.1	Current	2010	2009	2010	2009	
		Rs.	Rs.	Rs.	Rs.	
	Trade Debtors - Others	76,625,026	44,987,913	49,836,681	31,054,728	
	- Related Parties (7.2)	755,079	622,061	718,947	480,129	
		77,380,105	45,609,974	50,555,628	31,534,857	
	Provision for Doubtful Debts	(2,030,464)	(1,694,734)	(1,348,682)	(1,694,734)	
		75,349,641	43,915,240	49,206,946	29,840,123	
	Staff Loans and Advances (7.3)	305,028	384,496	305,028	384,496	
	Other Debtors	437,440	437,440	-	-	
	Deposits and Prepayments	3,518,663	3,172,346	3,307,920	2,977,129	
		79,610,772	47,909,522	52,819,894	33,201,748	
7.2	Trade Dues Receivables from Related Parties					
		Relationship				
	Hemtours (Pvt) Ltd.	Affiliate Company	65,990	149,230	29,858	69,057
	Diethelm Travels Lanka (Pvt) Ltd.	Affiliate Company	689,089	467,831	689,089	406,072
	Serendib Leisure Management Ltd.	Affiliate Company	-	5,000	-	5,000
			755,079	622,061	718,947	480,129
7.3	Staff Loans and Advances					
	Balance at the Beginning of the Year	384,496	269,056	384,496	269,056	
	Granted During the Year	977,017	1,024,633	977,017	1,024,633	
	Less: Repayments During the Year	(1,056,485)	(909,193)	(1,056,485)	(909,193)	
	Balance at the End of the Year	305,028	384,496	305,028	384,496	

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

8. AMOUNTS DUE FROM RELATED PARTIES

	Relationship	Group		Company	
		2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Serendib Hotels PLC	Parent Company	2,688,656	5,120,220	2,688,656	5,120,220
Hotel Sigiriya PLC	Affiliate Company	1,571,571	1,665,154	1,571,571	1,665,154
Serendib Leisure Management Ltd. - Loan Interest	Affiliate Company	-	275,621	-	275,621
Serendib Leisure Management Ltd.	Affiliate Company	2,234,754	2,099,644	2,234,754	2,099,644
		6,494,981	9,160,639	6,494,981	9,160,639

9. CASH AND CASH EQUIVALENTS

Components of Cash and Cash Equivalents

	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
9.1 Cash and Cash Equivalents Balances				
Cash and Bank Balances	42,713,294	53,507,892	41,828,362	53,430,735
Time Deposits	17,526,650	15,746,804	17,526,650	15,746,804
	60,239,944	69,254,696	59,355,012	69,177,539
9.2 Unfavourable Cash and Cash Equivalent Balances				
Bank Overdraft	(8,620,656)	(4,345,741)	(8,620,656)	(2,133,268)
Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement	51,619,288	64,908,955	50,734,356	67,044,271

10. STATED CAPITAL - Group and Company

	2010 Number	2010 Rs.	2009 Number	2009 Rs.
10.1 Fully Paid Ordinary Shares (10.1.1)	31,621,477	316,214,770	31,621,477	316,214,770

With the enactment of the Companies Act No. 07 of 2007 applicable with effect from 03 May 2007 the concept of authorised capital and par value is no longer applicable. The amount received by the Company or due and payable to the Company in respect of the issue of the shares are referred to as stated capital.

10.1.1 Fully Paid Ordinary Shares

Balance at the Beginning of the Year	31,621,477	316,214,770	31,621,477	316,214,770
Issue of Shares for Cash Consideration	-	-	-	-
Issue of Shares for Non Cash Consideration	-	-	-	-
Balance at the End of the Year	31,621,477	316,214,770	31,621,477	316,214,770

10.2 Rights, Preference and Restrictions of Classes of Capital

The Holders of Ordinary Shares confer their right to receive dividends as declared from time to time. The Holders of Ordinary Shares are entitled to one vote per share at a meeting of the Company.

