Hilton
COLOMBO

Resplendent & Unrivalled

HOTEL DEVELOPERS (LANKA) PLC
ANNUAL REPORT 2018

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Resplendent & Unrivalled

The Hilton embodies a unique legacy as the most celebrated hotel brand in Sri Lanka. Hilton Colombo towers above others in the hospitality firmament, having persevered with its world-class offering over three decades, partnering the nation's aspirations to become an economic force and among the top tourism destinations.

As a hotel that treats its guests with respect and dignity, is the preferred choice for business and leisure events, now unrivalled after aesthetic refurbishment of its event spaces. The quality of its food and beverages and signature service delight its guests and keep them patronizing our iconic property.

Hilton Colombo sustains its confidence and faith in the destination and remains unsurpassed as the most trusted hospitality brand. Supported strongly by a team of highly professional and courteous Team Members, the property remains a benchmark others strive to emulate

The Grand Ballroom

"The newly upgraded pillar-less Grand Ballroom will serve as the prime banquet and events venue space of the hotel catering for the weddings and Corporate MICE markets".




PULL
ERANDI

The Blue

"A Multipurpose function room with well landscaped garden which catersfor Residential and Non-Residential Conferences and geared to meet our growing demands for Corporate MICE business"



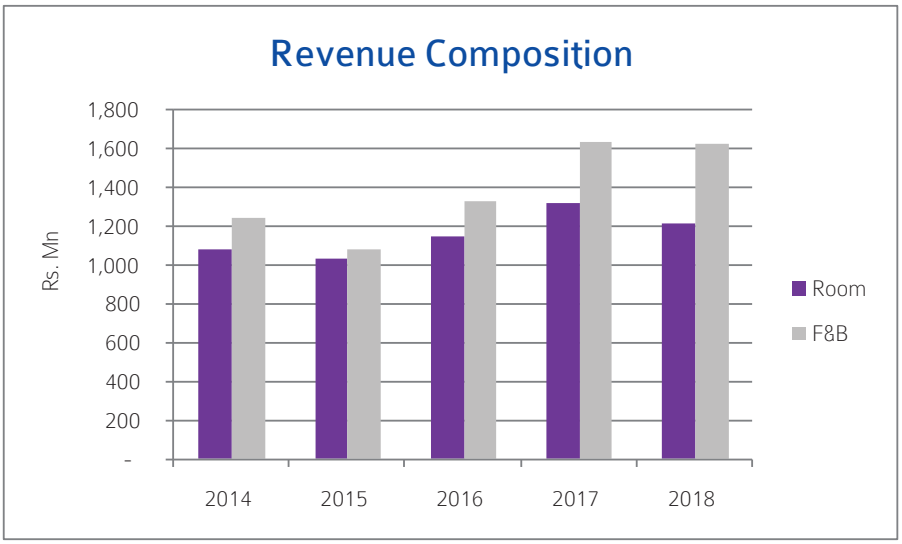

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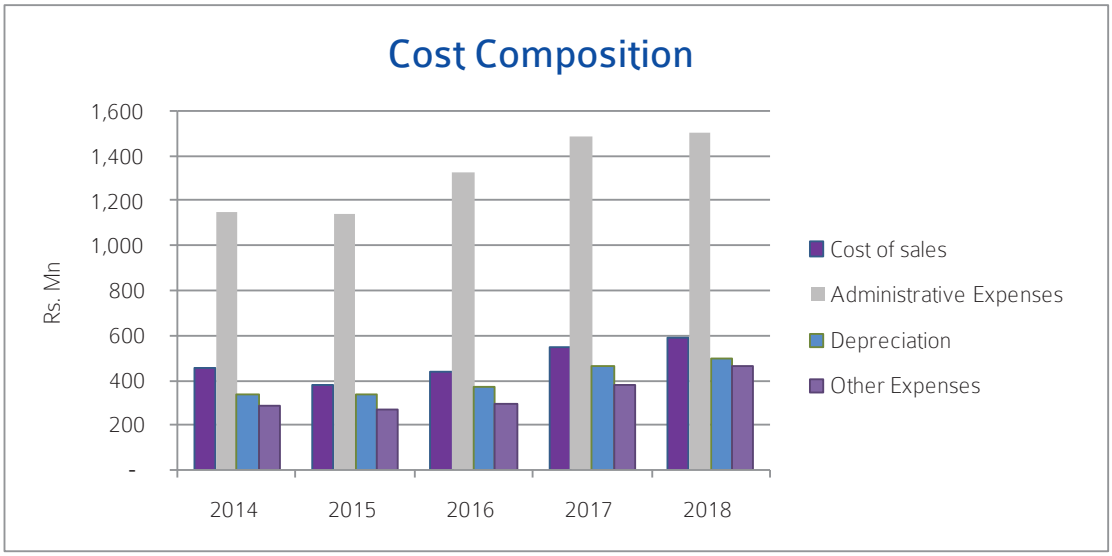
Onyx

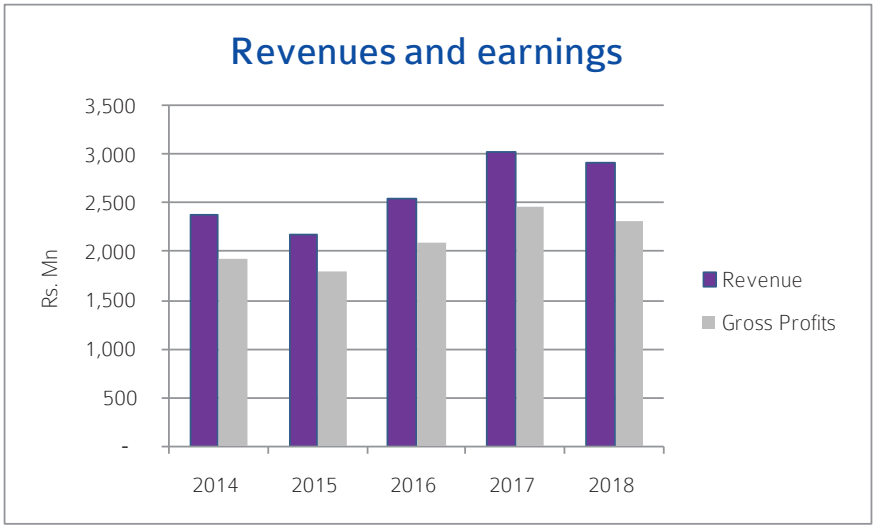
"Onyx" multifunction room is the newest addition to our event space facilities and infrastructure to cater for corporate events. Onyx has turned out to be a successful event space for Corporate events, Training programs, Seminars and Workshops".






Revenue Composition
Rs. Mn
1,800
1,600
1,400
1,200
1,000
800
600
400
200
-
2014
2015
2016
2017
2018
Room
F&B


Cost Composition
Rs. Mn
1,600
1,400
1,200
1,000
800
600
400
200
-
2014
2015
2016
2017
2018
Cost of sales
Administrative Expenses
Depreciation
Other Expenses


Revenues and earnings
Rs. Mn
3,500
3,000
2,500
2,000
1,500
1,000
500
-
2014
2015
2016
2017
2018
Revenue
Gross Profits

Financial Highlights

	2018	2017
Room Revenue LKR '000	1,219,736	1,317,248
F&B Revenue LKR'000	1,631,492	1,635,026
Other Revenue LKR '000	59,312	63,088
Total Revenue LKR '000	2,910,540	3,015,362
Gross Profit Margin %	79.62	82
Profit/(Loss)before Tax LKR'000	(126,461)	172,976
Profit After Tax LKR'000	(127,507)	258,017
Earning/(Loss) per share LKR	(0.05)	0.13
Average Room Rate LKR	22,944	21,077
Occupancy %	48	57
Long Term Interest Bearing Borrowings LKR'000	Nil	Nil
Total Equity LKR '000	14,022,329	14,022,329
Debt/Equity %	3.09	1.94
Total Assets LKR '000	15,330,551	15,428,109
Debt /Total Assets %	2.82	1.77
Current Assets LKR'000	711,958	755,730
Current Lliabilities LKR'000	905,859	875,628
Current Ratio (times)	0.79	0.86
Quick Assets Ratio (times)	0.72	0.80



Chairman's Review

"We all know that the terrorist attacks pose a serious challenge to the tourism industry and the economy in general. Nevertheless, we have recognized that it simultaneously provides an opportunity for all Sri Lankans to unite as one to recover and emerge stronger than before. Terrorism is a threat to democracy everywhere and I am hopeful that countries around the globe that value democracy will encourage their citizens to travel to Sri Lanka to negate the adverse effects of such attacks."

Dear Shareholder

On behalf of the Board, I am pleased to present the Annual Report and Audited Financial Statements, documenting in detail the performance of your company for the financial year ending 31st December 2018.

At the outset, let me express what I believe are some sentiments widely held by many in our country and the business community in particular. Sri Lanka has had a turbulent period. First, there was the uncertainty following political turmoil towards the end of the 2018 year. Then, there were the tragic and horrifying attacks on Easter Sunday in early 2019.

First, however, let me extend my deepest condolences to the loved ones of those who lost their lives in the terrorist attack on Easter Sunday. The Hilton Colombo family too was a victim of this tragedy. Kaori Takahashi, the beloved wife of our Japanese chef Hikaru Takahashi, was killed on Easter Sunday. Hikaru and his family have been with Hilton Colombo for over four years. He and his two young children were heartbroken beyond belief at Kaori's loss. I am humbled and honoured that after a three month leave in Japan, Hikaru has returned to Sri Lanka, and to the Hilton Colombo, with his daughter Ami and his son Yu. I speak on behalf of every director, executive and employee of Hilton Colombo, when I say here that the Takahashi family can expect our unwavering and unconditional support. Theirs will be an exceptionally special family for our country, for the hotel, and for each of us individually.

I believe, as I am sure we all do, that we are little or nothing if our fellow beings are rendered helpless. Indeed, few businesses can thrive in the long run in a climate of uncertainty and an overbearing environment of helplessness. Nevertheless, a nation that is resilient will endure all with fortitude, and so too a Company that has strength, determination, flexibility and above all, formidable corporate character. Therefore, without any false humility, let me make it clear that we have what it takes - not just to prevail, but to emerge stronger, more versatile and vibrant.

We all know that the terrorist attacks pose a serious challenge to the tourism industry and the economy in general. Nevertheless, we have recognized that it simultaneously provides an opportunity for all Sri Lankans to unite as one to recover and emerge stronger than before. Terrorism is a threat to democracy everywhere and I am hopeful that countries around the globe that value democracy will encourage their citizens to travel to Sri Lanka to negate the adverse effects of such attacks.

Our Performance

The Company was poised to welcome a record number of guests in the peak season in Q4 2018, but unfortunately we were unable to realize the expected benefits due to the volatile political climate that prevailed

Chairman's Review

from October 2018 onwards, during which, frequent public protests were held in the vicinity of the hotel. Notwithstanding challenges, as it always has, Hilton Colombo demonstrated extraordinary resilience as well as resourcefulness by simply placing faith in the fundamental principles, namely quality, staff, commitment and teamwork, all of which came to the fore during the year to make the most of a challenging situation.

Despite delays in commencing room refurbishment, we managed to compete aggressively with new entrants to the industry, recording only a marginal decline in revenue compared to the previous year. The profitability during 2018 was impacted by a substantial charge of depreciation arising from capitalization of the refurbishment cost at the completion of the first phase in August 2017.

However, there were many positive developments, such as higher revenue and strong performance from the refurbished F&B outlets, coupled with strong business from the MICE sector, which deemed Hilton Colombo to be the most preferred property for corporate events.

The property had already made significant investments in surveillance and protection technology to ensure heightened security for guests, which have been further reinforced in recent days. The level of security and protection we offer in the leisure industry, apart from being the most prized address in the city, has cemented the confidence of our guests and our corporate clientele.

In the leisure industry, we have always had to adopt a medium to long term outlook to sustain the growth momentum. I am confident that this year too will be no different and that the industry will recover reflexively within a short period. Travel advisories have been lifted and tourists have the required assurances to holiday in Sri Lanka once again. Considering the positive projections for the year 2019, I have full confidence that we can carve out a strong recovery by working together to instill confidence in tourists to return to Sri Lanka.

Tourism Industry in 2018

Earnings from tourism continued to be a major source of foreign exchange to the country, supported by a healthy growth in tourist arrivals during 2018. Tourist arrivals grew by 10.3 per cent to 2,333,796 in 2018, recording the highest annual tourist arrivals during a year. Tourist arrivals from all major regions, except East Asia and the Middle East, increased in 2018. Earnings from tourism increased by 11.6 per cent to US $ 4,381 Mn in 2018, in comparison to US $ 3,925 Mn in 2017. This was partly due to an increase in average spending by tourists.

