



HOTEL DEVELOPERS (LANKA) LTD
ANNUAL REPORT 2020

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FINANCIAL HIGHLIGHTS

	2020	2019
Room Revenue LKR '000	313,080	1,171,875
F&B Revenue LKR'000	742,928	1,646,117
Other Revenue LKR '000	25,127	60,760
Total Revenue LKR '000	1,081,135	2,878,752
Gross Profit LKR '000	270,043	1,475,059
Gross Profit Margin %	24.98	51.24
Profit/(Loss)before Tax LKR'000	(877,343)	(312,448)
Profit After Tax LKR'000	(918,107)	(325,630)
Revaluation Surplus LKR '000	-	1,452,978
Total Comprehensive Income for the Period LKR '000	(926,194)	1,104,893
Earning/(Loss) per share LKR	(0.45)	0.54
Average Room Rate LKR	20,681	21,562
Occupancy %	11	49
Long Term Interest Bearing Borrowings LKR'000	72,156	250,000
Short Term Debt LKR'000	946,040	254,492
Total Equity LKR '000	14,099,514	15,025,710
Debt/Equity %	7.22	3.36
Total Assets LKR '000	16,295,030	16,605,325
Debt /Total Assets %	6.25	3.04
Current Assets LKR'000	521,978	703,208
Current Liabilities LKR'000	1,519,046	746,975
Current Ratio (times)	0.34	0.94
Quick Assets Ratio (times)	0.31	0.88

CHAIRMAN'S REVIEW

"Considering the recent accolade of Club Med anointing Sri Lanka as the second-best place country in the world for digital nomads, the Company is confident that the island will be one of the first tourism destinations in the region to benefit as recovery takes place.

Hotel Developers is especially optimistic about the government's recent commitment to fast-track tourism to bring the numbers up to prepandemic levels and is actively lobbying countries to allow its citizens to travel to Sri Lanka. A global marketing promotion that is being planned in key source markets will underscore the country's efforts to boost tourism."

Dear Shareholder

It gives me pleasure to present the Annual Report and Audited Financial Statements for the financial year ending 31st December 2020. Undeterred by the various challenges that arose during the year under review, Hotel Developers (Lanka) Ltd sustained its strategy to reposition itself to be more sustainable and to optimize its resources to enhance its status as one of the leading luxury hotel properties in Colombo.

Like other tourism destinations around the world, Sri Lanka's tourist arrivals too fell during the year amid the COVID-19 crisis. Since April 2019, following the Easter Sunday terror attacks, Sri Lanka has witnessed monthly decline in tourist arrivals year-on-year. Sri Lanka tightened tourist arrivals from mid-March 2020 and suspended all passenger arrivals from all countries in order to contain the spread of the COVID-19 pandemic. After easing restrictions to some degree in January 2021, inflow of tourists started showing an uptick. In addition, the accelerated vaccination drive coupled with marketing promotions in overseas markets is setting up the industry for a speedy revival. Already, the easing of further restrictions within the country is witnessing an upsurge in domestic tourists visiting hotels and resorts while city hotels are seeing a resumption of weddings and corporate functions as well as patrons dining out freely.

OPERATIONAL REVIEW

Considering the status of global travel industry, the Company had to cut back budgeted profitability for the year. During the year, revenue declined by 62 % YoY from Rs. 2.88 bn to Rs. 1.08 bn. The Room Revenue overall fell by 77% while occupancy too declined to 11% in 2020 from 49% in 2019, whilst the Average Room rate decreased from Rs. 21,562/- in 2019 to Rs. 20,681/- in the year under review. The Food and Beverage Sector reduced by more than half due to the lockdowns and closure of hotels and restaurants by the government, recording a modest Revenue of Rs.743 Mn. The Gross Profit Margin declined drastically from 51 % in 2019 to 25% in 2020 due to the decline in the Rooms Revenue. The dip in the Rooms revenue by Rs. 858 million led to a decline in the Gross

Profit by Rs. 643 Mn since the margin on Rooms Revenue is approx. 75%. In the year under review, Gross Profit declined from Rs. 1475 Mn in 2019 to Rs. 270 Mn which reflects the severe COVID-induced impact on the hospitality sector. The Net Loss after tax increased from Rs. 325 Mn to Rs. 918 Mn due to the impact of the depreciation of Rs 378 Mn. With the Company adopting the Valuation model, the Depreciation declined from Rs. 515 Mn in 2019 to Rs. 378 Mn in 2020. Further the economic life of the building was reassessed by a Chartered Valuer and the economic life span was increased to 55 years from 40 years thus reducing the depreciation further.

HIGHLIGHTS OF THE YEAR

Taking the current pandemic period into consideration, the Company went ahead with its strategic decision to invest on refurbishment of guest rooms so that the hotel will be well geared to face the stiff competition in the post-COVID-19 period. The plan to refurbish the guest rooms was successfully initiated in October 2020 after 30 years of hotel operations. The procurement process has been completed and work in this regard has commenced. The Company also went ahead with much-needed expansion of event spaces to secure the opportunity to penetrate the regional markets for the MICE business, Other F&B facilities such as the newly constructed Chinese restaurant commenced operations in April 2021. The allocated budget for the refurbishment of rooms and F&B outlets has been restricted to US\$ 15 million so as to ensure that the company will be able to compete in market pricing with other international operators whilst maintaining profitability. This would also facilitate the turnaround of the business operations recovering from the impact from the pandemic period. The hotel MEP services have also gone through a significant upgrade with the replacement of chillers and elevators for efficient energy management and efficiency. This is expected to facilitate the achievement of short-term targets set for the year, as mitigating strategies to overcome impact from the COVID-19 pandemic.

CHAIRMAN'S REVIEW

Further, transformation of the Hilton Colombo Sports Centre to a fully-fledged All-Day Club was carried out in November 2020 with the successful launch of Sunset Blue. This initiative contributed significantly to improve the revenue of the company. Overall, the aim has been to restructure project cost and loan exposure to improve profitability of the Company.

The Hilton's valuable and trained human capital continued to demonstrate their dedication and commitment despite the challenging ground realities and worked tirelessly under the cloud of the pandemic. The Company adhered to the highest safety and health protocols as laid down by health authorities to ensure employees and customers were not put at risk in any way.

FUTURE STRATEGY

The Company remains committed to transforming Hilton Colombo into a sustainable and profitable entity with optimal use of its assets with concentrated performance based investment. Several strategies to expand event spaces in the property were implemented and are nearing completion. Last year, the government created a Premium Real-Estate Portfolio by bringing the state-owned prime hospitality assets under one unit. This led to the Cabinet of Ministers approving the proposal to incorporate Selendiva Investments Limited with 100% ownership of the Treasury and to consolidate Canwill Holdings (Pvt) Ltd (Grand Hyatt), Hotel Developers (Lanka) Ltd (Hilton), Hotels Colombo (1963) Ltd (Grand Oriental Hotel) under one institution, namely, Selendiva Leisure Investments Ltd, for the purpose of capital restructuring to achieve optimum potential of the assets and profitability.

With this objective, the intention is to complete the 250-guest room refurbishment in 2022 to target post-COVID-19 business plans for room occupancy and to attract tourists. Sunset Blue will also be promoted as the prime night entertainment venue in the city to achieve the market synergy for promoting the hotel to attract tourist arrivals and domestic clientele. Plans have also been drawn up to improve revenue plans for the banquet facilities with aggressive marketing strategies to restructure financials to obtain high market value for HDL shares. Considering the rapid adoption of digital platforms during 2020, the Company will aggressively promote its online business platform and build a stronger online presence with potential created by the COVID pandemic. Other contingent business plans were implemented and have successfully achieved the targets from takeaway services during the lockdown period, thanks to the loyalty of our longstanding customers and the new customer base being attracted to our high quality of product and services.

Considering the recent accolade of Club Med anointing Sri Lanka as the second-best place country in the world for digital nomads, the Company is confident that the island will be one of the first tourism destinations in the region to benefit as recovery takes place. Hotel Developers is especially optimistic about the government's recent commitment to fast-track tourism to bring the numbers up to pre-pandemic levels and is actively lobbying countries to allow its citizens to travel to Sri Lanka. A global marketing promotion that is being planned in key source markets will underscore the country's efforts to boost tourism. Meanwhile, tourists continue to enter Sri Lanka under the bio-bubble facility. Airlines are now permitted to carry fully vaccinated passengers without any limitation of passenger numbers per flight, which should increase tourist inflows along with the fact that most tourist spots have now been opened for visitors and the inter provincial ban lifted. All these factors point to the government's commitment to facilitate the tourism industry.