	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
11. RESERVES				
11.1 Revaluation Reserve				
Balance at the Beginning of the Year	153,589,587	156,071,131	143,127,373	145,608,917
Depreciation Transfer on Revaluation Surplus	(2,919,463)	(2,919,463)	(2,919,463)	(2,919,463)
Deferred Tax Attributable to Revaluation Surplus	437,919	437,919	437,919	437,919
Balance at the End of the Year	151,108,043	153,589,587	140,645,829	143,127,373
11.2 Other Reserves	2,840,391	2,840,391	-	-
	153,948,434	156,429,978	140,645,829	143,127,373

The above revaluation surplus consists of net surplus resulting from the revaluation of Property, Plant and Equipment as described in Note 3.2.5. The unrealised amount cannot be distributed to Shareholders.

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

12. INTEREST BEARING LOANS AND BORROWINGS

12.1 Group	2010 Amount Repayable Within 1 Year Rs.	2010 Amount Repayable After 1 Year Rs.	2010 Total Rs.	2009 Amount Repayable Within 1 Year Rs.	2009 Amount Repayable After 1 Year Rs.	2009 Total Rs.
Bank Loans (12.1.1)	16,054,484	7,515,261	23,569,745	23,251,241	14,347,650	37,598,891
Bank Overdrafts (9.2)	8,620,656	-	8,620,656	4,345,741	-	4,345,741
	24,675,140	7,515,261	32,190,401	27,596,982	14,347,650	41,944,632

12.1.1 Bank Loans

	As At 01.04.2009 Rs.	Loans Obtained Rs.	Repayment Rs.	As At 31.03.2010 Rs.	Terms of Repayment	Rate of Interest
DFCC Bank 60 Mn	20,000,000	-	(12,000,000)	8,000,000	60 Installments from Dec '05	AWPR + 1% revised quarterly
DFCC Bank Capitalised Suspended Loan	2,000,000	3,750,000	(1,166,668)	4,583,332	36 Installments from Jan '10	AWPR + 1% revised quarterly
DFCC Bank Capitalised Interest of Suspended Loan	822,891	1,036,806	(154,980)	1,704,717	36 Installments from Jan '10	18% per annum
Seylan Bank 35Mn	8,136,000	-	(7,008,000)	1,128,000	53 Installments from Dec'05	16 % per annum
Seylan Bank 20Mn	6,640,000	-	(4,008,000)	2,632,000	59 Installments from Dec'05	16 % per annum
Seylan Bank Capitalised Suspended Loan 35Mn	-	2,920,000	(243,333)	2,676,667	36 installments from Jan '10	16 % per annum
Seylan Bank Capitalised Interest of Suspended Loan 35Mn	-	781,827	(65,152)	716,675	36 installments from Jan '10	16 % per annum
Seylan Bank Capitalised Suspended Loan 20Mn	-	1,670,000	(139,167)	1,530,833	36 installments from Jan '10	16 % per annum
Seylan Bank Capitalised Interest of Suspended Loan 20Mn	-	651,841	(54,320)	597,521	36 installments from Jan '10	16 % per annum
	37,598,891	10,810,474	(24,839,620)	23,569,745		

12.2 Company

12.2 Company	2010 Amount Repayable Within 1 Year Rs.	2010 Amount Repayable After 1 Year Rs.	2010 Total Rs.	2009 Amount Repayable Within 1 Year Rs.	2009 Amount Repayable After 1 Year Rs.	2009 Total Rs.
Bank Loans (12.2.1)	7,711,979	2,995,964	10,707,943	7,192,086	9,929,942	17,122,028
Bank Overdrafts (9.2)	8,620,656	-	8,620,656	2,133,268	-	2,133,268
	16,332,635	2,995,964	19,328,599	9,325,354	9,929,942	19,255,296

12.2.1 Bank Loans

	As At 01.04.2009 Rs.	Loans Obtained Rs.	Repayment Rs.	As At 31.03.2010 Rs.	Terms of Repayment	Rate of Interest
DFCC Bank 45 Mn	15,000,000	-	(9,000,000)	6,000,000	60 Installments from Dec '05	AWPR + 1% revised quarterly
DFCC Bank Capitalised Suspended Loan	1,500,000	2,250,000	(312,500)	3,437,500	36 Installments from Jan '10	AWPR + 1% revised quarterly
DFCC Bank Capitalised Interest of Suspended Loan	622,028	763,910	(115,495)	1,270,443	36 Installments from Jan 10	18% per annum
	17,122,028	3,013,910	(9,427,995)	10,707,943		