On an encouraging note, investments in the tourism sector expanded further in 2018. During 2018, the Sri Lanka Tourism Development Authority (SLTDA) received proposals for 141 hotel projects amounting to US$ 919 Mn, in comparison to 95 projects with a total investment of US$ 314 Mn in 2017. A total of 44 hotel projects have been approved by SLTDA, entailing an investment worth US$ 201 Mn, which will add 1,302 rooms to the Industry,

Looking Ahead

As the industry performance during the period under consideration indicates, the destination was positioned to perform well on all counts in 2019. However, due to the impact of the Easter Sunday attacks, the Sri Lanka Tourism Development Authority has a challenging task to resurrect the industry and help it regain momentum. The Government has moved to provide concessionary loans, other subsidies and incentives to the industry operators for swift recovery in response to the appeal at this critical point of time. A coordinated approach with the participation of every stakeholder is necessary to rebuild the industry and the economy.

The private sector is eager and willing to partner the Government in chalking out an appropriate recovery plan for the short and medium term to turnaround the sector in the fastest possible time, thereby mitigate the negative impact on the sector. Despite the setback, the industry is ready and willing to survive the lean period and emerge even more resilient. We are hopeful that the Government will embark on aggressive marketing and promotions in source markets to convey the message globally that Sri Lanka is open for business.

All stakeholders in the sector have a critical role to play in making a collective effort to move ahead strongly and we will be assessing how we can leverage the Hilton brand to make a tangible difference. Having great faith in our product and the people behind it, I am confident about our ability to reinvent growth.

First, however, let me extend my deepest condolences to the loved ones of those who lost their lives in the terrorist attack on Easter Sunday. The Hilton Colombo family too was a victim of this tragedy. Kaori Takahashi, the beloved wife of our Japanese chef Hikaru Takahashi, was killed on Easter Sunday. Hikaru and his family have been with Hilton Colombo for over four years. He and his two young children were heartbroken beyond belief at Kaori's loss. I am humbled and honoured that after a three month leave in Japan, Hikaru has returned to Sri Lanka, and to the Colombo Hilton, with his daughter Ami and his son Yu. I speak on behalf of every director, executive and employee of Hilton Colombo, when I say here that the Takahashi family can expect our unwavering and unconditional support. Theirs will be an exceptionally special family for our country, for the hotel, and for each of us individually.

Acknowledgements

I would like to place on record our enormous gratitude to our guests who continue to patronize our property and appreciate the signature Hilton brand of hospitality. I would like to acknowledge the immense contribution from my colleagues on the Board and the senior management of the company for driving revenue generation against all odds. The dedication of the General Manager and the staff of Hilton Colombo have been pivotal in sustaining our position as Sri Lanka's leading 5 star city hotel. I would also like to thank all our stakeholders for their support. I have no doubt in my heart that we, as a nation, will successfully overcome the challenges that confront us at this point in time by turning them into opportunities for sustainable growth.



Krishantha Prasad Cooray
Chairman

Competent Authority and the Board of Directors



Standing from Left : Ms. Chathuri Ranasinghe, Ms. Dheeshana Ameresekere, Mr. Athula Senanayake, Mr. Sanjiv Alles, Mr. Pravir Samarasinghe, Mr. Dhanuka Samarasinghe, Mr. J.M.U.P. Jayamaha

Seated from Left : Mr. C. Ramachandra, Mr. Krishantha Prasad Cooray, Ms. Sonali Liyanamana, Ms. Tehani Mathew



Competent Authority and the Board of Directors

Mr. Krishantha Prasad Cooray
Chairman

Mr. Cooray is a business executive with deep experience in the media sector and a track record of high-level contributions at several diversified Sri Lankan conglomerates including Richard Pieris& Company, Ceylinco Group and the Capital Maharaja Organisation. He holds a Bachelor of Arts Degree in Political Science and Law from the University of Middlesex.

After completing his degree, Krishantha Cooray began his career at Lanka Link, a media venture that published a weekly newspaper for Sri Lankan expatriates worldwide. From here, he joined the Ceylinco Group. Thereafter he became the Group Head of Business Development at Richard Pieris& Company. In this capacity, Mr. Cooray spearheaded the founding of the Rivira Media Corporation, where he served as the founding Chief Executive Officer and set up Sri Lanka's first fully independent media house owned by a private company. Two flagship newspapers, The Nation, and Rivira, were launched under his stewardship, and quickly made their mark by gaining widespread credibility and high circulation.

At the Capital Maharaja Organisation, he formulated corporate processes and best practices to unify and coordinate news broadcasts across the several television and radio stations operated by the company.

A former Director of Sri Lanka Telecom, Mr. Cooray is the current Chairman and Managing Director of the Associated Newspapers of Ceylon Limited ("Lake House"), and he serves on the Board of Directors of DFCC Bank.

Ms. Chathuri Ranasinghe
Director

Ms. ChathuriRanasinghe Attorney–at –Law and Notary Public. She enrolled as an Attorney-At-Law of the Supreme Court in September 1980, completed the Solicitors Examination, United Kingdom In 1989. Presently carrying on a Conveyancing, Specialized Law Practice under the name style and firm "Chathuri Ranasinghe Associates", previously in practice as Partner of the Law Firm, Gunawardena & Ranasinghe Associates from 1992 to 2015.

She is also the Chairperson of the Women's Chamber of Industry & Commerce, Governor of the Sri Lanka National Arbitration Centre, Member of the Industrialization Commission under Industrial Promotion Act No. 46 Of 1990, Vice Chairperson of the SAARC Chamber of Woman Entrepreneur Council, and she further serves on the Boards of several other organizations.

Ms. Dheeshana Ameresekere
Director

DheeshanaAmeresekere holds a Bachelor of Science in Business Administration (specialising in International Marketing) from the American University in Washington DC, USA, and a Bachelor of Science in Travel Industry Management (specialising in Hotel Management) from the University of Hawaii, USA. Her professional work is as a Hotelier. She is the Managing Director of the Award-Winning Boutique Hotel - The Theva Residency and Award-Winning Restaurant - The Theva Cuisine in Kandy, Sri Lanka. The Theva Residency and Theva Cuisine have won many international awards consecutively for the 10 years of their operation. The most recent awards for 2018 – "Asia Most Stunning Views"- Boutique Hotel Awards UK, "Leading Boutique Hotel in Asia and Sri Lanka" at the South Asian Travel Awards, Sri Lanka Tourism Award – "Best Hotel Website". Consecutively for 9 years - The Theva Residency and 5 years -Theva Cuisine have been awarded as a "Winner of Trip Advisor Service Excellence Award".

She is also a Hatha Yoga teacher (RYT 200) and Yogic Lifestyle Counsellor.

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 launched Don Stanley's group which specializes 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. Sanjiv Alles
Director

Mr. Sanjiv Alles holds a Master of Laws (LLM) from the University of Melbourne, Australia and Business School/ Law and Business (BA Hons) from the University of Warwick Business School, United Kingdom.

He is the Managing Director of Saberion (Pvt) Limited which is an ISO 9001 – 2015 Certified Web Mobile and Software Services Provider based out of Colombo with presences in Denmark, Australia and the USA. He is also the Director of Atom Technologies (Pvt) Limited who manufacture and distribute domestic brands of LED (vs. giant screen video walls and signage systems. In addition, he is also the Director of Atomedia (Pvt) Limited who are the Digital Out- Of- Home Signage, Digital Asset Rental and Activation Solution Providers.

Mr. Sanjiv Alles also holds the directorships of Publicly Listed Companies such as M/s Renuka Capital Plc, M/s Indo Malay Plc, M/s Selinsing Plc and Good Hope Plc"

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 over 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 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. Dhanuka Samarasinghe
Director

Dhanuka Samarasinghe, whose academic roots come from Strategic Business managements, is a Strategist and has been in the Board of Hotel Developers (Lanka) Plc since 2015.

Upon the completion of his studies on International Business and marketing at Deakin University. Australia, Dhanuka has joined his family business that were mainly engaged in Rubber Industry and Plantations.

Mr. Dhanuka Samarasingheis is also a proud co-founder of the TAD Group of Companies, a fast growing diversified conglomerate, whose presence is in a variety of industries, from Renewable Energy, Plantation, Cinnamon, Leisure, Tea to Investment management. The group holds over 27 subsidiaries, headed by him as the Chairman, playing an instrumental role as a strategist on the overall operations of the Group.

He also serves as the Chairman of the Board at mercantile produce Brokers, the 4th Largest Tea Brokering Company in Sri Lanka.

He is the Chairman serving the Board of Directors of the iconic property, Hunas Falls Plc

Competent Authority and the Board of Directors

Mr. J. M. U. P. Jayamaha
Director

Mr. Jayamaha is the Director of the Department of Public Finance of the General Treasury, Member of Board of Directors of National Water Supply & Drainage Board, and Institute of Fundamental Studies. He is also a Member of the Sri Lanka Government Accountants' service, with nearly 28 years of experience in Financial and Accounting fields, he served in several key government entities including Ministries and Departments. He is a Fellow Member of the Association of Public Finance Accountants of Sr Lanka and Associate Member of the institute of Public Finance and Development Accountancy. He holds a 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 Lankaputhra Development Bank, Sri Lanka Insurance Corporation Ltd and Sri Lanka Convention Bureau.

Mr. C. Ramachandra
Competent Authority

Mr. Ramachandra also functions as the Chairman of Asia Asset Finance PLC and N.Vaitilingam& Co (Pvt) Ltd . He also serves as an Independent Non-executive Director of UB Finance Ltd and as a non independent Non-Executive Director of TinPak (pvt) Ltd and Ceylon Galvaning industries Ltd. He has 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 was also a director of Sathosa Retail Ltd the privatised arm of the CWE in 2003.

Ms. Sonali Liyanamana
Director

Ms. SonaliLiyanamana 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 maximizing 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 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 the 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 SevaVanitha 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 currently a Board Member of the Women's Chamber of Industry and Commerce, Sri Lanka and a member of the American Alumni Association of Sri Lanka."

Management Team



Left to Right : Mr. V. Kanagasabapathy, Mr. Sudarshan Sri Rayen, Mr. Shamahil Mohideen, Mr. Jude Wickramaratne

Management Team

Mr. V. Kanagasabapathy
MPA (HARVARD), CPFA (LONDON)
FCA, FPFA, FCMA
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, and Institute of Certified Management Accountants of Sri Lanka.

He was also the FinancialManagement 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. 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. Shamahil Mohideen
ACMA - UK
Chief Operating Officer

Mr. Shamahil Mohideen. 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. 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 the Postgraduate Institute of Management, University of Sri Jayewardenepura. He counts 10 years of experience in the field of accounting and joined the Company in October 2012.

Management Discussion & Analysis

About Us

Hotel Developers (Lanka) PLC engages in the hospitality trading business in Sri Lanka. The company was incorporated in 1983 and owns the Hilton Colombo.

Our Business Strategy in Year 2018

During the year under review, the company implemented several strategies with prime focus on investments in expanding event spaces in the property. The much need expansion of event spaces secured the opportunity to penetrate the regional markets for Mice business. Together with the enhanced brand value from refurbished public areas and quality of service offered, facilitated the hotel to stay ahead of the stiff competition from new entrant to the market of international operators and maintain its status as the market leader.

Quality of service of our hotel was the essence of the success to date and still remains incomparable. Company continues to make investments for refinement of service quality to sustain this position which has been the story behind the hotels resilience in performance in successive years.

With the reopening of the new look public areas, the property was poised to welcome a record number of guests in the peak season in 2018. The company fell behind its expected performance due to the volatile political climate that prevailed from October 2018 onwards in the country having to experience frequent public protests in the vicinity of the hotel.

Macro Economic Environment

Sri Lanka's economy witnessed a modest expansion to reach 3.2% in 2018 amidst a low inflation environment, largely supported by services activities that expanded by 4.7 % and the recovery in agriculture activities, which recorded a growth of 4.8%. Industry activities slowed down significantly to 0.9% during the year, mainly as a result of the contraction in construction.

The external sector of the economy was volatile during the year due to both global and domestic factors. Globally, monetary policy normalisation, particularly in the US, resulted in global financial conditions tightening, thus causing capital outflows from emerging market economies and increased pressure on exchange rates of twin deficit economies, in particular. Sri Lanka also experienced these headwinds, particularly from mid-April 2018, which were exacerbated following the political uncertainties and the downgrade of the country's Sovereign rating in the fourth quarter of the year. Domestically, the trade deficit surpassed US dollars 10 billion for the first time in history with higher growth in import expenditure outpacing the growth in export earnings, which were at a record level in nominal terms. Although services exports have grown substantially, the deficit in the merchandise trade balance, stagnant workers' remittances and rising foreign interest payments resulted in a widened current account deficit of 3.2% of GDP during the year.

The Central Bank pursued a market based exchange rate policy to determine the exchange rate. The exchange rate, which remained relatively stable in the first four months of 2018, came under significant pressure thereafter due to both domestic and external factors. The Central Bank allowed greater flexibility in the determination of the exchange rate while intervening only to curb unwarranted excessive volatility. Assisted by the policy measures to curtail non-essential imports and greater political stability, the resilience of the external sector improved somewhat towards the end of 2018 and the first quarter of 2019.