APPRECIATION

I would like to thank my colleagues on the Board and the senior management for their unstinted support. I would also like to thank the General Manager and the staff of Hilton Colombo for their contribution in a challenging year and salute their optimism to gear up for a revival of the industry. Our loyal patrons have been a pillar of support and we are glad to see them once again frequenting their favourite spots at the Hilton hotel. I have no doubt that the future of Sri Lanka Tourism remains bright.

Signed

Sirinimal Perera
Chairman

DIRECTORS PROFILES

MR. SIRINIMAL PERERA

Chairman

Mr. Sirinimal Perera is the Secretary, Ministry of Urban Development and Housing , Coast Conservation, Waste Disposal, and Community Cleanliness. He is also an Executive Consultant to the Board of Directors of Noritake Lanka Porcelain (Pvt) Ltd., (“Noritake”) from 2007 to date and the Chairman of Shore to Shore (Pvt) Ltd., a company engaged in producing of label weaving, box packaging, and garments in IPZ Katunayake. Mr. Perera has more than 30 years executive experience in financial management, accounting, internal auditing and general management including stints with M/s. R.K. Fryer & Co. Chartered Accountants and International Computers Ltd, United Kingdom as an audit Senior and Accountant respectively.

Mr. Perera functioned as the Chairman of Urban Development Authority (UDA) and its subsidiaries, Lanka Logistics & Technologies Co. Ltd., On’ally Co. Ltd., Unidep Company., Waters Edge Company Ltd., Lanka Salt Limited and Managing Director of Sri Lanka Fisheries Corporation. He also served as a Director in the Boards of Peoples Leasing Co. Ltd., Ocean View Co. Ltd., Lanka Ceramic Limited and several other companies. Further he has served for a short period in 2018 as the Chairman of Sri Lanka Tea Board and State Engineering Corporation.

He completed upto final levels of Association of Chartered and Certified Accountants (ACCA) (UK) and of Higher National Diploma in Business Studies at Luton College of Higher Technology in UK.

He was Conferred with the title “Best Chief Executive” for the best Employee in involvement Organization by the Sri Lanka Association of the advancement of Quality and productivity which functioning under the Ministry of Science Technology.

MR. ISHAN DANTANARAYANA

Director

Mr. Ishan Dantanarayana has 30 years of human resources and business partnering experience at senior management level. He is currently the Group Chief People Officer and is also a member of the Corporate Leadership Team of the Brandix Group overlooking operations in Sri Lanka & Global. He additionally serves as a Director of the Board of the Brandix College. Brandix is Sri Lanka’s largest exporter & largest employer as confirmed by the Presidential Award. Currently he is the President of the Association of HR Professionals in Sri Lanka.

He holds a PhD, an MBA, is a Chartered Marketer - FCIM (UK) and has Post Graduate HR and Marketing qualifications. He is also part qualified in Finance - CIMA (UK). He additionally holds an Executive Leadership Certification equivalent to an MBA from Global U21 consisting of Top 26 Universities in the world.

MS. DHEESHANA AMERESEKERE

Director

Ms. Dheeshana Ameresekere 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 11 years of their operation. The most recent awards for 2020 – “Leading Boutique Hotel in South Asia” - “Most Romantic Hotels Sri Lanka” at the South Asian Travel Awards (SATA), Haute Grandeur Excellence Awards for “Best Honeymoon Hotels in Asia / Best Small Hotels in Asia. Consecutively for 10 years - The Theva Residency has been awarded as a “Winner of TripAdvisor Service Excellence Award”.

MR. V. KANAGASABAPATHY

Director

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.

He 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.

MR. PRIYANTHA DENIYAYA

Director

Mr. Deniyaye is currently practicing as an Attorney-At-Law, as a Criminal Counsel in the Criminal Private Bar of the Colombo High Court since year 2000, specializes in Defense Counseling.

His appearances include but not limited to the Magistrate’s Court, High Court, Court of Appeal and to the Supreme Court. Also successfully appeared In several Fundamental Right Cases representing both Petitioners and Respondents in distinct Landmark Cases and secured the legal concession thereof.

He served as the legal Advisor of the Sustainable Energy Authority [Sri Lanka] from March 2016, and was mainly assigned with the duty of preparing a draft Act, to be presented to the Legal Draftsman with a view to amend the existing Act, to promote Green Energy sector in Sri Lanka.

DIRECTORS PROFILES

MS. VISAKHA AMARASEKERE

Director

Ms. Visakha Ameresekera counts over 15 years' of experience at the Government Treasury, Director of the Department of External Resources of the General Treasury of the Ministry of Finance, Economy and Policy Development.

She was appointed to the Board of Bank of Ceylon on 11th January 2020 as the Non-Executive Ex-Officio Director representing the Ministry of Finance, Economy and Policy Development.

She has represented the Government Treasury on the Boards of several key State-Owned Enterprises including the Ceylon Electricity Board, Ceylon Petroleum Corporation and People's Bank.

Ms. Ameresekere holds a B.Sc (Hons) Degree in Economics and Management from the University of London, UK and Master of Arts in Development Economics from the Vanderbilt University, USA. She is a Member of the Chartered Institute of Management Accountants (CIMA) UK and is also a Chartered Public Finance Accountant.

MR. P A S ATHULA KUMARA

Director

Mr. P.A. Susantha Kumara joined the Public Service in 1991 as an Audit Examiner in Auditor General's Department and joined the Department of Public Enterprises, Ministry of Finance in 2007. Currently he is the Director General in Department of Public Enterprises.

He has also been a Director/Board Member of Several Statutory Institutions including Colombo Commercial Fertilizer, Mantai Salt Ltd., Building Material Corporation, Ceylon Agro Industries Ltd., Lanka Hydrolic Ltd., Ceylon Ceramics Corporation.

He holds a B.Sc in Management (Public Admin.) (Special) degree holder from the University of Sri Jayawardenapura and in 2015 obtained his Masters degree in Business Studies in University of Colombo . Mr. Athula Kumara is a Class 1 Officer of Sri Lanka Accounts' Services and a member of Chartered Public Accountant in the Institute of Chartered Accountants of Sri Lanka.

MR. LAL WEERASINGHE

Director

Mr. Lal Weerasinghe was a Director for the "Social Security Board" from 2010 to 2013. He also served as a Media Secretary for "Road Development Authority" in 2010.

He has been working as a Business leader for "Riway International" Singapore since 2017 . He also successfully completed the Business Leadership Training Program conducted by Riway Dynamic Leadership Development and Goal Achievement in Malaysia.

He has won two "Sarasaviya" film awards (Best Actor/Most Popular New Actor). His success in the film industry made him commence his own Film production company L.W. Films and he has produced and directed Sri Lanka movies .

CORPORATE GOVERNANCE

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

THE BOARD OF DIRECTORS

It is the responsibility of the Board of Directors to provide entrepreneurial leadership for the Company, formulate corporate strategic goals, values and standards, reviewing performance so that the Company could fulfill its obligations to its stakeholders. The Directors of the Company as at 31st December 2020 were:

Mr. Sirinimal Perera - *Independent Non Executive*

Ms. Dheeshana Amarasekere. - *Independent Non Executive*

Mr. Ishan Danthanarayana. - *Independent Non Executive*

Mr. V. Kanagasabapathy. - *Independent Non Executive*

Mr. Priyantha Deniyaye. - *Independent Non Executive*

Mr. Lal Weerasinghe. - *Independent Non Executive*

Ms. Visakha Amarasekere. - *Non Independent Non Executive*

Mr. P A Susantha Kumara - *Non Independent Non Executive*

None of the above Directors hold shares in the Company.

Mr. Srinimal Perera and Mr. V. Kanagasabapathy who are over 70 years of age, offer themselves for re-appointment as Directors in pursuance of Section 211 of the Companies Act with the recommendation of the Directors. Resolutions proposing the re-appointment of Mr. Srinimal Perera and Mr. V. Kanagasabapathy to the Board of the Company declaring that the age limit of 70 years shall not apply to the said Directors, will be placed before the shareholders at the forthcoming Annual General Meeting.