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

13. OTHER DEFERRED LIABILITIES - GRATUITY (Group and Company)

	2010 Rs.	2009 Rs.
Balance at the Beginning of the Year	6,505,908	4,565,313
Interest Cost	780,709	-
Current Service Cost	756,884	2,416,248
Benefits Paid	(568,313)	(475,653)
Actuarial (Gain) / Loss	(97,205)	-
Balance at the End of the Year	7,377,983	6,505,908

14. TRADE AND OTHER PAYABLES

	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Trade Payables	13,062,266	12,133,257	13,062,266	12,133,257
Sundry Creditors Including Accrued Expenses	51,727,727	40,554,055	49,894,388	39,244,541
	64,789,993	52,687,312	62,956,654	51,377,798

15. AMOUNTS DUE TO RELATED PARTIES

	Group		Company	
Relationship	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Serendib Hotels PLC	141,067	2,487,336	141,067	2,487,336
Miami Beach Hotels Ltd.	-	-	31,087,779	38,239,924
Hotel Sigiriya PLC	32,238	-	32,238	-
Serendib Leisure Management Ltd.	3,005,040	2,482,060	3,005,040	2,482,060
Hemas Corporate Services (Pvt) Ltd.	-	59,471	9,528	52,471
	3,178,345	5,028,867	34,275,652	43,261,791

16. NON INTEREST BEARING LOANS AND BORROWINGS

	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Ministry of Tourism	550,000	550,000	550,000	550,000

17. DIVIDENDS PAYABLE

	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Unclaimed Dividend	715,458	716,780	715,403	716,752
	715,458	716,780	715,403	716,752

18. REVENUE

18.1 Summary

	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Sales	384,105,571	353,666,580	261,501,038	237,326,196
Less - Sales Taxes				
Tourism Development Levy	(3,841,061)	(3,536,666)	(2,615,016)	(2,373,262)
	380,264,510	350,129,914	258,886,022	234,952,934

19. OTHER INCOME AND GAINS

	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Interest Income - Related Parties	213,114	213,114	213,114	213,114
- Others	3,646,087	2,176,320	3,646,087	2,176,320
Dividend Received	-	-	3,268,272	-
Insurance Claim - Other Income	53,373	769,192	53,373	769,192
Exchange Gain	242,490	-	242,490	-
Profit on Disposal of Property, Plant & Equipment	648,126	-	648,126	-
Write Back Unclaimed Salaries and Service Charge	347,447	505,452	347,447	505,452
Reversal of Provision for Bad Debts	-	1,603,706	346,052	1,603,706
	5,150,637	5,267,784	8,764,961	5,267,784