The growth momentum of the economy that has been subdued in recent years is expected to gradually improve over the medium term. Real GDP growth, which remained modest at around 3.2% in 2018, is projected to gradually improve to around 5.0% by 2023. The achievement of the envisaged growth path would depend on the successful implementation of the growth framework laid out in public policy documents along with higher participation of the private sector. The implementation of consistent policy measures without frequent revisions is expected to attract investment from both local and foreign sources.

Performance of Global Tourism

UNWTO's long term forecast issued in 2010 indicated the 1.4 billion mark would be reached in 2020, yet the remarkable growth of international arrivals in recent years has brought it two years ahead. The indicated forecast is clearly above the 3.7% growth registered in the global economy. In relative terms, the Middle East (+10%), Africa (+7%), Asia and the Pacific and Europe (both at +6%) led growth in 2018. Arrivals to the Americas were below the world average (+3%).

The stronger economic growth, more affordable air travel, technological changes, new businesses models and greater visa facilitation around the word have accelerated growth in recent years.

Growth by Region

International tourist arrivals in Europe reached 713 million in 2018, a notable 6% increase over an exceptionally strong 2017. Growth was driven by Southern and Mediterranean Europe (+7%), Central and Eastern Europe (+6%) and Western Europe (+6%). Results in Northern Europe were flat due to the weakness of arrivals to the United Kingdom. Asia and the Pacific (+6%) recorded 343 million international tourist arrivals in 2018. Arrivals in

Management Discussion & Analysis

South-East Asia grew 7%, followed by North-East Asia (+6%) and South Asia (+5%). Oceania showed more moderate growth at +3%.

The Americas (+3%) welcomed 217 million international arrivals in 2018, with mixed results across destinations. Growth was led by North America (+4%), and followed by South America (+3%), while Central America and the Caribbean (both -2%) reached very mixed results, the latter reflecting the impact of the September 2017 hurricanes Irma and Maria. Data from Africa points to a 7% increase in 2018 (North Africa at +10% and Sub-Saharan +6%), reaching an estimated 67 million arrivals. The Middle East (+10%) showed solid results last year consolidating its 2017 recovery, with international tourist arrivals reaching 64 million.

Based on current trends, economic prospects and the UNWTO Confidence Index, UNWTO forecasts international arrivals to grow 3% to 4% next year, more in line with historic growth trends. At the same time, the global economic slowdown, the uncertainty related to the Brexit, as well as geopolitical and trade tensions may prompt a "wait and see" attitude among investors and travellers.

Overall, 2019 is expected to see the consolidation among consumers of emerging trends such as the quest for 'travel to change and to show', 'the pursuit of healthy options' such as walking, wellness and sports tourism, 'multigenerational travel' as a result of demographic changes and more responsible travel.

Sri Lanka Tourism

Travel and Tourism Earnings from tourism continued to be a major source of foreign exchange to the country, supported by a healthy growth in tourist arrivals during 2018. Tourist arrivals grew by 10.3% to 2,333,796 in 2018, recording the highest annual tourist arrivals during a year. The endorsements and accolades received from reputed international tourism organizations, aggressive promotion campaigns, the significant increase in investment in the tourism industry, improved quality of service delivery and better connectivity through air and sea routes mainly contributed to the enhanced performance in the tourism industry in 2018.

Tourist arrivals from all major regions, except East Asia and the Middle East, increased in 2018. Western Europe continued to be the largest tourist origin for Sri Lanka, which grew at 23.5% to 840,956 arrivals, with a share of 36% of total tourist arrivals.

Tourist arrivals from South Asia, the second largest market for Sri Lanka, increased by 4.8% to 543,160 arrivals. However, tourist arrivals from South Asia, as a share of total arrivals, fell to 23.3% in 2018, from 24.5% in 2017.

The share of tourist arrivals from East Asia, which increased steadily since 2011, on the back of an impressive growth of arrivals from China up to2016, also declined to 18.1%, registering a 4.7% decline in arrivals.

However, tourist arrivals from Australasia recorded a significant growth of 35.9%, increasing its share in total arrivals to 5.4% in 2018 from 4.3% in 2017. Such a growth was mainly driven by increased arrivals from Australia, partly attributable to the commencement of direct flights between Sri Lanka and Australia.

On the basis of tourist arrivals by country, India remained at the top with 424,887 arrivals, while China remained the second largest origin albeit recording a marginal decline, followed by the UK, Germany and Australia. The top five inbound tourist origins collectively accounted for 52.0 per cent of the total tourist arrivals to Sri Lanka in 2018.

In terms of the purpose of visit, a majority of tourists (84.8%) visited the country for leisure, while 3.1% for business purposes. The share of tourist arrivals for other purposes, such as visiting friends and relatives, religious and cultural purposes, health, education and sports, was 12.1% of total arrivals in 2018.

Earnings from tourism recorded a healthy growth during the year, supported by the record high tourist arrivals and increased average spending by tourists. Earnings from tourism increased by 11.6% to US dollars 4,381 million in 2018, in comparison to US dollars 3,925 million in 2017. In 2018, the average spending per tourist rose to US dollars 173.8 from US dollars 170.1 per day in 2017, according to the latest annual survey on tourist spending and duration of stay conducted by the Sri Lanka Tourism Development Authority (SLTDA). Further, the average duration of stay by a tourist was estimated at 10.8 days in 2018, in comparison to 10.9 days in 2017.

Investments in the tourism sector expanded further in 2018. During 2018, the SLTDA received proposals for 141 hotel projects amounting to US dollars 919 million, in comparison to 95 projects with a total investment of US dollars 314 million in 2017. An investment of US dollars 210 million has been approved increasing the room inventory by an additional 1302 rooms. 1125 rooms been already added to the inventory in 2018 with completions of 35 hotel projects around the country.

Meanwhile, several projects were carried out by the SLTDA in collaboration with the provincial councils to improve facilities in popular tourist attractions. The Budget 2019 introduced several tax incentives in order to reduce the up-front costs for businesses and investments related to the industry and facilitate import of tourism related equipment.

Further, the Budget 2019 proposed to remove the Nation Building Tax (NBT) on foreign currency receipts by tourist hotels. The registration process of hotels at the SLTDA is to be streamlined, thereby encouraging the informal sector in the tourism industry to be a part of the mainstream.

Going forward, the major priorities for the tourism industry are the improvement of infrastructure and other facilities, and enhancement of the skill level of the workforce, preferably through the collaboration of vocational training centres and industry partners.

In support of these promotional activities, the SLTPB launched a new brand identity "So Sri Lanka" in November 2018. Many travel related entities including Lonely Planet, National Geographic have endorsed Sri Lanka as one of the best destinations to travel to in 2019, as a result of effective and continuous promotions carried out by the SLTPB.

Meanwhile, around 86,000 passengers from 50 cruise ships arrived at the Colombo port. Further, several internationally popular adventure sports events, such as Ironman 70.3 and Raid Amazons were held in Sri Lanka, in 2018, organised by the SLTPB to promote Sri Lanka as a diverse tourist destination in the region. Meanwhile, several projects aimed at increasing the safety and comfort of tourists, establishment of new life saving units and mobile tourist police divisions, were initiated during 2018.

Sri Lanka's potential in the global tourism market remains largely untapped. Sri Lanka has the capacity to cater to a wider tourist market, in comparison to regional small island nations.

Financial Review

During the year in review, the company experienced a marginal decline across all key facets of the business due to challenges posed to occupancy and F&B sales by the political instability which lasted almost 2 months during the peak season in October/ November 2018.

Revenue

During the year, revenue declined by 3 % YoY from Rs. 3.02 billion to Rs 2.91 billion. The Rooms Revenue overall declined by 7 %. The occupancy declined from 57 % to 48 % whilst the Average Room rate increased from Rs 21,077/- in 2017 to Rs 22,944/. The Food and Beverage Sector performed well despite the set backs experienced during the peak season and maintained their Revenue at Rs 1.6 billion as in the previous year. The hotel's diverse food and beverage options with the opening of the Refurbished F&B outlets also proved a strong attraction for guests.

Profit before Tax

The Gross Operating Profit (GOP) declined marginally from 82 % in 2017 to 80% due to a marginal increase in cost of sales by 2% .The cost of sales was largely impacted by the increase in exchange rate during the year, this was somewhat curtailed with several cost cutting initiatives taken to minimize the impact to the bottom line. The dip in the revenue by Rs 105 million lead to a decline in the GOP by Rs 147 Mn.

Various promotional activities were carried out during the year to counter competition from new Hotels which commenced operations during the year. Investment were also made on human resource training and development to maintain quality. The minimum service charge payment during the period of dip in revenue was implemented to retain the highly trained staff due to high skill demand created by new entrants to the market. Further additional depreciation (Rs. 39 million) arising from capitalization of refurbished assets also impacted the bottom line. As a result of the above, the Company incurred a Loss before tax of Rs 126 Mn as against a Profit before tax of Rs 173 Mn in year 2017

An Eventful Year

Despite the challenging conditions in the industry during the year, the company experienced only a marginal decline in the revenue supported by strong performance from Mice Business with demand from regional corporates as the most desired 5 star hotel for corporate and banquet events.

The hotel's seasonal events through the year are popular with all age groups, as Hilton celebrates those cultural events with great elan and in the true spirit of the occasion. 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 culinary offering across its three signature restaurants occupies an exclusive niche amongst other city hotels.

Future Outlook

With the opening of the new look public areas, the Hilton Colombo property is positioned at the forefront of the industry as a trusted hospitality brand that truly understands its guests' aspirations. Backed by a team of highly professional and courteous staff, it has unlimited potential. However, in light of the Easter Sunday attacks, the tourism industry is expecting a lean period in the short term but a challenge that could be overcome by uniting all stakeholders together to be much strong market player than before. But positive trend of improvement in tourism is clearly noted with a steady growth expected with normalcy. The company remains highly optimistic that in no time, it will be business as usual in the nation's travel and hospitality sector.

An Eventfull Year



Christmas @ The Lobby Lounge


CAFE KAI
GRAZE KITCHEN
Hilton
Home For Christmas

Eat Drink Hilton - Ice Cream Challenge @ Café Kai





Oktoberfest @ The Poolside




The
Germans
are here.
Hilton
COLOMBO
music

Strawberry High Tea
@ The Lab





Celebrating The Valentines Day @ Hilton





Corporate Governance

The Board of Directors of Hotel Developers (Lanka) PLC is committed and takes responsibility in maintaining highest standards of Corporate Governance in compliaance 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, reviewing performance so that the Company could fulfill its obligations to its stakeholders. The Directors of the Company as at 31st December 2018 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

Note :

Resignations from the Board of Directors

Mr. Dinouk Colombage	-	w.e.from 01.04.19
Mr. M. Shezmin Mansoor	-	w.e.from 03.04.19

Appointments to the Board of Directors

Ms C.P.R.Ranasinghe	-	w.e.from 09.04.19
Mr. S.N.Alles	-	w.e.from 09.04.19

The above Directors do not hold shares in the Company.

During the year ended 31st December 2018 the Board met on six (06) 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)	06
Ms. D.S. Ameresekere (appointed w.e.f. 07.04.2015)	04
Mr. J.M.U.P. Jayamaha (appointed w.e.f. 01.03.2016)	06
Mr. A. Senanayake (appointed w.e.f. 08.04.2016)	06
Ms. T.S.A. Mathew (appointed w.e.f. 08.04.2016)	05
Mr. D. Colombage (appointed w.e.f. 08.04.2016)	04
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)	04
Ms. S. Liyanamana (appointed w.e.f. 08.04.2016)	06
Mr. P.D. Samarasinghe (appointed w.e.f. 29.07.2016)	05

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.

Audit Committee

The composition of the Audit Committee during the year ended 31st December 2018 was as follows;

Names of the Directors

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 Committee was reconstituted with effect from 29th May 2019 as follows:

Mr. Pravir Samarasinghe (Chairman)	(Independent Non-Executive Director)
Mrs. Chathuri Ranasinghe	(Independent Non-Executive Director)
Mr. W.S.L.A.D.R. Samarasinghe	(Independent Non-Executive Director)

The Audit Committee scrutinize and analyze 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 52 of this report.

Remuneration Committee

The composition of the Remuneration Committee during the year ended 31st December 2018 was as follows:

Names of Directors

Mr. Athula Senanayake	(Chairman, Independent Non Executive)
Mr. Dinuk Colombage	(Independent Non Executive)
Mr. W.S.L.D.A.R. Samarasinghe	(Independent Non Executive)
Mr. Krishantha Cooray	(Independent Non Executive)

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

Related Party Transactions Review Committee

The Related Party Transaction Review Committee was formed as a Board Sub Committee. The Objective of the Committee is to provide independent review and oversight on all related party transactions in compliance with the Listing Rules of the Colombo Stock Exchange.