RESIGNATIONS FROM THE BOARD DURING THE YEAR ENDED 31ST DECEMBER 2020

J.M.U.P Jayamaha (w.e.f.08.06.2020)

M.K.P. Kumara (w.e.f. 24.08.2020)

During the year ended 31st December 2020 the Board met on eleven (11) occasions and the number of meetings attended by the Directors is given below:

Name of Director	Date of appointment	No of Meetings attended
Mr. Sirinimal Perera	24/01/2020	10
Ms. Dheeshana Ameresekere	07/04/2015	10
Mr. Ishan Dantanarayana	24/01/2020	11
Mr. V. Kanagasabapathy	24/01/2020	11
Mr. Priyantha Deniyaye	24/01/2020	11
Ms. Visakha Ameresekera	03/07/2020	6
Mr. P.A.Susantha Kumara	28/07/2020	5
Mr. Lal Weerasinghe	05/02/2020	10

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

With the reconstitution of the Board in 2020, the following were appointed as members of the Audit Committee with effect from January 2020.

Mr. V. Kanagasabapathy-Chairman (*Independent Non Executive*)

Mr. M.K.P. Kumara-Member (*Non Independent Non Executive*)

Mr. J.M.U.P. Jayamaha-Member (*Non Independent Non Executive*)

With effect from 8th June 2020 following the resignation of Mr. J.M.U.P. Jayamaha, the Audit Committee was reconstituted as follows:

Mr. V. Kanagasabapathy-Chairman (*Independent Non Executive*)

Mr. M.K.P. Kumara-Member (*Non Independent Non Executive*)

Mr. Priyantha Deniyaye-Member (*Independent Non Executive*)

With effect from 24th August 2020, following the resignation of Mr. M.K.P. Kumara, the Audit Committee was reconstituted as follows

Mr. V. Kanagasabapathy-Chairman (*Independent Non Executive*)

Mr. P.A.Susantha Kumara-Member (*Non Independent Non Executive*)

Mr. Priyantha Deniyaye-Member (*Independent Non Executive*)

The Audit Committee scrutinizes and analyzes the Report on the Internal Controls of the Hotel Operations which is prepared by the Internal Auditors Ms. Ernst and Young and ensures 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. The 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.

CORPORATE GOVERNANCE

REMUNERATION COMMITTEE

The current composition of the Remuneration Committee with effect from January 2020 is as follows:

Names of the Directors

Mr. Srinimal Perera - Chairman (*Independent Non Executive*)
 Mr. V. Kanagasabapathy - Member (*Independent Non Executive*)
 Mr. Ishan Dantanarayana - Member (*Independent Non Executive*)

The Remuneration Committee makes recommendations 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 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.

The composition of the Related Party Transactions Review Committee with effect from January 2020 is as follows:

Names of the Directors

Mr. V. Kanagasabapathy-Chairman (*Independent Non Executive*)
 Mr. J.M.U.P. Jayamaha-Member (*Resigned on 08.06.2020*) (*Non Independent Non Executive*)
 Ms. Dheeshana Ameresekere - Member (*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.

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.

On 2nd June 2020, P.W. Corporate Secretarial (Pvt) Ltd were appointed as the Company Secretaries in place of S.S.P Corporate Services (Private) Ltd.

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.

DELISTING OF THE COMPANY

The Secretary to the Treasury, the sole Shareholder of the Company pursuant to a recent decision taken by the Cabinet of Ministers dated 26th February 2020, to develop the Company property to reach its full potential as part of an overall development plan of the Government decided to delist the Company.

Accordingly, the Company was delisted from the Colombo Stock Exchange with effect from 25th August 2020.

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) LIMITED

Signed
Srinimal Perera
Director

Signed
V. Kanagasabapathy
Director

Colombo
 23rd February 2022

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 inherent risks 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 framework adopted. 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.	<p>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.</p> <p>Existence and continuous improvement of a Disaster Recovery Plan in the event of a disruption or failure in the system.</p> <p>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.</p> <p>Continuous review of network protection process is carried out to ensure information security and integrity.</p>
Internal Process & Procedures The risk of financial loss and disruption to business and breakdown in Internal Controls.	<p>Clearly defined systems & procedures are in place to ensure compliance with internal controls which are periodically reviewed for their continued effectiveness.</p> <p>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.</p>
Security Risk	<p>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.</p>
Natural or Man-made Disasters Loss of property and equipment resulting in significant losses.	<p>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.</p> <p>A new sprinkler system has been put in place at the hotel's penthouse level to reduce the risk of fire.</p>
Credit Risk Exposure and losses due to default of settlement debtors.	<p>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.</p> <p>Monthly monitoring and reporting on debtors ageing reports to the management for prompt actions.</p>

Risk Management

Risk Category & Description	Control Measures and Action Plans to Mitigate Risks
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 2020.

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.

Risk Category & Description	Control Measures and Action Plans to Mitigate Risks
<p>Human Resources Risk</p> <p>Risk of losing key personnel and skilled staff; inappropriate labour action.</p> <p>Risk of injuries/health hazards due to employees being exposed to hazardous work conditions/chemicals.</p>	<p>Structured training programs, cross exposure training opportunities arising from the performance appraisal process.</p> <p>Emphasis on good employer-employee relationships, employee welfare, and an effective and open communication with the labour union to achieve a win-win outcome.</p> <p>Fostering a spirit of unity and self belonging across the organization via associate gatherings, outings, family get-togethers and religious events.</p> <p>Adjusting the salary level of the key team members to be more competitive in the market.</p> <p>Strict adherence to laid down safety standards and procedures.</p>

ANNUAL REPORT OF THE DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Directors of Hotel Developers (Lanka) Ltd are pleased to present their Report and the Audited Financial Statements of the Company for the Year ended 31st December 2020.

1. THE PRINCIPAL ACTIVITY

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

2. FINANCIAL STATEMENTS

The Financial Statements of the Company are given on page 17 to 43.

3. 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.

4. AUDITORS REPORT

The Auditors Report of the Financial Statements of the Company is given on page 17 to 19.

5. ACCOUNTING POLICY

The significant accounting policies adopted in the Preparation of the Financial Statements are given in Note No 03.

6. TAXATION

Provision for taxation has been computed at the rates given in Note 10 to the financial statements.

7. DIVIDENDS

The Directors do not recommend a dividend on ordinary shares for the year ended 31st December 2020.

8. BOARD OF DIRECTORS AND THEIR SHAREHOLDING

The Directors of the Company as at 31st December 2020 were:

Name of Director	Date of appointment
Mr. Srinimal Perera	24/01/2020
Ms. Dheeshana Ameresekere	07/04/2015
Mr. Ishan Dantanarayana	24/01/2020
Mr. V. Kanagasabapathy	24/01/2020
Mr. Priyantha Deniyaye	24/01/2020
Ms. Visaka Ameresekera	03/07/2020
Mr. P.A.Susantha Kumara	28/07/2020
Mr. Lal Weerasinghe	05/02/2020

None of the above Directors hold shares in the Company.

Mr. Srinimal Perera and Mr. V. Kanagasabapathy who are over 70 years of age, offer themselves for re-appointment as Directors in pursuance of Section 211 of the Companies Act with the recommendation of the

Directors. Resolutions proposing the re-appointment of Mr. Srinimal Perera and Mr. V. Kanagasabapathy to the Board of the Company declaring that the age limit of 70 years shall not apply to the said Directors, will be placed before the shareholders at the forthcoming Annual General Meeting.

9. INTEREST REGISTER

The Directors have made general disclosures as provided for in Section 192 (2) of the Companies Act No. 7 of 2007. Arising from this, details of contracts in which they have an interest, if any, are disclosed in Note 37.1 to the Financial Statements.

10. REMUNERATION OF THE DIRECTORS

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

Directors' emoluments Rs 4,065,000 (2019 - Rs. 3,577,500)

11. 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.

12. PAYMENTS TO AUDITORS

The amount paid or payable to the Auditors for the year ended 31st December 2020 is Rs. 2,869,105 (2019- Rs. 3,746,000)

13. DONATIONS

The Company has not made any donations during the year ended 31st December 2020.

