

Hotel *Sigiriya*



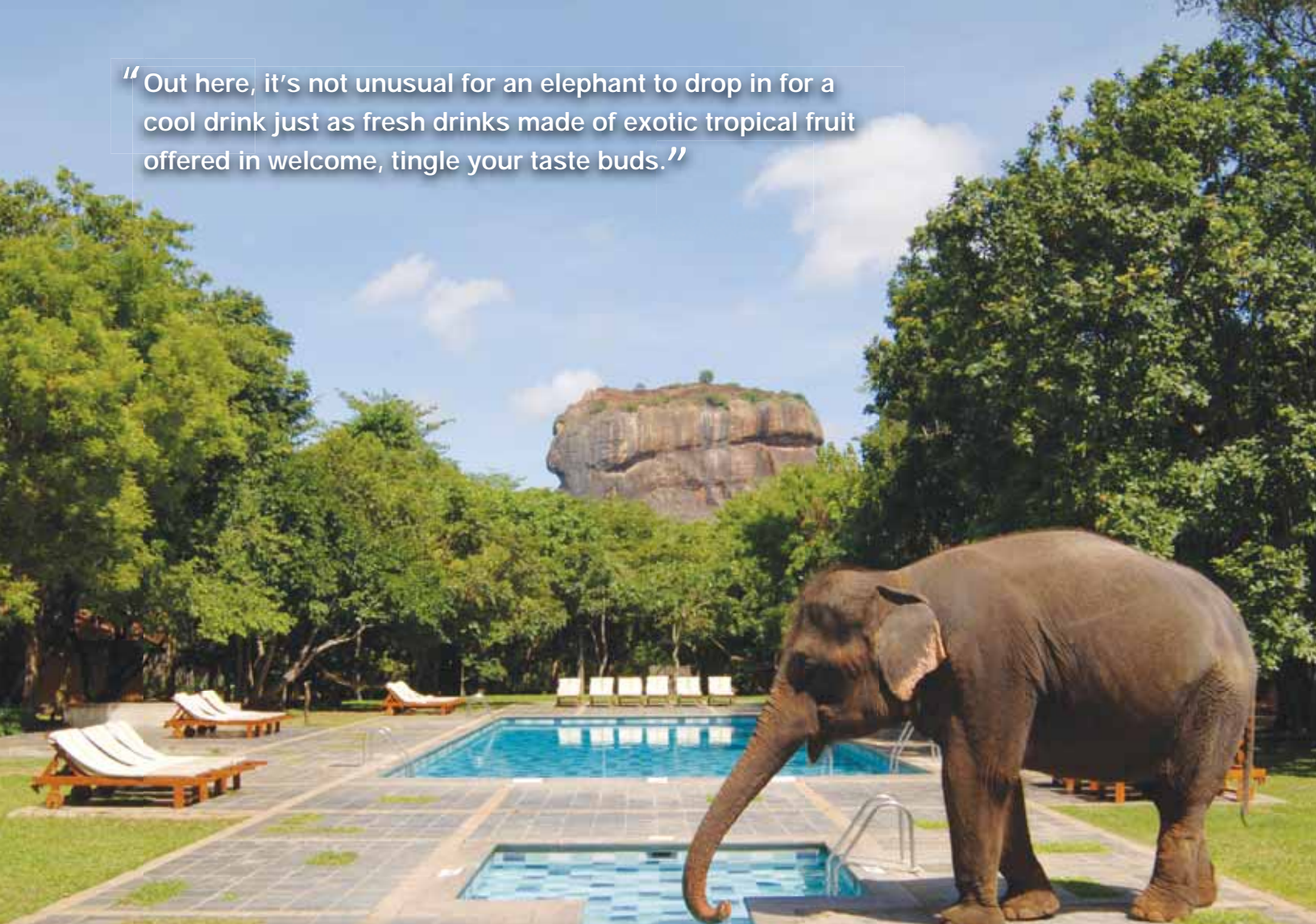
Annual Report 2010



Soaring on the path to Serendipity

Hotel Sigiriya PLC

“Out here, it’s not unusual for an elephant to drop in for a cool drink just as fresh drinks made of exotic tropical fruit offered in welcome, tingle your taste buds.”



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Financial Highlights

Year Ended 31 March		2010	2009
Earnings Highlights and Ratios			
Revenue	Rs.000's	98,343	76,766
Profit Before Interest, Tax, Depreciation & Amortization (EBITDA)	Rs.000's	17,349	1,855
Loss Before Tax	Rs.000's	(2,243)	(19,919)
Loss After Tax	Rs.000's	(1,774)	(16,451)
Loss Per Share	Rs.	(0.30)	(2.81)
Cash Earnings Per Share	Rs.	1.20	0.37
Interest Cover	Times	0.58	(1.91)
Return On Equity (ROE)	%	(1.35)	(12.36)
Pre-Tax Return On Capital Employed (ROCE)	%	(1.93)	(7.75)
Balance Sheet Highlights and Ratios			
Total Assets	Rs.000's	191,712	198,707
Total Debt	Rs.000's	27,104	35,637
Total Shareholders' Funds	Rs.000's	131,543	133,128
No. of Shares in Issue	000's	5,859	5,859
Net Assets Per Share	Rs.	22.45	22.72
Debt / Total Equity	%	20.60	26.77
Debt / Total Assets	%	14.14	17.93
Market/ Shareholder Information			
Market Price Per Share	Rs.	52.25	24.50
Market Capitalization	Rs.000's	306,133	143,546
Value Added			
Value Added Per Revenue	Rs.	0.45	0.35
Value Added Per Employee	Rs.000's	393	239
Value Added Per Ordinary Shares	Rs.	7.58	4.62

Chairman's Review

Industry Overview

In the first five months of the year, we saw a dramatic increase of 48.5% in the number of visitors to Sri Lanka. The industry looks to be on target to achieve, or even exceed, the goal of 600,000 visitors for 2010.

The adverse travel advisories that we were subjected to, have either been removed or down graded. As a result of the increased arrivals, larger numbers are visiting the Cultural Triangle area. Furthermore, Sri Lanka has been voted as one of the 10 Best Destinations to visit in 2010.

The Sigiriya Museum, located near the Sigiriya Rock, has now been completed and is an added attraction for the visitors to the area.

Hotel Operations

Hotel Sigiriya enjoyed a year round occupancy of 53%, up from 46% the year before. Although the Company was not able to eliminate the losses incurred in the first few difficult months of the year under review, the strong performance in the 3rd and 4th quarters helped reduce the losses, ending the year with a marginal Loss before tax of Rs. 2.2Mn. This is a significant improvement from the performance last year which ended with a Loss of Rs. 19.9Mn.

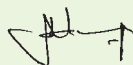
The Hotel is being renovated to be ready to cater to the increased arrivals. The current occupancy rates are encouraging and the prospects for the Company look bright.

The greening initiatives and focus on environmental issues continue. As a result, Hotel Sigiriya is able to differentiate itself from its competitors and remains a benchmark amongst the hotel industry in Sri Lanka.

Appreciation

My thanks firstly go out to Mr. Srilal Miththapala, the outgoing CEO of Serendib Leisure for his contribution to the Serendib Group and to Hotel Sigiriya in particular. His efforts in driving the environment projects at the Hotel are indeed a lasting legacy. I also thank the COO, Mr. S. Anandaraj, and his team at Serendib Leisure for providing the necessary leadership and guidance to the Hotel.