The composition of the Related Party Transactions Review Committee during the year ended 31st December 2018 was as follows:

Names of Directors

Mr. Athula Senanayake	(Chairman, Independent Non Executive)
Mr. Dinuk Colombage	(Member, Independent Non Executive)
Mr. W.S.L.D.A.R. Samarasinghe	(Member, Independent Non Executive)

The Board has appointed a committee to review Related Party Transactions and the Committee has laid down procedures and policies to identify and review Related Party Transactions.

Compliance Requirements as per Listing Rule No 7.6 (vii) of the Colombo Stock Exchange.

The Directors confirm that there are no material issues pertaining to employees and Industrial Relations of the Entity to be disclosed.

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.

Compliance with Legal Requirements

All Directors have access to the Financial and Management Information of the Company. The Directors make 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.

Corporate Governance

As per Section 7.10 of the Listing Rules of the Colombo Stock Exchange, the following disclosures are made The Corporate Governance Rules the Company has complied with during the period under review are 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 Each non executive Director should submit a declaration of independence/ Non independence in the prescribed format.	Complied Complied	
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

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 to 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

Tehani Mathew
Director

Colombo

17th September 2019

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, Company 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 inherentrisks as such, enabling the Hotel to protect or enhance key assets appropriately.

Our Risk Management platform is geared in identifying the types of risk exposure within the company, measuring those potential risks and developing strategies to mitigate and control the same. Risk Management is an essential element of our corporate governance structure and strategic 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 frameworkadopted.A Risk Management Team is responsible for the overall implementation of the Board approved risk management policy.

Risk Management Framework

The Risk Management team is headed by the General Manager of the hotel who is assigned the responsibility to implement the risk strategies in consultation with the principal Hilton Worldwide regional office, in fulfilling its statutory, fiduciary and regulatory responsibilities within a well formulated risk management framework. And report to the company Board. 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 prioritization 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 prioritize 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 and report to the Board through the General Manager. 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 Management

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. A periodic Internal Audit process is carried out by the company who directly report to the Audit Committee appointed by the Board. Periodic Reports on adequacy and effectiveness of these systems and level of compliance is submitted to the Audit Committee for review and corrective actions.
Security Risk	Effective monitoring surveillance systems have been installed meeting the international standards of the Hotel Industry. Investment have been made for increase security equipment and surveillance systems to strengthen the security of the guest and staff. Trained skilled security staff have been deployed and continuous training is provided to ensure the security is maintained effectively.
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. A new sprinkler system has been put in place at the hotel's penthouse level to reduce the risk of fire.
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 and approval process for new debtors are reviewed on a regular basis. Monthly monitoring and reporting on debtors ageing reports to the management for prompt actions.
Liquidity Risk Inability to meet financial commitments on due dates.	Systems are in place to closely monitor the cash management and credit facilities from suppliers. Banking facilities for operational cash are obtained through close review and approval process to ensure company has the potential to finance the same. Capital investment are reviewed by the management and approved based on sufficient availability of cash flows for financing with realistic cash projections for sustainability.

The company continuously monitor the processes implemented by the hotel to identify, evaluate and manage significant risks that endanger the operations throughout the year in accordance with the guidelines set out by the Hilton Worldwide of USA for management of hotels. Periodic reviews are carried out by the regional office overlooking the Risk Management and reports are submitted for corrective actions.

Below are some of the key items included in the risk register along with the status and mitigation strategies for each, for the financial year ending 31st December 2018.

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 program	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.
Brand Image & Reputational Risk 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. Food Safety & Hygiene Manager to monitor and manage food safety & hygiene standards as per global Hilton worldwide standards Regular microbiological and 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 Air quality in the the hotel is regularly tested for Indoor Air Quality (IAQ) parameters. 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 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 programs, 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 organization 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

Redefining sustainable hospitality, Hotel Developers PLC (HDL), which manages Hilton Colombo, is focused on leveraging on the goodwill and brand reputation it has garnered over decades to shape its response to social, environmental and economic impacts of its operations in a sustainable manner. During the year under review, the hotel successfully extended its efforts to cultivate enduring relationships with its key stakeholders by engaging in projects to mitigate 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 VALUES

H HOSPITALITY – We are passionate about delivering exceptional guest experiences.

I INTEGRITY – We do the right thing, all the time.

L LEADERSHIP – We are leaders in our industry and in our communities.

T TEAMWORK – We are team players in everything we do.

O OWNERSHIP – We are the owners of our actions and decisions.

N NOW – We operate with a sense of urgency and discipline.

Quality, Service and People are key pillars for our success and brand recognition.

Hilton Colombo is reputed for its professional team that is warm and courteous and embodies service excellence and a high quality of interaction with guests. This high level team has been achieved by putting in place a comprehensive recruitment, training and skills development programme together with numerous welfare initiatives aimed at building teams and inspiring passion for their jobs, while understanding the gravity of being an ambassador for the Hilton global brand.

BLUE ENERGY INSPIRES

Blue Energy is the passion at Hilton to live our Values, deliver our Promises and celebrate our Stories. It's an expression of the unique spirit we show to our guests, our communities, and each other as Hilton Team Members. Blue Energy fuels our culture and enables us to deliver service with positive spirit, strength and passion.

BLUE ENERGY COMMITTEE

The Blue Energy Committee is the steward of our Hilton Hotels and Resorts Culture in each of our hotels that creates a vibrant Hilton Blue Energy Culture. The committee ensures that the hotel team is consistently living the Hilton Values, delivering the Hilton Promise and celebrating our stories while maintaining a focus on Guests, Team Members, Community and Sustainability efforts. The Team Members that serve on the committee are the global ambassadors of our rich Hilton Culture and drive the success of our brand around the world. The committee is charged with cultivating an engaging workplace that consistently demonstrates our Hilton Values and our Brand Promise - to ensure every Guest feels cared for, valued and respected. This committee will contribute directly to the success of our Team Members, our hotel and Hilton Hotels and Resorts around the world. We want to show the world that at Hilton we are a global team that works together "to fill the Earth with the light and warmth of hospitality".

The Committee is a volunteer group of approximately 10 to 20 Team Members from each department of the hotel. The Committee meets monthly to set goals, identify key steps, and take the actions necessary to continuously share Blue Energy with Guests, Team Members and the Community. Because the members represent a cross section of the hotel team, each meeting is a rich exchange of opinions, ideas and perspectives resulting in a collective approach to drive exceptional results. At Hilton, we are a global team where the voice of the Guest, the Team Member and the Community will take us to new levels of success.

Our people's dedication to serve the guest in a manner that exceeds their expectations has created a loyal clientele. Hilton Colombo regularly solicits customer feedback through the Satisfaction and Loyalty Tracking (SALT) online survey programme, which has a 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.

OUR TEAM

A variety of activities are conducted annually for Team Members in a bid to drive togetherness and sustain a strong team spirit as detailed below.

TEAM MEMBERS WITH MORE THAN 25 YEARS SERVICE



Team members at Hilton enjoy an empowering work culture where their contribution is both recognized and rewarded internally. The Blue Energy Awards for Team members is held monthly. Specific Recognitions Programmes were organized for departments such as, the International Housekeeping Week, where different events and activities organized during each day of the week, with a talent show on the final day for all Team Members. F&B Week celebrations also involved Team Members with treats at the team restaurant. A Recognition Day for the Sales and Marketing team was also organized during the year.

Moreover, Hilton Colombo's 31st Anniversary celebrations were held with great fanfare where 31 lucky team members won exciting prizes.

The Annual Team Party was held during the year under review as per tradition, where Service Anniversaries of Team Members were celebrated and the Team Member of the Year 2018 was recognized. Team Members also received a hamper to take home to their families.

An empowering environment is created at Hilton Colombo by recognizing team members' efforts in a conscious manner. Some of the key global recognition programmes are the CEO Light & Warmth Award (The CEO Light & Warmth Award is Hilton's highest form of Team Member recognition. This prestigious award spotlights select individuals who consistently go beyond expectations and embody our shared Purpose, including our Vision, Mission and Values). A Sous Chef from Hilton Colombo won this award in 2018. Other awards include the Spirit Award, Team Member Appreciation Week, High Five and Catch Me At My Best, all of which celebrate the spirit of Hilton as lived out by Team Members.

Management Development Program

Our Management Development program consists of a 18-month structured plan with three distinct phases. A Management Trainee will undergo a fast-paced hotel orientation to learn the fundamentals of running a great hotel. During the final phase the Trainee will be assigned to another Hilton hotel, either in Sri Lanka or in South East Asia, and will be guided to perform leadership duties assigned to him/her while completing a business value-adding project. This program will be based in Sri Lanka, yet will open doors to an international career within Hilton.

Sustainability Report



Rehan Fernando - *South East Asia Management Trainee*

"My experience with Hilton so far has been an eye-opener to what the hotel industry is like as this is my initial working experience and first step in developing my career in the industry as a South East Asia Management Trainee. I am excited to learn every aspect of hotel management, developing myself in a professional manner with leadership qualities and look forward to effectively contributing towards reaching Hilton›s milestones while being a part of our efforts to create an impact on the environment and communities. Learning from the best of the best would enable me to become a successful hotelier and ensure that each guest will receive a world-class hospitality experience."

TALENT RETENTION

The Company recruits candidates with the right attitude and skills that will add value to the guest experience. Hilton's equal opportunity policy ensures no discrimination is allowed on any grounds of religion, race and ethnicity. Many Team Members are recruited as trainees and then given intensive training on-the-job to replicate the service levels Hilton expects. 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.

Hilton Colombo's continued success at the forefront of the industry can be attributed to the strong loyalty of its Team Members which ensures the company has a decent attrition rate. Leveraging regular in-house programmes together with Hilton's global extensive online skills development programmes, training is offered under the following categories for existing Team Members: Technical skills, Training related to various quality and safety standards and Soft Skills & Leadership Development.

AWARDS & ACCOLADES

- The Hilton Colombo was awarded the 'HR Excellence Award' in 2018, by the Hilton SEA Regional Office. This award was presented for the success stories and achievements of the HR team in relation to Culture, People and Innovation.
- Hilton Colombo was presented with the 'Hilton Effect Award' in 2018 by Hilton APAC area office, for embodying the best of brining the Hilton Effect to life.

THRIVE @ HILTON

Thrive@Hilton is our new Team Member Value Proposition focused on enabling our Team Members to grow and flourish in body, mind and spirit. We will continue to invest in our Team Members' well-being and evolve the way we work and lead in order to create space for what matters most: inspiration, creativity and meaningful connections.

MIND – We seek lifelong learning and mindful leadership

SPIRIT – We dare to dream and connect with purpose

- The relaunch of the Thrive initiative was rolled out to all team members, department wise during the year.
- 14 Thrive re-launch workshops were conducted by the Director, Human Resources, with the support of the Learning & Development team directly reaching team members, team and each department. Refreshing and upgrading team members' skills with new knowledge are key pillars on which the Hilton team has emerged as one of the best in the country. By ensuring that all Team Members get the opportunity to improve skills and enhance their knowledge, it paves the pathway to their career growth.
- The team restaurant was revamped in October 2018 with enhanced salad corner, fresh fruits and various periodic promotions. A rational oven was provided to the team kitchen, to ensure healthy and consistent quality food to our team members. The oil usage of the team kitchen was further reduced.
- Team member lockers were upgraded and the project is ongoing.
- We conduct periodic BMI checks of our team members. Those who need special attention in terms of weight control are given personal attention by the Director, Human

Resources and the General Manager. Enhancing the awareness of a healthy lifestyle has benefitted Team Members who are happier and healthier by making healthier lifestyle choices.

- 'Be a Guest At Curry Leaf' special lunch was held for all Team Members; a 'Walk As One Walk' organized for Team Members was held under THRIVE.
- A 'Pop Up Spa' for all Team Members was organized for them to receive either a head and neck massage or Foot massage to help rejuvenate. The entire team received a give-away of Hilton Colombo T-shirts.
- Religious ceremonies were organized at the Hotel, with the participation of all four religious priests, for the spiritual wellbeing of our Team Members.

YOUTH EMPOVEMENT

APPRENTICESHIPS

The hotel 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

Careers@Hilton is hosted annually every May by all Hilton hotels and offices across the globe to encourage and educate 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 and employ one million young people by 2019.

The hotel has consistently opened its doors to youth, through social impact projects:

- Five different Apprentice Programmes – Engaged with a total of 103 apprentices in 2018.
- Industrial Training (6 months) - A total of 121 Industrial Traineeships granted in 2018 for hotel school students.
- Internships – 23 Internships granted in 2018.

Careers@Hilton 2018 – Impacted 5200 youth in various parts of the country in 17 schools over 576 hours.





Sustainability Report

CHAMPIONING WOMENS 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. Hilton Women's Week 2018 was celebrated positively impacting 435 females, with 4 events over 449 hours.