14. AUDIT COMMITTEE

The Composition of the Audit Committee during the year ended 31st December 2020 was as follows;

Name of the Director

Mr. V. Kanagasabapathy - *Chairman*

Mr. P.A. Susantha - *Member*

Mr. Priyantha Deniyaye - *Member*

15. REMUNERATION COMMITTEE

The composition of the Remuneration Committee is as follows:

Names of the Directors

Mr. Srinimal Perera - *Chairman*

Mr. V. Kanagasabapathy - *Member*

Mr. Ishan Dantanarayana - *Member*

16. RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The composition of the Related Party Transactions Review Committee is as follows:

Names of the Directors

Mr. V. Kanagasabapathy - *Chairman*

Ms. Dheeshana Ameresekere - *Member*

The Directors, have disclosed transactions, if any, that could be classified as Related Party Transactions in term of LKAS 24 – “Related Party Disclosures” and are given in Note 37 to the Financial Statements.

17. CAPITAL EXPENDITURE

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

18. PROPERTY, PLANT AND EQUIPMENT

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

19. STATED CAPITAL

The stated Capital of the Company as at 31st December 2020 was Rs. 20,466,456,860/- representing 2,046,645,686 ordinary shares of Rs. 10/- each.

20. DIRECTORS RESPONSIBILITIES FOR THE 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 2020 and the profit for the year ended.

21. STATUTORY PAYMENTS

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

22. 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.

23. AUDITORS

In terms of the 20th Amendments to the Constitution, Auditor General continues to be the Auditor of the Company.

Notice of Meeting relating to Annual General Meeting of the Company is given on page 44 of the Annual Report.

By Order of the Board

HOTEL DEVELOPERS (LANKA) LTD

Sgd

Mr. Sirinimal Perera
Chairman

Sgd

Mr. V. Kanagasabapathy
Director

Sgd

P W CORPORATE SECRETARIAL (PVT) LTD
Company Secretaries

Colombo

23rd February 2022

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:

With the reconstitution of the Board in 2020, the following were appointed as members of the Audit Committee with effect from January 2020.

Mr. V. Kanagasabapathy - *Chairman (Independent Non Executive)*

Mr. M.K.P. Kumara - *Member (Non Independent Non Executive)*

Mr. J.M.U.P. Jayamaha - *Member (Non Independent Non Executive)*

With effect from 8th June 2020 following the resignation of Mr. J.M.U.P. Jayamaha, the Audit Committee was reconstituted as follows:

Mr. V. Kanagasabapathy - *Chairman (Independent Non Executive)*

Mr. M.K.P. Kumara - *Member (Non Independent Non Executive)*

Mr. Priyantha Deniyaye - *Member (Independent Non Executive)*

With effect from 24th August 2020, following the resignation of Mr. M.K.P. Kumara, the Audit Committee was reconstituted as follows

Mr. V. Kanagasabapathy - *Chairman (Independent Non Executive)*

Mr. P.A. Susantha Kumara - *Member (Non Independent Non Executive)*

Mr. Priyantha Deniyaye - *Member (Independent Non Executive)*

Mr. V. Kanagasabapathy, is a Retired Director General of Public Enterprises, General Treasury 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.

Mr. J.M.U.P. Jayamaha is a member of the Srilanka Government Accountants' service having many years of experience in Financial Management in the public sector.

Mr. M.K.P. Kumara holds a Bachelor of Commerce First Class degree from University of Peradeniya. In addition he has obtained a Post Graduate Diploma in Public Administration from Flinders University. He is currently the Additional Director General of Trade in Department of Trade and Investment Policy.

Mr. Priyantha Deniyaye is currently practicing as an Attorney-At-Law, as a Criminal Counsel in the Criminal Private Bar of the Colombo High Court since year 2000, specializes in Defense Counselling.

Mr. P.A. Susantha Kumara joined the Public Service in 1991 as an Audit Examiner in Auditor General's Department and joined the Department of Public Enterprises, Ministry of Finance in 2007. Currently he is the Director General in Department of Public Enterprises. He holds a B. Sc Management (Public Admin.) (Special) degree holder from the University of Sri Jayawardenapura and in 2015 obtained his Masters degree in Business Studies in University of Colombo . Mr. Athula Kumara is a Class 1 Officer of Sri Lanka Accounts' Services and a member of Chartered Public Accountant in the Institute of Chartered Accountants of Sri Lanka.

AUDIT COMMITTEE MEETINGS

During the year ended 31st December 2020, the Audit Committee had 3 meetings. Due to the Covid 19 pandemic situation , the Audit Committee could not have the regular Quarterly meetings. The 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 20th 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 2020 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 2020

The draft Financial Statements for the year ended 31st December 2020 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, financial position and the results disclosed in the audited accounts are free from any material misstatements.

*Sgd
V. Kanagasabapathy
Chairman
Audit Committee*

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT



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NATIONAL AUDIT OFFICE



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My No.

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Your No.

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Date

02 June 2021

Chairman

Hotel Developers (Lanka) Ltd

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Hotel Developers (Lanka) Ltd for the year ended 31 December 2020 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) Ltd ("Company") for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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.

1.3. Other information included in the Company's 2020 Annual Report.

The other information comprises the information included in the Company's 2020 Annual Report but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

When I read the Company's 2020 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

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.



Independent Auditor's Report



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NATIONAL AUDIT OFFICE

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 REGULATORY REQUIREMENTS

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

2.1.1. 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 (2) (d) of the Companies Act, No. 7 of 2007 and section 12 (a) of the National Audit Act, No. 19 of 2018.

2.1.2. The financial statements of the Company comply with the requirement of section 151 of the Companies Act, No. 07 of 2007.

2.1.3. 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.

2.1.4. 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.

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

2.2.1. 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.

2.2.2. 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 except for the following.

Reference to law/ direction	Description
Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 2 June 2003	Although the financial statements should be furnished to Auditor General within 60 days after the closure of the financial year, the financial statements for the year 2020 had been submitted to Auditor General on 01 June 2021 and draft annual report had not been submitted.

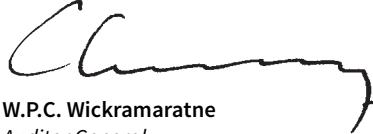
2.2.3. to state that the Company has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018

2.2.4. 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.



2.5. Other Matters

- (a) The Company had applied USD 27 million syndicated loan in year 2014 from Bank of Ceylon and Sampath Bank to finance the refurbishment program of the hotel. However, after negotiating with the above two banks, the Company had applied a fresh loan amounting to USD 30 million in year 2018, from the DFCC Bank by cancelling the above USD 27 million loan. Subsequently, after negotiating with the DFCC Bank, the Company had applied a rupee loan amounting to Rs. 2 billion in year 2020 from Peoples Bank by cancelling the above USD 30 million loan and the agreement fees, syndication fees and legal fees aggregating to Rs. 17,659,767 and stamp fees and processing fees amounting to Rs. 5,665,900 incurred by the Company had been capitalized as cost of the refurbishment program, even though the USD loans had not been obtained.
- (b) The accumulated loss of the Company as at the beginning of the year under review was Rs.6,937,589,000 and it had been increased up to Rs.7,821,569,000 as at the end of year under review and unfavourable working capital of the Company as at the end of the year under review was Rs.997,068,000.


W.P.C. Wickramaratne
Auditor General

STATEMENT OF COMPREHENSIVE INCOME

		12 Months 31.12.2020 Rs. '000	12 Months 31.12.2019 Rs. '000
FOR THE 12 MONTHS ENDED 31ST DECEMBER 2020			
Revenue	05	1,081,135	2,878,752
Cost of sales		(811,092)	(1,403,693)
Gross profit		270,043	1,475,059
Investment income	06	10,873	10,708
Other gains and losses	07	25,391	20,807
Administrative expenses		(591,036)	(910,514)
Other expenses		(171,603)	(281,942)
Operating Profit		(456,330)	314,118
Depreciation		(378,443)	(515,265)
Revaluation Loss		-	(61,223)
Finance costs	08	(42,569)	(50,078)
Profit/(loss) before taxation	09	(877,343)	(312,448)
Income tax expense	10	(40,764)	(13,182)
Profit/(loss) after taxation for the period		(918,107)	(325,630)
Other comprehensive income			
Revaluation surplus		-	1,452,978
Actuarial Gain/(loss)on employee benefit obligations		(8,088)	(22,455)
Total comprehensive income/ (expense) for the period		(926,194)	1,104,893
Earning per share - Basic (Rs.)	11	(0.45)	0.54

