



Eloquent
Exceptional. Extraordinary.

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Eloquent
Exceptional. Extraordinary.

Staying true to the eloquence, style and elegance that is characteristic of the Hilton brand, every facet of your stay has been improved upon to ensure that your experience at the Hilton Colombo is nothing short of extraordinary. Our backbone is our exceptionally diligent workforce whose passion for excellence and zeal to help the hotel transcend the norm and continuously evolve has helped us succeed in providing our guests with the experience of a lifetime.

The cutting-edge training we have provided them with and the spirit to succeed that we have imbibed in them has made our team the most sought after in the hospitality sphere, while the priority we give them as an integral element in our operations has inspired unwavering loyalty. Our three-decade long legacy will endure as we proceed into the year ahead, staying true to our reputation as a globally recognised beacon of personalised opulence.

Step into Sophistication

Soak in the ambience of luxury and class, a standard that we have been upholding for decades in the hospitality industry.





First Impressions

From check in to check out, our commitment to the needs of our guests is truly remarkable.





Service with a Smile

The warm and welcoming personality of all our team members go a long way in creating memories that last a lifetime.





A Good Eye

Our attention to detail is absolutely exceptional; it is what sets us apart from the rest in the hospitality industry.





Expert Care

We pride ourselves in possessing a team that is truly professional; Masters of their art and in the nuances of amazing service, they take experiences from ordinary to extraordinary.





Setting the bar

Over the past few decades, we have set the standards for world class service in Sri Lanka and will continue to do so in the decades ahead.







311 *FULLY EQUIPPED ROOMS*

44 *LUXURY SUITES*

EXECUTIVE LOUNGE

*ALL DAY DINING RESTAURANT
WITH ALFRASCO DINING*

LOUNGE & BAR

COFFEE SHOP

FULLY EQUIPPED MODERN KITCHENS

AUTHENTIC CHINESE RESTAURANT

MULTI EVENT VENUES & BALLROOMS



Financial Highlights

	For the Year ended 31st December 2017	For the Year ended 31st December 2016
Room Revenue LKR '000	1,317,248	1,151,954
F&B Revenue LKR'000	1,635,026	1,330,543
Other Revenue LKR '000	63,088	58,183
Total Revenue LKR '000	3,015,362	2,540,680
Gross Profit Margin %	82	83
Profit/(Loss)before Tax LKR'000	172,976	172,944
Profit After Tax LKR'000	258,017	141,012
Earning/(Loss) per share LKR	0.13	0.07
Average Room Rate LKR	21,077	20,408
Occupancy %	57	47
Long Term Interest Bearing Borrowings LKR'000	Nil	Nil
Total Equity LKR '000	14,022,329	13,772,897
Debt/Equity %	1.94	2.47
Total Assets LKR '000	15,428,109	15,362,703
Debt /Total Assets %	1.77	2.21
Current Assets LKR'000	755,730	1,016,007
Current Liabilities LKR'000	875,628	862,057
Current Ratio (times)	0.86	1.18
Quick Assets Ratio (times)	0.80	1.12



Chairman's Message

"Now operating in a vibrant post-war scenario, with Sri Lanka increasingly considered a mature democracy and one of the most peaceful places on earth, Hilton Colombo echoes the country's optimistic outlook. The property is currently in the throes of a magical transformation that will propel Hilton Colombo to new heights, leagues ahead of the latest international hotel brands entering Sri Lanka"

Dear Shareholder,

It gives me joy to present the Annual Report and Audited Financial Statements of Hotel Developers (Lanka) PLC for the 2017 financial year, which coincidentally marks 30 successful years of operations for its leisure property, Hilton Colombo. Our journey over three decades has been nothing short of inspirational, with Hilton entrenching itself as a brand that is deeply committed to the long-term sustainability of Sri Lanka's tourism industry, while setting service standards benchmarks for the rest of the industry to emulate.

As the first international hotel brand to set up operations in Sri Lanka 30 years ago, Hilton Colombo stayed the course during the ensuing three-decade strife in the island, standing as a beacon of comfort for tourists and local guests throughout – the presence of a Hilton brand in the country offering them a reassuring promise. Over the decades, despite growing competition, the stellar Hilton brand of service with the support of loyal Hilton patrons has helped to sustain and expand market share.

Now operating in a vibrant post-war scenario, with Sri Lanka increasingly considered a mature democracy and one of the most peaceful places on earth, Hilton Colombo echoes the country's optimistic outlook. The property is currently in the throes of a magical transformation that will propel Hilton Colombo to new heights, leagues ahead of the latest international hotel brands entering Sri Lanka. It gives me great pride to announce that the initial phase of refurbishment was successfully completed during the year under review, which encompassed the lobby and other public areas of the hotel. The new look and aesthetics of the refurbished areas of the hotel have captivated our patrons.

Financial Performance

Despite being in refurbishment mode over most of the year under review, the company achieved a revenue increase from Rs. 2.5 Bn in the previous year to reach Rs. 3 Bn in 2017. Profit after tax increased from Rs. 141 mn to Rs. 258 mn. For this exemplary achievement, I must thank the enduring commitment of our team and the unstinted loyalty of Hilton Honours members and other local and foreign guests who continue to seek out the Hilton brand of excellence and service. Many of our guests affirm that their experience at the Hilton Colombo is unparalleled, making them return to the property again and again. During the year under review, the company ensured strict compliance to industry regulations and good governance practices. The company continues to maintain a strong balance sheet coupled with prudent financial management systems and strategic planning. We pledge to remain true to the ethos of Hilton Colombo as Sri Lanka's beloved brand and icon of its city centre and do everything possible to ensure the property reaches new heights in the hospitality business.

Our projections for industry expansion remained solid, and I am pleased to note that this was borne out by the fact that the tourism sector proved its mettle once again as one of the mainstays of national economic growth during the year under review. We are optimistic that recent measures by the government to put the national economy back on a growth trajectory will serve the hospitality and tourism sectors well. The foundation has been set for robust economic growth in the months ahead. The government has taken bold steps to establish good governance and transparency. We expect the administration to take similar

Chairman's Message

bold measures to drive tourism. As Sri Lanka emerges as a vibrant democracy and one of the most peaceful nations in the world, the industry expects the Government to take some bold and impactful measures to market Sri Lanka as a destination internationally, to optimise the potential of this emerald isle.

Macro Industry and Economic Backdrop

The tourism industry remained the third-largest foreign exchange earner in the country, despite recording a moderate growth of tourist arrivals in 2017. Meanwhile, Sri Lanka's real GDP growth decelerated further during 2017 to 3.1 per cent, from the growth of 4.5 per cent recorded in 2016.

Although tourist arrivals recorded the highest annual arrivals of 2,116,407 in 2017, the year-on-year growth in arrivals moderated to 3.2 per cent. Flight cancellations and delays at the international airport, due to partial operations at the international airport until April 2017 owing to repairs and the upgrade of the runway contributed in some measure to sluggish performance in the tourism sector.

India maintained its lead as the prime tourist source, contributing mostly to the growth with 384,628 arrivals in 2017, while China remained the second largest origin albeit recording a marginal decline, followed by the UK, Germany and France. These five largest tourist source destinations together accounted for 51.2 per cent of tourist arrivals to Sri Lanka in 2017.

Despite a lower than expected growth in tourist arrivals, earnings from tourism remained healthy with increased average spending and duration of stay by tourists during 2017. Earnings from tourism increased by 11.6 per cent to US dollars 3,925 million in 2017, in comparison to US dollars 3,518 million in 2016.

Tourism earnings are expected to grow steadily over the medium-term complemented by targeted promotional campaigns and continued investment in upgrading and expanding tourism related infrastructure. Several policy initiatives and actions were implemented in 2017 to harness the potential of Sri Lanka's tourism industry such as the New Tourism Strategic Plan 2017-2020 to facilitate Tourism Vision 2025 and help achieve the United Nations' Sustainable Development Goals on tourism.

Accordingly, it is expected to raise earnings from tourism up to US dollars 7 billion, employ 600,000 workers in support industries, and increase daily spending per tourist to 210 US dollars by 2020.

Although the tourism sector remains a promising foreign exchange earner of the economy, Sri Lanka has not yet tapped its full potential in the global market.

Globally, the tourism and hospitality sector continues to generate vibrant commercial activity at every level of the international economy, generating revenues in excess of US\$ 1.4 trillion and accounting for as much as 7% of total exports and 10% of global GDP in 2017. The year under review was characterised by sustained growth in many destinations and a firm recovery in those that suffered decreases in previous years. Results were partly shaped by the global economic upswing and the robust outbound demand from many traditional and emerging source markets, particularly a rebound in tourism spending from Brazil and the Russian Federation after a few years of declines.

Future Outlook

These developments bode well for the future of Sri Lanka tourism. I commend the ambitious initiatives taken by the Sri Lanka Tourism Promotion Board to sustain and grow momentum in the industry. Hilton Colombo's refurbishment and renewed product in line with global Hilton brand standards will be the mainstay of Sri Lanka's bouquet of leisure properties. The completion of the first phase of refurbishment has already augmented our iconic service platform and reiterated that the company has delivered on its promise of an elevated leisure offering to its loyal clientele.

The final stage of refurbishment will commence in 2018 and boost profitability with extensive room refurbishment and new food and beverage offerings to enhance the portfolio of the hotel. I am confident that this strategic investment will further entrench Hilton Colombo as the obvious choice amongst Sri Lanka's finest hotels while supporting the national vision for the industry.

We have taken cognizance of escalating competition within the industry and believe Hilton Colombo competes strongly on aspects including its location, high level and consistency of service, quality of accommodation, food and beverage options, brand reputation and the Hilton Honours loyalty programme, which contributes almost 50% to our occupancy rate. Hilton Colombo has maintained its excellent service standards over three decades and the property prides itself on continuous adaption to emerging trends and evolving customer expectations. Our superlative service standards remain our core competitive advantage.

"The success of our business is linked to the success of our people. Our inspired level of service is emblematic of our dedicated and skilled team of hospitality professionals who consistently exceed guest expectations. Our staff is world-class and can easily compete with the best of the best. It is our unique signature Hilton service that keeps our guests returning to our property for every special occasion."

Pillars of Our Success

The success of our business is linked to the success of our people. Our inspired level of service is emblematic of our dedicated and skilled team of hospitality professionals who consistently exceed guest expectations. Our staff is world-class and can easily compete with the best of the best. It is our unique signature Hilton service that keeps our guests returning to our property for every special occasion. Employees who move on from Hilton always find their way back to us, claiming that the world-class training, dignity and warmth they receive in Hilton is something extraordinary. The Hilton brand provides strong career progression supported by a structured talent development training programme.

The Hilton Colombo salutes employees who have been standing shoulder to shoulder with the hotel through 30 years. It is their unwavering loyalty that helps us deliver our promise of eloquent service with consistency.

Our Hilton Honours loyal guests must be appreciated for patronising the hotel despite the refurbishment process. Hilton Honors is our award-winning guest loyalty programme that generates significant repeat business by rewarding guests with points for each stay at any Hilton properties worldwide. Hilton Honors members represented a large share of our room occupancy and contributed significant revenues during the year.

Further, the hotel remains invested in its local community, conducting an array of social responsibility projects to improve people's lives. We are committed to having a positive economic and social impact on the communities we engage with. Volunteerism is a big part of our employee culture and Hilton Colombo is proud to inculcate this trait amongst its employees as ideal citizens.

Environmental responsibility has underscored our three-decade-long journey and the hotel has adopted energy efficiency and

waste management systems across its operations. It is our way of doing our part to ensuring a safer, cleaner more sustainable planet for the well-being of all Sri Lankans.

My gratitude also goes out to our clientele, both local and foreign, for seeking out our brand of service, accommodation, culinary experiences, extraordinary customer service and a warm sense of belonging that make our guests feel instantly at home. We are grateful for their support and patronage.

Acknowledgements

Our successful journey spanning 30 years was made possible by the valuable contributions of all our stakeholders. They have loyally upheld the Hilton brand and we salute our guests, partners, suppliers, shareholders and the regulatory authorities for their support and guidance through the years. My colleagues on the Board and the senior management and staff have been the pillars of our success. Our people continue to lead our extraordinary service standards, led ably by an excellent General Manager, who has an eye for talent and attention to detail and a habit of going above and beyond the call of duty that allows us to consistently deliver on the promise of our brand. Our people are the heart of our operations and they have made Hilton Colombo what it is: a source of inspiration and a warm and inviting space embedded in the collective consciousness of Sri Lankans as their all-time favourite hospitality brand.



Krishantha Prasad Cooray
Chairman

Competent Authority and the Board of Directors

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Left to Right

Mr. Pravir Samarasinghe, Mr. Dhanuka Ranjith Samarasinghe, Ms. Sonali Liyanamana, Mr. Dinouk Colombage, Mr. Shezmin Mansoor, Ms. Dheeshana Ameresekere



Left to Right

Ms. Tehani Mathew, Mr. J. M. U. P. Jayamaha, Mr. Krishantha Prasad Cooray, Mr. C. Ramachandra, Mr. Athula Senanayake

Competent Authority and the Board of Directors

Mr. Krishantha Prasad Cooray

Chairman

Mr. Cooray, whose academic training has been in Political Science and Law, is a senior professional with many years of experience in the corporate sector. Upon obtaining a Bachelor of Arts (Honours) degree in Political Science and Law from the University of Middlesex, Krishantha Cooray joined the Richard Pieris Group as Head of Business Development.

He went on to found the first completely independent publishing house owned by a public-quoted company. He has held several executive positions in leading and innovative corporate entities including the Ceylinco Group, the Richard Pieris Group and the Maharaja Organization. He was instrumental in setting up Rivira Media Corporation (Pvt) Ltd. under the Richard Pieris Group, serving as a Founding Director and the Chief Executive Officer. The two flagship newspapers launched under his direction, Rivira and The Nation, quickly made their mark as independent and widely circulated newspapers. As a Consultant to the Maharaja Group, Mr. Cooray instituted process and best practices to streamline and ensure the unified executive coordination of news broadcasts across the company's TV and Radio stations. He is a regular contributor to national newspapers in both English and Sinhala, writing on a wide range of topics in the public interest. At present he is a Board Member of DFCC Bank and Chairman/Managing Director of the Associated Newspapers of Ceylon Limited, more generally known as "Lake House".

Ms. Dheeshana Ameresekere

Director

Ms. Dheeshana Ameresekere is the Managing Director of the Award-Winning Boutique Hotel, The Theva Residency and Award-Winning Restaurant, The Theva Cuisine in Kandy. The Theva Residency was awarded for "World Luxury Hotel Award for 2017" and is a "Winner of Trip Advisor Service Excellence Award" for the last 8 years consecutively. The Theva Cuisine Restaurant was selected as a "Winner of World Luxury Restaurant Award 2017" and is a "Winner of Trip Advisor Service Excellence Award" for past 2 years. She holds a Bachelor of Science in Business Administration (specialising in International Marketing) from the American University in Washington DC, USA, a Bachelor of Science in Travel Industry Management (specialising in Hotel Management) from the University of Hawaii, USA; and a Diploma in Restaurant, Travel & Tourism Management, Kapiolaani College, Hawaii, USA. She was previously the Resident Manager at The Park Street Hotel, Taru Villas, Colombo; and Food & Beverage Coordinator and Guest Relations Executive at Hilton Colombo.

Mr. Athula Senanayake

Director

Mr. Athula Senanayake is a hospitality professional who completed his higher studies at the renowned Institute of Hotel Management and Tourism in Salzburg, Austria, graduating with distinction.

He went on to work at Hilton International in the UK for five years at Park Lane, Kensington and Stratford-Upon-Avon hotels, rising to manage the fine dining operation. On his return to Sri Lanka, he was employed as Assistant Food and Beverage Manager at the Hotel Lanka Oberoi (now Cinnamon Grand) and was then recruited to the launch team of the Colombo Hilton in 1987 in the capacity of Food and Beverage Manager. He was involved in the pre- and post- opening stages of the hotel that established itself as the premier hotel in Colombo.