INTERNATIONAL WOMENS DAY

In conjunction with the International Women's Day on 8 March, in partnership with the Room To Read Organization, Hilton Colombo invited 15 students from Hewaheta, a rural village in the center of Sri Lanka, for an overnight stay and Job Shadowing programme on 28th & 29th January 2019. They were given a true guest experience throughout their stay and after the welcome in the lobby, were given guidance about the guest room amenities and were taken for dinner to the Sri Lankan Restaurant. The following day started with breakfast after which the Job shadowing tour commenced. They learnt basics of table etiquette, chocolate making, housekeeping, laundry and food & beverage processes. Lunch was provided in multi cuisine restaurant. Then the Director Human Resources spoke to them regarding career opportunities in Hospitality industry & how to balance family and career as a woman. As the students left the hotel, they were offered a pack of snacks for their journey back home. Throughout the two days, these young girls had the opportunity to interact and learn from Hilton Colombo Team Members.

OUR COMMUNITY

Hilton Colombo has operated in the local community for over three decades and attributes its enduring success to support and goodwill from the community which has extended its support after realizing the hotel's sustainable approach. The hotel team members are encouraged to volunteer 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. These multi-faceted initiatives are designed to empower Sri Lankan communities through targeted programmes aimed at supporting opportunities for long-term growth:

- As part of the celebration of its 30th anniversary, the hotel sought to further its engagement with the National Cancer Hospital and organized 'AUBO', an Art Exhibition in aid of the Chemotherapy Port Project for Cancer Hospital. Hilton Colombo provided snack items for the opening night of the exhibition.

- The hotel continues to place great value on education, particularly in relation to technology, as it is a tool that can open up tremendous career opportunities for the economically disadvantaged youth. In order to further this commitment over the year in review, the hotel donated 6 computers and furniture to Kalyanipura Vidyalaya (College) in Welioya, in the Northern Province.



- Sunshine Games for differently-abled children were facilitated by Hilton Colombo working in partnership with the Rotary Club. The Sunshine Games is a sports festival for children with special needs between the ages of 10 to 21 years. The hotel donated 550 lunch packets on the occasion.

- Providing Nourishment to the pilgrims 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, which is the most colorful and prestigious Buddhist cultural pageant held in Sri Lanka. Millions of people witness this event every year including an estimated 10,000 tourists who land in Colombo during Nawam Maha Perahera event.

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

- Hilton Colombo donated kitchen utilities to the Thalassemia Unit to a hospital in Kadawatha and also organized a blood donation program successfully with 69 Team Members generously donating blood. Regular blood transfusions are the only treatment available to patients with Thalassemia. A total of 69 pints of blood was donated to the Blood Bank, Ragama, to be distributed to the Thalassemia Care Unit and other hospitals

- Colombo Friends-in-Need Society (a non-profitable organization) held its annual Sports Day for the differently abled, for the benefit of amputees. There were around 500 participants taking part in events such as track and field, cycling, archery and kid's special events. Hilton Colombo provided 400 fish rolls and 400 fish patties for the participants.

- Hilton Colombo hosted 'Threads of Time', fashion extravaganza presented by Anita Dorai, featuring the designs of Kavita Thulasidas of Stylemart, Singapore, together with 'Around the Pearl'. The proceeds from the show aided 'Around the Pearl', an initiative by Wheels for Wheels, which aims to raise awareness of Cerebral Palsy which affects over 40,000 children in Sri Lanka and to donate 100 wheelchairs. Hilton Team Members participated and the hotel arranged hotel rooms for the visiting designer/models and offered a subsidized rate for the Grand Ballroom to organize the fashion show.

- Children's Day celebrations organized by the Multiple District 306 and Lions Club of Nugegoda Central in association with Colombo Municipality. 1000 kids were entertained with various activities including a magic show, snack items and giveaways. Hilton Colombo provided some snack items to this event.

- Hilton Colombo hosted 32 kids from Deaf School in Ratmalana to light our main Christmas tree. Hotel started all the Christmas activities with this charity program on the 1st December. Kids were entertained with a magic show and some activities. Arranged a snack buffet and giveaways for the kids





- Idea2fund organizes awareness/training programs for young upcoming entrepreneurs to uplift their business ideas and plans. Hilton Colombo has pledged to provide 24 rooms throughout the year inclusive of meeting space and meals to the presenters at a subsided rate.

- Supported 'Voice Over' Festival of Performing Arts 2018, a member of the British Arts Festivals Association, UK's longest established festival network, spanning over 100 festivals worldwide. Voice Over Festival is a UK organization which targets young talents in the country and assists them in various awareness programs. Hilton Colombo will be providing rooms to Dr. John Belby, the

Sustainability Report

Chief Adjudicator throughout the period

- Hilton Colombo served 2500 patients with 750 liters of pumpkin soup to patients at the National Hospital, keeping in mind the purpose to help pumpkin farmers with their excess harvest, having purchased 350 kg of pumpkin for the project.

- Donated some basic kitchen equipment to the National Hospital kitchens.

- Hilton Colombo Food and Beverage and Kitchen/Stewarding teams organized a charity project on behalf of the F&B/Culinary Recognition month where 200 children at the Apeksha Hospital Maharagama, affected by cancer, were donated fruits, dry rations and stationery items.

OUR ENVIRONMENT

As an environmentally - conscious company, Hotel Developers PLC focuses on measures to minimize our impact on environment through environment friendly operations. We invest in strategic green initiatives to promote the consideration of environment and sustainable development. We recognize that sustainable development depends on positive interaction with environment and on balancing interests of present and future generations. The Company is committed to collaborate with our Team Members, customers, business partners and private/public institutions towards safeguarding environment. During the year under review our environmental stewardship projects are set out below:

ENERGY CONSERVATION WITH LIGHTSTAY

Hilton has actively upgraded its systems and technology for its more than 4,440 hotels around the world to Lightstay, which will allow each hotel to measure its sustainability 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.

MANAGING POLUTION AND WASTE

Hilton continues to adopt an approach to environmental protection that emphasizes 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.

The hotel operation generates a large quantum of waste which requires efficient waste management techniques. 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. All solid waste generated is collected daily by the municipal council for further recycling activities ensuring minimum waste is being sent to the landfills. All food/ organic waste is only sent to a third party Piggery farmer as animal feed & no food waste is sent to any landfills.

Furthermore, the hotel raises awareness about food wastage amongst team members along with training and management initiatives focused on reducing waste across all of the hotel's operations.

Some projects to forge a green environment during the year under review:

- 28 Team Members of Community and Sustainability Committees participated in the Beach cleaning project, organized in conjunction with the World Oceans Day, which collected approximately 50kg of plastic and polythene. Wastage was handed over to the Municipal Council in the District for recycling. Collected approximately 50kg of wastage Beach Cleaning Project in Panadura, Kalutara District, Western Province.

- Green Walk was organized by the Green Building Council in commemoration with the Environment Day where close to 3000 people including Team Members of Hilton Colombo walked approximately 5km and planted trees.

- The Beira Lake Banks and City clean-up project held on 21st July concluded successfully. We undertook the stretch around the hotel and its city limits and the "Beira" Lake Bank by the side of Il Ponte Restaurant. We managed to collect approximately 15kg of polythene/plastic and other non-biodegradable items in all areas. Also, we provided 500 lunch packets to other workers who helped to clean Beira Lake itself and other non-reachable areas by us.

REDUCING USE OF PLASTIC

On a mission to reduce use of plastic in its operations, the Hotel has introduced new paper based straws for all the F&B restaurants & room service replacing biggest environmental pollutant & threat of plastic straws. Furthermore, all F&B restaurants have stopped using plastic cocktail stirrers as well where bamboo based wooden stirrers are in place. To reduce the plastic & polyethylene amongst guests, all take-away foods from the hotel are only packed with paper based bags such as cake boxes & delivery bags. This has contributed to a significant reduction of plastic/ polythene utilized by the hotel. Moreover, the Hotel only uses biodegradable garbage bags.

All Team Member areas and offices are fully supplied with 20L water dispensers for hydrating without generating unnecessary single use plastic drinking water bottles.

For promoting Travel with Purpose, the Hotel's Sustainability team organizes several initiatives such as the Beach Clean-up. The annual beach cleanup was organized on World Ocean Day on 8th June by cleaning of waste plastic and polythene in the beach strip at Panadura beach where more than 50Kg was collected and handed over to the Panadura Municipal Council for the sustainable dispose of the plastic/ polythene waste.

Hilton participated in a tree planting project organized by the Green Building council on the occasion of World Environment Day 2018 in Colombo.

EARTH HOUR

Every year, people count down together across the globe to celebrate Earth Hour and take one iconic action: switch off the lights. Hilton Colombo also celebrated Earth hour with traditional a lights-off event with an attractive ice sculpture with a message of human influence on global warming. During the Hilton global week of sales, Hilton Colombo sales team organized a tree planting project where some of our valued guests were invited to plant some trees in the hotel garden during this global week of sales in October 2018.

All our in-house guests who occupy the rooms are always encouraged and invited to save water by participating linen re-use programe. Our 'Conserve To Preserve' programme reduces our impact on the environment by saving water and energy in our laundry facilities.

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 by engaging its stakeholders.

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 2018.

1. REVIEW OF THE YEAR

Review of the Company business and its performance during the year ended 31st December 2018, with comments on financial results and future strategic developments, are contained in the Chairman's statement. (Page 11)

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 59 to 85.

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 55.

6. ACCOUNTING POLICY

The significant accounting policies adopted in the Preparation of the Financial Statements are given in Note No 3 on page 63.

7. TAXATION

Provision for taxation has been computed at the rates given in Note 29 to the financial statements.

8. DIVIDENDS

The Directors do not recommend a dividend on ordinary shares for the year ended 31st December 2018 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 2018 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 holds shares in the Company.

Note :

Resignations from the Board of Directors

Mr. Dinouk Colombage	-	w.e.from 01.04.19
Mr. M. Shezmin Mansoor	-	w.e.from 03.04.19

Appointments to the Board of Directors

Ms C.P.R. Ranasinghe	-	w.e.from 09.04.19
Mr. S.N. Alles	-	w.e.from 09.04.19

The above Directors do not hold shares in the Company.

10. INTERESTS 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 37.1 to the Financial Statements.

11. REMUNERATION OF THE DIRECTORS

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

Directors' emoluments : Rs 4,853,000/-

12. DIRECTORS INTERESTS / RELATED PARTY TRANSACTIONS

The above details are contained in Note 37 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 2018 is Rs 2,469,000/-

14. DONATIONS

The Company has not made any donations during the year ended 31st December 2018.

15. CORPORATE GOVERNANCE

The Company has put in place systems and procedures to ensure the implementation of sound Corporate Governance Principles. An overview of such practices adopted within the Company is given on pages 34 to 36 of the Annual Report.

16. AUDIT COMMITTEE

The Composition of the Audit Committee during the year ended 31st December 2018, was as follows;

Name of the Director

Mr. Pravir Samarasinghe	- (Chairman) Independent Non-executive Director
Mr. J.M.U.P. Jayamaha	- Non-independent Non-executive Director
Mr. M. Shezmin Mansoor	- Independent Non-executive Director

The Committee was reconstituted with effect from 29th May 2019 as follows:

Mr. Pravir Samarasinghe	- (Chairman) Independent Non-Executive Director
Mrs. Chathuri Ranasinghe	- Independent Non-Executive Director
Mr. W.S.L.A.D.R. Samarasinghe	- Independent Non-Executive Director

The report of the Audit Committee is given on page 52 of the Annual Report.

17. REMUNERATION COMMITTEE

The composition of the Remuneration Committee for the year ended 31st December 2018 was as follows:

Names of Directors

Mr. Athula Senanayake	- (Chairman, Independent Non Executive)
Mr. Dinuk Colombage	- (Independent Non Executive)
Mr. W.S.L.A.D.R. Samarasinghe	- (Independent Non Executive)
Mr. Krishantha Cooray	- (Independent Non Executive)

18. Related Party Transactions Review Committee

The composition of the Related Party Transactions Review Committee during the year ended 31st December 2018 was as follows:

Names of Directors

Mr. Athula Senanayake	- (Chairman, Independent Non Executive)
Mr. Dinuk Colombage	- (Independent Non Executive)
Mr. W.S.L.A.D.R. Samarasinghe	- (Independent Non Executive)

The Directors, have disclosed transactions, if any, that could be classified as Related Party Transactions in terms of LKAS 24 - "Related Party Disclosures' and are given in Note 37 to the Financial Statements.

19. CAPITAL EXPENDITURE

The details of material capital commitments are given in Note 34 to the Financial Statements.

20. PROPERTY, PLANT AND EQUIPMENT

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

21. STATED CAPITAL

The Stated Capital of the Company as at 31st December 2018 was Rs.20,466,456,858/- representing 2,046,645,686 ordinary shares of Rs 10 each.

Annual Report of the Directors on the Affairs of the Company

22. DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation and presentation of the financial statements of the Company to reflect a true and fair view of its state of affairs. The Directors confirm 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 2018 and the profit for the year then ended.