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 2020		31.12.2020	31.12.2019
		Rs. '000	Rs. '000
Assets			
Non-current Assets			
Property, plant & equipment	12	8,486,249	8,728,240
Leasehold land - Main Property	13	6,421,326	6,514,390
Capital work-in-progress		865,477	659,487
Total Non-current Assets		15,773,052	15,902,117
Current Assets			
Inventories	14	47,841	47,755
Trade and other receivables	15	27,813	163,642
Amount due from related parties	16	10,489	2,523
Other assets	17	237,759	237,750
Current financial assets	18	150,970	109,990
Cash and bank balances	19	47,106	141,548
Total Current Assets		521,978	703,208
Total Assets		16,295,030	16,605,325
Equity and Liabilities			
Shareholders' Equity			
Stated capital	20	20,466,456	20,466,456
Revaluation Surplus		1,452,978	1,452,978
Reserves	21	1,649	43,864
Accumulated loss		(7,821,569)	(6,937,588)
Total Equity		14,099,514	15,025,710
Non-current Liabilities			
Interest bearing loans and borrowings	22	72,156	250,000
Retirement benefit obligations	23	148,198	134,550
Deferred tax liability	24	433,198	410,798
Right to use - Lease Land Liability	13	22,918	37,291
Total Non-current Liabilities		676,470	832,639
Current Liabilities			
Trade and other payables	25	298,335	349,217
Amount due to related parties	26	10,080	24,619
Contract Liabilities	27	59,892	99,437
Interest bearing loans and borrowings	22	178,479	-
Retention Fees - Refurbishment Project		26,220	19,210
Bank overdraft		946,040	254,492
Total Current Liabilities		1,519,046	746,975
Total Liabilities		2,195,516	1,579,615
Total Equity and Liabilities		16,295,030	16,605,325
Net Assets per share - (Rs.)	28	6.89	7.34

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

Signed.

Sudarshan Sri Rayen
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 14th May 2021

Signed

V. Kanagasabapathy
Director

Signed

Srinimal Perera
Chairman

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

STATEMENT OF CHANGES IN EQUITY

FOR THE 12 MONTHS ENDED 31ST DECEMBER 2020	Stated Capital	Revaluation Surplus	Furniture, Fittings & Equipment Replacement Reserves	Accumulated Loss	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 01st January 2018	20,466,456	-	187,217	(6,732,856)	13,920,817
Profit / (Loss) for the 12 Months period	-	-	-	(325,630)	(325,630)
Revaluation Surplus	-	1,452,978	-	-	1,452,978
Actuarial gain/(loss) on employee benefit obligations, net of taxes - loss	-	-	-	(22,455)	(22,455)
Replacement of furniture, fittings & equipment	-	-	(269,904)	269,904	-
Transfers to furniture, fittings & equipment reserve	-	-	126,551	(126,551)	-
Balance as at 31st December 2019	20,466,456	1,452,978	43,864	(6,937,589)	15,025,710
Profit / (loss) for the 12 Months period	-	-	-	(918,107)	(918,107)
Actuarial gain/(loss) on employee benefit obligations, net of taxes - loss	-	-	-	(8,088)	(8,088)
Replacement of furniture, fittings & equipment	-	-	(63,792)	63,792	-
Transfers to furniture, fittings & equipment reserve	-	-	21,577	(21,577)	-
Balance as at 31st December 2020	20,466,456	1,452,978	1,649	(7,821,569)	14,099,514

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

STATEMENT OF CASH FLOWS

FOR THE 12 MONTHS ENDED 31ST DECEMBER 2020	31.12.2020 Rs. '000	31.12.2019 Rs. '000
Profit / (Loss) before taxation	(877,343)	(312,448)
Adjustment for		
Depreciation and amortisation	363,063	515,265
Changes in Impairment of Debtors	6,058	(1,448)
Net changes in right to use of land lease	15,380	(5,972)
Revaluation loss	-	61,223
Provision for defined benefit plans	23,415	21,689
Provision for breakages	(7,786)	(648)
Interest expenses	42,569	50,078
Profit on sale of property, plant & equipment	(2,317)	-
Unrealized Exchange Gain	(113)	1,550
Interest income	(10,873)	(10,708)
Adjustment to sundry income	(8,493)	-
Operating profit before working capital changes	(456,441)	318,581
(Increase)/ decrease in inventories	(86)	15,739
(Increase)/ decrease in receivables	129,771	(23,265)
Increase/decrease in amounts dues to related parties	(22,506)	17,149
(Increase)/ decrease in other assets	3,115	33,622
Increase/ (decrease) in trade & other payables	(51,065)	55,878
Increase/(decrease) in contract liabilities	(39,545)	(6,681)
Cash generated from operations	(436,757)	411,023
Tax paid	-	(16,223)
Payment of retirement benefits	(17,855)	(15,853)
Net cash generated from operating activities	(454,611)	378,948
Cash Flows from Investing Activities		
Purchase of property, plant & equipment	(64,762)	(295,822)
Investment in capital work-in-progress	(206,755)	(110,974)
Proceeds from sale of property, plant & equipment	10,111	-
Interest income received	10,873	10,708
Net cash used in investing activities	(250,533)	(396,088)
Cash Flows from Financing Activities		
New interest bearing loans and borrowings	25,000	250,000
Repayment of interest bearing loans and borrowings	(24,364)	-
Finance Cost	(40,616)	(50,078)
Net cash used in financing activities	(39,980)	199,922
Net increase/(decrease) in cash & cash equivalents	(745,123)	182,782
Cash & cash equivalents at the beginning of the year (Note 30)	(2,841)	(185,736)
Cash & cash equivalents at the end of the period	(747,964)	(2,954)

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

NOTES TO THE FINANCIAL STATEMENTS

TWELVE MONTHS ENDED 31ST DECEMBER 2020

1. CORPORATE INFORMATION

1.1. General

Hotel Developers (Lanka) Ltd 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) Ltd 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 14th May 2021.

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:

Property, Plant and Equipment which were subsequently measured at fair value.

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 Lankan 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

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 Iko Tei restaurant at Dutch Hospital and UDA Car Park of Hilton Colombo will have an impact when adopting SLFRS 16 with effect from 1 January 2019.

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) Revaluation of Property, Plant and Equipment.

The Property, Plant and Equipment of the Company are reflected at fair value. When current market prices of similar assets are available, such evidences are considered in estimating fair values of these assets. In the absence of such information the Company determines within reasonable fair value estimates, amounts that can be attributed as fair values, with the assistance of an independent professional valuer.

c) 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.

d) 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.

e) 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.

f) Defined Benefit Plans

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

In determining the appropriate discount rate, management considers the yield of Sri Lanka Government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit

obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate of the Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Notes to the Financial Statements

TWELVE MONTHS ENDED 31ST DECEMBER 2020

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

At Initial Recognition

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 net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the Property, Plant and Equipment and borrowing costs for long term construction projects if the recognition criteria are met. When significant parts of Property, Plant and Equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major refurbishment is performed, its cost is recognized in the carrying amount of the Property, Plant and Equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred.

At Subsequent Measurement

All Property, Plant and Equipment are subsequently measured at fair value less accumulated depreciation and such valuation are carried by external independent valuers. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recognised in other comprehensive income and credited to the revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in the Income Statement, in which case the increase is recognised in the Income Statement. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. Upon disposal or de-recognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

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 a prorata basis. The rates of depreciations based on the estimated useful lives are as follows:

Category of asset	%
Buildings	1.82
Plant and machinery	7.50
Refrigerators & kitchen equipment	7.50
Computers & televisions	20.00
Motor vehicles	25.00
Furniture, fittings & equipment	10.00
Operating Equipment	33.00

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. The revaluation surplus included in the equity in respect of an item of Property, Plant and Equipment is transferred directly to equity when the assets in de recognized.

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. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other units or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money, risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

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

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

4.4.3. Fair Value Measurement

The Company measures all Property, Plant and Equipment at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the Financial Statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Company's management determines the policies and procedures for both recurring fair value measurement. External valuers are involved for valuation of Property, Plant and Equipment. Involvement of external valuers is decided by the management after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

4.5. Prepaid Lease Rental

The leasehold lands are being amortised on an equal annual basis over the period of the lease and charged to the Income Statement on a straight-line basis over the period of the lease.

Notes to the Financial Statements

TWELVE MONTHS ENDED 31ST DECEMBER 2020

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

4.10. Retirement Benefit Obligations

4.10.1. Defined Benefit Plan - Gratuity

The liability 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.