In 1991, he left to successfully launch Don Stanley's group which specialises in fine restaurant operation, niche market food supply and bespoke catering services.

During his experience in the field that spans 40 years, he has acquired an in-depth knowledge in dealing with international hotel chain operators and is cognizant of all aspects of hotel operation with an accent on food and beverage services.

Mr. J. M. U. P. Jayamaha

Director

Mr. Jayamaha is the Additional Director General of the Department of Public Enterprises of the General Treasury, Member of Board of Directors of National Water Supply & Drainage Board, Lankaputhra Development Bank and Institute of Fundamental Studies. A Member of the Sri Lanka Government Accountants' service, with nearly 25 years of experience in Financial and Accounting fields, he served in several key government entities including Ministries and Departments. He holds a Masters Degree in Development Studies from University of Colombo, Post-Graduate Diploma in Accounting and Financial Management from University of Sri Jayewardenepura, Diploma in Public Financial Management from Sri Lanka Institute of Development Administration (SLIDA) and Licentiate Certificate from the Institute of Chartered Accountants of Sri Lanka. He was a member of the Board of Directors of the Sri Lanka Convention Bureau.

Ms. Sonali Liyanamana

Director

Ms. Sonali Liyanamana is a senior travel and tourism industry expert with over 25 years of experience in working with both local and international companies. She has implemented company policy and strategy for including maximising bottom-line performance through P&L, staff management, loss-control, airline incentive negotiations and product development. She has expertise in product development and marketing of international destinations, group travel and leisure FIT travel planning, and is presently working as the CEO of Interglobe Travel (Pvt) Ltd., a member of the World Link Group of Companies. She is also serving as the Vice-President of the Italian Business Council of Sri Lanka.

Ms. Tehani Mathew

Director

Ms. Tehani Mathew holds a Bachelor of Arts in Political Science from Columbia University, New York, USA, and Master of Science in Applied Psychology from University of Colombo. She is the Chief Trustee of Expo 80 Foundation (Tyronne Fernando Foundation), Moratuwa and Director of Vision Packaging (Pvt) Ltd, Packwell Lanka (Pvt) Ltd and LJM Peiris & Co. Ltd. She was the President of the Seva Vanitha Movement, Ministry of Information and Broadcasting from 1990 to 1993, Ministry of Foreign Affairs from 2002- 2004 and Volunteer Counsellor at Women in Need, from 1996- 2003. She is a member of the American Alumni Association of Sri Lanka and Women's Chamber of Industry and Commerce, Sri Lanka.

Mr. Shezmin Mansoor

Director

Mr. Mansoor completed his Bachelor's Degree in Science, majoring in Supply Chain Management from Arizona State University, USA. He was awarded a Scholarship during his degree and featured in the prestigious Dean's List, awarded for outstanding academic results. Having over 19 years of experience across a diverse range of industries including the Garments and Clothing industry in Sri Lanka where he setup franchised brands, produced and exported attire, he worked as Supply Chain & Logistics Director in various companies in USA and recently set up his own company in the Gem & Jewellery industry. He is a member of the Federation of Chamber of Commerce and Industry of Sri Lanka (FCCISL) and a member of the Sri Lanka Gem & Jewellery Association.

Competent Authority and the Board of Directors

Mr. Dinouk Colombage

Director

Mr. Colombage pursued a Bachelor of Arts degree at the University of Sydney in Australia and majored in 20th Century History. After graduation in 2009, he returned to Sri Lanka where he worked briefly at the British High Commission, then at the Sunday Leader as a Deputy Sports editor. His tenure as the Deputy Sports Editor saw him cover the 2011 World Cup hosted by Bangladesh, Sri Lanka and India. In 2012 he was appointed Features Editor of the Sunday Leader. While holding this post he was sponsored by the US Embassy in Colombo for a reporting tour of the US during the US Presidential Election. In 2013, he was recruited by Al-Jazeera English to report from Sri Lanka. During his time with Al-Jazeera, he has covered numerous issues including the Commonwealth Heads of Government Meeting (CHOGM) which was hosted in Sri Lanka in 2013. Mr Colombage is also the Working Director of Litro Gas Lanka Limited.

Mr. Pravir Samarasinghe

Director

Mr. Pravir Samarasinghe is the Director/Group CEO of Overseas Realty (Ceylon) PLC the premier property company; the developers of the World Trade Center, Colombo and Havelock City.

He has 30 years of professional and commercial experience and serves on the Board of Directors of several public listed and unlisted Companies.

He is a Board member of the Ceylon Chamber of Commerce and the Vice Chairman of the Employers Federation of Ceylon. He was the former Chairman of the Condominium Developers Association of Sri Lanka, Sri Lanka Institute of Directors, Industrial Association of Sri Lanka and past President CIMA Sri Lanka Division and former Council member CIMA Global.

He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and Chartered Institute of Management Accountants UK and holds a Masters Degree in Business Administration.

Mr. C. Ramachandra

Competent Authority

Mr. Ramachandra also functions as the Chairman of Asia Asset Finance PLC and as an Independent Non-Executive Director of UB Finance Ltd. He holds over 40 years experience in the fields of Auditing, Tea Exports, Financial Services and Packaging. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka (ICASL). He served as a Partner of Messrs Hulugalle, Samarasinghe & Company from 1975-78, then joined Lipton Ceylon Ltd in 1978 and left in 1992 as Chief Accountant/Company Secretary, serving six months in the UK Head Office of Lipton UK. Later, he functioned as General Manager of Commercial Bank of Ceylon's Fund Management Company; Finance Manager/Company Secretary of Varna Ltd; and Chief Financial Officer of Uni Walkers Group. He was the Executive Director of Uni Walker Packaging Ltd from 2005 -2015. He also served as Non-Executive Director of Sathosa Retail Ltd, and as independent Director on the Boards of Capital Reach Holdings Ltd, Capital Reach Credit Ltd and Capital Reach Leasing Ltd (now Softlogic Finance).

Dhanuka Samarasinghe

Director

Having returned from Australia following his education in 2004, Dhanuka joined his family's plantation and rubber manufacturing business. He has since founded and as Chairman led TAD Holdings (Pvt) Ltd in to one of Sri Lanka's fastest growing Conglomerates.

TAD Holdings currently has interests in the Power, Plantation, Real Estate, Hospitality and Commodity Brokering sectors.

TAD Power currently owns close to 21 MW of Hydro Power in Sri Lanka. TAD Plantations (Pvt) Ltd is the holding company of a series of estates totaling over 4000 acres; the plantation company owns and manages a portfolio of low and mid grown tea and cinnamon estates. It also owns and operates a number of tea factories.

He is also the Chairman of Mercantile Produce Brokers, one of Sri Lanka's top three tea and commodity brokerages and serves on the Board of several other Organizations.

Management Team



Left to Right

Mr. V. Kanagasabapathy, Mr. Shamahil Mohideen, Mr. Sudarshan Sri Rayen, Mr. Jude Wickramaratne

Management Team

Mr. V. Kanagasabapathy

MPA (HARVARD), CPFA (LONDON) FCA, FPFA, FCMA, FMAAT

Advisor to the Board

Mr. Kanagasabapathy, Retired Director General of Public Enterprises, General Treasury currently functions as member of the Finance Commission of Sri Lanka, member of the Council of University of Jaffna, President of the Association of Public Finance Accountants, the Public Sector Wing of CA Sri Lanka; Chairman of the Public Sector Accounting Standards Committee and Member of the Governmental and Public Sector Enterprise Accounting Committee of the South Asian Federation of Accountants. He counts over 40 years of service in the public sector and was the Financial Management Reform Co-ordinator in the Ministry of Finance & Planning. Holds a Master's Degree in Public Administration from Harvard University and is a Chartered Public Finance Accountant, London. He is also a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, Association of Public Finance Accountants of Sri Lanka, Institute of Certified Management Accountants of Sri Lanka and Association of Accounting Technicians of Sri Lanka.

Past President of the Institute of Public Finance and Development Accountancy of Sri Lanka. He was also the Financial Management Advisor to the Ministry of Finance & Planning and Senior Financial Consultant of the Academy of Financial Studies. He served as a Board member of Bank of Ceylon and was a Director of People's Bank, Merchant Bank of Sri Lanka, State Mortgage & Investment Bank and many other State Owned Enterprises. He served as Director/Financial Consultant of Associated Newspapers of Ceylon Limited as well.

Mr. Shamahil Mohideen

ACMA - UK

Chief Operating Officer

Mr. Shamahil Mohideen is the Chief Operating Officer since May 2013. He is a member of the Chartered Institute of Management Accountants (CIMA UK). His post qualifying experience spans more than 20 years, having served in several leading corporates both local and overseas in Senior Managerial positions. Prior to joining Hotel Developers (Lanka) PLC he has served as a Director / Vice President of Aitken Spence Power, owned by the Aitken Spence Group.

Mr. Sudarshan Sri Rayen

MBA, B.SC (HONS), FCCA, ACMA

Chief Financial Officer

Mr. Sudarshan Sri Rayen holds a Masters Degree in Business Administration from the University of Colombo and a Bachelors Degree with Honours in Physical Science from the University of Peradeniya. He is also a Fellow Member of the Chartered Association of Certified Accountants - UK and an Associate Member of the Chartered Institute of Management Accountants - UK. He has been with the Company since December 1987.

Mr. Jude Wickramaratne

ACMA -UK

Accountant

Mr. Jude Wickramaratne is an Associate Member of the Chartered Institute of Management Accountants - UK and is currently pursuing a Master's Degree in Business Administration at Postgraduate Institute of Management-University of Sri Jayewardenepura. He counts 9 years of experience in the field of accounting and joined the Company in October 2012.

Management Discussion & Analysis

" During the year, revenue expanded by 20% YoY up to Rs. 3.02 billion, supported by increases in room revenue from Rs. 1.2 billion in 2016, up to Rs. 1.32 billion, and F&B revenue from Rs. 1.33 billion up to Rs. 1.64 billion "



About Us

Hotel Developers (Lanka) PLC engages in the hospitality trading business in Sri Lanka (referred to as 'the company' in this annual report). It owns and operates Hilton Colombo Hotel. The company was incorporated in 1983.

Our Business Approach in Year 2017

The company implemented multiple key strategic imperatives during the year under review, in alignment with its vision, objectives, strengths, weaknesses and emerging opportunities and constraints in the operating environment. These strategies were focused on the expansion and refinement of facilities and infrastructure in order to maintain and extend Hilton Colombo's leadership position in corporate tourism, through refurbishment and continuous refinement of service quality through the implementation of HR best practices. The company anticipates these investments to support the company to stay ahead of the curve as the local tourism sector and city hotels sector place greater emphasis on MICE tourism. An overview of the national economy and global and local tourism industry conditions provides the ideal backdrop against which to analyse the performance of the company in the 2017 financial year.

Macro Economic Environment

The adverse impact of natural disasters across the country rendered 2017 a challenging year for Sri Lanka in economic terms, leading its growth rate to decline to a 16-year low of 3.1% in 2017. Prolonged drought and later, floods took a toll on growth and the external sector while raising inflation to 6.6%. However, a sharp increase in interest expenditure forced the overall deficit to increase slightly, while public debt to GDP ratio decreased due to primary surplus and relatively low currency depreciation. Further during the year, the rupee depreciated by 2% against the US Dollar.

Among the three major activities (agriculture, industries and services), the services activities, which makes the highest contribution (55.8%) to the GDP, recorded a positive growth rate of 3.2% during 2017, when compared to the previous year.

Looking ahead, GDP growth is projected to rebound in 2018 from a low base and reach around 4.5% in the medium term, driven by private consumption and investment. The outlook for Sri Lanka's economy remains favourable - provided the government delivers its reform agenda of improving competitiveness, governance and public financial management. Furthermore, the government launched its 'Vision 2025' late

last year to strengthen democracy and reconciliation, inclusive and equitable growth and ensure good governance.

Performance of Global Tourism

Overall, global travel continued to grow strongly in 2017, consolidating the tourism sector as a key driver in economic development. Building on a consistent high-growth momentum over gathered over the past decade, the international tourism industry recorded its highest arrivals in the past seven years, expanding by 7% Year-on-Year (YoY) to 1,322 million arrivals in 2017.

Notably, the Asia Pacific region posted 6% YoY growth to close 2017 with 324 million international tourist arrivals. South Asian arrivals increased by 10% YoY, while arrivals to South-East Asia expanded by 8% YoY. Meanwhile, the Oceania region posted 7% YoY growth while the North-East Asian region's increased by 3% YoY.

Internationally, Chinese tourists remained the highest spenders - contributing US\$ 258 billion towards the industry, reflecting growth of 5% YoY, followed by American tourists whose spending increased by 9% YoY to US\$ 135 billion. German tourists accounted for US\$ 84 billion in tourist spending, while British tourists accounted for US\$ 63 billion - each posting an

Management Discussion & Analysis

improvement of 3% YoY. Meanwhile, spending by French tourists increased by 1% YoY to US\$ 41 billion.

Among notable developments within the international tourism industry has been a rising emphasis on sustainable tourism, coupled with an increasingly sophisticated demand from the MICE tourism segment. The year witnessed burgeoning growth in MICE offerings that feature social engagement and social responsibility as a key draw card. MICE attendees have higher expectations of combining business travel with quality leisure time which means that MICE operators must work in collaboration with local stakeholders from city administrations, local tourist authorities, and community organisation's in order to capitalise on this lucrative niche segment. Sri Lanka's diverse tourist product makes it an ideal destination for MICE tourism.

Sri Lanka tourism industry expands

The Sri Lankan tourism and hospitality sector posted a strong performance over the year under review as tourist arrivals increased to 2.12 million, over 2.05 million arrivals in 2016. These strong improvements were supported by continuous and drastic expansions in tourism related infrastructure development projects aimed at drastically expanding room capacity and other supplementary tourist services.

In terms of source markets, India accounted for the highest number of tourist arrivals to the island, posting 8% YoY growth to reach 384,628 arrivals in 2017, followed by China, which accounted for 268,952 arrivals, reflecting a 1% YoY reduction in arrivals.

Meanwhile, arrivals from the United Kingdom rose to 201,879 visitors, reflecting a 7% YoY improvement, while German arrivals decreased by 2% YoY to 130,227

arrivals. Arrivals from France and Australia remained relatively stable during the year, with arrivals from each country being recorded at 97,282 and 81,281, reflecting growth of 1% YoY and 9% YoY respectively.

Other notable trends in arrivals were seen from the Maldives – which posted a 17% YoY reduction to 79,371 visitors while arrivals from the Netherlands recorded the highest levels of growth during the year, expanding by 24% YoY up to 51,148 arrivals in 2017.

Among the other notable trends in arrivals during the year in review was a sharp increase in visitors from Latin America, up by 15% YoY to 6,482 visitors and a similar 10% YoY improvement in visitors from Australasia up to 92,003 arrivals. Instability in the Middle-East was reflected in a 11% YoY reduction in visitors from the region, down to 95,581 arrivals, despite overall stable levels of tourism out of the entire region.

In terms of the purpose of visit to Sri Lanka, a majority of tourists (83.9%) visited the country for leisure. While, tourist arrivals for business purposes accounted for 2.9%, the share of tourist arrivals for other purposes, such as visiting friends and relatives, religious and cultural purposes, health, education and sports, was 13.2% of total arrivals in 2017.

In 2017, the average spending per tourist rose to US dollars 170.1 per day, from US dollars 168.2 per day in 2016, as per the latest annual survey conducted by the Sri Lanka Tourism Development Authority (SLTDA). Further, the average duration of stay by a tourist was estimated at 10.9 days in 2017, in comparison to 10.2 days in 2016.

In the coming year, it is estimated that total arrivals will increase to 2.78 million tourists. While arrivals figures posted strong growth, it is notable that during the same period, room occupancy rates in graded hotel establishments approved by the Sri Lanka Tourism Development Authority (SLTDA) declined marginally to 73.3% in 2017, compared with 74.8% in 2016. It is believed that the continuing emergence of Sri Lanka's informal tourism sector may have had a role to play in this reduction in occupancy rates, where occupancy in ungraded properties within the informal sector are not captured within official figures.