Finally, I thank Mr. Lakshitha Wegodapola, the Manager of the Hotel and his team for their dedication and commitment during the year.



E. J. De Soysa
Chairman

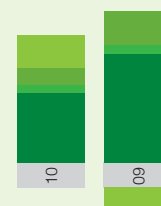
26 May 2010
Colombo

Financial Review

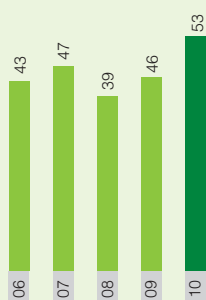
Statement of Value Added

Distribution of Value Added

	2010		2009	
	%	Rs.'000	%	Rs.'000
To Employees as Remuneration	55	24,468	85	22,884
To Government as Taxation	6	2,577	7	2,001
To Lenders as Interest	13	5,597	27	7,190
Retained in Business	26	11,760	(19)	(5,029)
	100	44,402	100	27,046

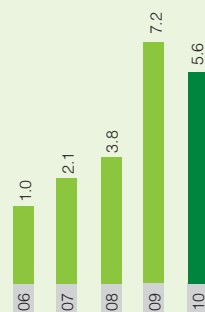


To Employees as Remuneration To Lenders as Interest
To Government as Taxation Retained in Business



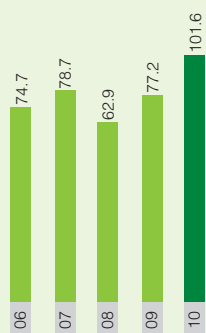
Occupancy (%)

Company recorded a 53% room occupancy during the Financial Year, all time high for the previous five years. 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.



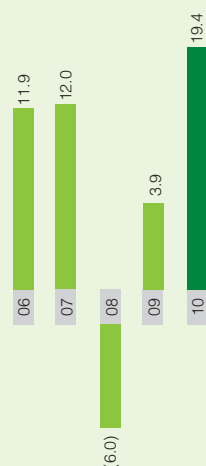
Finance Cost (Rs. Mn)

Finance cost has declined by 22% during the year from Rs. 7.2Mn to Rs. 5.6Mn. The interest costs on Loans and Borrowings has reduced tremendously during the financial year under review.



Revenue and Other Income (Rs. Mn)

The Company recorded a Revenue and Other Income of Rs 101.6Mn during the Financial year 09/10, a 32% increase over the previous year.



Gross Operating Profit (Rs. Mn)

The Gross Operating Profit for the year has been increased to Rs. 19.4Mn, the record highest for the last five year period. The increase is 397% compared to the previous year while the GOP margin has increased to 19% compared to 5% during the previous year.

Cash Flow

The net movement in Cash and cash equivalents for the year ended 31 March 2010 was an inflow of Rs. 7.8Mn. This comprise of net cash inflow from operating activities of Rs. 7.1Mn, net cash inflow of Rs. 1.7Mn from investing activities and net cash outflow of Rs. 1.0Mn from financing activities. Cash and cash equivalents as at 31 March 2010 was a negative figure of Rs. 4.9Mn compared to negative 12.7Mn in previous year.

Shareholder Value

With the favorable macro economic conditions prevailed after the end of three decade war, the Company was successful in reducing its loss per share of Rs. 0.30 for the year, compared to the Rs. 2.81 loss recorded in the previous year.

The price of a Hotel Sigiriya PLC share traded at Rs. 52.25 as at the year end compared with the Rs. 24.50 at the beginning of the year. The Share Price ranged from a high of Rs. 73.00 to a low of Rs. 21.00 during the year.

Board of Directors



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1. E. J. DE SOYSA - CHAIRMAN

Appointed to the Board in 1982 and appointed as Chairman of the Company in 1994. Other Directorships include Stafford Hotels PLC, The Mahayaya Estate Co. Ltd. Kahatapitiya (Pvt) Ltd. and several other Companies. Over 40 years of association with the tourism and leisure industries.

2. A. N. ESUFALLY

Appointed to the Board in 1994. 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 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 01 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, Stafford Hotels PLC, Printcare PLC, Mahaweli Reach Hotel PLC and several other Companies.

3. L. P. FERNANDO

A Founder Director of the Company. Other Directorships include Kelani Tyres Ltd., Silverstock Holdings (Pvt) Ltd., Ceat- Kelani Associated Holdings (Pvt) Ltd., Ceat- Kelani International Tyres (Pvt) Ltd., Associated Ceat (Pvt) Ltd., Associated Ceat - Kelani Radials (Pvt) Ltd., Wheels (Pvt) Ltd., Hercules Motor Company (Pvt) Ltd. and Tyres Express (Pvt) Ltd.

4. R. H. S. DE SILVA

Appointed to the Board in 1976. Past Chairman of Ceylon Chamber of Commerce and Past President of the National Chamber of Commerce Sri Lanka. Other Directorships include Kelani Tyres PLC, Ceat - Kelani Holdings Group, Silverstock Holdings (Pvt) Ltd., Silverstocks (Pvt) Ltd., Wheels (Pvt) Ltd., Hercules Motor Company (Pvt) Ltd., Sherman Sons (Pvt) Ltd. and Harendra Holdings (Pvt) Ltd.

5. 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, Stafford Hotels PLC and several other Companies.

6. A. R. GAMAGE (MS)

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

7. 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. He holds Directorships in Hemas Holdings PLC, Serendib Hotels PLC, Stafford Hotels PLC, and several other Companies. He is also a Trustee at the National Council for Mental Health (Sahanaya).

8. 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 University Business School, U. K., a BSc in Computer Science & Engineering from the University of Moratuwa, SL 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, Stafford Hotels 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 Audited Financial Statements of the Company 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 79 room Hotel Sigiriya.

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 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 are given from pages 15 to 33 of this Report.

AUDITORS' REPORT

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

ACCOUNTING POLICIES

The Accounting Policies adopted by the Company in preparing the Financial Statements are given from pages 19 to 22. 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 has adequate resources to continue its operations in the foreseeable future and accordingly, have adopted the "Going Concern Assumption" in preparing the Financial Statements.

RESULTS & DIVIDENDS

The turnover of the Company during the financial year ended 31 March 2010 amounted to Rs. 98,342,747/- (2009 Rs. 76,765,949/-) with a pre - tax loss of Rs.2,243,396/-(2009 - Loss of Rs. 19,918,660/-).

The Directors have not recommended the payment of a dividend during the financial year 09/10 (2009-Nil)

CORPORATE DONATIONS

No donations were made by the Company during the year under review (2009 - Rs.1,775/-).

PROPERTY PLANT & EQUIPMENT

Capital expenditure incurred by the Company during the year amounted to Rs. 1,543,230/- (2009 - Rs.4,163,021 /-).

Information relating to the movement in Property, Plant & Equipment during the financial year is disclosed under Note 9 to the Financial Statements.

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

Location		Extent
Sigiriya	- Leasehold	8 Acres 16 Perches
	- Freehold	4 Acres 1 Rood 16.2 Perches

STATED CAPITAL

The Stated Capital of the Company as at the Balance Sheet date was Rs. 97,650,000/- divided into 5,859,000 shares. (2009 - Rs. 97,650,000/- divided into 5,859,000 shares).