Notes to the Financial Statements

TWELVE MONTHS ENDED 31ST DECEMBER 2020

a) Employees' Provident Fund

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

b) Employees' Trust Fund

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

4.11. Financial Liabilities

4.11.1. Initial Recognition and Measurement

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

The Company 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 therein recognized in profit or loss.

Upon initial recognition, transaction costs 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 costs 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. Standards Issued But Not Yet Effective

The company has adopted all the relevant standards and interpretations that are issued as of 31 December 2020.

	31.12.2020 Rs. '000'	31.12.2019 Rs. '000'
5. REVENUE FROM CONTRACTS WITH CUSTOMERS		
5.1 Gross Revenue from contracts with customers	1,092,264	2,908,639
Less : Tourism Development Levy	(11,128)	(29,886)
Net Revenue from contracts with customers	1,081,135	2,878,752
Value added tax of Rs. 85 Mn (2019 - Rs. 312Mn) has been deducted in arriving at Revenue.		
5.2 Revenue		
Room revenue	313,080	1,171,875
Food and Beverage revenue	742,928	1,646,117
Other operating departments	25,127	60,760
	1,081,135	2,878,752
6. INVESTMENT INCOME		
Interest income - Loans and receivables		
Interest on treasury bills	1,812	8,643
Interest on staff loans	6	7
Interest on RFC accounts	741	1,542
Interest on fixed deposits	7,709	-
Interest income on FF&E replacement reserve	604	516
	10,873	10,708
7. OTHER GAINS AND LOSSES		
Profit on disposal of plant & equipment	2,317	-
Shop rentals	4,896	12,546
Exchange gain / (loss) unrealized	113	(1,550)
Exchange gain realized	2,691	1,015
Sundry income	15,374	8,796
	25,391	20,807
8. FINANCE COSTS		
Bank charges	23	142
Overdraft Interest	32,794	47,529
Concessionary loan facility	7,799	2,407
Lease Assets	1,953	-
	42,569	50,078

Notes to the Financial Statements

	31.12.2020 Rs. '000'	31.12.2019 Rs. '000'
9. PROFIT FOR THE PERIOD		
Profit for the period is stated after charging all expenses including the following:		
Directors' emoluments	4,065	3,578
Auditors' remuneration - Company	1,200	1,996
- Colombo Hilton	1,669	1,750
Depreciation	378,443	515,265
Staff costs (including the following employee benefit plan costs)	456,114	515,394
- Defined benefit plan cost - Gratuity	23,415	21,689
- Defined contribution plan costs - EPF & ETF	59,668	68,571
Management fees	-	(10,256)
Group service & benefit charge - Hilton International	5,473	58,195
Legal fees	158	1,015

10. INCOME TAX EXPENSE

	31.12.2020 Rs. '000'	31.12.2019 Rs. '000'
Provision for the period	1,153	-
Tax Credit Write off	17,211	-
Deferred tax (Income) Expense	22,400	(13,182)
	40,764	(13,182)

10.1. A reconciliation between Taxable profit and Accounting Profit for the Years Ended 31st December 2020 and 31st December 2019 are as follows

	31.12.2020 Rs. '000'	31.12.2019 Rs. '000'
Accounting Profit Before Income Tax	(877,343)	(312,448)
Aggregate Disallowed Items	382,544	494,820
Aggregate allowable Expense	(505,112)	(639,126)
Trading Profits and Other Sources of Income @ 12%	(999,911)	(456,755)
Other sources of Income Liable @ 24%	4,805	10,708
Total Taxable Profit	4,805	10,708
Loss claimed	-	(10,708)
Taxable Profit	4,805	-
Taxable Trading Profit @ 14%	-	-
Taxable other source of Income @ 24%	1,153	-
Tax on Trading Profit	-	-
Tax on other source of Income	1,153	-
Current Year Total Tax Expense	1,153	-

10.2. DEFERRED TAX

Deferred tax arising from:		
- Origination and reversal of temporary difference (Note 24)	22,400	13,182
Total deferred tax charge	22,400	13,182

	31.12.2020 Rs. '000'	31.12.2019 Rs. '000'
10.3. Tax losses carried forward		
Tax losses carried forward	10,244,912	9,986,701
Tax losses incurred during the year	999,911	268,919
Tax losses set off in the current period	-	(10,708)
Tax losses carried forward for future periods	11,244,823	10,244,912

11. EARNING PER SHARE - BASIC

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

	31.12.2020 Rs. '000'	31.12.2019 Rs. '000'
Profit per ordinary share	(0.45)	0.54
Amount used as the Numerator	Rs. '000	Rs. '000
Profit attributable to the ordinary shareholders	(926,194)	1,104,893
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

	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 2018	8,859,132	590,134	1,688,892	92,938	928,607	302,268	172,784	12,634,756
Additions during the year	46,159	140,812	66,558	-	13,755	13,944	3,877	285,104
Transferred to revaluation reserve	(2,788,845)	(487,270)	(1,278,688)	(92,938)	(478,815)	(293,555)	(163,262)	(5,583,375)
Revaluation Surplus	1,192,554	26,790	61,983	56,020	(61,223)	23,030	92,601	1,391,756
Balance as at 31st December 2019	7,309,000	270,465	538,744	56,020	402,324	45,687	106,000	8,728,240
Disposal	-	(4,988)	(2,428)	-	(1,095)	(26)	-	(8,537)
Additions during the year	28,207	4,783	25,272	-	1,603	4,901	-	64,766
Balance as at 31st December 2020	7,337,207	270,259	561,588	56,020	402,832	50,562	106,000	8,784,469
Accumulated Depreciation								
Balance as at 31st December 2018	2,566,765	470,496	1,198,530	92,879	428,959	275,888	106,710	5,140,228
Charge for the year	222,079	16,774	80,158	58	49,856	17,667	56,552	443,146
Transferred to revaluation reserve	(2,788,845)	(487,270)	(1,278,688)	(92,938)	(478,815)	(293,555)	(163,262)	(5,583,375)
Balance as at 31st December 2019	-	-	-	-	-	-	-	-
Charge for the year	133,197	20,279	55,335	14,005	30,206	9,865	35,333	298,220
Balance as at 31st December 2020	133,199	20,286	55,345	14,030	30,213	9,885	35,367	298,220
Written Down Value								
Balance as at 31st December 2018	6,292,367	119,637	490,362	59	499,648	26,380	66,074	7,494,527
Balance as at 31st December 2019	7,309,000	270,465	538,744	56,020	402,324	45,687	106,000	8,728,240
Balance as at 31st December 2020	7,204,010	249,981	506,253	42,015	372,626	40,697	70,667	8,486,249

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

Notes to the Financial Statements

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. The Company uses the revaluation model of measurement for property, plant and equipment (PPE) effective from 31st December 2019. The Company engaged G.W.G. Abeygunawardene, an accredited independent valuer, to determine the fair value of company owned PPE. Fair value is determined by reference to market-based evidence. Valuations are based on open market prices, adjusted for any difference in the nature, location or condition of the specific property, all of which falls under level 3 of the fair value measurement hierarchy. The date of the valuation was 31st December 2019.

Property	Buildings (Extent - 431,286 sq. ft.) No.02, Sir Chittampalam A Gardiner Mawatha Colombo 02 and other movable assets
Method of valuation	Based on depreciated replacement cost approach
Effective date of valuation	31st December 2019
Property Valuer	Mr. G.W.G. Abeygunawardene, Chartered Valuation Surveyor

If the PPE is presented at Cost less depreciation, the carrying value would be as follows

	31.12.2020 Rs. '000'	31.12.2019 Rs. '000'
Cost	12,984,626	12,919,860
Accumulated Depreciation	(6,108,930)	(5,583,375)
Written down Value	6,875,696	7,336,485

13. Lease Hold Land	Main Property 99 Year Lease Rs. '000'	Shop at Dutch Hospital Rs. '000'	UDA Car Park Rs. '000'	Total Rs. '000'
Balance as at 01. 01. 2018	6,610,530	3,017	-	6,613,547
Amortisation	(70,707)	(1,006)	-	(71,713)
Payments in advance	-	-	-	-
Capitalized Value during the year as per IFRS 16	-	-	-	-
Balance as at 31. 12. 2018	6,539,823	2,011	-	6,541,834
Amortisation	(70,707)	(1,006)	-	(71,713)
Payments in advance	-	-	6,978	6,978
Capitalized Value during the year as per IFRS 16	-	13,784	23,507	37,291
Balance as at 31. 12. 2019	6,469,116	14,789	30,485	6,514,390
Amortisation	(70,707)	(8,337)	(14,020)	(93,064)
Payments	-	-	-	-
Capitalized Value during the year as per IFRS 16	-	-	-	-
Balance as at 31. 12. 2020	6,398,409	6,453	16,465	6,421,326

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.