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

20.	FINANCE COST	Group		Company	
		2010	2009	2010	2009
		Rs.	Rs.	Rs.	Rs.
	Interest Expense on Overdrafts	45,083	32,139	41,079	28,940
	Interest Expense on Loans and Borrowings	6,427,240	9,557,252	2,606,720	4,018,973
		6,472,323	9,589,391	2,647,799	4,047,913
21.	PROFIT BEFORE TAX	Group		Company	
	Stated After Charging / (Crediting)	2010	2009	2010	2009
		Rs.	Rs.	Rs.	Rs.
	Included in Administrative Expenses				
	Employees Benefits Including the Following	63,169,737	59,138,431	39,852,788	36,432,856
	- Defined Benefit Plan Costs - Gratuity (included in Employee Benefits)	1,440,388	2,416,248	1,440,388	1,618,886
	- Defined Contribution Plan Costs - EPF and ETF (included in Employee Benefits)	4,252,632	4,222,019	2,849,263	2,828,753
	Depreciation	22,960,068	23,646,958	16,525,629	15,623,907
	Loss on Disposal of Property Plant and Equipment	28,275	554,569	-	554,569
	Auditors' Remuneration	353,100	321,000	270,600	246,000
	Management Fees	23,756,764	20,639,523	16,190,530	13,828,481
	Legal Fees	-	7,775	-	7,775
	Donations	32,428	76,957	21,727	51,561
	Included in Selling and Marketing Expenses				
	Advertising and Promotion Costs	10,222,999	6,864,451	6,951,640	4,599,182
	Provision for Doubtful Debts	335,731	-	-	-
22.	INCOME TAX EXPENSE	Group		Company	
		2010	2009	2010	2009
		Rs.	Rs.	Rs.	Rs.
	Current Income Tax				
	Current Tax Expense on Ordinary Activities for the Year (22.1)	10,656,065	6,822,978	8,089,563	5,063,329
	Under / (Over) Provision of Current Taxes in Respect of Prior Years	512,470	(194,408)	675,053	(186,644)
	Tax on Dividends / Deemed Dividend Tax	686,342	(2,398)	686,342	(2,399)
	Deferred Income Tax				
	Deferred Taxation Charge / (Reversal) (22.2)	1,661,542	1,392,017	429,060	386,111
	Income Tax Expense Reported in the Income Statement	13,516,419	8,018,189	9,880,018	5,260,397
22.1	Reconciliation Between Current Tax Expense And the Product of Accounting Profit				
	Accounting Profit (Profit Before Tax)	70,684,399	46,118,967	53,392,182	30,308,920
	Aggregate Disallowable Items	28,515,401	28,207,668	19,856,207	21,123,049
	Aggregate Allowable Items	(31,554,335)	(33,553,525)	(27,606,633)	(22,216,490)
	Interest Income	3,210,714	2,389,434	3,210,714	2,389,434
	Taxable Profit	70,856,179	43,162,544	48,852,470	31,604,913
	Tax Loss Brought Forward and Utilised	(5,146,558)	(5,830,220)	-	-
		65,709,621	37,332,324	48,852,470	31,604,913
	Income Tax - 15% (2009-15%)	9,374,836	6,115,967	6,846,263	4,382,322
	Income Tax - 35%	1,123,750	606,179	1,123,750	606,179
	Social Responsibility Levy - 1.5% (2009-1.5%)	157,479	100,832	119,550	74,828
	Current Income Tax Expense	10,656,065	6,822,978	8,089,563	5,063,329
	Tax Losses Brought Forward	5,086,144	10,916,364	-	-
	Tax Losses Utilised	(5,086,144)	(5,830,220)	-	-
	Tax Losses Carried Forward (Provisional)	-	5,086,144	-	-

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

22. INCOME TAX EXPENSE Contd...

22.2 Deferred Tax Assets , Liabilities and Income Tax Relates to the Followings

22.2.1 Group

	Balance Sheet		Income Statement	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Deferred Tax Liability				
Capital Allowances for Tax Purposes	32,935,168	31,900,224	1,034,944	803,060
Revaluation of Buildings (Directly in Equity)	19,085,118	19,523,037		
	52,020,286	51,423,261		
Deferred Tax Assets				
Defined Benefit Plans	1,106,697	975,886	(130,811)	(291,089)
Carry Forward of Unused Tax Losses	-	757,409	757,409	880,046
	1,106,697	1,733,295		
Deferred Income Tax (Income) / Expense			1,661,542	1,392,017
Net Deferred Tax Liability	50,913,589	49,689,966		

22.2.2 Company

	Balance Sheet		Income Statement	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Deferred Tax Liability				
Capital allowances for Tax purposes	17,456,042	16,896,171	559,871	677,201
Revaluation of Buildings (Directly in Equity)	18,241,773	18,679,693		
	35,697,815	35,575,864		
Deferred Tax Assets				
Defined Benefit Plans	1,106,697	975,886	(130,811)	(291,090)
Carry Forward of Unused Tax Losses	-	-	-	-
	1,106,697	975,886		
Deferred Income Tax (Income) / Expense			429,060	386,111
Net Deferred Tax Liability	34,591,118	34,599,978		

23. EARNINGS PER SHARE

23.1 The following reflects the income and share data used in the basic Earnings Per Share

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

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

	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Amounts Used as the Numerator:				
Net Profit Attributable to Ordinary Shareholders for Basic Earnings Per Share	57,167,980	38,100,778	43,512,164	25,048,523
Number of Ordinary Shares Used as Denominator:				
Weighted Average Number of Ordinary Shares in Issue Applicable to Basic Earnings Per Share	31,621,477	31,621,477	31,621,477	31,621,477

24. DIVIDENDS PAID AND PROPOSED

	Company	
	2010 Rs.	2009 Rs.
Declared And Paid During the Year		
Equity Dividends on Ordinary Shares:		
Interim Dividend for 2010 - Rs. 0.50/- Per Share	15,810,739	-
	15,810,739	-