DIRECTORS

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

Mr. E. J. De Soysa (Chairman)
 Mr. A. N. Esufally
 Mr. L. P. Fernando
 Mr. R. H. S. De Silva
 Mr. B. S. M. De Silva
 Ms. A. R. Gamage
 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. A. R. Gamage

Mr. W. M. De F. Arsakularatne retire by rotation in terms of the Articles of Association of the Company and being eligible offer himself 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 Statutes. 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:

	31.03.10	01.04.09	31.03.09
Mr. E. J. De Soysa	70,000	70,000	70,000
Mr. A. N. Esufally	-	-	-
Mr. L. P. Fernando	13,548	13,548	13,548
Mr. R. H. S. De Silva	1,124	1,124	1,124
Mr. B. S. M. De Silva	19,500	19,500	19,500
Ms. A. R. Gamge	-	-	-
Mr. H. N. Esufally	-	-	-
Mr. W. M. De F. Arsakularatne	-	-	-

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:-

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

Annual Report of the Board of Directors Contd...

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	Directors
Stafford Hotels 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 Hotels PLC	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
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
Hemas Holdings PLC	Mr. A. N. Esufally Mr. H. N. Esufally
Diethelm Travel 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
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 end of the financial year was 111. (2009 - 112).

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, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company 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 PricewaterhouseCoopers, 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;

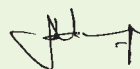
Audit Fees - Rs. 170,000/-
Fees for Non -Audit Services- Rs. 52,284/-

The Directors have confirmed that to the best of their knowledge the Auditors have had no interest in or relationship with the Company 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 PricewaterhouseCoopers 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



E. J. De Soysa
Chairman



A. N. Esufally
Director

26 May 2010
Colombo

Management Team



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

Decade at a Glance

Year ended 31 March	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
<i>(Figures in Rs. '000 unless otherwise stated)</i>										
Trading Results										
Revenue and Other Income	101,584	77,222	62,882	78,719	74,720	80,547	81,190	55,177	30,939	42,156
Profit / (Loss) Before Tax	(2,243)	(19,919)	(20,438)	(5,419)	1,910	17,100	20,326	10,754	384	5,080
Net Profit / (Loss)	(1,774)	(16,451)	(16,643)	(5,208)	553	13,494	17,093	7,733	384	4,413
Earnings/ (Loss) Per Share (Rs.)	(0.30)	(2.81)	(2.84)	(0.89)	0.09	2.74	4.13	1.87	0.09	1.07
Return On Equity (%)	(1.35)	(12.36)	(11.14)	(3.14)	0.32	7.42	21.75	11.48	0.54	6.22
Hotel Operations										
Annual Sales Growth (%)	31.5	22.8	(20.1)	5.4	(7.2)	(0.8)	47.1	78.3	(26.6)	(1.6)
Room Occupancy (%)	53	46	39	47	43	52	62	48	30	50
Assets Employed										
Total Assets	191,712	198,707	215,121	210,224	223,882	211,293	113,669	100,814	95,852	101,141
Total Liabilities	60,169	65,579	65,730	44,379	53,018	29,325	35,069	33,447	24,501	30,174
Total Equity	131,543	133,128	149,391	165,845	170,864	181,968	78,600	67,367	71,351	70,967
Current Ratio (Times)	1.06	0.89	0.85	1.67	1.61	2.70	0.89	0.90	1.67	1.32
Net Assets Per Share (Rs.)	22.45	22.72	25.50	28.31	29.16	31.06	20.12	17.25	18.27	18.17
Debt / Equity Ratio (%)	20.6	26.8	24.4	8.6	12.8	1.2	22.4	25.9	20.5	22.3
Market/ Shareholder Information										
Dividend Per Share	-	-	-	-	0.50	1.00	2.50	3.00	-	1.00
Market Value Per Share (Rs.)										
Highest	73.00	34.00	38.25	46.00	50.00	52.50	42.00	35.00	11.00	11.50
Lowest	21.00	18.00	24.25	25.50	25.50	24.00	19.75	10.75	8.50	9.50
Last Traded	52.25	24.50	32.00	33.00	37.00	37.75	31.00	19.50	10.75	11.50
Price Earning Ratio (Times)	N/A	N/A	N/A	N/A	411.11	13.78	7.51	10.44	115.91	10.79

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

Operational Review

Calendar Year	2009	2008	2007	2006	2005
Sri Lanka Tourist Arrivals by Country of Residence (No. of Guests)					
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 Rooms)					
All Regions	14,593	14,793	14,604	14,218	13,162
Ancient Cities	2,659	2,582	2,417	2,467	2,428
Utilization (%)					
All Regions	47.4	43.9	46.2	47.8	45.4
Ancient Cities	44.1	35.3	40.3	43.3	39.5
Hotel Sigiriya	47.2	44.6	36.9	53.0	34.5

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 eight 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 at least 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 six occasions during the year under review. The number of meetings attended by each Director is tabulated below:

	No. of Meetings Attended
Mr. E. J. De Soysa	6
Mr. A. N. Esufally	6
Mr. L. P. Fernando	5
Mr. R. H. S. De Silva	4
Mr. B. S. M. De Silva	5
Ms. A. R. Gamage	3
Mr. H. N. Esufally	2
Mr. W. M. De F. Arsakularatne	3

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, L. P. Fernando, R. H. S. De Silva, B. S. M. De Silva and Ms. A. R. Gamage meet the criteria of independence specified by the rules on 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 their 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, one third of the 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. The 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 the Parent Company Serendib Hotels PLC, 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.

Corporate Governance Contd...

The Committee met once during the year under review.

The Committee 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 Financial Statements of the Company 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 of the Financial Statements are given on 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 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 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 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 PricewaterhouseCoopers, 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 PricewaterhouseCoopers, 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.

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

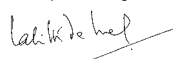
The remuneration policy supports a strong performance – oriented culture and ensures that individual rewards and incentives relate directly to the performance of the individual, the operations and functions for which they are responsible and the group as a whole.

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 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, appropriate Accounting Policies and Standards have been selected, consistently applied and supported by reasonable and prudent judgements and estimates. Any material departures, if any, have been disclosed and explained in the Financial Statements.

The Directors having reviewed the Company'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 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 as at the Balance Sheet date have been paid or where relevant provided for in the Financial Statements.

By order of the Board of

Hotel Sigriya PLC

Hemas Corporate Services (Pvt) Ltd.

Secretaries

26 May 2010

Colombo

Independent Auditors' Report



PricewaterhouseCoopers
P O Box 918
100 Braybrooke Place
COLOMBO 00200
SRI LANKA
Telephone: 94-11-4719838 (Hunting)
Facsimile: 94-11-2303197

To the shareholders of Hotel Sigiriya PLC Report on the Financial Statements

1 We have audited the accompanying Financial Statements of Hotel Sigiriya PLC ("the Company"), which comprise the Balance Sheet as at 31 March 2010, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of Significant Accounting Policies and other explanatory notes as set out on pages 15 to 33.

Management's Responsibility for the Financial Statements

2 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

3 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.

4 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.

5 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

6 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 of its Loss and Cash Flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

7 These Financial Statements also comply with the requirements of Section 151 (2) of the Companies Act, No. 07 of 2007.

Chartered Accountants

30 April 2010
Colombo

Partners Y Kanagasabai FCA, D.T.S.H. Mudalige FCA, S. Manoharan ACA, N. R. Gunasekera FCA, S. Gajendran FCA,
Ms. S. Hadgie FCA, Ms. S. Perera ACA

Income Statement

Year Ended 31 March 2010

	Note	2010 Rs.	2009 Rs.
Revenue	3	98,342,747	76,765,949
Cost of sales		(24,898,865)	(21,130,978)
Gross profit		73,443,882	55,634,971
Other operating income	4	3,240,904	455,565
Distribution costs		(5,770,099)	(6,096,746)
Administrative expenses		(67,854,684)	(63,071,167)
Finance costs-net	5	(5,303,399)	(6,841,283)
Loss before tax	6	(2,243,396)	(19,918,660)
Income tax	7	469,730	3,468,080
Net loss for the year		(1,773,666)	(16,450,580)
Loss per share-basic	8	(0.30)	(2.81)

The Accounting Policies and notes on pages 19 through 33 form an integral part of the Financial Statements.