The amount paid to Urban Development Authority to acquire leasehold land where Iko Tei Restaurant of Hilton Colombo situated, is amortised over the lease period of 5 years commencing from 02.12.2016. Further, the company signed lease agreement with UDA for the 30 perch land in front of the hotel for a car park for 5 year period effective from 01 January 2020.

	31.12.2020 Rs. '000'	31.12.2019 Rs. '000'
14. INVENTORIES		
Food	13,880	7,099
Beverages	21,980	29,608
General stores	11,981	7,913
Engineering stores	-	3,135
	47,841	47,755

15. TRADE AND OTHER RECEIVABLES

Trade receivables	34,170	163,942
Less: Impairment of debtors	(6,358)	(300)
	27,813	163,642

16. AMOUNTS DUE FROM RELATED PARTY

Hilton Colombo Residence	564	1,339
Hilton Weerawila	2,870	937
Hilton Yala	17	247
Hilton Worldwide Manage Limited - UK	7,038	-
	10,489	2,523

17. OTHER ASSETS

Deposits, prepayments and advances	82,411	101,249
Other receivables	39,565	23,842
Advances - Refurbishment Expenses	71,451	49,962
Income tax receivable	44,333	62,697
	237,759	237,750

18. CURRENT FINANCIAL ASSETS

Short-term investments		
Call deposits	150,970	102,570
FF&E Reserve Investment		
Call deposits	-	7,420
Total Short-term investment	150,970	109,990

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.

	31.12.2020 Rs. '000'	31.12.2019 Rs. '000'
19. CASH AND BANK BALANCES		
Saving A/C BOC - US\$	4,770	4,567
Operating Bank A/C	6,196	130,596
Cash	36,140	6,386
	47,106	141,548

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

Notes to the Financial Statements

	31.12.2020 Rs. '000	31.12.2019 Rs. '000
20. STATED CAPITAL		
20.1. Issued and Fully Paid		
2,046,645,686 Ordinary shares	20,466,456	20,466,456
21. RESERVES		
Furniture, fittings & equipment replacement reserve (Note 21.1)	1,649	43,864
21.1. Furniture, Fittings and Equipment Replacement Reserves		
Balance at the beginning of the year	43,864	187,217
Add: Provision made during the year	21,577	126,551
Less: Amounts transferred to equity statement		
Amounts utilized for purchase & replacement - of furniture & fittings	(63,792)	(269,904)
Balance at the end of the year	1,649	43,864

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

22. INTEREST BEARING BORROWINGS

	Amounts due within one year Rs. '000	Amounts due after one year Rs. '000	Total Rs. '000
	Rs. '000	Rs. '000	Rs. '000
DFCC Bank - Concessionary Loan facility - Post Easter Attack	170,080	55,556	225,636
Peoples Bank - Post Covid Working Capital Loan	8,400	16,600	25,000
	178,480	72,156	250,636

Security and Repayment Terms

Financial Institution	People's Bank	DFCC Bank
Nature of the facility	Term Loan	Term Loan
Amount	Rs. 25 Mn	Rs. 250 Mn
Rate of interest	4% p.a	3.46% p.a
Security	Nill	Nill
Repayment period	18 installement	18 installement

	31.12.2020 Rs. '000	31.12.2019 Rs. '000
23. RETIREMENT BENEFIT OBLIGATIONS		
Balance at the beginning of the year	134,550	106,259
Charge for the year	9,959	8,938
Recognition of transitional liability /(asset) and actuarial loss/(gain)	14,636	8,019
Loss/ (gain) arising from changes in the assumptions or due to (over)/under provisions in the previous years	(6,548)	14,436
Interest cost for the year	13,456	12,751
Payments made during the year	(17,855)	(15,853)
Balance at the end of the year	148,198	134,550

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 7.00% (vs 10.0% last year) to reflect the yield rates of the Treasury Bonds The principal assumptions used in determining the cost of employee benefits were:

	31.12.2020	31.12.2019
Discount rate	7.00%	10.00%
Future salary increase	3.00%	3.00%

Sensitivity & maturity profile	Discount Rate		Salary Increment	
	2020	2019	2020	2019
Increase by one percentage point	(5,326)	(4,172)	5,603	4,443
Decrease by one percentage point	5,853	4,538	(5,179)	(4,142)

	31.12.2020
	Rs. '000
Maturity Analysis of the payments as at 31 December 2020 - Undiscounted	
With in next 12 Months	17,841
Between 1 and 2 years	6,867
Between 2 and 5 years	29,796
Between 5 and 10 years	48,829
Total Expected payments	103,333

	31.12.2020	31.12.2019
	Rs. '000	Rs. '000
24. DEFERRED TAX LIABILITY		
Balance at the beginning of the year	410,798	397,616
Deferred tax expense/(income)	22,400	13,182
Balance at the end of the year	433,198	410,798

24.1. The closing deferred tax liability balance relates to the following:

Accelerated depreciation for tax purposes	781,229	756,919
Retirement benefit obligation	(20,748)	(18,837)
Deferred tax asset relating to utilisation of brought forward - tax losses	(327,284)	(327,284)
	433,198	410,798

The deferred tax has been calculated at the rate of 14%

	31.12.2020
	Rs. '000
25. TRADE AND OTHER PAYABLES	
Trade payables	68,358
Sundry creditors and including accrued expenses	78,652
Management fee payable *	(14,239)
Other liabilities	114,610
Replacement of breakages	2,398
Statutory payables	48,556
	298,335

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

Notes to the Financial Statements

	31.12.2020 Rs. '000	31.12.2019 Rs. '000
26. AMOUNTS DUE TO RELATED PARTIES		
Hilton International Asia Pacific	-	12,322
Hilton International USA	10,080	12,297
	10,080	24,619
27. CONTRACT LIABILITIES		
Guest Advance Deposits and Advances	59,892	99,437
	59,892	99,437
28. NET ASSETS PER SHARE		
Net Assets Value (Rs)	14,099,514	15,025,710
Number of ordinary shares "000"	2,046,646	2,046,646
Net Assets per share	6.89	7.34
29. INCOME TAX LIABILITY		
Opening Balance	(62,696)	(41,485)
Provision for the period	-	-
Previous year under provision	-	-
Tax credit		
Economic Service Charge	18,363	(21,134)
Withholding tax	-	(77)
Notional Tax	-	-
Self Assessment Payment	-	-
Balance at the end of the year (Current year balance transferred to Other Assets)	(44,333)	(62,696)
30. NOTES TO THE CASH FLOW STATEMENT		
30.1 Cash and Cash Equivalents at the Beginning of the Year		
Cash and bank balance	141,548	241,848
Call deposits	109,990	6,904
Bank overdraft	(254,492)	(432,938)
Unrealized exchange gain on USD Saving deposit	113	(1,550)
	(2,841)	(185,736)
30.2 Cash and Cash Equivalents at the end of the Year		
Cash and bank balance	47,106	141,548
Call deposits	150,970	109,990
Bank overdraft	(946,040)	(254,492)
	(747,964)	(2,954)

	31.12.2020 Rs. '000	31.12.2019 Rs. '000
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31. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS AS AT 31ST DECEMBER 2020

Financial assets by categories	Loans and receivables	
Financial instruments in current assets		
Trade and other receivables	27,813	163,642
Other assets	237,759	237,750
Amounts due from related party	10,489	2,523
Other current financial assets	150,970	109,990
Cash in hand and at bank	47,106	141,548
Total	474,137	655,453

Financial liabilities by categories	Financial Liabilities measured at amortized cost	
Financial Instruments in current liabilities		
Trade and other payables	298,335	349,217
Amounts due to related party	10,080	24,619
Bank overdrafts	946,040	254,492
Total	1,254,455	628,329

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.

Notes to the Financial Statements

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.