In that regard, the performance of tourism-related earnings provided encouraging signs of the industry's overall performance, increasing by 3.2% YoY up to US\$ 3.6 billion during the year in review, thereby standing as the third-largest revenue earner for Sri Lanka, and contributing 14.2% of foreign exchange earnings to the national economy.

As the industry continues to make commendable progress towards achieving the Government's 2020 target of establishing 75,000 rooms to cater to 4.5 million tourist arrivals, one of the key issues for the industry is the gap in trained tourism professionals entering the sector, relative to demand. While training capacity is increasing domestically, it is anticipated that such labour shortages will only be exacerbated over the short-medium term - as more international hospitality franchises establish a presence in the country. Sufficient structural adjustments need to be developed to rationalise the country's labour force in order to channel the workforce into productive sectors of the economy.

Operational Review

During the year, the company reached a key milestone as Phase 01 of its renovation drew to a close. The focus of the refurbishment during the year was the hotel lobby and public areas which opened on schedule for operations in August 2017 - in time for the peak December tourist season. Renovations were primarily focused on incorporating international designs with unique local elements that evoke Sri Lanka's rich environmental heritage, while placing it in the context of the eloquent and luxurious hospitality that embodies Hilton Colombo.

Having previously taken cognizance of the rapidly escalating competition within the domestic tourism industry and the Colombo City Hotel sector in particular, the management had taken proactive steps to initiate extensive renovations across key public areas within Hilton Colombo. This initiative was undertaken to further enhance the property's ability to effectively compete with newer entrants and preserve its outstanding brand image in years to come, particularly with regards to the rapidly growing MICE tourism segment in which the Hilton Colombo continues to hold a strong leadership position.



Notably, the hotel was also able to retain its position as the foremost venue for hosting local and international MICE events. As the island's commercial capital continues to develop the industry - and the Colombo City Hotels in particular - are placing greater emphasis on attracting larger volumes of corporate tourism. In that context, the investments made towards further enhancing the Hilton Colombo's ability to host such events is anticipated to contribute substantially to the hotel's revenue generation capacity moving forward.

Another crucial source of strength for the Company is the Hilton Honours Loyalty Programme which, combined with timely marketing campaigns, has served to attract a steady stream of loyal Hilton patrons from across the globe, bolstering revenues while helping the property to further align with the outstanding value proposition and brand image of Hilton Worldwide.

An Eventful Year

Given Hilton Colombo's outstanding reputation for luxurious and eloquent hospitality experiences, the hotel continued to be the centre of vibrant activity throughout the year, including the hosting of numerous flagship events in the country's corporate and lifestyle calendar. Special events added to the wealth of diverse and unique events hosted at the hotel to mark special occasions and festive seasons of international and local cultural significance. The activities culminated in a series of festive events to coincide with the December festive season during which time tourist traffic to the hotel tends to reach some of its highest peaks.

The hotel's value proposition was further strengthened by its eclectic culinary



Management Discussion & Analysis



options offered through the property's three signature restaurants. Among the hotel's dining options are: The Curry Leaf, which serves some of the most sought-after authentic star-class Sri Lankan cuisine and an exquisite seafood market where patrons can handpick and customise their order to best suit their taste and preferences; Graze Kitchen, among the Hilton Colombo's most recently additions that offers up a multifaceted restaurant showcasing a live and interactive theater of dining experiences that feature live stations for the preparation of a wide variety of cuisine spanning Sri Lankan dishes to Indian, Chinese, Japanese, Italian, Mediterranean and Thai specialties; and Il Ponte, an institution among enthusiasts of Italian cuisine, offering a casual and relaxing atmosphere overlooking the pool area, where diners can choose from a wide range of Italian specialties including home-made pasta and pizzas baked in a wood oven.

The hotel's Food and Beverage options are rounded out by its ever-popular poolside bar and Lounge & Bar – which has been redesigned along an eclectic urban park theme that offers relaxing views of the hotel's lotus pond whose sophisticated

informality makes it an ideal social and business hub within the hotel.

Financial Review

During the year in review, your company was able to generate improved financial performances across all key facets of the business despite challenges posed to occupancy by the programme of renovations carried out during this period. Notwithstanding this, the company benefited from a steady stream of leisure tourists throughout the year.

Revenue

During the year, revenue expanded by 20% YoY up to Rs. 3.02 billion, supported by increases in room revenue from Rs. 1.2 billion in 2016, up to Rs. 1.32 billion. The hotel's diverse food and beverage options also proved a strong attraction for visitors, leading to an expansion in F&B revenue from a previous Rs. 1.33 billion up to Rs. 1.64 billion during the year in review. Similarly, revenue from other operations increased from Rs. 58.2 million in 2016 up to Rs. 63.1 million.

Gross Profits

Strong top-line performances supported notable improvements in gross profits which expanded to Rs. 2.5 billion while profits before tax remained stable at Rs. 173 million in 2017 as a result of additional depreciation (Rs. 100 million) arising from capitalisation of refurbished assets.

Profit After Tax

A strong improvement was observed in the company's Profit after tax earnings, which closed the 2017 year at Rs. 258 million, compared to Rs. 141 million in the preceding year.

Creating Shareholder Value

Earnings per share rose from Rs. 0.07 in 2016 up to Rs. 0.13 per share by the end of the year in review.

Future Outlook

The successful refurbishment helps Hilton Colombo sustain and grow its market share as the leading leisure brand in the country. The rejuvenated leisure property can leverage on its international brand recognition and appeal, its unmatched service levels and its impeccable quality standards to capture opportunities as they emerge in the upcoming financial year.

The company is now gearing up to commence the second phase of renovations at the hotel, which will drive further improvements to restaurants, ballroom venues and guest rooms, which is set to commence in the third quarter of 2018.

Improved economic forecasts and anticipated growth in inbound leisure and business travellers paints a picture of an exciting year ahead for Colombo's leading leisure property.

Corporate Governance

The Board of Directors of Hotel Developers (Lanka) PLC is committed and takes responsibility in maintaining the highest standards of Corporate Governance in compliance with the Corporate Governance Rules of the Colombo Stock Exchange and the "Code of Best Practice on Corporate Governance" of the Institute of Chartered Accountants of Sri Lanka. The Board of Directors ensures that the Company's responsibility to uphold the highest standards of business integrity, ethical values, transparency and professionalism in all its activities are maintained.

The Board of Directors

It is the responsibility of the Board of Directors to provide entrepreneurial leadership for the Company, formulate corporate strategic goals, values and standards, and review performance so that the Company could fulfill its obligations to its stakeholders. The Directors of the Company as at 31st December 2017 were:

Mr. Krishantha Prasad Cooray	- Independent Non-Executive Director
Ms. Dheeshana S. Ameresekere	- Independent Non-Executive Director
Mr. J. M. U. P. Jayamaha	- Non-independent Non-Executive Director
Mr. Athula Senanayake	- Independent Non-Executive Director
Ms. Tehani S. A. Mathew	- Independent Non-Executive Director
Mr. Dinouk Colombage	- Independent Non-Executive Director
Mr. M. Shezmin Mansoor	- Independent Non-Executive Director
Mr. W. S. L. A. D. R. Samarasinghe	- Independent Non-Executive Director
Ms. Sonali Liyanamana	- Independent Non-Executive Director
Mr. Pravir Dhanoush Samarasinghe	- Independent Non-Executive Director

During the year ended 31st December 2017 the Board met on Nine (09) occasions and the number of meetings attended by the Directors is given below:

Name of Director	No of Meetings attended
Mr. K. P. Cooray (appointed w.e.f. 08.04.2016)	09
Ms. D. S. Ameresekere (appointed w.e.f. 07.04.2015)	07
Mr. J. M. U. P. Jayamaha (appointed w.e.f. 01.03.2016)	09
Mr. A. Senanayake (appointed w.e.f. 08.04.2016)	08
Ms. T. S. A. Mathew (appointed w.e.f. 08.04.2016)	06
Mr. D. Colombage (appointed w.e.f. 08.04.2016)	09
Mr. M. S. Mansoor (appointed w.e.f. 08.04.2016)	06
Mr. W. S. L. A. D. R. Samarasinghe (appointed w.e.f. 08.04.2016)	07
Ms. S. Liyanamana (appointed w.e.f. 08.04.2016)	09
Mr. P. D. Samarasinghe (appointed w.e.f. 29.07.2016)	07

The Directors are provided with Monthly Accounts and Statutory Compliance Statements and all matters of importance are discussed and decisions are taken at the Board Meetings. Further, Board Papers are submitted in advance on issues which require specific approval of the Board. Minutes of all Meetings are properly recorded and maintained by the Company Secretaries.

Internal Controls and Risk Management

The Board has introduced adequate internal controls and risk management systems to safeguard the shareholder investments and the Company's assets. The Board is fully aware that internal controls have inherent limitations and do not provide absolute assurance against fraud and error.

The Board of Directors reviews the Monthly Accounts and the performance of the Company against approved budgets on a regular basis.

Corporate Governance

Audit Committee

The composition of the Audit Committee during the year ended 31st December 2017 was as follows;

Name of the Director

Mr. Pravir Dhanoush Samarasinghe	- Independent Non-Executive Director (Chairman)
Mr. J M U P Jayamaha	- Non-Independent Non-Executive Director (Member)
Mr. M Shezmin Mansoor	- Independent Non-Executive Director (Member)

The Audit Committee scrutinise and analyse the Report on the Internal Controls of the Hotel Operations which is prepared by the Internal Auditors Ms. Ernst and Young and ensure application of strict control over the affairs of the Hotel and the Company. The Audit Committee makes recommendations to the Board on necessary improvements to the internal control systems of the Hotel/ Company. Audit Committee also reviews Quarterly Financial Statements which are released to the Colombo Stock Exchange, before recommending to the Board and the Annual Financial Statements before releasing the same for Audit.

Report of the Audit Committee is set out on page 48 of this report.

Compliance with Legal Requirements

All Directors have access to the Financial and Management Information of the Company. The Directors makes every endeavor to ensure that the Company complies with laws and regulations and to exercise due diligence in managing the affairs of the Company. Additionally, checks and controls are in place to ensure that the policies of the Board are complied with.

As per Section 7.10 of the Listing Rules of the Colombo Stock Exchange the following disclosures are made accordingly and have complied with the Corporate Governance Rules during the period under review is set out in the table below.

Rule No.	Subject	Applicable requirement	Compliance Status	Details
7.10.1	Non-Executive Directors	At least 1/3 of the total number of Directors should be Non-Executive Directors	Complied	All Directors are Non-Executive Directors
7.10.2 (a) & (b)	Independent Directors	2 or 1/3 of Non-Executive Directors, which is higher should be independent	Complied	
		Each Non-Executive Director should submit a declaration of Independence/ Non-Independence in the prescribed format.	Complied	

Remuneration Committee

The Board has constituted the Remuneration Committee during the year ended 31st December 2017, in the following manner;

Name of the Director	Appointed/ removed w.e.f.
Mr. Athula Senanayake (Chairman)	Appointed w.e.f. 28.04.2016
Mr. Dinouk Colombage (Member)	Appointed w.e.f. 28.04.2016
Mr. W S L A D R Samarasinghe (Member)	Appointed w.e.f. 28.04.2016
Mr. Krishantha Cooray	Appointed w.e.f. 16.01.2017

The Remuneration Committee makes recommendation on remuneration matters to the Board.

Company Secretaries

Company Secretaries provide advice to the Board on matters relating to the Companies Act and the Colombo Stock Exchange regulations, in order to ensure that the Best Governance practices are adopted by the Board and its Committees.

Rule No.	Subject	Applicable requirement	Compliance Status	Details
7.10.3	Disclosure relating to Directors	(a) Names of Independent Directors should be disclosed in the Annual Report	Complied	Please refer to information pertaining to the Directors and Board sub Committees in the Annual Report
7.10.5	Remuneration Committee	(a) There shall be a Remuneration Committee comprising of a minimum of two Independent Non-Executive Directors	Complied	Please refer to information pertaining to the Directors and Board sub Committees in the Annual Report
7.10.6	Audit Committee	The Company shall have an Audit Committee	Complied	Please refer to information pertaining to the Directors and Board sub Committees in the Annual Report.
	7.10.6 (a) Composition of Audit Committee	a) Shall Comprise of Non-Executive Directors a majority of whom shall be independent b) The Chairman of the Audit Committee or one member should be a member of a professional accounting body	Complied Complied	Audit Committee consists of 3 Non-Executive Directors two are independent. Chairman of the Audit Committee is member of a Professional Accounting Body.

Other Policies and Practices

Obtaining Independent Professional Advice

The Board in discharging its duties seeks independent professional advice from external parties when necessary, at the Company's expense.

Dedication to matters of the Board and the Company

The Board of Directors devotes adequate time to the fulfillment of its duties of the Company. The Board has delegated the day to day operations of the Company to the Chief Operating Officer and Chief Financial Officer of the Company.

By Order of the Board
Hotel Developers (Lanka) PLC



Dhanuka Ranjith Samarasinghe
Director



Dinouk Colombage
Director

23rd July 2018

Risk Management

Being in the forefront of a highly competitive industry that resonates with the demand of attracting and retaining diversified markets amidst numerous challenges, Hilton Colombo considers Risk Management as an integrated process in its pursuit in delivering long term stakeholder value. In its' current business environment where change has become the norm rather than the exception, the Hotel has consistently recognised the pivotal role it plays in balancing strategic planning with business execution and compliance. This facilitates informed decision-making and a conscious evaluation of opportunities and their inherent risks as such, enabling the Hotel to protect or enhance key assets appropriately.

The Risk Management platform of Hilton Colombo is geared in identifying the types of risk exposure within the company, measuring those potential risks and developing strategies to mitigate or control the same. Risk Management is an essential element of our corporate governance structure and strategy development process and the Hotel has successfully and strategically structured appropriate systems, policies and procedures in all areas of operations with periodical reviews to ensure adequacy and adherence.

Our risk management framework constantly reflects the changing dynamics in the operating environment and are woven into in line with our policy frameworks and international best practices where applicable.

The Management oversees and retain ultimate responsibility for the risk management framework of Hilton Colombo. A Risk

Management Team is responsible for the overall implementation of the Board approved risk management policy.

Risk Management Framework

The Risk Management team of Hilton Colombo is headed by the General Manager working closely with Hilton Worldwide in fulfilling its statutory, fiduciary and regulatory responsibilities within a well formulated risk management framework. Functional heads of the Hotel together with the General Manager make up the Risk Management team. A methodological process ensures that all relevant internal and external risks are identified with intelligence gathering, quality audits, safety audits, internal audits and means such as customer feedback and incidents. These identified risks are then assessed in terms of business impact, likelihood of occurrence and velocity. Risks are mapped in terms of impact and probability, enabling the prioritisation of key risk exposures.

The result of these risk rankings are tabulated in a risk grid that rates the risks in scale of 'High to Insignificant', which enables the Hotel to prioritise the risks and to plan out risk mitigation strategies under the classification of preventive, detective and corrective action plans.

The Risk Management Team of the Hotel reviews the identified risks on a monthly basis; the assigned risk owners are responsible for the implementation of any mitigation action. The consolidated financial and operational compliance report is received by the Management. The Risk Management Team has also included the Risk Review on the agenda of Risk Management meetings.

Risk Category & Description	Control Measures and Action Plans to Mitigate Risks
Technology & Information Risk Risk of failure of electronic systems and inadequacy of information systems	Implementation of a fully integrated, property management, material management, Point of Sales and a financial information system, ensuring a seamless flow of information and operational efficiencies. Existence and continuous improvement of a Disaster Recovery Plan in the event of a disruption of failure in the system. The IT Division of the Hotel has implemented controls to safeguard the computer installations of the hotel to reduce downtime and ensure continuity of operation Continuous review of network protection process is carried out to ensure information security and integrity.