Balance Sheet

As at 31 March 2010

	Note	2010 Rs.	2009 Rs.
ASSETS			
Non-current assets			
Property, plant and equipment	9	146,649,268	159,848,954
Investments	10	3,333,330	3,333,330
		149,982,598	163,182,284
Current assets			
Inventories	11	4,586,496	3,620,237
Trade and other receivables	12	25,208,577	19,821,894
Amounts due from related parties	13	3,183,003	3,329,582
Income tax recoverable		7,057,011	7,333,493
Cash and cash equivalents	24	1,694,167	1,419,817
		41,729,254	35,525,023
Total assets		191,711,852	198,707,307
EQUITY AND LIABILITIES			
Capital and reserves			
Stated capital	14	97,650,000	97,650,000
Reserves	15	36,245,082	37,312,535
Accumulated loss		(2,352,040)	(1,834,201)
Total Equity		131,543,042	133,128,334
Non-current liabilities			
Interest bearing loans and borrowings	16	10,670,174	14,526,462
Non interest bearing loans and borrowings	17	657,000	657,000
Deferred tax liabilities	18	6,105,800	7,049,273
Deferred income	19	1,571,644	1,690,548
Retirement benefit obligations	20	1,835,218	1,785,607
		20,839,836	25,708,890
Current liabilities			
Trade and other payables	21	17,931,390	14,574,601
Dividends payable	22	519,928	519,928
Amounts due to related parties	23	4,443,619	3,664,749
Interest bearing loans and borrowings	16	16,434,037	21,110,805
		39,328,974	39,870,083
Total liabilities		60,168,810	65,578,973
Total equity and liabilities		191,711,852	198,707,307

I certify that the Financial Statements have been prepared in compliance with the requirements of the Companies Act, No. 7 of 2007.



Thurairajah Thivakaran - Director Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. These Financial Statements were approved by the Board of Directors on 30 April 2010.

Signed for and on behalf of the Board by:



E. J. De Soysa - Chairman



A. N. Esufally - Director

30 April, 2010
Colombo

The Accounting Policies and notes on pages 19 through 33 form an integral part of the Financial Statements.

Statement of Changes in Equity

Year Ended 31 March 2010

	Stated *	Revaluation	Accumulated	Total
	Capital	Reserve	Profit/ (loss)	
	Rs.	Rs.	Rs.	Rs.
At 1 April 2008	97,650,000	38,379,988	13,360,552	149,390,540
Net loss for the year	Nil	Nil	(16,450,580)	(16,450,580)
Deferred tax attributable to revaluation surplus	Nil	188,374	Nil	188,374
Reversal of excess depreciation on revaluation reserve	Nil	(1,255,827)	1,255,827	Nil
At 31 March 2009	97,650,000	37,312,535	(1,834,201)	133,128,334
At 1 April 2009	97,650,000	37,312,535	(1,834,201)	133,128,334
Net loss for the year	Nil	Nil	(1,773,666)	(1,773,666)
Deferred tax attributable to revaluation surplus	Nil	188,374	Nil	188,374
Reversal of excess depreciation on revaluation reserve	Nil	(1,255,827)	1,255,827	Nil
At 31 March 2010	97,650,000	36,245,082	(2,352,040)	131,543,042

* Stated capital includes amounts previously reported under ordinary share capital and share premium as required by Companies Act, No.07 of 2007.

The Accounting Policies and notes on pages 19 through 33 form an integral part of the Financial Statements.

Cash Flow Statements

Year Ended 31 March 2010

	Note	2010 Rs.	2009 Rs.
Cash flows generated from operating activities			
Net loss before income tax		(2,243,396)	(19,918,660)
Adjustments for			
Depreciation	9	14,288,719	14,932,649
Writing back of grant received	19	(118,904)	(59,452)
Interest income	5	(294,000)	(348,307)
Profit on disposal of property, plant and equipment	4	(2,543,894)	(53,724)
Finance costs	5	5,597,399	7,189,590
Provision for defined benefit plans	20	369,661	586,136
Reversal of impairment in investments	10	Nil	(243,205)
Operating profit before working capital changes		15,055,585	2,085,027
(Increase) / decrease in inventories		(966,259)	433,401
(Increase) / decrease in trade and other receivables		(5,386,683)	1,799,508
Decrease in amounts due from related parties		146,579	3,035,496
Increase in amounts due to related parties		778,870	3,399,853
Increase / (decrease) in trade and other payables		3,356,789	(162,538)
Cash generated from operations		12,984,881	10,590,747
Interest paid		(5,597,399)	(7,189,590)
Defined benefit plan costs paid	20	(320,050)	(590,927)
Taxes paid		(8,886)	(630,949)
Net cash generated from operating activities		7,058,546	2,179,281
Cash flows generated from / (used in) investing activities			
Acquisition of property, plant and equipment		(1,543,230)	(4,163,021)
Proceeds from sale of property, plant and equipment		2,998,090	136,258
Interest received		294,000	348,307
Net cash flows generated from / (used in) investing activities		1,748,860	(3,678,456)
Cash flows used in financing activities			
Proceeds from interest bearing loans and borrowings	16	2,010,192	1,749,762
Repayment of interest bearing loans and borrowings	16	(3,029,280)	(3,145,320)
Grant money received	19	Nil	1,050,000
Net cash flows used in financing activities		(1,019,088)	(345,558)
Net increase / (decrease) in cash and cash equivalents		7,788,318	(1,844,733)
Cash and cash equivalents at the beginning of the year		(12,685,008)	(10,840,275)
Cash and cash equivalents at the end of the year	24	(4,896,690)	(12,685,008)

The Accounting Policies and notes on pages 19 through 33 form an integral part of the Financial Statements.

Notes to the Financial Statements

Year Ended 31 March 2010

1. CORPORATE INFORMATION

1.1 General

Hotel Sigiriya 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 Sigiriya.

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 Hotel Sigiriya 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.

1.5 Number of Employees

The number of employees of the Company at the end of the year was 111 (2009 - 112).

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 & buildings and investments which are stated at 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 Hotel Sigiriya PLC has 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 rearranged wherever necessary to conform to the current presentation.

2.2 CHANGES IN ACCOUNTING POLICIES

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

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 have 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 currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the rate of exchange ruling at the Balance Sheet date. All differences are taken to the Income Statement. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. 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 Tax

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 at the rate of 15% on trading and other income. Relevant details are disclosed in Note 7 to this Financial Statement.

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

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

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.

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 asset or service is not recoverable from the tax authorities, in which case the sales tax is recognised as a part of the cost of the asset or part of the expense item as applicable, receivable and payable that are stated with the amount of sales tax included. The amount of sales tax recoverable and payable in respect of tax 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 condition is accounted using the following cost formula:

Food 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 & 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.