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

25. COMMITMENTS AND CONTINGENCIES

The company has purchase commitments for acquisition of Property, Plant & Equipment incidental to the ordinary course of business as at 31 March 2010 as follows

	Group		Company	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Contracted But Not Provided For	34,428,166	-	26,744,368	-
Authorised By the Board, But not Contracted For	469,800,000	-	164,700,000	-
	504,228,166	-	191,444,368	-

26. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged		Included Under
		2010 Rs.	2009 Rs.	
Stafford Hotels PLC				
Freehold Land and Buildings	Primary Mortgage up to the value of Rs.55 Mn to DFCC Bank (Loan of Rs. 45 Mn)	412,513,869	412,704,601	Property, Plant & Equipment
Existing Movable Items Belonging to the Company	Primary Mortgage up to the value of Rs.5 Mn to DFCC Bank (Loan of Rs. 45 Mn)	34,962,409	33,660,913	Property, Plant & Equipment
Miami Beach Hotels Ltd.				
Freehold Land and Buildings	Primary Mortgage up to the value of Rs.65 Mn to Seylan Bank (Term loans of Rs. 35 Mn, Rs. 20 Mn and Overdraft Facility of Rs. 10 Mn)	165,304,509	167,143,179	Property, Plant & Equipment
Freehold Land and Buildings	Secondary Mortgage up to the value of Rs.15 Mn to DFCC Bank (Loan of Rs. 15 Mn)	165,304,509	167,143,179	Property, Plant & Equipment
Existing Movable Items Belonging to the Company	Primary Mortgage up to the value of Rs.5 Mn to DFCC Bank (Loan of Rs. 15 Mn)	17,092,261	20,752,849	Property, Plant & Equipment

27. 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 2010

28. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

28.1 Transaction With The Parent And Related Entities

Nature of Transaction	Parent		Subsidiary		Affiliates	
	Serendib Hotels PLC		Miami Beach Hotels Ltd.		Hotel Sigiriya PLC	
As At 01 April	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Trade and Other Receivable	1,297,822	657,946	-	-	503,158	503,158
Amounts Due From Related Parties	3,822,397	2,644,277	-	-	1,161,994	-
Amounts Due To Related Parties	(2,487,336)	(2,764,327)	(38,239,924)	(10,142,729)	-	(12,997)
Trade and Other Payables	-	-	-	-	-	-
Interest Bearing Loans and Borrowings	-	-	-	-	-	-
	2,632,883	537,896	(38,239,924)	(10,142,729)	1,665,152	490,161
Sale of Goods / Services	1,035,044	1,817,997	-	-	409,576	1,161,994
Sales of Property and Other Assets	-	-	-	-	-	-
Finance Income Receivable	-	-	-	-	-	-
Secretarial and Professional Fee Receivable	-	-	-	-	-	-
Expenses Incurred on Behalf of Others	-	-	-	-	-	-
Purchase of Goods / Services	(2,967,704)	(847,787)	(1,179,036)	(1,938,035)	(378,853)	(60,635)
Purchase of Property and Other Assets	-	-	-	-	-	-
Management Fees Payable	-	-	-	-	-	-
Loan Capitalized	-	-	-	-	-	-
Finance Charges Payable	-	-	-	-	-	-
Accounting Fee Payable	-	-	-	-	-	-
Secretarial and Professional Fee Payable	-	-	-	-	-	-
Expenses Incurred on Behalf of the Company	-	-	-	-	-	-
Settlement of Dues from Related Parties	(3,466,607)	-	(214,655,660)	(135,487,208)	(503,159)	-
Settlement of Dues to Related Parties	5,313,973	1,124,777	222,986,841	109,328,048	346,617	73,632
	(85,294)	2,094,987	7,152,145	(28,097,195)	(125,819)	1,174,991
As At 31 March	2,547,589	2,632,883	(31,087,779)	(38,239,924)	1,539,333	1,665,152
Included In As At 31 March						
Trade and Other Receivable	-	-	-	-	-	503,158
Amounts Due From Related Parties	2,688,656	5,120,219	-	-	1,571,571	1,161,994
Amounts Due To Related Parties	(141,067)	(2,487,336)	(31,087,779)	(38,239,924)	(32,238)	-
Trade and Other Payables	-	-	-	-	-	-
Total	2,547,589	2,632,883	(31,087,779)	(38,239,924)	1,539,333	1,665,152