Risk Category & Description	Control Measures and Action Plans to Mitigate Risks
Internal Process & Procedures The risk of financial loss and disruption to business and breakdown in Internal Controls	Clearly defined systems & procedures are in place to ensure compliance with internal controls which are periodically reviewed for their continued effectiveness. An internal Audit Team from Hilton Worldwide carries out regular reviews and reports on the adequacy and effectiveness of these systems and level of compliance.
Natural or Man-made Disasters Loss of property and equipment resulting in significant losses	Adequacy of insurance covers are reviewed regularly and updated when necessary. Crisis management and business recovery plans have been adopted to safeguard the assets and speedy recovery. These are being reviewed periodically.
Credit Risk Exposure and losses due to default of settlement debtors	A credit policy and stringent controls are in place to mitigate the impact of default. Credit limits are reviewed on a regular basis. Constant monitoring and review of debtor balances with collection targets and required progressive action.
Liquidity Risk Inability to meet financial commitments on due dates.	Regular review mechanisms are in place to monitor the performance of the company against approved budget targets to achieve a balance between liquidity and profitability. Capital investments are planned so as not to adversely impact Cash Flows and gearing status of the Company.

Hilton Colombo confirms that a process for identifying, evaluating and managing significant risks that endanger the achievement of the strategic plan of the Hotel has been in place throughout the year in accordance with the guidelines set out by the Hilton Worldwide of USA. Industry best practices and potential financial risks are taken into account. The Risk Management team has reviewed the Business Risk Management process by the Hotel and has noted that risk management exercises have been conducted.

Below are some of the key items included in the risk register of Hilton Colombo along with the status and mitigation strategies for each, for the financial year ending 31st December 2017.

Risk Category & Description	Control Measures and Action Plans to Mitigate Risks
Operational Risks	
Competitive Risk Reduction in market share, failure to be competitive resulting in lower occupancy and room rates due to the Refurbishment programme	Strict adherence to service standards to ensure superior quality in service delivery and value for money Upgrading and enhancing facilities and services. Reviewing and monitoring adherence to Brand Standards and Standard Operational Procedures (SOP). Anticipate competitor strategies and new entrants to market and formulate strategies accordingly. Constant creativity and innovation in products and services. Continuous review of guest feedback and prompt response to issues in order to create customer delight.

Risk Management

Risk Category & Description	Control Measures and Action Plans to Mitigate Risks
Brand Image & Reputational Risk Ant or action that may cause material damage to the brand and reputation of the company	Conduct regular brand audits and mystery audits for guests' feedback covering both facilities and services. Compliance with environmental, health & safety best practices by obtaining HACCP and other quality certification standards. Benchmark industry best practices in terms of both product and service. Ensuring key managerial positions are held by suitably qualified and trained staff with sufficient experience in the hotel industry. Innovative service delivery in keeping with the brand promise. Responsible corporate citizenship through CSR initiatives.
Human Resources Risk Risk of losing key personnel and skilled staff; inappropriate labour action Risk of injuries/health hazards due to employees being exposed to hazardous work conditions/chemicals	Structured training programmes, cross exposure training opportunities arising from the performance appraisal process. Emphasis on good employer-employee relationships, employee welfare, and an effective and open communication with the labour union to achieve a win-win outcome. Fostering a spirit of unity and self belonging across the organisation via associate gatherings, outings, family get-togethers and religious events. Adjusting the salary level of the key team members to be more competitive in the market. Strict adherence to laid down safety standards and procedures.

Sustainability Report

The sustainability strategy adopted by Hotel Developers PLC (HDL), which manages Hilton Colombo, is based on integrated analysis, management and reporting of all material economic, social and environmental impacts of Hilton Colombo's operations as part of a continuous and holistic effort to set new benchmarks in responsible hospitality.

The hotel's initiatives across these three pillars help to build a transparent dialogue with all relevant stakeholders and to facilitate the delineation of future parameters for the management and mitigation of economic, social and environment impacts capable of ensuring sustainable growth in the long term.

Sustainable Tourism

In light of its 30th anniversary of vibrant and eloquent hospitality in Sri Lanka, the Hilton Colombo remains fully committed towards extending its long-standing legacy as a responsible corporate citizen. Particularly in the context of 2017 having been declared as the International Year of Sustainable Tourism by United Nations, the hotel continuously strives to align itself with global sustainable best practices, in keeping with the lofty standards maintained in relation to luxurious hospitality and meaningful sustainability established by the Hilton brand on a global scale.

During the year in review, the hotel successfully extended its efforts to cultivate new paradigms in sustainable management through concerted efforts aimed at continuously optimising human capital. This was achieved while driving extensive community engagement projects and channeling investments towards drastically mitigating the environmental impacts of its operation in a manner that proactively addresses the

needs of the hotel's guests, team members, suppliers and business partners, while positively impacting local communities and providing continuous financial value to shareholders.

Our People

The Hilton Colombo stands as an established leader in the Colombo City Hotels sector. Its reputation for service excellence is a direct result of the efforts of its valued team of team members. Towards this end, Hilton Colombo continues to maintain a highly structured and progressive towards Human Resources Management – spanning recruitment, training and skills development together with numerous initiatives aimed at strengthening team dynamics, improving work-life balance and cultivating a new generation of leaders that will serve to power the hotel forward in years to come.

Blue Energy fuels growth

The resounding success that Hilton Colombo continued to enjoy over the past year is a direct result of a progressive approach to the development and retention of valuable human capital. Given that the hotel's success rests on the high level of satisfaction that it is able to deliver to each customer, Hilton Colombo continuously monitors customer satisfaction through the Satisfaction and Loyalty Tracking (SALT) online survey

programme. This utilises a comprehensive 10-point rating system that monitors customer experiences and quantifies it to generate vital feedback that is leveraged towards the continuous improvement of service and value proposition.

While infrastructure and facilities play a vital role in enhancing customer experiences, the ultimate success of the company stems from the performance of its dedicated team of team members in order to ensure that each member of the team is engaged and committed to the Hilton Brand Promise of ensuring that every guest feels cared for, valued and respected.

This engagement is primarily facilitated through the Blue Energy Committee to maintain a service culture that will support the hotel team's ability to live values, deliver promises and share stories, while being continually focused on the experience the hotel is creating for guests, team members and communities on the four pillars of community relations, team relations, guest relations and sustainability.

The committee comprises of a select group of 50 team members from various departments under the patronage of Hilton's Human Resources division and the overarching leadership of the General Manager of the hotel.



Sustainability Report

During the year in review, these activities were further complemented with the launch of Thrive@Hilton initiative – focused on enabling team members to grow and flourish in body, mind and spirit through continuous investments in the well-being of team members that allows them the space to flourish: through inspiration, creativity and meaningful connections.

Recruitment, training and skills development

Recruitment continues to be a challenge and a top priority, given the continuing gap in skilled professionals entering the tourism and hospitality industry relative to the rapidly expanding requirements of the industry. The hotel recruits team members based on unbiased criteria in order to ensure that only the most qualified candidates are selected in accordance with the Hilton Colombo's equal opportunity policy. Except for positions where a particular skill and experience is required, most of the personnel are recruited as interns/trainees.

Over the past three decades of its operations, this policy has yielded strong returns, with most of the hotel's recruits having emerged as dynamic performers that attain positions of leadership, ably supported by the hotel's world-class development and career progression initiatives.

In that regard, Hilton Colombo continues to maintain some of the strongest team member retention rates in the industry – a testament to its continuing efforts to set new benchmarks in progressive Human Resource Management.



Seated (From left to right)
R.J. Fernando (Radcliff) T.N. De Mel (Tania), M.T. Bodinagoda (Bodi), H.C.D. Perera (Devika), H.T.A. Mendis (Heather), K.S.E. Mohotti (Kapila)

Standing (From Left to Right)
V.G.S. Rohana (Rohana), R.M. Wise (Wise), A. Samson (Alex), D.D. Upali (Upali), N.J. Deshapriya (Deshapriya), T.D.A. Jayantha (Jayantha)

Leveraging regular in-house programmes together with Hilton's global extensive online skills development programmes, training is offered under the following categories for existing staff members:

- Technical skills
- Training related to various quality and safety standards
- Soft Skills
- Leadership Development

Apprenticeships

In addition to honing the talent of its permanent staff cadre, the hotel also conducts programmes focused on attracting and retaining youth into the industry. These initiatives include the opening of internships, industrial trainee and apprenticeship opportunities organized in partnership with leading hospitality education institutes.



Currently, Hilton Colombo maintains five apprentice programmes across different departments in the hotel; working in close collaboration with the National Apprentice and Industrial Training Authority (NAITA); a government body established to train youth on skilled jobs.

Current active apprenticeship programmes include

- Kitchen Apprentice Programme (duration : 30 months)
- Engineering Apprentice Programme (duration : 24 months)
- Housekeeping Apprentice Programme (duration : 12 months)
- Food & Beverage Apprentice Programme (duration : 18 months)
- Kitchen Stewarding Apprentice Programme (duration : 12 months)

Careers@Hilton

Additionally, the Hotel also continues to host its annual Careers@Hilton –in the month of May dedicated by all Hilton hotels and offices across the globe to hosting activities aimed at encouraging and educating local youth and other job seekers about the potential opportunities and benefits of a career in hospitality. First initiated by Hilton CEO Chris Nasetta in 2014, Careers@Hilton continues to receive global patronage from all Hilton properties, and serve as an invaluable opportunity to support Hilton's commitment to connect, prepare or employ one million young people by 2019.

Hilton Colombo's career and community engagement programmes were held through the 2017/18 year. Some of the notable ones were:

- Room to Read: Female students from Monaragala district participated in a Job Shadowing Programme at the hotel including an overnight stay.

- Library Visit to Anuradhapura: Members from Hilton Colombo, visited Anuradhapura district for a Library visit on 31st May. During this session, our team observed the actual education process of the 60 girls in Thambutthegama and Nochchiagama schools and had an opportunity to interact with students and educate them in the opportunities present in the hospitality sector.
- Career Guidance Workshop and Familiarisation Tour: Students from Hospitality Education Institute, Colombo, visited the hotel for an informative session about careers in the hospitality industry.
- Career Guidance Workshop: A group of 10 youth between the ages of 16 – 20, from Sooriyawewa, in the Hambantota District, travelled to Hilton Colombo to participate in a career guidance and vocational training session. The 2-hour session educated participants on opportunities available in the hospitality industry and the hotel.
- Sri Lanka Scouts Career Guidance Workshop: The Sri Lankan Scouts Workshop was held on the 21st May at the Hilton Colombo Grand Ballroom with the participation of 450 young scouts across the Island. During the workshop, Hilton Colombo conducted sessions on career guidance, table etiquette and the future of hospitality.
- Hilton Colombo Youth Forum 2017: 359 students from schools and Institutes around the country participated in the 4th annual Youth Forum on 25th May. The session had a futuristic theme and kicked off with a video depicting the evolution of mankind to important historical dates and important dates related to Hilton. The students were given ample opportunities to speak with the General Manager in the final

Q&A session. During the session, the students were presented with an activity which involved them coming up with innovative ideas that could happen in the future in which the students enthusiastically participated. The students all expressed positive energy towards the Youth Forum which was a success.

- Career Guidance Workshop: 47 students who completed G.C.E. (A/L) Exam from Sewanagala School, Hambantota, embarked on a familiarisation tour and career guidance workshop at the Hilton Colombo on 23rd May. All participants had completed their primary education and were seeking job opportunities. They were brought to Colombo and taught the basics of hospitality and were taken around the hotel to show the key areas of operation which opened their eyes to the unlimited possibilities in the hospitality industry.

Championing women's empowerment

Another important focus of the Hilton brand's approach to HR best practices is a consistent emphasis on women's empowerment. In conjunction with the International Women's Day on 8 March, Hilton Hotels in Southeast Asia and India engaged in community projects to amplify commitment towards gender equality and women's empowerment.

Having signed the CEO Statement of Support for the UN Women's Empowerment Principles in 2014, Hilton has placed great emphasis on promoting women in leadership, engaging women as business partners, and fostering community partnerships that invest in women and girls through education, training and professional development



The occasion was graced by the first female Mayor in Colombo and the Ambassador of the Kingdom of Netherlands during which two panel discussions and Q&A Sessions were conducted with the enthusiastic participation of Sri Lankan female leaders, including the Director of Human Resources of Hilton Colombo. Importance was given to designing innovative strategies to invite and to retain more female talent in the tourism sector of Sri Lanka which is expected to be one the most sought after destinations in global tourism by 2020.

Health and Safety

A crucial element of ensuring eloquent hospitality is a stringent emphasis on the highest possible safety standards to ensure the health of both guests and team members alike. Hilton Colombo has a Food Safety & Hygiene Manager to monitor and manage the entire food safety & hygiene standards in the hotel as per global Hilton worldwide standards.

Accordingly, preventive maintenance programmes are regularly scheduled and conducted to the highest standards to ensure that all food processing/storage equipment are operating at optimum levels. Meanwhile, kitchen team are regularly educated and monitored for food safety & hygiene and food allergy training in order to ensure that guest preferences and requirements are fully satisfied at all times.

Regular microbiological & chemical analysis of drinking water, swimming pool water, cooling tower water, guest room water & food processing water is carried out by an accredited laboratory to monitor the safety levels and requirements.

During 2017, the hotel conducted various programmes such as workshops, career guidance programmes and familiarisation tours targeting female students currently studying in schools and hotel schools. Workshops were conducted for its female team members to appreciate and recognise their efforts for all what they do and to help them 'Dream Big'. Various sessions were organized under the theme: 'THRIVE'; BODY, MIND & SPIRIT.

In parallel to celebrating International Women's Day, the Tourism Economics and Hospitality Management Unit of the Department of Economics, University of Colombo, and Hilton Colombo organised "The Tourism Women Leaders" Summit on 11th March at the Hilton Colombo. This summit was focused on the theme of "Gender Equality and Empowering Women for Tourism".

Moreover, the air quality in the rooms and the hotel is regularly tested for Indoor Air Quality (IAQ) parameters. A new sprinkler system has been put in place at the hotel's penthouse level to reduce the risk of fire. We have successfully minimised inconvenience to guests during the refurbishment by minimising noise levels.

Community

A vital element in the hotel's community engagement strategy is team member volunteerism under the umbrella of 'Blue Energy Community Team'. This foundation functions with the assistance of the hotel team's enthusiasm for volunteering in all its projects. The Hilton Colombo volunteer network enables team members to reach beyond their day-to-day work to contribute to the community and environment.

The hotel encourages team members to engage in community activities without having to use their personal leave. These multi-faceted initiatives are designed to empower Sri Lankan communities through targeted programmes aimed at supporting opportunities for long-term growth.

Key activities carried out in the year under review:

- **Providing relief to flood victims**
Providing a much-needed measure of relief for communities displaced by severe flooding during the year, the hotel donated 7,000 ready-to-eat meals and 500 packs of dry rations and medication to flood victims. These contributions were enhanced by voluntary donations from team members and distributed to flood displaced communities.
- **Supporting the National Cancer Hospital**
As part of the celebration of its 30th anniversary, the hotel sought to further

its engagement with the National Cancer Hospital with 5 chefs and 35 team members helping to prepare meals for 1,100 patients and staff at the hospital together with special gifts for patients in the Children's Ward of the hospital. Additionally, the hotel made a further donation of vital medication to the hospital worth Rs. 1 million.

- **Equipping Classrooms with computers in Welioya school**
Given the increasingly central role that technology is playing in driving progressive change and opportunities for financial empowerment at every level of the domestic and global economy, the hotel continues to place great value on education, particularly in relation to technology. In order to further this commitment over the year in review, 6 computers were donated together with necessary chairs and tables to furnish the computer lab at the Kalyanipura Vidyalaya in Welioya, powered by the efforts of volunteers from the Hilton Colombo team.
- **Facilitating Sunshine Games for differently-abled children**
Working in partnership with the Rotary Club, the hotel facilitated the hosting of Sunshine Games 2018 – a sports festival for children with special needs between the ages of 10 to 21 years, including the donation of 550 lunch packets, brought about by the efforts hotel team members.
- **Supporting Sports Day for the Disabled**
Working in partnership with the Colombo Friend-in-Need Society, Hilton Colombo donated 800 packets of food to participants at the Annual Sports Day for the Disabled – Jaipur Foot Programme

- **Providing Nourishment at Colombo Nawam Maha Perahera**

Continuing its engagement with the rich and vibrant cultural traditions of Sri Lanka, 550 lunch & 550 dinners packets were provided to feed attendees at the Colombo Nawam Maha Perahera on both days of the event.