Leasehold land and buildings on Leasehold Land	Over the remaining lease period
Swimming pool	Over the remaining lease period
Furniture & fittings	Over 5 - 10 years
Plant, machinery and equipment	Over 5 - 10 years
Office equipment	Over 5 - 10 years
Tube well	Over the remaining lease period
Soft furniture	Over 5 years
Motor vehicles	Over 5 - 10 years
Gasifier	Over 15 years

Valuations are performed every 4 years 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

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

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 value, useful life and method of depreciation are reviewed and adjusted if appropriate at each financial year end.

2.4.8 Leasehold Property

Leasehold property is stated at recorded carrying values as at the effective date of Sri Lanka Accounting Standard 19 - Leases. Such carrying amounts are amortized over the remaining lease term or useful life of the leased property whichever is shorter. No further revaluation of these leasehold properties will be carried out.

2.4.9 Investments

a) Initial Recognition

Cost of investment includes purchase cost and acquisition charges such as brokerage fees, duties and bank 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 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.

2.4.10 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 asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income Statement net of any reimbursement. 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.

2.4.11 Grants and Subsidies

Grants and subsidies are credited to the Income Statement over the periods necessary to match them with related costs, which they are intended to compensate, on a systematic basis.

Grants relating to property, plant and equipment are included in non-current liabilities as deferred income and are credited to the Income Statement on a straight-line basis over the expected lives of the related assets.

2.4.12 Retirement Benefit Obligations

a) Defined Benefit Plan - Gratuity

Gratuity is a Defined Benefit Plan. The Company is liable to pay gratuity in terms of the relevant statute. In order to meet this liability, a provision is carried forward in the Balance Sheet, equivalent to an amount calculated based on the present value of the defined benefit obligation at the Balance Sheet date together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated at frequent intervals by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of long term Government Bonds or high quality corporate bonds.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized immediately in the Income Statement.

Past-service costs are recognized immediately in income, unless the changes to the defined benefit plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

The assumptions based on which the results of the actuarial valuation was determined, are included in Note 20 to the Financial Statements.

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.

2.4.13 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 can not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

2.4.14 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.

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

	2010	2009
	Rs.	Rs.
3 REVENUE		
Sale of goods	23,506,488	16,478,976
Rendering of services	75,835,874	61,065,755
	99,342,362	77,544,731
Less: Sales related levy		
Tourism Development Levy	(999,615)	(778,782)
	98,342,747	76,765,949
4 OTHER OPERATING INCOME		
Rental income receivable from non-related parties	322,018	300,000
	322,018	300,000
Miscellaneous services	90,229	42,389
Write back of grant received	118,904	59,452
Income from vehicle hiring	165,859	Nil
Profit on disposal of property, plant and equipment	2,543,894	53,724
	2,918,886	155,565
	3,240,904	455,565
5 FINANCE COSTS - NET		
5.1 Finance Costs		
Interest expense on overdrafts	1,389,456	2,251,717
Interest expense on loans and borrowings payable to		
- Related parties	570,000	228,000
- Bank	3,637,943	4,709,873
	5,597,399	7,189,590
5.2 Finance income		
Interest income receivable from related parties	(294,000)	(348,307)
	(294,000)	(348,307)
Finance costs - net	5,303,399	6,841,283

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

	2010	2009
	Rs.	Rs.
6 LOSS BEFORE TAX		
Stated after charging / (crediting)		
Transport costs	213,671	159,754
Provision for doubtful debts	28,539	(286,754)
Advertising costs	747,657	1,684,985
Write back of provision for directors' emoluments	(60,000)	Nil
Auditors' remuneration (fees and expenses)	170,000	155,000
Depreciation	14,288,719	14,932,649
Renewals of property, plant and equipment (upkeep)	944,640	724,374
Staff costs include		
- Defined benefit plan costs - Gratuity (Note 20)	369,661	586,136
- Defined contribution plan costs - EPF and ETF	1,815,007	1,739,771
Management fees	5,195,858	2,764,112
Donations	Nil	1,775
Legal fees	127,500	32,000
7 INCOME TAX		
Current income tax		
Current tax expense on ordinary activities for the year (7.1)	285,369	79,240
Over provision of current taxes in respect of prior years	Nil	(101,031)
Deferred income tax		
Reversal of temporary differences (7.2)	(755,099)	(3,446,289)
	(469,730)	(3,468,080)
7.1 Reconciliation between current tax expense and the product of accounting profit and applicable tax rates		
	2010	2009
	Rs.	Rs.
Accounting loss before tax	(2,243,396)	(19,918,660)
Aggregate disallowed items	18,581,464	16,889,380
Aggregate allowable expenses	(14,881,508)	(11,658,999)
Aggregate allowable income	191,100	226,399
Taxable profit / (loss)	1,647,660	(14,461,880)
Income tax		
Trading income	218,484	Nil
Interest income	66,885	79,240
Current income tax expense	285,369	79,240

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

7 INCOME TAX Contd...

7.2 Deferred tax asset, liabilities and income tax relate to the following:

	Balance Sheet		Income Statement	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Deferred tax liability				
Capital allowance for tax purposes	5,112,990	5,952,551	(839,561)	(1,262,052)
Revaluation of buildings (directly in equity)	6,025,269	6,213,643		
	11,138,259	12,166,194		
Deferred tax assets				
Defined benefit plans	275,283	267,841	(7,442)	719
Carry forward of unused tax losses	4,757,176	4,849,080	91,904	(2,184,956)
	5,032,459	5,116,921		
Reversal of temporary differences			(755,099)	(3,446,289)
Deferred tax liabilities - net	6,105,800	7,049,273		

7.3 Deferred tax has been computed using current effective tax rate of 15%.

8 LOSS PER SHARE

8.1 Basic loss per share is calculated by dividing the net loss for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares.

8.2 The following reflects the loss and share data used in the basic loss per share computation:

	2010 Rs.	2009 Rs.
Net loss attributable to ordinary shareholders for basic loss per share	(1,773,666)	(16,450,580)
Number of ordinary shares used as the denominator:	2010	2009
Weighted average number of ordinary shares in issue applicable to basic loss per share	5,859,000	5,859,000
Basic loss per share (Rs.)	(0.30)	(2.81)

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

9 PROPERTY, PLANT AND EQUIPMENT

9.1 Gross carrying amounts

	At 1 April 2009 Rs.	Additions Rs.	Disposals Rs.	At 31 March 2010 Rs.
At cost / cost incurred since last revaluation				
Buildings on leasehold land	44,180,165	65,500	Nil	44,245,665
Swimming pool	3,809,914	30,998	Nil	3,840,912
Furniture and equipment	72,522,517	1,012,293	(411,140)	73,123,670
Motor vehicles	3,448,555	Nil	(2,153,059)	1,295,496
Landscaping	2,440,614	Nil	Nil	2,440,614
Gasifier	3,510,925	Nil	Nil	3,510,925
	129,912,690	1,108,791	(2,564,199)	128,457,282
At valuation				
Leasehold land	3,525,919	Nil	Nil	3,525,919
Buildings on leasehold land	86,648,750	Nil	Nil	86,648,750
Swimming pool	2,500,000	Nil	Nil	2,500,000
Landscaping	1,250,000	Nil	Nil	1,250,000
	93,924,669	Nil	Nil	93,924,669
Total value of assets	223,837,359	1,108,791	(2,564,199)	222,381,951

9.2 In the course of construction

	At 1 April 2009 Rs.	Incurred during the year Rs.	Transfers Rs.	At 31 March 2010 Rs.
Building work-in-progress	Nil	434,439	Nil	434,439
Total gross carrying amount	Nil	434,439	Nil	434,439