23. 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.

24. 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 33 to the Financial Statements.

25. AUDITORS

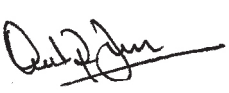
In terms of the 19th Amendment to the Constitution, Auditor General continues to be the Auditor of the Company.

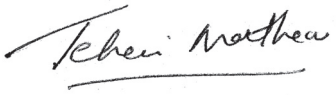
26. NOTICE OF MEETING

Notice of Meeting relating to Annual General Meeting of the Company is given on page 86 of the Annual Report.

By Order of the Board

HOTEL DEVELOPERS (LANKA) PLC





Dhanuka Ranjith Samarasinghe
Director

Tehani Mathew
Director



S S P CORPORATE SERVICES (PRIVATE) LIMITED
Company Secretaries

Colombo
17th September 2019

Directors' Responsibility for Financial Reporting

The Company's Financial Statements for the year ended 31st December 2018 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

Tehani Mathew
Director

17th September 2019
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 proper systems of Internal Control are in place both in terms of decision making as well as in operations to address the Risk management process and quality of financial reporting covering the following: -

- 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.
- Review of Quarterly Unaudited accounts to be released to the Stock Exchange
- Adherence to the decisions of the Board of Directors.

Composition of the Audit Committee

Audit Committee comprised of three 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)

Representatives of the Auditor General attended the meeting as observers. The Committee was reconstituted with effect from 29th May 2019 as follows:

- **Mr. Pravir Samarasinghe** (Chairman) (Independent Non-Executive Director)
- **Mrs. Chathuri Ranasinghe** (Independent Non-Executive Director)
- **Mr. Dhanuka Samarasinghe** (Independent Non-Executive Director).

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.

Mr. Dhanuka Samarasinghe has a degree in International Business and Marketing from Deakin University, Australia. He is also a proud co-founder of the TAD Group of Companies, a fast growing diversified conglomerate, whose presence is in a variety of industries, from Renewable Energy, Plantation, Cinnamon, Leisure, Tea to Investment management. The group holds over 27 subsidiaries, headed by him as the Chairman, playing an instrumental role as a strategist on the overall operations of the Group.

Ms. Chathuri Ranasinghe Attorney–at –Law and Notary Public. She enrolled as an Attorney-At-Law of the Supreme Court in September 1980, completed the Solicitors Examination, United Kingdom In 1989. Presently carrying on a Conveyancing, Specialized Law Practice under the name style and firm "Chathuri Ranasinghe Associates", previously

in practice as Partner of the Law Firm, Gunawardena & Ranasinghe Associates from 1992 to 2015.

She is also the Chairperson of the Women's Chamber of Industry & Commerce, Governor of the Sri Lanka National Arbitration Centre, Member of the Industrialization Commission under Industrial Promotion Act No. 46 Of 1990, Vice Chairperson of the SAARC Chamber of Woman Entrepreneur Council, and she further serves on the Boards of several other organizations.

Audit Committee Meetings

During the year ended 31st December 2018, 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 of the Auditor General and Management Auditors of Hilton Colombo attended the Audit Committee Meetings by invitation.

External Auditors

With the enactment of the 19th Amendment to the Constitution the Auditor General continues to be the external Auditor of the Company since 2016. Accordingly, the Financial Statement for the year ending 31st December 2018 was audited by the Auditor General.

Review of Internal Control Systems

E & Y the Internal Auditors of the Company carries out detail audits of the hotel operations on the basis of the Audit Plan approved by the Audit Committee. Internal Audit performs 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 addressing the risk management process. The findings and the contents of the internal Auditors reports are discussed with the Management and corrective measures 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.

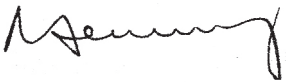
Review of Compliance Statements.

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 2018.

The draft Financial Statements for the year ended 31st December 2018 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

Date : 17th September 2019

Financial Reports

Auditor General's Report

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය எனது இல. My No. MED/C/HDL/1/18/FA-01 මගේ අංකය உமது இல. Your No. දිනය திகதி Date 10 June 2019

Chairman

Hotel Developers (Lanka) PLC

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Hotel Developers (Lanka) PLC for the year ended 31 December 2018 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Hotel Developers (Lanka) PLC ("Company") for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income. statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 read in conjunction with provisions of the National Audit Act No. 19 of 2018. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Emphasis of Matter

Without qualifying my opinion, 1 draw attention to Note No. 12.3 to the financial statements which describe the fully depreciated assets at a cost of Rs. 2,063,000,000 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. The Company expects to adopt the re-valuation model effective from 01 January 2019 reflecting the market value of the assets.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka
+94-11-2887028-34 +94-11-2887223 ag@auditorgeneral.gov.lk www.naosl.gov.lk

Auditor General's Report

1.3 Key Audit Matter

Key audit matter is the matter that, in professional judgement, was of most significance in the audit of financial statements of the current period. The matter was addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and a separate opinion is not provided in this matter. Description of how the audit addressed the matter is provided in that context.

Key Audit Matter Transactions with Related Parties (Note No. 37)	**How the matter was addressed in the audit** Audit procedures were included, among others the followings.
Company has secured a term loan facility of USD 30 Mn and overdraft facility of Rs.500 Mn to finance the refurbishment program of the Hotel from DFCC Bank, a related party of the Company. Related party transaction was considered to be significant to the audit as the risk is that if these transactions are not conducted at arms length, and/or the accounting treatment of the rights and obligations of these transactions are not correct, it could influence the results of the Company.	- Obtained an understanding of the process for identifying related party transactions. - Verified that the transactions are approved in accordance with internal procedures including involvement of key personnel at the appropriate level. - Reviewed agreements, amendments to the agreements, board minutes and board discussions - Evaluated the rights and obligations per the terms and conditions of the agreements. - Determined whether the directors have disclosed relationships and transactions in accordance with SL, AuS 550. - Obtained written representation from management and where appropriate, those charged with governance.

1.4 Responsibilities of Management and -Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the company.

1.5 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is'a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material

if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulator Requirements

National Audit Act, No. 19 of 2018 and Companies Act, No. 7 of 2007 include specific provisions for following requirements.

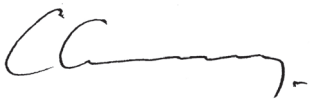
- I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company as per the requirement of section 163 (I) (d) of the Companies Act, No. 7 of 2007 and section 12 (a) of the National Audit Act, No. 19 of 2018.
- The financial statements of the Company comply with the requirement of section 151 of the Companies Act, No. 07 of 2007.
- The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

Based on the procedures performed and evidence obtained which limited to matters that are material, nothing has come to my attention.,

- to state that any member of the governing. body of the Company has any direct or indirect interest in any contract entered into by the Company which are out of the normal course of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.

Auditor General's Report

- to state that the Company has not complied with any applicable written law, general and special directions issued by the governing body of the Company as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018.
- to state that the Company has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018.
- to state that the resources of the Company had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.



W. P. C. Wickramarathne
Auditor General

Statement of Comprehensive Income

FOR THE TWELVE MONTHS ENDED 31ST DECEMBER 2018

	Notes	12 Months 31.12.2018 Rs. '000	12 Months 31.12.2017 Rs. '000
Revenue	05	2,910,540	3,015,362
Cost of sales		(593,251)	(550,824)
Gross profit		2,317,289	2,464,538
Investment income	06	15,627	25,533
Other gains and losses	07	54,355	29,429
Administrative expenses		(1,509,457)	(1,491,586)
Depriciation		(500,861)	(461,542)
Other expenses		(462,421)	(383,491)
Finance costs	08	(40,994)	(9,905)
Profit/(loss) before taxation	09	(126,461)	172,976
Income tax expense	10	(1,046)	85,041
Profit/(loss) after taxation for the period		(127,507)	258,017
Other comprehensive income			
Actuarial Gain/(loss)on employee benefit obligations		14,996	2,415
Total comprehensive income/ (expense) for the period	-	(112,512)	260,432
Earning per share - Basic (Rs.)	11	(0.05)	0.13

The accounting policies and notes from 1 to 38 form an integral part of these financial statements.

Statement of Financial position

AS AT 31ST DECEMBER 2018

Assets		31.12.2018 Rs. '000	31.12.2017 Rs. '000
Non-current Assets			
Property, plant & equipment	12	7,485,222	7,818,434
Leasehold land - Main Property	13	6,539,823	6,610,530
Right to use of land on lease	14	2,011	3,017
Capital work-in-progress		591,537	243,414
Total Non-current Assets		14,618,593	14,675,395
Current Assets			
Inventories	15	63,494	58,009
Trade and other receivables	16	138,929	151,640
Amount due from related parties	17	5,634	1,354
Other assets	18	255,149	180,503
Current financial assets	19	6,904	135,608
Cash and bank balances	20	241,848	225,599
Total Current Assets		711,958	752,713
Total Assets		15,330,551	15,428,109
Equity and Liabilities			
Shareholders' Equity			
Stated capital	21	20,466,456	20,466,456
Reserves	22	187,217	161,348
Accumulated loss		(6,732,856)	(6,594,476)
Total Equity		13,920,817	14,033,329
Non-current Liabilities			
Retirement benefit obligations	23	106,259	122,581
Deferred tax liability	24	397,616	396,570
Total Non-current Liabilities		503,875	519,152
Current Liabilities			
Trade and other payables	25	293,987	411,346
Amount due to related parties	26	10,581	12,558
Contract Liabilities	27	106,118	68,228
Retention Fees - Refurbishment Project		62,234	111,028
Bank overdraft		432,938	272,468
Total Current Liabilities		905,859	875,628
Total Liabilities		1,409,733	1,394,780
Total Equity and Liabilities		15,330,551	15,428,109
Net Assets pe share - (Rs.)	28	6.80	6.86

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 17th May 2019

Director *Director*

The accounting policies and notes from 1 to 38 form an integral part of these financial statements.

Statement of Changes in Equity

FOR THE TWELVE MONTHS ENDED 31ST DECEMBER 2018

	Stated Capital	Furniture, Fittings & Equipment Replacement Reserves	Accumulated Loss	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 01st January 2017	**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**
Profit for the 12 Months period	-	-	(127,507)	(127,507)
Actuarial gain/(loss) on employee benefit obligations, net of taxes - loss	-	-	14,996	14,996
Replacement of furniture, fittings & equipment	-	(90,320)	90,320	-
Transfers to furniture, fittings & equipment reserve	-	116,189	(116,189)	-
Balance as at 31st December 2018	**20,466,456**	**187,217**	**(6,732,856)**	**13,920,817**

The accounting policies and notes from 1 to 38 form an integral part of these financial statements.

Statement of Cash Flows

FOR THE TWELVE MONTHS ENDED 31ST DECEMBER 2018

	31.12.2018 Rs. '000	31.12.2017 Rs. '000
Profit before taxation	(126,461)	172,976
Adjustment for		
Depreciation and amortisation	500,861	461,542
Provision for defined benefit plans	21,106	22,576
Provision for breakages	(104)	1,329
Interest expenses	40,994	9,905
Profit on sale of property, plant & equipment	(6,070)	(6,620)
Unrealized exchange Gain	(17,391)	(884)
Interest income	(15,627)	(25,533)
Operating profit before working capital changes	397,308	635,291
(Increase)/ decrease in inventories	(5,485)	(6,521)
(Increase)/ decrease in receivables	12,711	(2,797)
Increase/decrease in amounts dues to related parties	(6,256)	2,373
(Increase)/ decrease in other assets	11,809	446
Increase/ (decrease) in trade & other payables	(117,359)	(5,701)
Increase/(decrease) in contract liabilities	37,890	(27,262)
Cash generated from operations	330,617	595,829
Tax paid	(16,738)	(20,737)
Payment of retirement benefits	(22,432)	(22,907)
Net cash generated from operating activities	291,447	552,185
Cash Flows from Investing Activities		
Purchase of property, plant & equipment	(280,162)	(111,128)
Investment in capital work-in-progress	(283,310)	(629,947)
Proceeds from sale of property, plant & equipment	6,070	6,620
Net changes in right to use of land lease	1,006	(3,017)
Interest income received	15,627	25,533
Net cash used in investing activities	(540,769)	(711,939)
Cash Flows from Financing Activities		
Finance cost	(40,994)	(9,905)
Net cash used in financing activities	(40,994)	(9,905)
Net increase/(decrease) in cash & cash equivalents	(290,317)	(169,659)
Cash & cash equivalents at the beginning of the year	106,130	258,398
Cash & cash equivalents at the end of the period	(184,186)	88,739

The accounting policies and notes from 1 to 38 form an integral part of these financial statements.

Notes to the Financial Statements

FOR THE TWELVE MONTHS ENDED 31ST DECEMBER 2018

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 authorized for issue by the Board of Directors on 17th May 2019.