- **Sponsoring Charity Fashion show**

Hilton Colombo organised and hosted 'Rock the Runway' - a special Charity Fashion show, the proceeds of which were donated towards a water storage and distribution project in aid of water-stressed communities in Walatchchi, Anuradhapura.

- **Sponsoring Sunera Foundation Fashion & Jewelry Show**

The hotel sponsored the Fashion & Jewellery show in aid of the Sunera Foundation – including a high tea event for 400 attendees, during which a total of Rs. 1.29 million in charitable donations was made to the foundation.

- **Donating RO water plant to Anuradhapura village**

Solely utilising the contributions of the Hilton Colombo's finance team, a total of Rs. 350,000 was donated towards the establishment of a Reverse Osmosis Water Treatment Plant that has helped to provide safe and clean drinking water to 300 students in a remote village in the Anuradhapura district.

- **Nourishing SOS Children's Village Sri Lanka**

In order to support the 'Expressions of Love' project, the hotel donated 100 snack packs with the assistance of 5 team members to the SOS Children's Village Sri Lanka – a charitable organisation working with children who are orphaned, abandoned or whose families are unable to care for

Sustainability Report

them by building families, facilitating education and integrating them into the community.

- **Donation to Children's home**

Through the efforts of our team members, the company donated linen items to the Peter Weerasekera Children's Home in order to assist in the hosting of its village fair.

- **Interactive session on 'Breaking Hospitality Myths'**

The Hilton Colombo partners with Sri Lanka Institute of Tourism & Hotel Management & the Colombo Academy of Hospitality Management (William Angliss) to host a special interactive session on 'Breaking Hospitality Myths' conducted by 10 female leaders from Hilton Colombo for 35 female students.

hotels around the world to Lightstay, which will allow each hotel to measure its environmental performance, including energy and water consumption. LightStay is a state-of-the-art, in-house measurement platform that enables each hotel to measure and forecast usage based on weather, occupancy and other conditions. It alerts management to the hotel's overall performance and consumption supporting and encouraging educated decisions aimed at ensuring corrective actions that will positively influence future performance.

Hilton Colombo, with its ongoing refurbishment, will include a wide variety of energy-saving features built into the design of the newly-refurbished areas. New energy-saving equipment such as energy efficient air conditioning systems and LED lighting were incorporated as part of continuing renovations and further improvements will be made as renovations progress across the Hilton Colombo. Ambient room temperatures and other advanced forms of energy saving features are being incorporated across the refurbishment.

Effective Waste Management

An additional feature of Hilton Colombo's continuing commitment towards ensuring optimal environmental standards is in relation to the management of outputs in relation to the disposal of organic and non-organic waste. Organic waste is collected and then utilised for composting and animal feed.

Additional waste is further segregated into dry and wet garbage along with separation of glass and metal waste. In this process, all solid waste generated gets proactively separated at the respective of sources of origin in all departments such as the kitchen, restaurant and bar, housekeeping, linen room, maintenance, stores and guest rooms. Segregation is routinely undertaken at the

hotel premises. PET bottles are recycled in accordance with contracts established with a third-party recycling company.

Furthermore, the hotel undertook a poster campaign to raise awareness about food wastage amongst team members complemented with other training and management initiatives focused on reducing waste across all of the hotel's operations.

Moving forward, the Hilton Colombo continues to adopt an approach to environmental protection that emphasises responsible and sustainable utilisation of natural resources. This is aligned to its status as a leader in the Sri Lankan hospitality sector and with the values established by the hotel almost two decades ago - at a time when sustainability and environmental impact were not considered important priorities for the local industry. Having pioneered extensive environmental protection initiatives, Hilton Colombo continues to explore new methods of further reducing resource consumption and managing waste through the development and promotion of sustainable energy saving practices such as the installation of waste treatment mechanisms and the use of central water chillers for air conditioning with the long term objective of playing a vital role in reducing the global carbon footprint.

To achieve these results, different strategies have been adopted over the years, starting with the education and awareness of all team members and guests as to the impact wrong behaviour can have on energy saving projects and ensure that team members are environmentally responsible and uphold these principles in their engagements with suppliers and customers.

With the participation of 5 female leaders, an interactive session was held at the Ladies College, Colombo on 9th March for 35 female students, on "The varied opportunities available in the hospitality industry" and "Hospitality Myths".

60 female prefects from Sri Sumangala BalikaVidyalaya, Panadura, attended a half-day workshop at the Hilton Colombo, which offered them insights into the hospitality industry and provided career guidance whilst empowering female leadership.

Environment

Conserving water, energy and embracing other impactful sustainable practices are just some of the other ways in which Hilton is spreading warmth and light around the globe as part of our commitment to the communities we serve.

Energy Conservation with 'LightStay'

Hilton has actively upgraded its systems and technology for its more than 4,440

Annual Report of the Directors on the Affairs of the Company

The Directors of Hotel Developers (Lanka) PLC are pleased to present their Report and the Audited Financial Statements of the Company for the year ended 31st December 2017.

1. REVIEW OF THE YEAR

Review of the Company business and its performance during the year ended 31st December 2017, with comments on financial results and future strategic developments, are contained in the Chairman's statement. (Page 19)

2. THE PRINCIPAL ACTIVITY

The principal activity of the Company is to carry on the business of proprietors and operators of hotels and for such purpose to construct, purchase, take on lease or otherwise acquire any lands, buildings and other property and to improve, equip and furnish the same.

3. FINANCIAL STATEMENTS

The Financial Statements of the Company are given on page 53 to 78.

4. GOING CONCERN

The Directors are satisfied that the Company has adequate resources to continue its operations in the foreseeable future. The financial statements of the Company have accordingly been prepared on a going concern basis.

5. AUDITORS REPORT

The Auditors Report on the Financial Statements of the Company is given on page 51.

6. ACCOUNTING POLICY

The significant accounting policies adopted in the Preparation of the Financial Statements are given in Note 4 on page 58.

7. TAXATION

Provision for taxation has been computed at the rates given in Note 26 to the financial statements.

8. DIVIDENDS

The Directors do not recommend a dividend on ordinary shares for the year ended 31st December 2017 in view of the on going Refurbishment Program by the Company at an estimated cost of US \$ 52 Mn.

9. BOARD OF DIRECTORS AND THEIR SHAREHOLDING

The Directors of the Company as at 31st December 2017 were:

Mr. Krishantha Prasad Cooray	- Chairman
Ms. Dheeshana S. Ameresekere	- Director
Mr. J. M. U. P. Jayamaha	- Director
Mr. Athula Senanayake	- Director
Ms. Tehani S. A. Mathew	- Director
Mr. Dinouk Colombage	- Director
Mr. M. Shezmin Mansoor	- Director
Mr. W. S. L. A. D. R. Samarasinghe	- Director
Ms. Sonali Liyanamana	- Director
Mr. Pravir Dhanoush Samarasinghe	- Director

None of the above Directors of the Company hold shares in the Company.

10. INTEREST REGISTER

The Directors have made general disclosures as provided for in Section 192 (2) of the Companies Act No. 7 of 2007. Arising from this, details of contracts in which they have an interest if any are disclosed in Note 34.1 to the Financial Statements.

11. REMUNERATION OF THE DIRECTORS

The remuneration and other benefit of Directors during the accounting period are as follows;

Director's emoluments Rs 4,853,000/-

12. DIRECTORS INTEREST/ RELATED PARTY TRANSACTIONS

The above details are contained in Note 34 to the financial statements. The Directors have no direct or indirect interest in any contracts or proposed contracts with the Company other than those disclosed.

13. PAYMENTS TO AUDITORS

The amount paid or payable to the Auditors for the year ended 31st December 2017 is Rs 2,469,000/-

14. DONATIONS

The Company has not made any donations during the year ended 31st December 2017.

15. CORPORATE GOVERNANCE

The Company has put in place systems and procedures to ensure the implementation of sound Corporate Governance Principles. An

Annual Report of the Directors on the Affairs of the Company

overview of such practices adopted within the Company is given on pages 33 to 35 of the Annual Report.

16. AUDIT COMMITTEE

The Composition of the Audit Committee during the year ended 31st December 2017, was as follows;

Name of the Director

Mr. Pravir Dhanoush Samarasinghe	- Independent Non-Executive Director (Chairman)
Mr. J M U P Jayamaha	- Non-Independent Non-Executive Director (Member)
Mr. M Shezmin Mansoor	- Independent Non-Executive Director (Member)

The report of the Audit Committee is given on page 48 of the Annual Report.

17. REMUNERATION COMMITTEE

The Board has constituted the Remuneration Committee during the year ended 31st December 2017, in the following manner;

Name of the Director	Appointed/ removed w.e.f.
Mr. Athula Senanayake (Chairman)	Appointed w.e.f. 28.04.2016
Mr. Dinouk Colombage (Member)	Appointed w.e.f. 28.04.2016
Mr. W S L A D R Samarasinghe (Member)	Appointed w.e.f. 28.04.2016
Mr. Krishantha Cooray	Appointed w.e.f. 16.01.2017

18. CAPITAL EXPENDITURE

The details of material capital commitments are given in Note 31 to the Financial Statements.

19. PROPERTY, PLANT AND EQUIPMENT

The details of the property, plant and equipment are given in Note 12 to the Financial Statements.

20. STATED CAPITAL

The Stated Capital of the Company as at 31st December 2017 was Rs.20,466,456,858/- representing 2,046,645,686 ordinary shares of Rs 10 each.

21. DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the financial statements of the Company to reflect a true and fair view of its state of affairs. The Directors are of the view that these financial statements have been prepared in conformity with the Sri Lanka Accounting Standards and the Companies Act No. 07 of 2007. The Directors are accordingly satisfied that the financial statements presented herein give a true and fair view of the state of affairs of the Company as at 31st December 2017 and the profit for the year then ended.

22. STATUTORY PAYMENTS

The Directors are satisfied that to the best of their knowledge and belief, all statutory payments due to the Government and to the employees of the Company have been made up to date.

23. POST BALANCE SHEET EVENTS

No events have occurred after the balance sheet date which would require adjustments to or disclosure in the Accounts, other than those given in Note 30.to the Accounts.

24. AUDITORS

In terms of the 19th Amendment to the Constitution Auditor General continues to be the Auditor of the Company.

25. NOTICE OF MEETING

Notice of Meeting relating to Annual General Meeting of the Company is given on page 79 of the Annual Report.

By Order of the Board of
HOTEL DEVELOPERS (LANKA) PLC



Dhanuka Ranjith Samarasinghe
Director



Dinouk Colombage
Director



S S P CORPORATE SERVICES (PRIVATE) LIMITED
Company Secretaries

23rd July 2018
Colombo

Directors' Responsibility for Financial Reporting

The Company's Financial Statements for the year ended 31st December 2017 have been prepared and presented in conformity with the requirements of the Sri Lanka Accounting standards, the Listing Rules of the Colombo Stock Exchange & the Companies Act No. 7 of 2007.

These Financial statements present a true and fair view of the operations and the position of the Company for the year under review.

The Directors have put in place systems and procedures which enable adequate information to be captured, and which facilitate the maintenance of accurate records.

Appropriate accounting policies have been adopted.

Internal controls have been implemented.

The Directors believe that they have taken all reasonable steps to safeguard the assets of the Company, to ensure the integrity, accuracy and safeguarding of operational data, and to prevent and detect fraud and other irregularities.

The Directors also confirm to the best of their knowledge that all taxes, duties and levies payable by the Company as at the Balance Sheet date have been paid or where relevant provided for.

Auditor General has examined the financial and other records of the Company. Their opinion is given in the Independent Auditors Report.

On behalf of the Board



Dhanuka Ranjith Samarasinghe
Director



Dinouk Colombage
Director

23rd July 2018
Colombo

The Audit Committee Report

Audit Committee Charter

Audit Committee operates as a Sub-Committee of the Board of Directors in terms of the mandates given in the Audit Committee Charter to examine any matters relating to the financial affairs of the Company and to review and monitor the financial reporting.

Role of the Audit Committee

Audit Committee acts as an effective forum to assist the Board of Directors in discharging their responsibilities on ensuring the quality of financial reporting relating to;

- Integrity of Company Financial Statement and the Company system of Internal Auditing and Financial Controls.
- Performance of Internal Auditors.
- Annual Independent Audit of Company's Financial Statement.
- Impartial review of the reports of internal and external audits and taking into consideration findings and recommendations.
- Compliance by the Company with statutory requirements.
- Adherence to the decisions of the Board of Directors.

Composition of the Audit Committee

Audit Committee comprised of three Independent Non-Executive Directors and the composition is as follows:

- Mr. Pravir Samarasinghe (Chairman) (Independent Non-Executive Director)
- Mr.M.Shezmin Manzoor (Independent Non-Executive Director)
- Mr.Priyanatha Jayamaha (Non-Executive Director and Treasury Representative).

Mr. Pravir Samarasinghe is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Chartered Institute of Management Accountants – UK and holds a Masters Degree in Business Management and counts over 30 years of professional and commercial experience at Senior Management level .

Mr. J.M.U.P. Jayamaha is a member of the Sri Lanka Government Accountants' service having many years of experience in Financial Management in the public sector. Mr. Jayamaha holds a Master Degree in Development Studies from University of Colombo, Post Graduate Diploma in Accounting and Financial Management from University of Sri Jayewardenepura, Diploma in Public Financial Management from Sri Lanka

Institute of Development Administration (SLIDA) and Licentiate Certificate from the Institute of Chartered Accountants of Sri Lanka.

Mr. Shezmin Manzoor completed his Bachelor's Degree in Science majoring in Supply Chain Management from Arizona State University, USA. He was also awarded a Scholarship during his degree and was in the prestigious Dean's List, awarded for outstanding academic results.

Audit Committee Meetings

During the year ended 31st December 2017, the Audit Committee had 4 meetings. The Competent Authority, Advisor to the Board, Chief Operating Officer, Chief Financial Officer, Accountant of HDL, General Manager & Director Finance of Hilton Colombo, Internal Auditors Ernst & Young (E & Y), representatives from External Auditors and Management Auditors of Hilton Colombo attended the Audit Committee Meetings by invitation.

Change of External Auditors

With the enactment of the 19th Amendment to the Constitution the Auditor General became the external Auditor of the Company since 2016. Accordingly the Financial Statement for the year ending 31st December 2017 was audited by the Auditor General. Since then the Auditor General's Representative has been participating at the Audit Committee meetings as an observer.

Review of Internal Control Systems

E & Y the Internal Auditors of the Company carried out detail audits of the hotel operations on the basis of the Audit Plan approved by the Audit Committee. Objectives of the Internal Audit were to have an independent review of the system of internal controls established by the Management and to determine the extent of adherence to the controls by the staff responsible for the function. The findings and the contents of the internal Auditors reports were discussed with the Management and corrective measures had been taken on a timely manner and such reports are presented to the Audit Committee.

Review of Quarterly Financial Statements

Quarterly Financial Statements of the Company were reviewed and recommended by the Audit Committee to the Board for approval before releasing the same to the Colombo Stock Exchange (CSE).

Adoption of IFRS/ SLFRS

The Company prepared its financial statements in accordance with the Sri Lanka Accounting Standards, as applicable for all periods to date.

Following the convergence of the Sri Lanka Accounting Standards with the International Financial Reporting Standards (IFRSs), all existing / new Sri Lanka Accounting Standards were prefixed as SLFRS and LKAS (referred to as "SLFRS" in these Financial Statements) and with effect from the financial periods beginning on or after 1st April 2012, it became mandatory for the Company to comply with the requirements of the said / revised Sri Lanka Accounting Standards (LKAS/SLFRS). The adoption of new/revised financial reporting framework required amendments to the basis of recognition, measurement and disclosure of transactions and balances in the Financial Statements of the Company which are duly addressed in the Financial Statements for the year ended 31st December 2017. The transition and the resultant impact arising from the adoption of new/revised accounting standards on the Financial Statements of the Company were audited by the Auditor General during the year ended 31st December 2017.