Terms and Conditions:

Sales and purchase of goods and / or services to related parties were made at on the basis of the price lists in force with non related parties, but subject to approved discounts. Property, Plant and Equipment purchases and sales are made at Net Book values

28.2 Transactions with Key Management Personnel of the Company or Its Parent

The Key Management Personnel of the Company are the members of its Board of Directors and that of its Parent .

There were no transactions with the Key Management Personels during the year.

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

Affiliates									
Serendib Leisure Mgt. Ltd.	Hemtours (Pvt) Ltd.		Diethelm Travels Lanka (Pvt) Ltd.		Hemas Corp.Services (Pvt) Ltd.		Total		
2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
5,000	-	69,057	1,578,258	406,072	-	-	-	2,281,109	2,739,363
275,622	-	-	-	-	-	-	-	5,260,013	2,644,277
(2,482,062)	(4,700,204)	-	-	-	-	-	-	(43,209,322)	(17,620,258)
-	-	-	-	-	-	(42,071)	(158,634)	(42,071)	(158,634)
2,099,644	2,099,644	-	-	-	-	-	-	2,099,644	2,099,644
(101,796)	(2,600,560)	69,057	1,578,258	406,072	-	(42,071)	(158,634)	(33,610,627)	(10,295,608)
4,436,756	4,485,165	-	397,008	1,153,668	2,925,440	-	-	7,035,044	10,787,604
-	-	-	-	-	-	-	-	-	-
213,114	213,697	-	-	-	-	-	-	213,114	213,697
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	(4,525,593)	(2,846,457)
-	-	-	-	-	-	-	-	-	-
(16,627,749)	(20,489,601)	-	-	-	-	-	-	(16,627,749)	(20,489,601)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
(865,247)	(570,622)	-	-	-	-	-	-	(865,247)	(570,622)
-	-	-	-	-	-	(135,788)	(185,825)	(135,788)	(185,825)
(11,866,765)	(7,843,546)	-	-	-	-	-	-	(11,866,765)	(7,843,546)
(4,790,381)	(4,418,240)	(39,199)	(1,906,209)	(870,649)	(2,519,368)	-	-	(224,325,655)	(144,331,025)
28,831,782	31,121,911	-	-	-	-	187,387	302,388	257,666,600	141,950,756
(668,490)	2,498,764	(39,199)	(1,509,201)	283,019	406,072	51,599	116,563	(6,567,961)	(23,315,019)
(770,286)	(101,796)	29,858	69,057	689,091	406,072	9,528	(42,071)	(27,042,666)	(33,610,627)
-	5,000	29,858	69,057	689,091	406,072	-	-	718,949	983,287
2,234,754	2,375,266	-	-	-	-	-	-	6,494,981	8,657,479
(3,005,040)	(2,482,062)	-	-	-	-	-	-	(34,266,124)	(43,209,322)
-	-	-	-	-	-	9,528	(42,071)	9,528	(42,071)
(770,286)	(101,796)	29,858	69,057	689,091	406,072	9,528	(42,071)	(27,042,666)	(33,610,627)

Shareholder And Investor Information

Share Distribution

As at 31 March	2010			2009		
	No. of Shareholders	No. of Shares Held	%	No. of Shareholders	No. of Shares Held	%
Shareholdings						
1 to 1000	1,075	436,608	1.39	857	308,474	0.97
1,001 to 10,000	489	1,894,366	5.99	373	1,273,442	4.03
10,001 to 100,000	126	3,998,071	12.64	65	1,747,329	5.53
100,001 to 1,000,000	11	3,093,107	9.78	10	2,693,082	8.52
Over 1,000,000	2	22,199,325	70.20	3	25,599,150	80.95
Grand Total	1,703	31,621,477	100.00	1,308	31,621,477	100.00