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 recognized 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 recognized amounts and there is an intention to settle on a net basis, or to realize 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. Accounting Policies

The accounting policies have been consistently applied by the Company and, are consistent with those used in the previous year except for changes in accounting policies stated in note 3.1.

Comparative information

The presentation and classification of the financial statements of the previous year have been amended, where relevant for better presentation and to be comparable with those of the current year.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The Hotel applied SLFRS 9 and 15 for the first time. The nature and effect of changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Hotel.

SLFRS 15 Revenue from Contracts with Customers

SLFRS 15 supersedes LKAS 11 Construction Contracts, LKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account

for revenue arising from contracts with customers. Under SLFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Effective 1 January 2018, the Hotel adopted SLFRS 15 using the modified retrospective approach. The adoption of SLFRS 15 required changes in the Hotel's accounting policies and affected the recognition, measurement and presentation of certain amounts recognized in the statement of income and the statement of financial position. The hotel did not have significant adjustment to the reserves as at 1 January 2018 in adopting SLFRS 15.

SLFRS 9 Financial Instruments

SLFRS 9 Financial Instruments replaces LKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Hotel has applied SLFRS 9 retrospectively, with the initial application date of 1 January 2018.

The Hotel has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment requirements). Accordingly, the comparative information for each of the primary financial statements would follow the classification and measurement requirements of LKAS 39. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SLFRS 9 are recognised in retained earnings and reserves as at 1 January 2018.

The adoption of SLFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. The Hotel did not have significant adjustment to the reserves as at 1 January 2018 in adopting SLFRS 9.

3.2 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 recognized 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 recognized 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.

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 theses financial statements, unless otherwise is indicated.

4.1 Revenue Recognition

(i) Revenue from Contracts with Customers

The Hotel is in the business of providing hospitality and leisure services.

Revenue from contracts with Customer is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Hotel expects to be entitled in exchange for these goods and services.

The Hotel has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

Management has assessed the impact of applying SLFRS 15 as disclosed below:

(a) Rendering of services

Revenue from rendering of services is recognized when performance obligations are satisfied over a period of time.

Room revenue is recognized on the rooms occupied on a daily basis and food and beverage revenue is accounted for at the time of sale. (i.e when performance obligation is satisfied)

(ii) Interest

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income on the non-financial assets is included in FF&E reserve. All other interest income is included in finance income.

(iii) Shop Rental Income

Shop Rental income is recognized on accrual basis.
Turnover based taxes

Turnover based taxes include Value Added Tax, Nation Building Tax, and Tourism Development Levy. Hotel pays such taxes in accordance with the respective statutes.

Other income

Other income is recognized on an accrual basis.

4.2 Expenditure Recognition

Expenses are recognized 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 utilized.

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 utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized 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 realized 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 recognized 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 recognized 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 derecognized 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 recognized in 'other operating income' in the statement of comprehensive income in the year the asset is derecognized.

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 amortization commenced from June 2012.

4.6 Inventories

Inventories are valued at the lower of cost and estimated net realizable value, after making due allowances for obsolete and slow moving items. Net realizable value is the price at which inventories can be sold in the normal course of business after allowing for cost of realization 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.

4.7 Financial Assets – Recognition and Measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

(a) Initial Recognition and measurement

Financial assets are classified at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Hotel's business model for managing them. With the exception of trade receivable that do not contain significant financing component for which Hotel has applied the practical expedient, the Hotel initially measures a financial asset at its fair value plus, in the case of financial asset not a fair value through profit or loss, transaction costs. Trade receivable that do not contain a significant financing component for which the Hotel has applied the practical expedient are measured at the transaction price determined under SLFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI it needs to give rise to cash flows that are 'solely payments of principal and interest' on the principal amount outstanding.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding.

The Hotel's business model for managing financial assets refers to how it manages financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows selling the financial assets or both.

Purchases or sales of financial assets that require delivery of financial assets within a time frame established by regulation or convention in the market place are recognised on the trade date, i.e., the date that the Hotel commits to purchase or sell the asset.

(b) Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

i. Financial assets at amortised cost (debt instruments)
ii. Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
iii. Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon de-recognition (equity instruments)
iv. Financial assets at fair value through profit or loss Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Hotel. The Hotel measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Hotel's financial assets at amortised cost includes cash and bank balances, short term investments, amount due from related parties, trade receivables, and non-current investments.

The Hotel does not classify financial assets at fair value through OCI (debt instruments) and financial assets at fair value through OCI (equity instruments) and financial assets at fair value through profit or loss.

(c) De-recognition

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

- The rights to receive cash flows from the asset have expired Or

- The Hotel 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

(a) the Hotel has transferred substantially all the risks and rewards of the asset, or

(b) the Hotel has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Hotel has transferred its rights to receive cash flows from an asset or has entered into a pass- through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Hotel continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Hotel 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 Hotel 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 Hotel could be required to repay.

(d) Impairment

The Hotel recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Hotel expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables, the Hotel applies a simplified approach in calculating ECLs. Therefore, the Hotel does not track changes in credit risk, but instead recognises a loss

allowance based on lifetime ECLs at each reporting date. The Hotel has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

(a) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Hotel's financial liabilities include trade and other payables, amounts due to related parties including bank overdrafts.

Hotel does not have financial liabilities at fair values through profit and loss and derivative financial instruments.

(b) Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

This is the category most relevant to the Hotel. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

(c) De-recognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When 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 the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

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 classifies 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 recognized 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 recognizes 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 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 in to 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 recognizes 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 recognized in profit or loss.

Upon initial recognition, transaction cost are directly attributable to the acquisition are recognized 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 16 Leases

SLFRS 16 provides a single lessee accounting model, requiring leases to recognize 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 1 January 2019.

Land lease rights of WIP restaurant of Hilton Colombo will have an impact when adopting SLFRS 16 with effect from 1 January 2019. The hotel is in the process of finalizing the impact on adopting SLFRS 16.

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 2018

	31.12.2018 Rs. '000	31.12.2017 Rs. '000
5. Revenue from contracts with customers		
5.1 Gross Revenue from contracts with customers	2,940,886	3,046,805
Less : Tourism Development Levy	(30,346)	(31,443)
Net Revenue from contracts with customers	2,910,540	3,015,362

Value added tax of Rs. 483 Mn (2017 - Rs. 499 Mn) has been deducted in arriving at Revenue.

5.2 Revenue		
Room revenue	1,219,736	1,317,248
Food and Beverage revenue	1,631,492	1,635,026
Other operating departments	59,312	63,088
	2,910,540	3,015,362
6. Investment Income		
Interest income - Loans and receivables		
Interest on treasury bills	-	8,738
Interest on staff loans	5	5
Interest on RFC accounts	1,009	999
Interest on fixed deposits	-	14,089
Interest income on FF&E replacement reserve	615	1,702
Interest on call deposits	13,998	-
	15,627	25,533
7. Other Gains and Losses		
Profit on disposal of plant & equipment	6,070	6,620
Shop rentals	9,600	10,200
Exchange gain unrealized	17,391	884
Exchange gain realized	13,273	636
Other Income	-	50
Sundry income	8,021	11,039
	54,355	29,429
8. Finance Costs		
Bank charges	67	81
Overdraft Interest	40,927	9,824
	40,994	9,905

	31.12.2018 Rs. '000	31.12.2017 Rs. '000
9. Profit for the period		
Profit for the period is stated after charging all expenses including the following:		
Directors' emoluments	4,405	6,053
Auditors' remuneration - Company	600	916
- Colombo Hilton	1,709	1,553
Depreciation	500,861	461,542
Staff costs (including the following employee benefit plan costs)	505,935	448,163
- Defined benefit plan cost - Gratuity	21,106	22,577
- Defined contribution plan costs - EPF & ETF	65,773	60,735
Management fees	2,440	29,625
Group service & benefit charge - Hilton International	59,191	61,164
Legal fees	125	140
10. Income tax expense		
Provision for the period	-	11,691
Previous year under provission	-	5,913
Deferred tax (Income) Expense	(1,046)	(102,645)
	(1,046)	(85,041)

During the year no provision has been made in the accounts for income tax in view of accumulated tax losses which could be utilized to set off 100% taxable income for the year. However deferred tax has been provided as per the note 24.

10.1 A reconciliation between Taxable profit and Accounting Profit for the Years Ended 31st December 2018 and 31st December 2017 are as follows

	31.12.2018 Rs. '000	31.12.2017 Rs. '000
Accounting Profit Before Income Tax	(126,461)	172,976
Aggregate Disallowed Items	494,820	567,223
Aggregate allowable Expense	(639,126)	(647,558)
Trading Profits and Other Sources of Income @ 12%	(270,767)	92,641
Other sources of Income Liable @ 28%	15,627	24,534
Total Taxable Profit	15,627	117,175
Loss claimed	(15,627)	(41,011)
Taxable Profit	-	76,164
Taxable Trading Profit @ 12%	-	60,217
Taxable other source of Income @ 28%	-	15,947
Tax on Trading Profit	-	7,226
Tax on other source of Income	-	4,465
Current Year Total Tax Expense	-	11,691

	31.12.2018 Rs. '000	31.12.2017 Rs. '000
10.2 Deferred tax		
Deferred tax arising from:		
- Origination and reversal of temporary difference (Note 23)	(1,046)	102,645
Total deferred tax charge	(1,046)	102,645
10.3 Tax losses carried forward		
Tax losses brought forward	9,702,737	9,743,748
Tax losses set off in the current period	(15,627)	(41,011)
Tax losses carried forward for future periods	9,687,110	9,702,737

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.

Profit/(Loss) per ordinary share	(0.05)	0.13
Amount used as the Numerator	**Rs. '000**	**Rs. '000**
Profit attributable to the ordinary shareholders	(112,512)	260,432
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	Plant & machinery	Hotel furniture & fittings	Motor vehicle	Refrigerator & kitchen equipment	Television & computers	Operational Equipment	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/ Revaluation								
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	47,775	-	20,019	11,064	2,545	111,179
Transfers from Capital Working Progress	492,342	-	30,690	-	125,397	-	-	648,429
Previously reported balance as at 31st December 2017	**9,028,150**	**562,643**	**1,556,409**	**92,939**	**876,338**	**288,770**	**121,871**	**12,527,119**
Adjustment - Transfers from Capital Working Progress *	(311,464)	-	77,648		28,156	5,309	17,027	(183,323)
Adjusted Balance as at 31st December 2017	**8,716,686**	**562,643**	**1,634,057**	**92,939**	**904,494**	**294,079**	**138,897**	**12,343,796**
Additions during the year	142,569	27,491	55,210	-	19,260	8,189	27,524	280,243
Balance as at 31st December 2018	**8,859,256**	**590,134**	**1,689,267**	**92,939**	**923,754**	**302,268**	**166,422**	**12,624,039**
Accumulated Depreciation								
Balance as at 31st December 2016	**2,138,029**	**444,899**	**1,053,500**	**90,849**	**339,180**	**239,815**	**11,577**	**4,317,850**
Charge for the year	218,892	12,775	60,687	844	39,644	17,636	40,357	390,833
Disposals								
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**
Adjustment - Transfers from Capital Working Progress *	(10,148)	3	6,850	-	1,298	1,305	1,678	986
Adjusted Balance as at 31st December 2017	2,346,773	457,677	1,121,037	91,693	380,122	258,756	53,612	4,709,669
Charge for the year	219,994	12,821	77,515	1,187	48,625	17,132	51,874	429,148
Balance as at 31st December 2018	**2,566,767**	**470,496**	**1,198,552**	**92,879**	**428,747**	**275,888**	**105,485**	**5,138,817**
Written Down Value								
Balance as at 31st December 2016	**6,382,903**	**102,844**	**424,494**	**2,090**	**391,742**	**37,891**	**107,749**	**7,449,712**
Balance as at 31st December 2017	**6,671,229**	**104,968**	**442,222**	**1,246**	**497,514**	**31,319**	**69,937**	**7,818,436**
Adjusted Balance as at 31st December 2017	**6,369,914**	**104,966**	**513,020**	**1,246**	**524,372**	**35,323**	**85,286**	**7,634,127**
Balance as at 31st December 2018	**6,292,489**	**119,637**	**490,715**	**60**	**495,007**	**26,380**	**60,936**	**7,485,222**

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. 2,063Mn (Y/E2017 - 1,986 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. The company will adopt the re-valuation model effective from 01st January 2019 reflecting the market value of the assets.

12.4 The building was revalued in 2010 by the Government Chief Valuer at Rs. 5,600Mn
The company elected to recognize 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 revaluation reserve of 4,706,460 (LKR'.000) to retained earnings at the date of transition.

12.5 The capitalization of phase 01 cost in 2017 was based on the estimated cost to completion from cost consultant's report. The adjustment relating to cost and depriciation is based on the final bills received during the year *.

	31.12.2018 Rs. '000	31.12.2017 Rs. '000
13. Leasehold Land		
Balance B/F	6,610,530	6,681,237
Amortization for the period	(70,707)	(70,707)
Balance C/D	6,539,823	6,610,530

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. Interms 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 finalized.