Review of Compliance Statements.

The committee reviewed the compliance statements to ensure that the company comply with all statutory requirements. In addition the committee is satisfied that the company adheres to the decision of the Board of Directors.

Review of Draft Financial Statement for the year ended 31st December 2017

The draft Financial Statements for the year ended 31st December 2017 pertaining to the Company were reviewed by the Audit Committee, together with the External Auditors, Internal Auditors and the Management Auditors of the Hotel Hilton Colombo. The Audit Committee was provided with confirmations and declarations as required, by the Chief Financial Officer. The Audit Committee review facilitated that the said Financial Statements to be prepared in accordance with the Sri Lanka Accounting Standards and the information required by the Companies Act, No. 7 of 2007 therein and presented a true and fair view of the Company's state of affairs as at that date and the Company's activities during the year under review.

Conclusion

The Audit Committee is of the view that adequate controls are in place to safe guard the Company's assets and financial position and the results disclosed in the audited accounts are free from any material mis-statements.



Pravir Samarasinghe
Chairman
Audit Committee

23rd July 2018

Financial Reports

Independent Auditor's Report



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எனது இல.
My No.

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ඔබේ අංකය
உமது இல.
Your No.

}

දිනය
திகதி
Date

} 03 July 2018

To the Shareholders of the
Hotel Developers (Lanka) PLC

Report of the Auditor General on the Financial Statements of the Hotel Developers (Lanka) PLC for the year ended 31 December 2017

The audit of the financial statements of the Hotel Developers (Lanka) PLC ("the Company") for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Hotel Developers (Lanka) PLC as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka



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Independent Auditor's Report

Emphasis of Matter

I draw attention to Note No. 12.3 to the financial statements which describe the fully depreciated assets at a cost of Rs.1,986,019,251 and continue to be in use by the company. The Company has carried out detail assets verification and valuation of each and every asset with the assistance of a Chartered Valuer and that assignment has come to its final stages of the reconciliation. My opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act, No.07 of 2007, I state the followings:

- a. The basis of opinion and scope and limitations of the audit are as stated above.
- b. In my opinion :
 - I have obtained all the information and explanations that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
 - The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

Report to Parliament

My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.



H. M. Gamini Wijesinghe
Auditor General

Statement of Comprehensive Income

	Notes	For the Year ended	
		31.12.2017 Rs. '000	31.12.2016 Rs. '000
Revenue	05	3,015,362	2,540,680
Cost of sales		(550,824)	(440,698)
Gross profit		2,464,538	2,099,982
Investment income	06	25,533	27,575
Other gains and losses	07	29,429	39,914
Administrative expenses		(1,491,586)	(1,331,329)
Depreciation		(461,542)	(368,254)
Other expenses		(383,491)	(294,905)
Finance costs	08	(9,905)	(38)
Profit before taxation	09	172,976	172,945
Income tax expense	10	85,041	(31,933)
Profit after taxation for the period		258,017	141,012
Other comprehensive income			
Actuarial Gain/(loss)on employee benefit obligations		2,415	(5,065)
Total comprehensive income/ (expense) for the period		260,431	135,947
Earning per share - Basic (Rs.)	11	0.13	0.07

The accounting policies and notes from 1 to 35 form an integral part of these financial statements.

Statement of Financial Position

		As at 31.12.2017 Rs.'000	As at 31.12.2016 Rs.'000
Assets			
Non-current Assets			
Property, plant & equipment	12	7,818,434	7,449,712
Leasehold land	13	6,610,530	6,681,237
Capital work-in-progress		243,414	215,747
Total Non-current Assets		14,672,378	14,346,696
Current Assets			
Inventories	14	58,009	51,488
Trade and other receivables	15	151,640	148,843
Amount due from related parties	16	1,354	1,767
Other assets	17	183,520	216,145
Current financial assets	18	135,608	202,660
Cash and bank balances	19	225,599	395,104
Total Current Assets		755,730	1,016,007
Total Assets		15,428,109	15,362,703
Equity and Liabilities			
Shareholders' Equity			
Stated capital	20	20,466,456	20,466,456
Reserves	21	161,348	21,896
Accumulated loss		(6,594,476)	(6,715,455)
Total Equity		14,033,329	13,772,897
Non-current Liabilities			
Retirement benefit obligations	22	122,581	125,326
Deferred tax liability	23	396,570	499,215
Retention Fees - Refurbishment Project		-	103,208
Total Non-current Liabilities		519,152	727,749
Current Liabilities			
Trade and other payables	24	479,574	511,209
Amount due to related parties	25	12,558	10,598
Retention Fees - Refurbishment Project		111,028	-
Bank overdraft		272,468	340,250
Total Current Liabilities		875,628	862,057
Total Liabilities		1,394,780	1,589,806
Total Equity and Liabilities		15,428,109	15,362,703
Net Assets pe share - (Rs.)		6.86	6.73

I certify that these financial statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.



Head of Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the Board on 28th May 2018.



Director



Director

The accounting policies and notes from 1 to 35 form an integral part of these financial statements.

Statement of Changes in Equity

	Stated Capital	Furniture, Fittings & Equipment Replacement Reserves	Accumulated Loss	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 01st January 2016	20,466,456	117,421	(6,946,927)	13,636,951
Profit for the 12 Months period	-	-	141,012	141,012
Actuarial gain/(loss) on employee benefit obligations, net of taxes - loss	-	-	(5,065)	(5,065)
Replacement of furniture, fittings & equipment	-	(203,914)	203,914	-
Transfers to furniture, fittings & equipment reserve	-	108,389	(108,389)	-
Balance as at 31st December 2016	20,466,456	21,896	(6,715,455)	13,772,897
Profit for the 12 Months period	-	-	258,017	258,017
Actuarial gain/(loss) on employee benefit obligations, net of taxes - loss	-	-	2,415	2,415
Replacement of furniture, fittings & equipment	-	(128,983)	128,983	-
Transfers to furniture, fittings & equipment reserve	-	268,435	(268,435)	-
Balance as at 31st December 2017	20,466,456	161,348	(6,594,476)	14,033,329

The accounting policies and notes from 1 to 35 form an integral part of these financial statements.

Statement of Cash Flow

	For the Year ended	
	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Profit before taxation	172,976	172,944
Adjustment for		
Depreciation and amortisation	461,542	368,254
Provision for defined benefit plans	22,576	18,307
Provision for breakages	1,329	(98)
Interest expenses	9,905	38
Profit on sale of property, plant & equipment	(6,620)	(4,238)
Impairment of Debtors	-	(9,158)
Unrealised Exchange Gain	(884)	(9,428)
Interest income	(25,533)	(27,575)
Operating profit before working capital changes	635,291	509,047
(Increase)/ decrease in inventories	(6,521)	(13,378)
(Increase)/ decrease in receivables	(2,797)	10,551
Increase/decrease in amounts dues to related parties	2,373	(6,872)
(Increase)/ decrease in other assets	(2,570)	191,714
Increase/ (decrease) in trade & other payables	(32,963)	114,162
Cash generated from operations	592,813	805,223
Tax paid	(20,737)	(45,366)
Payment of retirement benefits	(22,907)	(2,571)
Net cash generated from operating activities	549,169	757,286
Cash Flows from Investing Activities		
Purchase of property, plant & equipment	(111,128)	(181,729)
Investment in capital work-in-progress	(629,947)	(1,325,914)
Proceeds from sale of property, plant & equipment	6,620	4,238
Investments in financial assets	-	561,334
Interest income received	25,533	27,575
Net cash used in investing activities	(708,923)	(914,495)
Cash Flows from Financing Activities		
Finance Cost	(9,905)	(38)
Net cash used in financing activities	(9,905)	(38)
Net increase/(decrease) in cash & cash equivalents	(169,659)	(157,247)
Cash & cash equivalents at the beginning of the year (Note 27.1)	258,398	414,761
Cash & cash equivalents at the end of the period (Note 27.2)	88,739	257,514

The accounting policies and notes from 1 to 35 form an integral part of these financial statements.

Notes to the Financial Statements

For the Twelve Months Ended 31st December 2017

1. CORPORATE INFORMATION

1.1. General

Hotel Developers (Lanka) PLC is a limited liability company incorporated and domiciled in Sri Lanka. The registered office and the principal place of business of the company is located at No. 02, Sir Chittampalam Gardiner Mawatha, Colombo 2.

1.2. Principal Activities and Nature of Operations

Hotel Developers (Lanka) PLC is engaged in the business of hospitality trade, owning Hilton Colombo Hotel.

1.3. Date of Authorisation for Issue

The financial statements were authorised for issue by the Board of Directors on 28th May 2018.

2. BASIS OF PREPARATION

2.1. Statement of Compliance

The financial statements of the company (statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows together with accounting policies and notes) are prepared in accordance with Sri Lanka Accounting Standards, commonly referred to as SLFRS as issued by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No.07 of 2007.

2.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following material item in the statement of financial position:

- liability of defined benefit obligation is recognised as the present value of the defined benefit obligation.

2.3 Functional and Presentation Currency

The financial statements are presented in Sri Lankan Rupees, which is the Company's functional currency and presentational currency. All financial information presented in Sri Lanka Rupees is rounded to the nearest rupee unless otherwise stated.

2.4 Comparative Information

The accounting policies have been consistently applied by the Company with those of the previous financial in accordance with LKAS 01 - presentation of financial statements.

2.5 Materiality & Aggregation

In compliance with LKAS 01 on presentation of financial statements, each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or functions too are presented separately, if they are material.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires the application of certain critical accounting assumptions relating to the future. Further, it requires the management

of the Company to make judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods. Hence, actual experience and results may differ from these judgments and estimates.

In the process of applying the company's accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognised in the financial statements:

a) Taxation

The Company is subject to income taxes and other taxes including value added taxation and nations building tax. Significant judgment was required to determine the total provision for current, deferred and other taxes pending the issue of tax guidelines on the treatment of the adoption of SLFRS in the financial statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

The Company recognised assets and liabilities for current, deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income, deferred and tax amounts in the period in which the determination is made.

Notes to the Financial Statements

For the Twelve Months Ended 31st December 2017

b) Useful Life-time of the Property, Plant and Equipment

The Company reviews the residual values, useful lives and methods of depreciation of assets as at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

c) Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. Therefore, the financial statements continue to be prepared on the going concern basis.

d) Impairment Losses on Financial Assets

The company assesses at each reporting date or more frequently to determine whether there is any objective evidence whether an impairment loss should be recorded in the statement of comprehensive income.

e) Defined Benefit Plans

The cost of defined benefit plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, etc. Due to the complexity of the valuation, the underlying assumptions and their long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the yield of Sri Lanka Government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate of the Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company in preparation of its financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise is indicated.

4.1 Revenue Recognition

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

a) Services

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

b) Rooms and Outlet Revenue

Room revenue is recognised on the rooms occupied on a daily basis and food and beverage revenue is accounted for at the time of sale.

c) Interest

Interest income is recognised using the Effective Interest Rate (EIR) method.

d) Rental Income

Rental income is recognized on accrual basis.

4.2 Expenditure Recognition

Expenses are recognised in the statement of comprehensive income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in running the business and in maintaining property, plant and equipment in a state of efficiency has been charged to the statement of comprehensive income.

For the purpose of presentation of the statement of comprehensive income, the "function of expenses" method has been adopted, on the basis that it presents fairly the elements of the Company's performance.

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income.

4.3 Taxation

4.3.1 Current Tax

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date.

4.3.2 Deferred Tax

Deferred tax is provided using the liability method on temporary differences at the

reporting period date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

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

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

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the reporting date.

4.4 Non-financial Asset

4.4.1 Property, Plant and Equipment

a) Recognition and Measurement

Property, plant & equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 16 - property, plant & equipment. Initially property and equipment are measured at cost.

Cost Model

Property, 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 equipment when that cost is incurred, if the recognition criteria are met.

Subsequent Cost

Subsequent expenditure incurred for the purpose of acquiring, extending, or improving assets of a permanent nature by means of which to carry on the business or to increase the earning capacity of the business is treated as capital expenditure and such expenses are recognized in the carrying amount of an asset. The costs associated with day-to-day servicing of property, plant and equipment is recognised in the statement of comprehensive income as incurred.

Depreciation

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is charged from the date of purchase to the date of disposal on prorate basis. The rates of depreciations based on the estimated useful lives are as follows:

Category of asset	%
Buildings	2.5
Plant and machinery	7.5
Refrigerators & kitchen equipment	7.5
Computers & televisions	20
Motor vehicles	25
Furniture, fittings & equipment	10
Operating Equipment	33

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

De-recognition

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'other operating income' in the statement of comprehensive income in the year the asset is derecognised.

4.4.2 Impairment of Non-financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount.

4.5 Prepaid Lease Rental

The leasehold land is being amortised on an equal annual basis over 99 years, which is the period of the lease. The amortisation commenced from June 2012.

4.6 Inventories

Inventories are valued at the lower of cost and estimated 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 normal course of business after allowing for cost of realisation and/ or cost of conversion from their existing state to saleable condition.

The cost of each category of inventory is determined on the weighted average basis.

Notes to the Financial Statements

For the Twelve Months Ended 31st December 2017

4.7 Financial Assets – Recognition and Measurement

4.7.1 Initial Recognition

All financial assets are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time-frame generally established by regulation or convention in the market place.

4.7.2 Initial Measurement

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value including transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

4.7.3 Subsequent Measurement

The Company subsequently measures non-derivative financial assets categorising them in to the categories of financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets.

a) Financial assets at Fair Value Through Profit or Loss (FVTPL)

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss.

b) Held-to-maturity Financial Investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity.

Subsequent to initial measurement, held to maturity financial investments are measured at amortised cost using the Effective Interest Rate (EIR), less impairment.

c) Loans and Receivables

Loans & receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Company intends to sell immediately or in the near term and those that the Company, upon initial recognition, designates as at fair value through profit or loss
- Those that the Company, upon initial recognition, designates as available for sale
- Those for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration

After initial measurement, loans and receivables are subsequently measured at amortised cost using the EIR method less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in 'impairment gain/ (loss) on loans and receivables'.

The Company may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held-for-trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss. Where the loan, on

drawdown, is expected to be retained by the Company, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss.

d) Available-for-sale Financial Investments

Available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. The Company has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are measured at fair value. Unrealised gains and losses are recognised directly in equity (other comprehensive income) in the "available-for-sale reserve". When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income in other operating income.

4.7.4 Reclassification of Financial Assets

The Company may reclassify non-derivative financial assets other than those designated at FVTPL upon initial recognition, in certain circumstances:

- Out of the held-for-trading category and into the available for sale, loans and receivables, or held-to-maturity categories.
- Out of the 'available-for-sale' category and into the 'loans and receivables', 'held for trading category' or 'held-to-maturity'. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost. For a financial asset reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to

profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the statement of comprehensive income statement.

- Out of the 'held-for-trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase are recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of the management, and is determined on an instrument by instrument basis.

4.7.5 De-recognition of Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either:
 - The Company has transferred substantially all the risks and rewards of the asset or

- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

4.7.6 Identification, Measurement and Assessment of Impairment

At each reporting date the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

The Company writes off loans and advances and investment securities when they are determined to be uncollectible.

4.8 Cash and Bank Balances

Cash and bank balances are defined as cash in hand and balances with banks. For the purpose of statement of cash flows, 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.

4.9 Stated Capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments.

4.10 Retirement Benefit Obligations

4.10.1 Defined Benefit Plan – Gratuity

The liability recognised in the statement of financial position represents the present value of the defined benefit obligation at the reporting date estimated based on actuarial valuation using the projected unit credit method. The actuarial valuations involve making assumptions about discount rates and future salary increases. A defined benefit obligation is highly sensitive to changes in these assumptions. These benefits are not externally funded.

The Company recognises all actuarial gains and losses arising from defined benefit plans immediately in the other comprehensive income.