9.3 Depreciation

	At 1 April 2009 Rs.	Charge for the year Rs.	Disposals Rs.	At 31 March 2010 Rs.
At cost / cost incurred since last revaluation				
Buildings on leasehold land	4,358,282	1,650,918	Nil	6,009,200
Swimming pool	423,324	142,134	Nil	565,458
Furniture and equipment	42,910,199	8,840,595	(392,344)	51,358,450
Motor vehicles	2,821,840	77,037	(1,717,658)	1,181,219
Gasifier	117,031	234,062	Nil	351,093
	50,630,676	10,944,746	(2,110,002)	59,465,420
At valuation				
Leasehold land	503,704	55,200	Nil	558,904
Amortization of buildings on leasehold land	12,465,136	3,200,810	Nil	15,665,946
Swimming pool	388,889	87,963	Nil	476,852
	13,357,729	3,343,973	Nil	16,701,702
Total depreciation	63,988,405	14,288,719	(2,110,002)	76,167,122
Total net book value	159,848,954			146,649,268

9.4 Net book values

	2010 Rs.	2009 Rs.
At cost / cost incurred since last revaluation	69,426,301	79,282,014
At valuation	77,222,967	80,566,940
Total carrying amount of property, plant and equipment	146,649,268	159,848,954

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

9 PROPERTY, PLANT AND EQUIPMENT Contd...

9.5 The land and buildings were revalued in the financial year 2005 by an independent chartered valuer Mr. D. S. A. Senaratne. The results of such revaluation were incorporated in these Financial Statements from its effective date which is 31 March 2005. Such assets were valued on an open market value for existing use basis. The surplus arising from the revaluation was transferred to a revaluation reserve.

In the financial year 2009 a revaluation was carried out on current use basis, by an independent valuer Mr. A. R. Ajith Fernando for the purpose of ascertaining the fair value of leasehold land and building with its fixtures and fittings. Since the difference between the carrying value and the revalued amounts of the assets were not material to the Financial Statements, it was concluded to carry forward the balances as indicated in the Financial Statements as Net Book Value.

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

Class of asset	Cost Rs.	Cumulative depreciation if assets were carried at cost Rs.	Net carrying amount 2010	Net carrying amount 2009
			Rs.	Rs.
Buildings on leasehold land	51,614,524	27,798,579	23,815,945	25,564,290
Swimming pool	3,809,914	564,432	3,245,482	3,386,590

9.6 Property, plant and equipment includes fully depreciated assets having a gross carrying amount of Rs 11,589,015/- (2009 - Rs. 10,189,566/-) which were in use during the year.

9.7 The leasehold land revalued has been leased from the Sri Lanka Tourist Board. The lease expired on 25 July 2004 and has been renewed by Sri Lanka Tourist Board for a further period of 30 years up to 25 July 2034. The Company has constructed buildings on these properties. On the expiration of the lease term the Sri Lanka Tourist Board will pay to the Company the value of the buildings and improvements constructed with the written approval of Sri Lanka Tourist Board as assessed by the Chief Valuer.

9.8 The Company obtained leasehold rights to land situated in Hotel Sigiriya PLC from Sri Lanka Tourist Board by the agreement dated 25 July 1974. Based on the Ruling 11 of Urgent Issues Task Force (UITF) of The Institute of Chartered Accountants of Sri Lanka, it was stated at revalued amounts. As a result of a revision to said ruling, the Company now carries such leasehold rights to land, at the values recorded in the Balance Sheet as at the effective date of SLAS 19 - Leases.

The leasehold rights to land is disclosed under non current assets under leasehold property. The revised UITF ruling does not permit further revaluation of leasehold property. An amount of Rs 2,896,289 remains in equity under revaluation surplus relating to previous revaluation of leasehold rights to land.

10 INVESTMENTS

	2010 Rs.	2009 Rs.
Investment in equity securities (Note 10.1)	3,333,330	3,090,125
Reversal of impairment	Nil	243,205
	3,333,330	3,333,330

10.1 Investments in equity securities

Investments in equity securities solely comprise application and allotment money paid, to Rainforest Ecolodge (Pvt) Ltd. for the purchase of 333,333 shares of Rs. 10/- each, in the year of 2003/2004.

11 INVENTORIES

	2010 Rs.	2009 Rs.
Food stuff	1,108,781	887,610
Beverage	1,292,984	937,425
House-keeping and maintenance	2,089,026	1,747,454
Laundry	95,705	47,748
	4,586,496	3,620,237

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

12 TRADE AND OTHER RECEIVABLES

	2010 Rs.	2009 Rs.
Trade debtors		
- related parties (12.1)	2,063,948	637,218
- other	11,419,719	7,375,768
	13,483,667	8,012,986
Less: Provision for doubtful debts	(328,469)	(299,930)
	13,155,198	7,713,056
Other receivables	10,438,935	10,437,066
	23,594,133	18,150,122
Advance and prepayments	1,558,096	1,499,157
Loans to Company officers (12.2)	56,348	172,615
	25,208,577	19,821,894

Other receivables include a sum of Rs.10,111,180 due from the sellers of land who executed illegal deeds. The Management have taken steps to institute legal action against them.

12.1 Receivable from related parties

	Relationship	2010 Rs.	2009 Rs.
Diethelm Travels Lanka (Pvt) Ltd.	Affiliate	2,063,948	637,218
		2,063,948	637,218

12.2 Loans to Company officers

At 1 April	172,615	37,788
Loans granted during the year	251,875	481,230
Less: Repayments	(368,142)	(346,403)
At 31 March	56,348	172,615

13 AMOUNTS DUE FROM RELATED PARTIES

	Relationship	2010 Rs.	2009 Rs.
Serendib Hotels PLC	Parent Company	Nil	122,817
Stafford Hotels PLC	Group Company	32,238	Nil
Serendib Leisure Management Ltd.	Group Company	3,150,765	3,206,765
		3,183,003	3,329,582

14 STATED CAPITAL

14.1 Issued and fully paid

	At 1 April 2009	Issued for cash during the year	Issued for non cash consideration	At 31 March 2010
Number of Ordinary shares	5,859,000	Nil	Nil	5,859,000
Stated capital - Ordinary shares (Rs)	97,650,000	Nil	Nil	97,650,000

15 RESERVES

	2010 Rs.	2009 Rs.
Property, plant and equipment		
At 1 April	37,312,535	38,379,988
Deferred tax effect on excess depreciation	188,374	188,374
Reversal of excess depreciation on revaluation surplus	(1,255,827)	(1,255,827)
At 31 March	36,245,082	37,312,535

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

16 INTEREST BEARING LOANS AND BORROWINGS

	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 (Note 16.1)	9,843,180	10,670,174	20,513,354	7,005,980	14,526,462	21,532,442
Bank overdrafts (Note 24.1)	6,590,857	Nil	6,590,857	14,104,825	Nil	14,104,825
	16,434,037	10,670,174	27,104,211	21,110,805	14,526,462	35,637,267

16.1 Bank loan

	At 1 April 2009 Rs.	Loans obtained Rs.	Repayment Rs.	At 31 March 2010 Rs.	Term of Repayment	Rate of Interest
Commercial Bank of Ceylon PLC Term Loan (15 Mn) *	5,016,000	Nil	(1,248,000)	3,768,000	12 monthly installments from Jan' 10	Prime Lending Rate + 1% Revised Monthly
Commercial Bank of Ceylon PLC Term Loan (15 Mn) *	15,000,000	Nil	(1,248,000)	13,752,000	36 monthly installments from Jan' 10	Prime Lending Rate + 2.5% Revised Monthly
Commercial Bank of Ceylon PLC E-Friendly Scheme II Loan	1,516,442	Nil	(349,980)	1,166,462	60 monthly installments from Aug' 08	6.5% p.a.
Commercial Bank of Ceylon PLC Suspended Interest Capitalized Loan	Nil	2,010,192	(183,300)	1,826,892	36 monthly installments from Jan' 10	Prime Lending Rate + 2% Revised Monthly
	21,532,442	2,010,192	(3,029,280)	20,513,354		

* Capital recovery of the term loans were suspended from Nov' 08 to Dec' 09 and recommenced from Jan' 10.