14. Right to use of Land on Lease		
At the beginning of the year	3,017	4,023
Amortisation	(1,006)	(1,006)
At the end of the year	2,011	3,017

The amount paid to Urban Development Authority to acquire leasehold land where Ikoi Tei Restaurent of Hilton Colombo situated, is amortised over the lease period of 5 years commencing from 02.12.2016.

15. Inventories		
Food	15,904	11,748
Beverages	32,538	34,494
General stores	10,482	8,163
Engineering stores	4,570	3,604
	63,494	58,009
16. Trade and Other Receivables		
Trade receivables	140,677	153,388
Less: Impairment of debtors	(1,748)	(1,748)
	138,929	151,640
17. Amounts Due From Related Party		
Hilton Colombo Residence	1,289	240
Hilton Kualapur	-	196
Hilton Weerawila	4,344	918
	5,634	1,354
18. Other Assets		
Deposits, prepayments and advances	107,999	83,404
Other receivables	24,900	45,468
Advances - Refurbishment Expenses	80,817	26,950
Income tax receivable	41,433	24,681
	255,149	180,503

	31.12.2018 Rs. '000	31.12.2017 Rs. '000
19. Current Financial Assets		
Short-term investments		
Call deposits	-	114,558
	-	114,558
FF&E Reserve Investment		
Call deposits	6,904	21,050
	6,904	21,050
Total Short-term investment	6,904	135,608

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 utilized for Hotel Refurbishment, it has now been re classified as Current financial assets from the previous classification of Non current financial assets.

20. Cash and bank balances		
Saving A/C BOC - US$	93,248	32,544
Operating Bank A/C	148,550	193,005
Cash	50	50
	241,848	225,599

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.

21. Stated Capital

21.1 Issued and Fully Paid

2,046,645,685 Ordinary shares	20,466,456	20,466,456

22. Reserves

Furniture, fittings & equipment replacement reserve (Note 21.1)	187,217	161,348

22.1 Furniture, Fittings and Equipment Replacement Reserves

Balance at the beginning of the year	161,348	21,896
Add: Provision made during the year	116,189	268,435
Less: Amounts transferred to equity statement		
Amounts utilized for purchase & replacement		
of furniture & fittings	(90,320)	(128,983)
Balance at the end of the year	187,217	161,348

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

Notes to the Financial Statements

FOR THE TWELVE MONTHS ENDED 31ST DECEMBER 2018

	31.12.2018 Rs. '000	31.12.2017 Rs. '000
23. Retirement Benefit Obligations		
Balance at the beginning of the year	122,581	125,326
Charge for the year	12,565	9,105
Recognition of transitional liability /(asset) and actuarial loss/(gain)	4,767	10,042
Loss/ (gain) arising from changes in the assumptions	(19,762)	(12,457)
or due to (over)/under provisions in the previous years		
Interest cost for the year	8,541	13,472
Payments made during the year	(22,432)	(22,907)
Balance at the end of the year	106,259	122,581

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 12% (vs 10.25% 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	12.00%	10.25%
Future salary increase	3.00%	6.00%

Sensitivity & maturity profile	Discount Rate		Salary Increment	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Increase by one percentage point	(3,353)	(4,934)	3,578	(4,751)
Decrease by one percentage point	(3,629)	4,510	3,348	4,414

Maturity Analysis of the payments as at 31 December 2018 - Undiscounted	
With in next 12 Months	26,893
Between 1 and 2 years	28,439
Between 2 and 5 years	56,530
Between 5 and 10 years	104,639
Total Expected payments	216,501

	31.12.2018 Rs. '000	31.12.2017 Rs. '000
24. Deferred Tax Liability		
Balance at the beginning of the year	396,570	499,215
Deferred tax expense/(income)	1,046	(102,645)
Balance at the end of the year	397,616	396,570
24.1 The closing deferred tax liability balance relates to the following:		
Accelerated depreciation for tax purposes	739,776	732,903
Retirement benefit obligation	(14,876)	(17,161)
Deferred tax asset relating to utilisation of brought forward tax losses	(327,284)	(319,172)
The deferred tax has been calculated at the rate of 14%	397,616	396,570

	31.12.2018 Rs. '000	31.12.2017 Rs. '000
25. Trade and Other Payables		
Trade payables	140,763	138,318
Sundry creditors and including accrued expenses	58,473	151,512
Management fee payable *	(3,779)	7,654
Other liabilities	44,730	39,860
Replacement of breakages	10,834	10,938
Statutory payables	42,967	63,064
	293,987	411,345

* Negative balance represents the over payment of Management fees to Hilton International Management LLC.

26. Amounts Due To Related Parties		
Hilton International Asia Pacific	6,810	6,874
Hilton International USA	3,771	5,684
	10,581	12,558
27. Contract Liabilities		
Guest Advance Deposits and Advances	106,118	68,228
	106,118	68,228
28. Net Assets per share		
Net Assets Value	13,920,817	14,033,329
Number of ordinary shares	2,046,646	2,046,646
Net Assets per share	6.80	6.86
29. Income Tax Liability		
Opening Balance	(24,681)	(21,548)
Provision for the period	-	11,691
Previous year under provision	-	5,913
Tax credit		
Economic Service Charge	(16,738)	(12,313)
Withholding tax	(62)	(1,409)
Notional tax	-	(1,044)
Self assessment payment	-	(5,971)
Balance at the end of the year(Current year balance transferred to Other Assets)	(41,481)	(24,681)
30. Notes to the Cash Flow Statement		
30.1 Cash and Cash Equivalents at the Beginning of the Year		
Cash and bank balance	225,599	395,104
Call deposits	135,608	202,660
Treasury Bills	-	-
Bank overdraft	(272,468)	(340,250)
Unrealized exchange gain on USD Saving deposit	17,391	884
	106,130	258,398

	31.12.2018 Rs. '000	31.12.2017 Rs. '000
30.2 Cash and Cash Equivalents at the end of the Year		
Cash and bank balance	241,848	225,599
Call deposits	6,904	135,608
Bank overdraft	(432,938)	(272,468)
	(184,186)	88,739

31. Analysis of financial instruments by measurement basis as at 31st December 2018

Financial assets by categories - Loans and receivables

Financial instruments in current assets		
Trade and other receivables	138,929	151,640
Other assets	255,149	183,520
Amounts due from related party	5,634	1,354
Other current financial assets	6,904	135,608
Cash in hand and at bank	241,848	225,599
Total	648,463	697,721

Financial liabilities by categories - Financial Liabilities measured at amortized cost

Financial Instruments in current liabilities		
Trade and other payables	293,987	490,021
Amounts due to related party	10,581	12,558
Bank overdrafts	432,938	272,468
Total	737,506	775,047

32. 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 maximize 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.

32.1 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 recognized, 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."

32.2 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). Following table shows the maximum risk positions.

	As at 31 December 2018				
	Cash in hand and at bank	Short term investments	Trade and other receivable	Amounts due from related parties	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Deposits with bank	-	6,904	-	-	6,904
Trade and other receivables	-	-	138,929	-	138,929
Amounts due from related parties	-	-	-	5,634	5,634
Cash in hand and at bank	147,036	91,269	-	-	238,305
Total credit risk exposure	147,036	98,172	138,929	5,634	389,771

	As at 31 December 2017				
	Cash in hand and at bank	Short term investments	Trade and other receivable	Amounts due from related parties	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
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

32.3 Trade and other receivables

		As at 31 December 2018 Rs. '000	As at 31 December 2017 Rs. '000
Neither past due nor impaired		105,527	121,542
Past due but not impaired	30-60	24,708	18,894
	61-90	3,200	5,252
	91-120	254	918
	121-150	119	1,817
	151>	7,482	4,965
Impaired			
Gross carrying value		140,677	153,388
Less: impairment provision			
Individually assessed impairment provision		(1,748)	(1,748)
Total		138,929	151,641

32.4 Amounts due from related parties

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

32.5 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. (184,186,446/-) as at 31 December 2018 (as at 31 December 2017 - Rs. 88,739,077/-)."

32.6 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 theCompany's financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

Net (debt)/cash	As at 31 December 2018 Rs. '000	As at 31 December 2017 Rs. '000
Short term investments	6,904	135,608
Cash in hand and at bank	241,848	225,599
Total liquid Assets	248,752	361,207
Bank overdrafts	432,938	272,468
Total Borrowings	432,938	272,468
Net (debt)/cash	(184,186)	88,739

32.7 Maturity analysis

The table below summarises the maturity profile of the Hotel's financial liabilities at 31 December 2018 based on contractual undiscounted payments.

	As at 31 December 2018		As at 31 December 2017	
	Within one year Rs. '000	Total Rs. '000	Within one year Rs. '000	Total Rs. '000
Trade & other payables	293,987	293,987	479,574	479,574
Amounts due to related parties	10,581	10,581	12,558	12,558
Retention Fees - Refurbishment Project	62,234	62,234	111,028	111,028
Bank overdrafts	432,938	432,938	272,468	272,468
	799,740	799,740	875,628	875,628

32.8 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.

33. Events after the Reporting Date

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

34. Capital Commitments

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

34.1 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 program is budgeted at US $ 52Mn including duties and will be financed by USD loan amounting to US$ 30Mn 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.

	Contract Value USD '000	Amount Paid USD '000	Balance USD '000
Civil/Fit Out/Other Contract	18,476	14,783	3,693
Consultancy Contract	5,899	5,561	338

34.2 Lease Commitments

	31.12.2018 Rs. '000	31.12.2017 Rs. '000
Lease rentals due on non-cancellable operating leases;		
Within one year	1,005	1,005
Between one and five years	2,011	3,017
	3,017	4,022

The lease commitment is related to the Ikoi Tei restaurant at the former Dutch hospital premises which is on 5 year leased property.

35. 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 28 July 2011, 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, 2018 in respect of the said legal case.

36. Assets Pledged as Securities

The Company has mortgaged the main property of the Hotel against the loan agreement signed with DFCC Bank for a loan facility of USD 30Mn for the refurbishment project. However, this loan facility has not been utilized to date.

37. Related Party Disclosures

37.1 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 utilized assets act no. 43 of 2011.

Directors' emoluments and payments to Competent Authority paid during the period amounts to Rs. 4,686,159/- (Y/E 2017 - Rs. 6,052,500/=).

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.

Hotel Developers (Lanka) PLC secured a term loan facility of USD 30Mn and an overdraft facility of Rs. 500 Mn from DFCC Bank PLC. Mr. Krishantha Cooray, the Chairman of the Company is a Director of DFCC Bank PLC.

37.2 Amounts due from related parties (Refer Note17)

37.3 Amounts due to related parties (Refer Note 26)

37.4 Transactions with related parties

	31.12.2018 Rs. '000	31.12.2017 Rs. '000
Managing Company - Hilton International Management Corporation		
(Receiving) / Rendering of services	(61,681)	(87,344)
Affiliates/Group Hotel		
(Receiving) / Rendering of services	74,224	60,122

Terms and conditions of transactions with related parties

Transactions with related parties are carried out in the ordinary course of the business. Outstanding current account balances at year end are unsecured, interest free and settlement occurs in cash.

38. Litigation as of the reporting date

38.1 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 16th September 2019.

38.2 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 exparte 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].

38.3 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]

38.4 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].

38.5 Case No. H.C. (Civil) 754/2018/MR

This case had been instituted by Mr. Nihal Sri Amarasekera seeking an Enjoining Order to restrain the Company and the Company Secretaries from taking any steps to transfer the shares of the Company.

The Case has been fixed for 22nd Nov 2019 for inquiry by way of oral submissions.

Notice of Meeting

NOTICE is hereby given that the **ANNUAL GENERAL MEETING** of **HOTEL DEVELOPERS (LANKA) PLC** will be held at the Board Room of Hotel Developers(Lanka)PLC, at No 2, Sir Chittampalam A Gardiner Mawatha, Colombo 02 on 10TH OCTOBER 2019 at 3.00 p.m.

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Notes

Notes

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. 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
Mrs. Chathuri Ranasinghe	of Colombo failing her
Mr. Sanjiv Alles	

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 10th October 2019 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 2018 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 of 2019

.....

Signature of the Shareholder

Note:

1. Instructions as to completion are noted on page 90.
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 Registered office of the Company, 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 - (Resigned w.e. from 01.04.19) Mr. M. Shezmin Mansoor - (Resigned w.e. from 03.04.19) Mr. W.S.L.A.D.R. Samarasinghe - Ms. Sonali Liyanamana - Mr. Pravir Dhanoush Samarasinghe - Ms. C.P.R. Ranasinghe - (Appointed w.e. from 09.04.19) Mr. S.N. Alles - (Appointed w.e. from 09.04.19) The above Directors do not hold shares in the Company.
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	:	DFCC Bank PLC 73/5, Galle Road Colombo 03.
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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