However, as per the Payment of Gratuity Act No. 12 of 1983, the liability to pay gratuity arises only on completion of 5 years of continued service.

4.10.2 Defined Contribution Plan

A defined contribution plan is a post-employment benefit plan under which

Notes to the Financial Statements

For the Twelve Months Ended 31st December 2017

an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the statement of comprehensive income as in the periods during which services are rendered by employees.

a) Employees' Provident Fund

The company and employees contribute 12% and 8% respectively on the salary of each employee to the approved Provident Fund.

b) Employees' Trust Fund

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund.

4.11 Financial Liabilities

4.11.1 Initial Recognition and Measurement

The Company classifies financial liabilities into financial liabilities at Fair Value Through Profit or Loss (FVTPL) or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities.

The Company recognises financial liabilities in the statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

a) Financial Liability at FVTPL

Financial liabilities at FVTPL include financial liabilities held-for-trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, and changes there in recognised in profit or loss.

Upon initial recognition, transaction cost are directly attributable to the acquisition are recognised in profit or loss as incurred. The criteria for designation of financial liabilities at FVTPL upon initial recognition are the same as those of financial assets at FVTPL.

b) Other Financial Liabilities

Other financial liabilities including deposits, debt issued by the Company and the other borrowed funds are initially measured at fair value less transaction cost that are directly attributable to the acquisition and subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

4.11.2 De-recognition of Financial Liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

4.12 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and 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. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

4.13 Statement of Cash Flows

The cash flow statement has been prepared using the indirect method, as stipulated in LKAS 7- statement of cash flows. Cash and cash equivalents comprise of cash in hand, cash at bank and bank overdrafts.

4.14 Segmental Information

A Segment is a distinguishable component engaged in providing services and that is subject to risks and returns that are different to those of other segments. The Company does not have distinguishable components to be identified as a segment as all operations are treated as one segment.

4.15.1 Standards Issued But Not Yet Effective

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

SLFRS 9 Financial Instruments

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.

SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

SLFRS 15 Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

SLFRS 15 is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted.

SLFRS 16 Leases

SLFRS 16 provides a single lessee accounting model, requiring leases to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value even though lessor accounting remains similar to current practice. This supersedes: LKAS 17 Leases, IFRIC 4 determining whether an arrangement contains a Lease, SIC 15 Operating Leases- Incentives; and SIC 27 Evaluating the substance of Transactions Involving the Legal form of a Lease. Earlier application is permitted for entities that apply SLFRS 15 Revenue from Contracts with customers.

SLFRS 16 is effective for annual reporting periods beginning on or after 1st January 2019.

Pending the completion of the detailed impact analysis, possible Impact from SLFRS 9, SLFRS 15 and SLFRS 16 is not reasonably estimable as of the reporting date.

The following amendments and improvements are not expected to have a significant impact on the Company's Financial Statements.

- Amendments to SLFRS 10 and LKAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.
- LKAS 7 Disclosure Initiative - Amendments to LKAS 7.
- LKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to LKAS 12.
- SLFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to SLFRS 2.

Notes to the Financial Statements

For the Twelve Months Ended 31st December 2017

5. Revenue

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Room revenue	1,317,248	1,151,953
Food and Beverage revenue	1,635,026	1,330,543
Other operating departments	63,088	58,184
	3,015,362	2,540,680

6. Investment Income

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Interest income - Loans and Receivables		
Interest on treasury bills	8,738	1,062
Interest on staff loans	5	9
Interest on RFC accounts	999	1,542
Interest on fixed deposits	14,089	11,596
Interest income on FF&E replacement reserve	1,702	4,995
Interest on call deposits	-	8,371
	25,533	27,575

7. Other Gains and Losses

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Profit on disposal of plant & equipment	6,620	4,238
Shop rentals	10,200	11,400
Exchange gain unrealised	884	9,428
Exchange gain realised	636	4,924
Other income	50	-
Sundry income	11,039	9,924
	29,429	39,914

8. Finance Costs

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Bank charges	81	38
Overdraft interest	9,824	-
	9,905	38

9. Profit for the Period

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Profit for the period is stated after charging all expenses including the following:		
Directors' emoluments	4,853	6,397
Auditors' remuneration - Company	916	600
- Colombo Hilton	1,553	1,401
Depreciation	461,542	368,254
Staff costs (including the following employee benefit plan costs)	448,163	413,941
- Defined benefit plan cost - Gratuity	22,577	18,307
- Defined contribution plan costs - EPF & ETF	60,735	59,045
Management fees	29,625	18,972
Group service & benefit charge - Hilton International	61,164	51,478
Legal fees	140	100

10. Income Tax Expense

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Provision for the period	11,691	11,394
Previous year under provision	5,913	47
Deferred tax (income) expense	(102,645)	20,491
	(85,041)	31,932

10.1 A reconciliation between Taxable Profit and Accounting Profit for the years ended 31st December 2017 and 31st December 2016 are as follows

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Accounting profit before income tax	172,976	172,944
Aggregate disallowed items	567,223	446,113
Aggregate allowable expense	(647,558)	(532,698)
Trading profits and other sources of income @ 12%	92,641	86,359
Other sources of income liable @ 28%	24,534	26,024
Total taxable profit	117,175	112,383
Loss claimed	(41,011)	(38,984)
Taxable profit	76,164	73,399
Taxable trading profit @ 12%	60,217	55,484
Taxable other source of income @ 28%	15,947	16,916
Tax on trading profit	7,226	6,658
Tax on other source of income	4,465	4,736
Current year total tax expense	11,691	11,394

Notes to the Financial Statements

For the Twelve Months Ended 31st December 2017

10.2 Deferred tax

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Deferred tax arising from:		
- Origination and reversal of temporary difference (Note 23)	102,645	20,491
Total deferred tax charge	102,645	20,491

10.3 Tax losses carried forward

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Tax losses brought forward	9,743,748	9,782,732
Tax losses set off in the current period	(41,011)	(38,984)
Tax losses carried forward for future periods	9,702,737	9,743,748

11. Earning Per Share - Basic

Basic earning per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the ordinary shares outstanding during the year.

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Profit per ordinary share	0.13	0.07
Amount used as the numerator	Rs. '000	Rs. '000
Profit attributable to the ordinary shareholders	258,017	141,012
Amount used as the denominator	Nos. '000	Nos. '000
Weighted average number of ordinary shares for the purpose of basic profit per share	2,046,646	2,046,646

12. Property, Plant and Equipment

Property, Plant and equipment	Buildings on leasehold land Rs. '000	Plant & machinery Rs. '000	Hotel furniture & fittings Rs. '000	Motor vehicle Rs. '000	Refrigerator & kitchen equipment Rs. '000	Television & computers Rs. '000	Operational Equipment Rs. '000	Total Rs. '000
Cost/ Revaluation								
Reclassified Balance as at 31st December 2015	6,667,589	482,118	1,117,174	92,939	437,475	261,553	-	9,058,847
Additions during the year	8,383	4,253	31,937	-	18,228	15,763	105,332	183,896
Transfers from Capital Working Progress	1,844,960	61,372	328,883	-	275,219	390	13,994	2,524,819
Balance as at 31st December 2016	8,520,932	547,743	1,477,994	92,939	730,922	277,706	119,326	11,767,562
Additions during the year	14,876	14,900	47,725	-	20,019	11,064	2,545	111,128
Transfers from Capital Working Progress	492,342	-	30,690	-	125,397	-	-	648,428
Balance as at 31st December 2017	9,028,150	562,643	1,556,409	92,939	876,338	288,770	121,871	12,527,118
Accumulated Depreciation								
Balance as at 31st December 2015	1,954,293	432,694	1,011,125	84,569	314,121	223,504	-	4,020,304
Charge for the year	183,737	12,206	42,376	6,281	25,059	16,312	11,577	297,547
Previously reported balance as at 31st December 2016	2,138,029	444,899	1,053,500	90,849	339,180	239,815	11,577	4,317,851
Reversal of over provision	-	-	-	(1,352)	-	-	-	(1,352)
Adjusted balance as at 31st December 2016	2,138,029	444,899	1,053,500	89,497	339,180	239,815	11,577	4,316,499
Charge for the year	218,892	12,775	60,687	2,195	39,644	17,635	40,357	392,184
Balance as at 31st December 2017	2,356,921	457,674	1,114,187	91,693	378,824	257,451	51,934	4,708,683
Written Down Value								
Balance as at 31st December 2015	4,713,296	49,424	106,050	8,370	123,354	38,049	-	5,038,544
Previously reported balance as at 31st December 2016	6,382,902	102,844	424,494	2,090	391,742	37,891	107,749	7,449,712
Adjusted balance as at 31 December 2016	6,382,902	102,844	424,494	3,442	391,742	37,891	107,749	7,451,063
Balance as at 31st December 2017	6,671,229	104,968	442,221	1,246	497,514	31,319	69,937	7,818,434

Hotel Developers (Lanka) PLC has full possession and control of the property, plant & equipment of the hotel.

12.2 A bridge was constructed in 1998 linking the World Trade Centre and Hilton Hotel at a cost of USD 360,000. Overseas Realty Ltd and Hilton International contributed US \$ 180,000 and US \$ 90,000 respectively, and the company contributed the balance amount. USD 90,000 incurred by the company has been capitalised in the financial statements under buildings.

12.3 Property, plant & equipment at a cost of Rs. 1,986,019,251/- (Y/E2016 - 1,933 Mn) have been fully depreciated and continue to be in use by the company. The company has carried out detail assets verification & valuation of each and every asset with the assistance of a Chartered Valuer, facilitated by M/s. Ernst & Young. Now this assignment has come to its final stages of the reconciliation.

12.4 The building was revalued in 2010 by the Government Chief Valuer at Rs. 5,600Mn. The company elected to recognise the revalued amount of the building as the deemed cost under the previous accounting standard (SLAS) at the date of transition to LKAS. As a result, the company has transferred the evaluation reserve of 4,706,460 (LKR'000) to retained earnings at the date of transition.

12.5 The phase 01 of the refurbishment has been completed in August 2017. The capitalisation cost derived is based on the estimated cost to completion from cost consultant's report.

Notes to the Financial Statements

For the Twelve Months Ended 31st December 2017

13. Leasehold Land

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Balance B/F	6,681,237	6,751,944
Amortization for the period	(70,707)	(70,707)
Balance C/D	6,610,530	6,681,237

The leasehold land is for a period of 99 years effective from 28th June 2012. The leasehold land value amounting to Rs. 7 Bn. has been capitalised and shares issued to the Government of Sri Lanka. Further, approval of Cabinet of Ministers was granted on 3rd October 2012 to lease the land in which the Sport Complex is built for a period of 5 years on a rent free basis commencing from 28th June 2012. In terms of the cabinet decision dated 13/12/2016, the lease of this land has been extended up to June 2111 in line with the lease of the main building and the lease terms are yet to be finalised.

14. Inventories

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Food	11,748	7,067
Beverages	34,494	32,576
General stores	8,163	8,279
Engineering stores	3,604	3,566
	58,009	51,488

15. Trade and other Receivables

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Trade receivables	153,388	150,591
Less: Impairment of debtors	(1,748)	(1,748)
	151,640	148,843

16. Amounts due from Related Party

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Hilton Garden Inn	-	201
Hilton Singapore	-	49
Hilton Colombo Residence	240	1,339
Hilton International	-	63
Hilton Goa	-	115
Hilton Kualapur	196	-
Hilton Weerawila	918	-
	1,354	1,767

17. Other Assets

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Deposits, prepayments and advances	86,421	96,926
Other receivables	45,468	32,392
Advances - Refurbishment expenses	26,950	65,277
Income tax receivable	24,681	21,550
	183,520	216,145

18. Current Financial Assets

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Short-term Investments		
Call deposits	114,558	172,042
	114,558	172,042
FF&E Reserve Investment		
Call deposits	21,050	30,618
	21,050	30,618
Total Short-term Investment	135,608	202,660

Investments for FF&E Reserve are restricted in use and to be used for the replacement of furniture, fittings and equipment as per Article V Section 4 of the Management Agreement entered into between Hilton International Management Corporation and Hotel Developers (Lanka) PLC dated 18th October 2012. Since this investment has been utilised for Hotel refurbishment, it has now been re-classified as current financial assets from the previous classification of non-current financial assets.

19. Cash and Bank Balances

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Saving A/C BOC - US\$	32,544	250,301
Operating Bank A/C	193,005	144,753
Cash	50	50
	225,599	395,104

The year end balance in the USD saving account has been translated to functional currency of Sri Lankan Rupees at the closing rate as at balance sheet date in terms of the accounting standards.

Notes to the Financial Statements

For the Twelve Months Ended 31st December 2017

20. Stated Capital

20.1 Issued and fully paid

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
2,046,645,685 Ordinary shares	20,466,456	20,466,456

21. Reserves

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Furniture, fittings & equipment replacement reserve (Note 21.1)	161,348	21,896

21.1 Furniture, Fittings and Equipment Replacement Reserves

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Balance at the beginning of the year	21,896	117,421
Add: Provision made during the year	268,435	108,389
Less: Amounts transferred to equity statement		
Amounts utilised for purchase & replacement		
- of furniture & fittings	(128,983)	(203,914)
Balance at the end of the year	161,348	21,896

An amount equivalent to USD 700,000 has been transferred to furniture, fittings & equipment reserve during the year.

22. Retirement Benefit Obligations

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Balance at the beginning of the year	125,326	104,524
Charge for the year	9,105	7,855
Recognition of transitional liability /(asset) and actuarial loss/(gain)	10,042	9,042
Loss/ (gain) arising from changes in the assumptions		
or due to (over)/under provisions in the previous years	(12,457)	(3,976)
Interest cost for the year	13,472	10,452
Payments made during the year	(22,907)	(2,571)
Balance at the end of the year	122,581	125,326

The retirement benefit obligation of the company is based on the actuarial valuation carried out by Messrs. Piyal S. Goonetilleke and Associates. All assumptions remain the same, except for the discount rate assumption and the annual basic salary increase and no material change is expected in the contribution to the defined benefit plan for the next annual reporting period. The discount rate was revised to 10.25% (vs 10.75% last year) to reflect the yield rates of the Treasury Bonds. The principal assumptions used in determining the cost of employee benefits were:

Discount rate	10.25%	10.75%
Future salary increase	6.00%	9.00%

Sensitivity & maturity profile	Discount Rate		Salary Increment	
	2017	2016	2017	2016
Increase by one percentage point	(4,934)	(4,928)	(4,751)	5,140
Decrease by one percentage point	4,510	5,417	4,414	(4,761)
				31.12.2017
				Rs. '000

Maturity analysis of the payments as at 31 December 2017 - Undiscounted

With in next 12 Months	4,720
Between 1 and 2 years	16,542
Between 2 and 5 years	50,020
Between 5 and 10 years	50,111
Total Expected payments	121,393

23. Deferred Tax Liability

	31.12.2017	31.12.2016
	Rs. '000	Rs. '000
Balance at the beginning of the year	499,215	478,724
Deferred tax expense/(income)	(102,645)	20,491
Balance at the end of the year	396,570	499,215

23.1 The closing deferred tax liability balance relates to the following:

	31.12.2017	31.12.2016
	Rs. '000	Rs. '000
Accelerated depreciation for tax purposes	732,903	603,481
Retirement benefit obligation	(17,161)	(15,039)
Deferred tax asset relating to utilisation of brought forward - tax losses	(319,172)	(89,227)
	396,570	499,215

The deferred tax has been calculated at the rate of 14% in 2017 (12% in 2016)

Notes to the Financial Statements

For the Twelve Months Ended 31st December 2017

24. Trade and other Payables

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Trade payables	138,318	122,405
Sundry creditors and including accrued expenses	151,512	183,417
Management fee payable	7,654	9,774
Deposits payable	68,228	95,490
Other liabilities	39,860	30,842
Replacement of breakages	10,938	9,609
Statutory payables	63,064	59,672
	479,574	511,209

25. Amounts due to Related Parties

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Hilton International Asia Pacific	6,874	6,197
Hilton International USA	5,684	4,401
	12,558	10,598

26. Income Tax Liability

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Opening balance	(21,548)	12,379
Provision for the period	11,691	11,394
Previous year under provision	5,913	47
Tax credit		
Economic Service Charge	(12,313)	(12,817)
Withholding tax	(1,409)	(1,160)
Notional tax	(1,044)	(1,443)
Self assessment payment	(5,971)	(29,948)
Balance at the end of the year (current year balance transferred to Other Assets)	(24,681)	(21,548)

27. Notes to the Cash Flow Statement

27.1 Cash and Cash Equivalents at the Beginning of the Year

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Cash and bank balance	395,104	215,214
Call deposits	202,660	257,208
Treasury Bills	-	59,325
Bank overdraft	(340,250)	(126,414)
Unrealized exchange gain on USD Saving deposit	884	9,428
	258,398	414,761

27.2 Cash and Cash Equivalents at the end of the Year

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Cash and bank balance	225,599	395,104
Call deposits	135,608	202,660
Bank overdraft	(272,468)	(340,250)
	88,739	257,514

28. Analysis of Financial Instruments by Measurement Basis As at 31st December 2017

	31.12.2017 Rs. '000	31.12.2016 Rs. '000
Financial assets by categories		
Financial instruments in current assets		
Trade and other receivables	151,640	148,843
Other assets	183,520	216,145
Amounts due from related party	1,354	1,767
Other current financial assets	135,608	202,660
Cash in hand and at bank	225,599	395,104
Total	697,721	964,519
Financial liabilities by categories		
Financial Instruments in current liabilities		
Trade and other payables	490,021	511,209
Amounts due to related party	12,558	10,598
Bank overdrafts	272,468	340,250
Total	775,047	862,057

Notes to the Financial Statements

For the Twelve Months Ended 31st December 2017

29. Financial Risk Management

The Company's activities are exposed to a variety of financial risks such as market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management process focuses on the unpredictability of financial risks and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is performed by the finance department under policies approved by the Board of Directors.