Analysis of Shareholders

As at 31 March	2010			2009		
	No. of Shareholders	No. of Shares Held	%	No. of Shareholders	No. of Shares Held	%
Categories of Shareholders						
Institutions	86	26,096,738	82.53	65	27,761,463	87.79
Individuals	1,617	5,524,739	17.47	1,243	3,860,014	12.21
	1,703	31,621,477	100.00	1,308	31,621,477	100.00

Public Holding

25.91% of the Issued Shares were held by the Public as at 31 March 2010 (2009 - 33.85%)

Share Trading

	2009/10	2008/09
Highest Market Price (Rs.)	38.50 (15.03.10)	15.00 (05.01.09)
Lowest Market Price (Rs.)	11.00 (03.04.09)	7.50 (03.12.08)
Last Traded Price (Rs.)	35.00 (31.03.10)	11.50 (31.03.09)
No. of Shares Traded	20,871,000	3,141,900
No. of Trades	10,828	2,108
Turnover (Rs.)	559,601,275	37,025,125

Share Holder and Investor Information Contd...

Major Shareholding

Twenty Major Shareholders

As At 31 March	2010		2009	
	No. of Shares	%	No. of Shares	%
Serendib Hotels PLC	20,507,578	64.85	17,997,578	56.91
Hemtours (Pvt) Ltd.	1,691,747	5.35	1,691,747	5.35
DFCC Bank	818,800	2.60	5,909,825	18.69
Mr. A. N. Esufally	450,007	1.42	450,007	1.42
The Mahayaya Estates Co. Ltd.	327,000	1.03	327,000	1.03
Asia Pacific Investments (Pvt) Ltd.	286,100	0.91	-	-
Employees Provident Fund	239,800	0.76	-	-
Mr. B. S. M. De Silva	204,700	0.65	204,700	0.65
Intercom Ltd.	162,500	0.51	162,500	0.51
LOLC / Mr. S. P. Kannangara	154,000	0.49	154,000	0.49
Asian Alliance Insurance PLC - General Fund A/C No. 1	150,200	0.47	-	-
Elgin Investments Ltd.	150,000	0.47	-	-
Mr. N. Hewa Kandamby	150,000	0.47	135,000	0.42
Mr. J. C. L. De Mel	100,000	0.32	100,000	0.32
E. W. Balasuriya & Co. (Pvt) Ltd.	100,000	0.32	-	-
Deutsche Bank AG - Comtrust Equity Fund	100,000	0.32	-	-
Mr. A. P. Somasiri	100,000	0.32	-	-
WML / Hi-Line Towers (Pvt) Ltd.	100,000	0.32	-	-
WML / Dr. H. S. D. De Soysa	99,875	0.31	109,875	0.35
Mr. W. D. J. R. Silva	93,400	0.29	-	-
	25,985,707	82.18		
Shares Held By the Balance Shareholders	5,635,770	17.82		
Total	31,621,477	100.00		

Notice of Meeting

NOTICE IS HEREBY GIVEN that the **TWENTY NINTH (29TH) 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 **Monday, 12 July 2010** at **3.30 p.m.** for the following purpose :

AGENDA

1. To receive and consider the Statement of Accounts for the year ended 31 March 2010 together with the Report of the Directors and Auditors thereon.
2. To re-elect Mr. B. S. M. De Silva who retires by rotation in terms of the Articles of Association, as a Director of the Company.
3. To re-elect Mr. H. N. Esufally who retires by rotation in terms of the Articles of Association, as a Director of the Company.
4. To pass the Ordinary Resolution set out below to re-appoint as a Director Mr. E. J. De Soysa who has reached the age of 71 years on 15 March 2010 and vacates office as a Director of the Company in terms of Section 210 (2) (b) of the Companies Act No. 7 of 2007.

"RESOLVED that Mr. E. J. De Soysa who has reached the age of 71 years on 15 March 2010 be and is hereby re-appointed a Director of the Company and it is hereby declared that 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. E. J. De Soysa."

5. To re-appoint Messrs Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and authorize the Directors to determine their remuneration.
6. To authorize Directors to determine and make contributions to charity.
7. **Special Business:**

To consider and if thought fit to pass the following Resolution as a Special Resolution to amend the Articles of Association of the Company.

SPECIAL RESOLUTION

"RESOLVED that the existing Articles of Association of the Company be excluded in its entirety and be substituted with the rules and regulations contained in the proposed Articles of Association which is approved and henceforth be adopted as the Articles of Association of the Company."