17 NON-INTEREST BEARING LOANS AND BORROWINGS

	2010 Rs.	2009 Rs.
Non - current		
Soft loan from Ministry of Tourism	657,000	657,000

The above loan has been obtained during the period 1983 -1985, and the repayments have not been finalised.

18 DEFERRED TAX LIABILITIES

At 1 April	7,049,273	10,683,936
Release during the year	(755,099)	(3,446,289)
Deferred tax effect on excess depreciation	(188,374)	(188,374)
At 31 March	6,105,800	7,049,273

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

19 DEFERRED INCOME - GRANT RECEIVED

	2010 Rs.	2009 Rs.
At 1 April	1,690,548	700,000
Received during the year	Nil	1,050,000
Less: Amortization during the year	(118,904)	(59,452)
At 31 March	1,571,644	1,690,548

The Hotel introduced a Gasifier system for the steam boiler to replace the existing diesel burner with a wood burner. This has been considered as an environment friendly project and The Ceylon Chamber of Commerce has a grant facility for such projects under Promotion of Eco efficient Productivity (PEP) projects. The Hotel received 50% of the total project cost as a grant (Rs 1.75Mn).The Gasifier started generating steam from 01 October 2008 and grant is amortised to the Income Statement on a straight-line basis over the expected useful life of the Gasifier of 15 years.

20 RETIREMENT BENEFIT OBLIGATIONS

	At 1 April 2009 Rs.	Charge for the year Rs.	Payments during the year Rs.	At 31 March 2010 Rs.
Retirement benefits obligation - Gratuity	1,785,607	369,661	(320,050)	1,835,218

The movement in the defined benefit obligations over the year is as follows:

	2010 Rs.	2009 Rs.
Beginning of year	1,785,607	1,790,398
Current service cost	233,222	869,422
Interest Cost	214,272	Nil
Actuarial gains	(77,833)	(283,286)
Benefit paid	(320,050)	(590,927)
At the end of the year	1,835,218	1,785,607

The amounts recognised in the income statement are as follows:

Current service cost	233,222	869,422
Interest Cost	214,272	Nil
Actuarial gains	(77,833)	(283,286)
	369,661	586,136

As stated in Accounting Policy 2.4.12, as at 31 March 2010, an actuarial valuation was carried out by Messrs Actuarial & Management Consultants (Pvt) Ltd. The principal actuarial valuation assumptions used were as follows:

Discount rate (long-term)	12%
Future salary increases	10%

In additions to above, demographic assumptions such as mortality, withdrawal, disability and retirement age were considered for the actuarial valuation. In 2010, A67/70 mortality table issued by the Institute of Actuaries London was taken as the base for the valuation.

The provision for defined benefit obligations is not externally funded.

21 TRADE AND OTHER PAYABLES

	2010 Rs.	2009 Rs.
Trade payable	3,562,445	3,682,479
Other payables		
- Related parties (Note 21.1)	2,575,719	2,524,928
- Other	2,973,988	2,011,145
Sundry creditors including accrued expenses	8,819,238	6,356,049
	17,931,390	14,574,601

Other payables include advance on reservation of Rs. 1,321,571 (2009 - Rs. 353,688) and service charge payable of Rs. 1,118,988 (2009 - Rs. 692,336).

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

21	TRADE AND OTHER PAYABLES Contd...			
21.1	Payable to Related Parties		2010	2009
		Relationship	Rs.	Rs.
	Stafford Hotels PLC	Group Company	1,571,571	1,665,154
	Serendib Leisure Management Ltd	Group Company	1,004,148	859,774
			2,575,719	2,524,928
22	DIVIDENDS PAYABLE			
	Unclaimed dividends		519,928	519,928
			519,928	519,928
23	AMOUNTS DUE TO RELATED PARTIES			
		Relationship		
	Serendib Hotels PLC	Parent Company	4,443,619	3,664,749
			4,443,619	3,664,749
24	CASH AND CASH EQUIVALENTS			
	Cash at bank and on hand		1,694,167	1,419,817
			1,694,167	1,419,817
24.1	For the purpose of the cash flow statement, the year end cash and cash equivalents comprise the following:			
	Cash and cash equivalents		1,694,167	1,419,817
	Bank overdraft		(6,590,857)	(14,104,825)
			(4,896,690)	(12,685,008)

25 COMMITMENTS AND CONTINGENCIES
The Company has no contingent liabilities as at 31 March 2010

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.	
Leasehold land and building	Primary mortgage up to the value of Rs. 30 Mn to Commercial Bank of Ceylon PLC	108,958,795	113,619,097	Property, plant and equipment
Gasifier equipment	Primary mortgage up to the value of Rs. 1.75 Mn to Commercial Bank of Ceylon PLC	3,159,832	3,393,894	Property, plant and equipment

27 EVENTS OCCURRED AFTER THE BALANCE SHEET DATE
There have been no material events occurred 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 TRANSACTIONS

28.1 The Directors of the Company are also Directors of the following Companies:

	Serendib				Hemas			
	Serandib Hotels PLC	Leisure Management Ltd.	Stafford Hotels PLC	Miami Beach Hotels Ltd.	Hemtours (Pvt) Ltd.	Diethelm Travels Lanka (Pvt) Ltd.	Corporate Services Ltd.	Hemas Holding PLC
Mr. E. J. De Soysa	x	x	x	x	-	-	-	-
Mr. A. N. Esufally	x	x	x	x	x	x	-	x
Mr. B. S. M. De Silva	x	x	x	x	-	-	-	-
Ms. A. R. Gamage	-	x	x	-	-	-	-	-
Mr. H. N. Esufally	x	x	x	-	x	x	x	x
Mr. L. P. Fernando	-	-	-	-	-	-	-	-
Mr. R. H. S. De Silva	-	-	-	-	-	-	-	-
Ms. K. A. Wilson	-	-	-	-	-	-	x	-
(Alternate - Mr. H. N. Esufally)								
Mr. W. M. De F. Arakularatne	x	x	x	-	x	x	x	-
Prof. L. D. K. Gamage	x	-	-	-	-	-	-	-
(Alternate - Ms. A. R. Gamage)								
Mr. V. H. A. Perera	-	-	-	-	x	x	-	-
(Alternate - Mr. A. N. Esufally)								

x - denotes the Companies in which each of the persons mentioned was a Director/ Alternate Director.

The nature of the transactions are disclosed in Note 28.2 below.

Notes to the Financial Statements Contd...