The principal financial instruments of the Company comprise of short term deposits, money market investments, and cash. The main purpose of these financial instruments is to raise and maintain liquidity for the Company's operations, and maximise returns on the Company's financial reserves. The Company has various other financial instruments such as trade receivables and trade payables which arise directly from its business activities.

29.1 Credit risk

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Hotel is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities.

The Hotel trades only with recognised, credit worthy third parties. It is the Hotel's policy that all clients who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Hotel's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Hotel, such as cash and cash equivalents, other non-financial assets and amounts due from related parties, the Hotel's exposure to credit risk arises from default of the counterparty. The Hotel manages its operations to avoid any excessive concentration of counterparty risk and takes all reasonable steps to ensure the counterparties fulfil their obligations.

29.2 Credit risk exposure

The maximum risk positions of financial assets which are generally subject to credit risk are equal to their carrying amounts (without consideration of collateral, if available). The following table shows the maximum risk positions.

In Rs. '000	As at 31st December 2017				Total
	Cash in hand and at bank	Short term investments	Trade and other receivable	Amounts due from related parties	
Deposits with bank		135,608			135,608
Trade and other receivables			151,640		151,640
Amounts due from related parties				1,354	1,354
Cash in hand and at bank	193,055	32,544			225,599
Total credit risk exposure	193,055	168,152	151,640	1,354	514,201

29.2 Credit risk exposure (contd.)

In Rs. '000	As at 31st December 2016				Total
	Cash in hand and at bank	Short term investments	Trade and other receivable	Amounts due from related parties	
Deposits with bank		202,660			202,660
Trade and other receivables			148,843		148,843
Amounts due from related parties				1,767	1,767
Cash in hand and at bank	144,803	250,301			395,104
Total credit risk exposure	144,803	452,961	148,843	1,767	748,374

29.3 Trade and other receivables

		As at 31 December 2017	As at 31 December 2016
Neither past due nor impaired		121,542	107,694
Past due but not impaired	30-60	18,894	28,118
	61-90	5,252	7,707
	91-120	918	556
	121-150	1,817	527
	151>	4,965	5,988
impaired			
Gross carrying value		153,388	150,591
Less: impairment provision			
Individually assessed impairment provision		(1,748)	(1,748)
Total		151,640	148,843

29.4 Amounts due from related parties

The balance consists of amount due from affiliate companies of The Hilton Chain.

29.5 Credit risk relating to cash and cash equivalents

The company maintains an authorised list of acceptable cash counterparties based on current ratings and economic outlook, taking into account analysis of fundamentals and market indicators. The Hotel held cash and cash equivalents of Rs. 88,739,077/- as at 31st December 2017 (as at 31st December 2016 - Rs. 257,513,892/-).

Notes to the Financial Statements

For the Twelve Months Ended 31st December 2017

29.6 Liquidity risk

The Company's policy is to hold cash at a level sufficient to ensure that the Company has available funds to meet its short and medium term funding obligations, including organic growth, and to meet any unforeseen obligations and opportunities.

The Company monitors its risk to a shortage of funds using a daily cash management process. This process considers the maturity of both the Company's financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

Net (debt)/cash	As at 31st December 2017	As at 31st December 2016
In Rs.		
Short term investments	135,608	202,660
Cash in hand and at bank	225,599	395,104
Total liquid assets	361,207	597,764
Bank overdrafts	272,468	340,250
Total borrowings	272,468	340,250
Net (debt)/cash	88,739	257,514

29.7 Maturity analysis

The table below summarises the maturity profile of the Hotel's financial liabilities at 31st December 2017 based on contractual undiscounted payments.

In Rs.	As at 31 December 2017		As at 31 December 2016	
	Within one year	Total	Within one year	Total
Trade & other payables	479,574	479,574	511,209	511,209
Amounts due to related parties	12,558	12,558	10,598	10,598
Retention Fees - Refurbishment Project	111,028	111,028	103,208	103,208
Bank overdrafts	272,468	272,468	340,250	340,250
	875,628	875,628	965,265	965,265

29.8 Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Hotel is exposed to market risk through its use of financial instruments and specially to currency risk, and certain other price risks.

30. Events after the Reporting Date

There have been no material events after reporting date that require adjustment to or disclosure in the financial statements.

31. Capital Commitments

There were no capital commitments or contingent liabilities that requires disclosures in these financial statements other than the following:

31.1 The company has commenced a major refurbishment of the hotel from October 2014. Accordingly, Hilton Colombo has been undergoing major renovations from 2014, which will see improvements across the property including rooms, food and beverage outlets and meeting spaces. The refurbishment programme is budgeted at US \$ 52Mn including duties and will be financed by USD loan amounting to US\$ 27Mn and the balance from internally generated funds. Capital commitment approved by the Board but not contracted for amounts to approximately USD 27Mn (Rs.4.1Bn.).

The values of the contracts that the company has already entered into on the refurbishment and in balance outstanding are as follows.

USD '000	Contract Value	Amount Paid	Balance
Civil/Fit Out/Other Contracts	17,945	13,839	4,106
Consultancy Contracts	5,730	5,217	513

32. Contingent Liability

The hotel is a defendant in several lawsuits in respect of termination of employment and compensation for loss and damages due to power interruption during a function. The management is unable to predict the outcome of such cases on the date of the issue of the financial statements. Accordingly, no provision for any liability has been made in these financial statements.

By a Notice Published in the Gazette dated 6th July 2007 the Colombo Municipal Council has revised the license fee in relation to the hotels, restaurants and lodging places for the period applicable from 1st January 2007. Hotels in the city of Colombo including the Hilton Colombo had protested against the increase of the said license fee and the matter is under negotiation with the Ministry of Tourism which has intervened to resolve the matter. Based on the minute of Tourist Hotel Association of Sri Lanka dated on 28th July 2011, the hotel is providing provision of Rs. 50,000/- per month. The management believes the license fee claimed by the CMC will not be paid as similar claims made by the CMC in respect of year 2007, 2008, 2014 and 2015 were successfully challenged in courts by Hotel Developers (Lanka) PLC and the said claims made by CMC were dismissed by the Magistrate Court of Sri Lanka. However, Hilton Colombo maintains a provision of LKR 6,932,522 as at December 31, 2017 in respect of the said legal case.

33. Assets Pledged as Securities

The Company has mortgaged the main property of the Hotel against the loan agreement signed with Bank of Ceylon & Sampath Bank PLC for a syndicated loan facility of USD 27Mn for the refurbishment project. However, this loan facility has not been utilised to date.

Notes to the Financial Statements

For the Twelve Months Ended 31st December 2017

34. Related Party Disclosures

34.1 Transaction with Key Management Personnel

Related Parties include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the company. Key management personnel include members of the Board of Directors of the company and the Competent Authority who has been appointed in terms of the provisions of the revival of underperforming or under utilised assets act no. 43 of 2011.

Directors' emoluments and payments to Competent Authority paid during the period amounts to Rs. 6,052,500/- (Y/E 2016 - Rs. 7,597,000/=).

Mr. Krishantha Cooray, Ms. Dheeshana Ameresekere, Mr. Priyantha Jayamaha, Mr. Athula Senanayake, Ms. Tehani S. A. Mathew, Mr. Dinouk Colombage, Mr. M.Shezmin Mansoor, Mr. W. S. L. A. D. R. Samarasinghe, Ms. Sonali Liyanamana, Mr. Pravir Samarasinghe were nominated as the Directors by the Government of Sri Lanka. The Government of Sri Lanka presently holds 100% of the Ordinary Share Capital.

35. Litigation as of the reporting date

35.1 SC HCCA LA 225/16

This is an appeal filed by Cornel & Co Ltd against the order of court dated 31st March 2016 in HCCA LA 69/14. The case has been re-fixed for support on the 12th October 2018.

35.2 H.C. [Civil] 1/98 [2] [Date of filing 31/3/1998]

This case has been filed by Cornel & Co Ltd., against Mitsui & Co Ltd, Taisei Corporation and 9 other Defendants, including HDL [5th Respondent].

The Plaintiff filed action in the High Court of the Western Province and supported and obtain an ex parte Enjoining Orders in terms of prayers [m] and [n] of the Plaint, preventing the implementation of the Settlement Agreements.

This case has been laid by since 29.10.2003 pending a settlement [if any].

35.3 D.C. COLOMBO CASE NO. 21819/MR

This action has been instituted by Mr. Nihal Sri Amarasekera for Judgement against the 1st Defendant, Mr. Gamini Lakshman Pieris in a sum of Rs. 35,938,000.00 and Rs. 36,071,000.00. HDL is the 2nd defendant.

The case has been laid by since 17th March 2004 pending a settlement [if any]

35.4 D.C. Colombo Case No. 15322/MR

[Date of Filing 4/8/1994]

HDL is the Plaintiff in this Action.

This action has been instituted for Judgement against the Defendant Mr. Nihal Sri Amarasekera to recover a sum of Rs. 26,626,613.00 with legal interest thereon.

The case has been laid by since 28th February 2007 pending a settlement [if any].

Notice of Meeting

NOTICE is hereby given that the ANNUAL GENERAL MEETING of HOTEL DEVELOPERS (LANKA) PLC will be held at the Opel 2 (3rd Floor) of Hilton Colombo , Sir Chittampalam A Gardiner Mawatha, Colombo 02 on 02nd August 2018 at 3.30 p.m.

AGENDA

1. To pass the following resolution to accept the Notice of Meeting.
"RESOLVED that the Notice dated 23rd July 2018 convening the Annual General Meeting of the Company be and is hereby accepted as a valid notice irrespective of the fact that the meeting has been called with shorter notice than that specified in the Articles of Association and in the Companies Act No.07 of 2007".
2. To receive and consider the Annual Report of the Board of Directors, Statement of Accounts and the Balance Sheet of the Company for the year ended 31st December 2017 together with the report of the Auditors thereon.
3. To note that the Auditor General continues to be the Auditor of the Company pursuant to the 19th Amendment to the Constitution.

By order of the Board of Directors of
HOTEL DEVELOPERS (LANKA) PLC



S S P CORPORATE SERVICES (PRIVATE) LIMITED
SECRETARIES

23rd July 2018
Colombo

NOTE :

- A member of the Company is entitled to appoint a Proxy to attend and vote on his or her behalf.
- A Proxy need not be a member.
- A Proxy form which is enclosed should be deposited at the Registered Office of the Company not less than 48 hours before the meeting.

Notes

Notes

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Form of Proxy

I/We of
.....
being a member/members of Hotel Developers (Lanka) PLC hereby appoint:
..... of
..... or failing him/her

Mr. Krishantha Prasad Cooray	of Colombo failing him
Ms. Dheeshana S. Ameresekere	of Colombo failing her
Mr. J.M.U.P. Jayamaha	of Colombo failing him
Mr. Athula Senanayake	of Colombo failing him
Ms. Tehani S. A. Mathew	of Colombo failing her
Mr. Dinouk Colombage	of Colombo failing him
Mr. M. Shezmin Mansoor	of Colombo failing him
Mr. W. S. L. A. D. R. Samarasinghe	of Colombo failing him
Ms. Sonali Liyanamana	of Colombo failing her
Mr. Pravir Dhanoush Samarasinghe	of Colombo failing him

as my/our proxy to represent me/us to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on the 02nd August 2018 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Agenda Item		For	Against
1.	To accept the Notice of Meeting	☐	☐
2.	To receive and consider the Report of the Directors and the Statements of Accounts for the year ended 31st December 2017 together with the Report of the Auditors thereon.	☐	☐
3.	To note that the Auditor General continues to be the Auditor of the Company pursuant to the 19th Amendment to the Constitution.	☐	☐

Signed this day of2018

.....
Signature of the Shareholder

Note:

1. Instructions as to completion are noted on page 4.
2. A Proxy need not be a member of the Company
3. Please mark "X" in appropriate cages to indicate your instructions as to voting.

Instructions as to Completion of Proxy

1. Kindly perfect the Form of Proxy by legibly filling your full name and address, signing in the space provided, and filling in the date of signature.
2. If the Proxy Form is signed by an Attorney, the relative Power of Attorney should also accompany the Proxy form for registration, if such Power of Attorney has not already been registered with the Company.
3. In the case of Company/Corporation, the Proxy must be filled and attested in the legally prescribed manner.
4. The completed Form of Proxy should be deposited at the office of the Secretaries, **S S P Corporate Services (Private) Limited, No. 101, Inner Flower Road, Colombo 03**, not less than 48 hours, before the Meeting.
5. A shareholder appointing a Proxy (other than a Director of the Company) to attend the meeting should indicate the Proxy holder's National Identity Card (NIC) number on the Form of Proxy and request the Proxy holder to bring his/her National Identity Card with him/her.

Corporate Information

Name of the Company	:	HOTEL DEVELOPERS (LANKA) PLC
Legal Form	:	A Public Quoted Company with Limited Liability
Date of Incorporation	:	15th March 1983
Company Registration No.	:	PQ 143
Competent Authority	:	Mr. Chandrakumar Ramachandra
Directors	:	Mr. Krishantha Prasad Cooray - Chairman Mr. J. M. U. P. Jayamaha Mr. Athula Senanayake Ms. Dheeshana S. Ameresekere Ms. Tehani S. A. Mathew Mr. Dinouk Colombage Mr. M Shezmin Mansoor Mr. W. S. L. A. D. R. Samarasinghe Ms. Sonali Liyanamana Mr. Pravir Dhanoush Samarasinghe
Registered Office	:	Hotel Developers (Lanka) PLC C/o Hilton Colombo No. 2, Sir Chittampalam A Gardiner Mawatha Colombo 02 Tel : + 94 11 2433435 Fax : + 94 11 2446545 E-mail : hdl_hilton@sltnet.lk Web site : www.hoteldevelopers.lk
Secretaries and Registrars	:	S S P Corporate Services (Private) Limited No. 101, Inner Flower Road Colombo 03
Bankers	:	Bank of Ceylon Corporate Branch No. 4, Bank of Ceylon Mawatha Colombo 01
Lawyers	:	M/s. D.L.& F. De Saram Attorneys-at-Law and Notaries Public 47, Alexandra Place Colombo 7.
Auditors	:	Auditor General Department of the Auditor General Polduwa Road Battaramulla

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