8. To consider any other business of which due notice has been given.

By Order of the Board of
STAFFORD HOTELS PLC

HEMAS CORPORATE SERVICES (PVT) LTD.
Secretaries

15 June 2010
Colombo

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) A Form of Proxy accompanies this Notice.



Form of Proxy

I / We
 of.....
 being a Member/s of **Stafford Hotels PLC** do hereby appoint Mr./Mrs.
of.....or failing him / her

- | | |
|-------------------------------|----------------|
| Mr. A. N. Esufally | or failing him |
| Mr. E. J. De Soysa | or failing him |
| Mr. B. S. M. De Silva | or failing him |
| Ms. A. R. Gamage | or failing her |
| Mr. H. N. Esufally | or failing him |
| Mr. T. Wijemanna | or failing him |
| Mr. W. M. De F. Araskularatne | or failing him |

as *my / our proxy to represent *me / us and to vote on *my / our behalf at the Twenty Ninth Annual General Meeting of the Company to be held on **Monday, 12 July 2010 at 3.30 p.m.** at Auditorium of the Ceylon Chamber of Commerce, No 50, Nawam Mawatha, Colombo 2 and any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
1. To receive and consider the Statement of Accounts for the year ended 31 March 2010 together with The Report of the Directors and Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr. B. S. M. De Silva 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. H. N. Esufally 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. E. J. De Soysa as Director, in terms of Section 211 (1) of the Companies Act No. 7 of 2007.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-appoint Messrs Ernst & Young as Auditors and authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
6. To authorize Directors to determine and make contributions to Charity.	<input type="checkbox"/>	<input type="checkbox"/>
7. To pass a Special Resulation to adopt the revised Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>

Signature of Shareholder/s NIC / Passport No.....

Dated this day of 2010.

- (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 provided. Please fill in the date of signature.
2. Please indicate with an "X" in the space provided how your Proxy is to vote on each resolution. If no indication is given, the Proxy in his discretion will vote as he thinks fit.
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. In case of joint holders the Form of Proxy must be signed by the first holder.
6. The completed Form of Proxy should be deposited at the office of the Secretaries, Hemas Corporate Services (Pvt) Ltd. No. 36, Bristol Street, Colombo 01 not less than forty eight (48) hours before the appointed time for the meeting.

Corporate Information

NAME OF COMPANY	: Stafford Hotels PLC
LEGAL FORM	: A Public Quoted Company with Limited Liability Incorporated on 20 January 1981 under the Companies Ordinance. (Cap 145)
COMPANY REGISTRATION NO.	: PQ 224
BOARD OF DIRECTORS	: A.N. Esufally - Chairman (Alt.: V.H.A.Perera) E.J. De Soysa B.S.M. De Silva A.R. Gamage (Ms) - (Alt.: Prof. L. D. K. B. Gamage) T. Wijemanna H.N. Esufally - (Alt.: Ms. K.A. Wilson) W. M. De F. Arsakularatne
REGISTERED OFFICE	: 2nd Floor, Automobile Association Building 40, Sir Mohamed Macan Markar Mawatha Colombo 03. Phone : +94 (11) 2332155 Fax : +94 (11) 2438933 E-mail : inquiries@serendibleisure.lk Website : www.serendibleisure.com
SECRETARIES & REGISTRARS	: Hemas Corporate Services (Pvt) Ltd. 36, Bristol Street Colombo 01. Phone : +94 (11) 4731731 Fax : +94 (11) 4731777
MANAGING AGENT	: Serendib Leisure Management Ltd.
AUDITORS	: Ernst & Young Chartered Accountants 201, De Saram Place Colombo 10.
BANKERS	: Commercial Bank of Ceylon PLC Seylan Bank PLC Nations Trust Bank PLC
HOTEL	: Club Hotel Dolphin Waikkal. Phone : + 94 (31) 2277788 Fax : + 94 (31) 2279437
GENERAL MANAGER	: Chamin Wickramasinghe

Serendib Leisure Management Ltd.

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40, Sir Mohamed Macan Markar Mw.
Colombo 03, Sri Lanka.
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Fax: (+9411) - 2438933
E-mail: inquiries@serendibleisure.lk
Web: www.serendibleisure.com