Year Ended 31 March 2010

28 RELATED PARTY TRANSACTIONS Contd..

28.2 The details of transactions carried out with the related parties are listed below;

Nature of transaction	Serendib Hotels PLC Parent Company		Serendib Leisure Mgt. Ltd. Group Company		Stafford Hotels PLC Group Company		Diethelm Travels Lanka (Pvt) Ltd. Affiliate		Hemas Corporate Serv. (Pvt) Ltd. Affiliate		Total	
	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Sale of goods / services	2,569	Nil	Nil	378,855	Nil	6,622,089	8,731,740	Nil	7,003,513	8,731,740		
Purchase of goods & services	1,100,895	342,724	Nil	409,576	1,161,995	Nil	Nil	Nil	1,510,471	1,504,719		
Purchase of property, plant & equipment	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil		
Receipt of services	Nil	57,747	66,980	Nil	60,635	Nil	Nil	Nil	Nil	185,362		
Loan granted	Nil	3,000,000	Nil	Nil	Nil	Nil	Nil	Nil	Nil	3,000,000		
Loan repayment	Nil	(3,100,000)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	(3,100,000)		
Finance income	Nil	54,307	294,000	Nil	Nil	Nil	Nil	Nil	294,000	348,307		
Finance expense	570,000	228,000	Nil	Nil	Nil	Nil	Nil	Nil	570,000	228,000		
Management fees paid	Nil	Nil	5,195,858	2,764,112	Nil	Nil	Nil	Nil	5,195,858	2,764,112		
Accounting fees paid	Nil	Nil	618,138	240,000	Nil	Nil	Nil	Nil	618,138	240,000		
Secretarial & professional fees paid	Nil	Nil	Nil	Nil	Nil	Nil	Nil	132,000	36,000	132,000		
Expenses reimbursed	Nil	Nil	4,408,914	4,262,085	Nil	Nil	Nil	Nil	4,408,914	4,262,085		
	1,673,464	582,778	10,516,910	7,627,177	1,222,630	6,622,089	8,731,740	36,000	19,636,894	18,296,325		

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 - 1000	474	154,144	2.63	407	118,152	2.03
1,001 - 10,000	132	451,638	7.71	103	395,730	6.75
10,001 - 100,000	24	625,657	10.68	22	572,157	9.76
100,001 - 1,000,000	1	193,150	3.30	2	338,550	5.78
Over 1,000,000	1	4,434,411	75.68	1	4,434,411	75.68
	632	5,859,000	100.00	535	5,859,000	100.00

Categories of Shareholders

Institutions	31	4,877,191	83.24	44	5,166,591	88.18
Individuals	601	981,809	16.76	491	692,409	11.82
	632	5,859,000	100.00	535	5,859,000	100.00

Public Holding

21.57% of the Issued Shares were held by the Public as at 31st March 2010 (2009 - 21.57%)

Share Trading

	2009/10		2008/09	
Highest Market Price (Rs.)	73.00	(19.08.09)	34.00	(18.02.09)
Lowest Market Price (Rs.)	21.00	(03.04.09)	18.00	(26.11.08)
Last Traded Price (Rs.)	52.25	(30.03.10)	24.50	(31.03.09)
No. of Shares Traded	1,101,000		234,000	
No. of Trades	1,722		383	
Turnover (Rs.)	59,140,650		6,648,750	

Shareholder and Investor Information Contd...

Major Shareholdings

Twenty Major Shareholders

As at 31 March

	2010		2009	
	No. of Shares	%	No. of Shares	%
Serendib Hotels PLC	4,434,411	75.68	4,434,411	75.68
J. B. Cocoshell (Pvt) Ltd.	193,150	3.30	199,650	3.41
Mr. S. A. O. A. Abo Qamaz	92,500	1.59	29,000	0.49
Mr. J. C. L. De Mel	72,000	1.24	72,000	1.23
Mr. E. J. De Soysa	70,000	1.19	70,000	1.19
The Mahayaya Estates Company Ltd	50,600	0.86	50,600	0.86
Mercantile Investments Ltd.	38,900	0.66	38,900	0.66
Mrs. H M S Seneviratne	30,700	0.52	7,000	0.12
Seylan Bank PLC - A / C No.1	26,700	0.46	-	-
WML/ Mrs. G. Soysa	20,000	0.34	20,000	0.34
Mr. B. S. M. De Silva	19,500	0.33	19,500	0.33
Mr. H. K. G. Sirisena	18,200	0.31	9,900	0.17
Mr. N. J. H. M. Cooray	18,100	0.31	18,100	0.31
Mr. P. Pathirana	16,000	0.27	6,500	0.11
Mr. M. M. A. Cassim	15,750	0.27	15,750	0.27
Mr. O. R. Kreltszheim	15,480	0.26	15,480	0.26
Ms. M. M. Wanigaratne	15,000	0.26	7,800	0.13
C. W. Mackie PLC	14,000	0.24	14,000	0.24
Cocoshell Activated Carbon Co. Ltd.	12,950	0.22	13,950	0.24
Alliance Finance Co. PLC	12,800	0.22	138,900	2.37
	5,186,741	88.53		
Shares held by the balance shareholders	672,259	11.47		
	5,859,000	100.00		

Notice of Meeting

NOTICE IS HEREBY GIVEN that the **THIRTY SIXTH (36TH) ANNUAL GENERAL MEETING** of **HOTEL SIGIRIYA 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 **3.00 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. W. M. De F. Arsakularatne who retires by rotation in terms of the Articles of Association, as a Director of the Company.
3. 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."

4. To re-appoint Messrs PricewaterhouseCoopers, Chartered Accountants as the Auditors of the Company for the ensuing year and authorize the Directors to determine their remuneration.
5. To authorize Directors to determine and make contributions to charity.
6. **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."

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

By Order of the Board of
HOTEL SIGIRIYA 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 **HOTEL SIGIRIYA PLC** do hereby appoint
.....
of.....or failing him/her

- | | |
|-------------------------------|----------------|
| Mr. E. J. De Soysa | or failing him |
| Mr. A. N. Esufally | or failing him |
| Mr. L. P. Fernando | or failing him |
| Mr. R. H. S. De Silva | 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. W. M. De F. Arsakularatne | or failing him |

as*my/our proxy to represent *me/us and to vote on *my/our behalf at the Thirty Sixth Annual General Meeting of the Company to be held on **Monday, 12 July 2010 at 3.00 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. W. M. De F. Arsakularatne who retires by rotation in terms of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. 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"/>
4. To re-appoint Messrs PricewaterhouseCoopers as Auditors and authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorize Directors to determine and make contributions to to charity.	<input type="checkbox"/>	<input type="checkbox"/>
6. To pass a Special Resolution 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	: Hotel Sigiriya PLC (Formerly known as Ceylon Luxury Hotels Ltd.)
LEGAL FORM	: A Public Quoted Company with Limited Liability Incorporated in 1971 under the Companies Ordinance. (Cap 145)
COMPANY REGISTRATION NO.	: PQ 81
BOARD OF DIRECTORS	: E.J. De Soysa - Chairman A.N. Esufally (Alt.: V.H.A.Perera) L.P. Fernando R.H.S. De Silva B.S.M. De Silva A.R. Gamage (Ms) (Alt.: Prof. L. D. K. B. Gamage) 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 AGENTS	: Serendib Leisure Management Ltd.
AUDITORS	: PricewaterhouseCoopers Chartered Accountants 100, Braybrooke Place Colombo 02.
BANKERS	: Commercial Bank of Ceylon PLC
HOTEL	: Hotel Sigiriya Sigiriya. Phone : + 94 (66) 2286821 Fax : + 94 (66) 2286820
MANAGER	: Laksitha Wegodapola

Serendib Leisure Management Ltd.

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