In Rs. "000"	As at 31 December 2020				
	Cash in hand and at bank	Short term investments	Trade and other receivable	Amounts due from related parties	Total
Deposits with bank	-	150,970	-	-	150,970
Trade and other receivables	-	-	27,813	-	27,813
Amounts due from related parties	-	-	-	10,489	10,489
Cash in hand and at bank	42,336	4,770	-	-	47,106
Total credit risk exposure	42,336	155,740	27,813	10,489	236,378

In Rs. "000"	As at 31 December 2019				
	Cash in hand and at bank	Short term investments	Trade and other receivable	Amounts due from related parties	Total
Deposits with bank	-	109,990	-	-	109,990
Trade and other receivables	-	-	163,642	-	163,642
Amounts due from related parties	-	-	-	2,523	2,523
Cash in hand and at bank	136,982	4,567	-	-	141,549
Total credit risk exposure	136,982	114,557	163,642	2,523	417,704

32.3. Trade and other receivables

In Rs. "000"	As at 31 December 2020		As at 31 December 2019	
Neither past due nor impaired			56,793	109,240
Past due but not impaired				
30-60			349	19,240
61-90			1,184	31,042
91-120			174	285
121-150			827	-
151>			7,131	2,220
Gross carrying value			34,170	163,942
Less: impairment provision				
Individually assessed impairment provision			(6,358)	(300)
Total			27,813	163,642

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. 741,964,666/- as at 31 December 2020 (as at 31 December 2019 - Rs. 2,953,810/-).

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

Net (debt)/cash	As at 31 December 2020	As at 31 December 2019
In Rs. "000"		
Short term investments	150,970	109,990
Cash in hand and at bank	47,106	141,548
Total liquid Assets	198,076	251,538
Bank overdrafts	946,040	254,492
Total Borrowings	946,040	254,492
Net (debt)/cash	(747,964)	(2,954)

32.7. Maturity analysis

The table below summarises the maturity profile of the Hotel's financial liabilities at 31 December 2020 based on contractual undiscounted payments.

In Rs. "000"	As at 31 December 2020		As at 31 December 2019	
	Within one year	Total	Within one year	Total
Trade & other payables	298,335	298,335	349,217	349,217
Amounts due to related parties	10,080	10,080	24,619	24,619
Retention Fees - Refurbishment Project	26,220	26,220	19,210	19,210
Bank overdrafts	946,040	946,040	254,492	254,492
	1,280,675	1,280,675	647,539	647,539

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 other than the below.

The spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. The duration and impact of the COVID-19 pandemic remains unclear at this time. Hence, it is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods. The Company has determined that these events are non-adjusting subsequent events. Therefore, the financial position and results of operations as of and for the year ended 31 December 2020 have not been adjusted.

On 16th March 2020, in response to significant decreases in demand resulting from social distancing efforts, quarantines and border closures related to the spread of COVID-19, the Company had operating losses and negative cash flows from operations for the period from 16th March 2020 to 22nd April 2020. However, the management having considered this as a temporary setback, made contingency plan to sustain the business during this critical period. Management is confident that it can successfully tackle the situation and turn around the company based on the present strength. It has therefore decided to fast track the existing renovation program during the existing lock down to exploit the opportunity of minimal disturbances to operation from construction work envisaging to make the best out of the peak business period from 2021 onward.

Notes to 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 has been reduced to budget of US \$ 10Mn including duties and will be financed by long term debt and internally generated funds. Capital commitment approved by the Board but not contracted for amounts to approximately US\$ 10 Mn.

34.2. Lease Commitments

	31.12.2020 Rs. '000	31.12.2019 Rs. '000
Lease rentals due on non-cancellable operating leases;		
Within one year	7,984	7,984
Between one and five years	14,934	37,291
	22,918	45,275

The lease commitment is related to the Ikoi Tei restaurant at the former Dutch hospital premises & 30 Perch UDA Car Park 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, hence filed cases in the Magistrate Court. As at 31 December 2020, the Hotel maintains a provision of Rs. 48,974,858 (2019: Rs. 16,832,522). The outcome of the said case is unknown as of the reporting date

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. 4,065,000/- (Y/E 2019 - Rs. 3,577,500/-).

37.2. Amounts due from related parties (Refer Note16)

37.3. Amounts due to related parties (Refer Note 26)

37.4. Transactions with related parties

	31.12.2020 Rs. '000	31.12.2019 Rs. '000
Managing Company - Hilton International Management Corporation		
Receiving of services	5,473	47,939
Affiliates/Group Hotel		
I. Hilton Worldwide Manage Ltd - UK Receiving of services	44,506	68,053
II. Hilton Colombo - Residence Rendering of services	564	49
III. Hilton Yala Resorts- Rendering of services	17	248
IV. Hilton Weerawila- Rendering of services	20,640	29,749

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.

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 ex parte Enjoining Orders in terms of prayers [m] and [n] of the Plaintiff, 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.

NOTICE OF MEETING

NOTICE is hereby given that the ANNUAL GENERAL MEETING of HOTEL DEVELOPERS (LANKA) LIMITED will be held at the Onyx Function Room of Hotel Developers (Lanka) Ltd, at No.2, Sir Chittampalam A Gadarne Mawatha, Colombo 02 on 8th April 2022 at 4.00 p.m.

AGENDA

1. To pass the following resolution to accept the Notice of Meeting

"RESOLVED that the Notice dated 28th February 2022 convening the Annual General Meeting of the Company be and is hereby accepted as a valid notice irrespective of the fact that the meeting has been called with shorter notice than that specified in the Article of Association and in the Companies Act No. 07 of 2007"

2. To receive and consider the Annual Report of the Board of Directors, Statement of Accounts and the Balance Sheet of the Company for the year ended 31st December 2020 together with the report of the Auditors thereon.

3. To pass the ordinary resolution set out below to appoint Mr. Palihawadana Arachchige Irenius Sirinimal Perera who is 77 years of age as a Director of the Company.

"IT IS HEREBY RESOLVED THAT the age limit stipulated in Section 210 of the Companies Act No.07 of 2007 shall not apply to Mr. Palihawadana Arachchige Irenius Sirinimal Perera Who is 77 Years of age and that he be and is hereby appointed a Director of the Company in terms of section 211 of the Companies Act No.07 of 2007."

4. To pass the ordinary resolution set out below to appoint Mr. Veluppillai Kanagasabapathy who is 75 years of age as a Director of the Company.

"IT IS HEREBY RESOLVED THAT the age limit stipulated in Section 210 of the Companies Act No.07 of 2007 shall not apply to Mr. Veluppillai Kanagasabapathy who is 75 of age and that he be and is hereby appointed a Director of the Company in terms of section 211 of the Companies Act No.07 of 2007."

5. To note that the Auditor General continues to be the Auditor of the Company pursuant to the 20th Amendment to the Constitution.

By order of the Board of Directors of

**HOTEL DEVELOPERS (LANKA) LTD
P W CORPORATE SECRETARIAL (PVT) LTD**

Sigend
SECRETARIES

Colombo
23rd February 2022

Note:

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

NOTES

Notes

FORM OF PROXY

I/We of

..... Being a member/member of Hotel Developers (Lanka) Ltd hereby appoint:

..... of

..... or failing him/her

Mr. Sirinimal Perera	of Colombo falling him
Ms. Dheeshana Ameresekere	of Colombo falling her
Mr. Ishan Dantanarayana	of Colombo falling him
Mr. V. Kanagasabapathy	of Colombo falling him
Mr. Priyantha Deniyaya	of Colombo falling him
Mr. Lal Weerasinghe	of Colombo falling him
Ms. Visakha Amarasekere	of Colombo falling her
Mr. P.A. Susantha Kumara	of Colombo falling him

As my/our 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 8th Day of April 2022 at 4.00 p.m. 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.	<input type="checkbox"/>	<input type="checkbox"/>
2. To receive and consider the Report of the Directors and the statements of Accounts for the year ended 31st December 2020 together with the Report of The Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
3. To pass the ordinary resolution set out under item 3 of the Notice of Meeting For the reappointment of Mr. Sirinimal Perera	<input type="checkbox"/>	<input type="checkbox"/>
4. the ordinary resolution set out under item 4 of the Notice of Meeting For the reappointment of Mr. V Kanagasabapathy	<input type="checkbox"/>	<input type="checkbox"/>
5. To note that the Auditor General continues to be the Auditor of the Company pursuant to the 20th Amendment to the Constitution	<input type="checkbox"/>	<input type="checkbox"/>

Singed this day of 2022

Signature of the Shareholder

Note:

1. Instructions as to completion are noted on page 48
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

Form of Proxy

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 complete Form of Proxy should be deposited at the office of the Secretaries, S S P Corporate Services (Private) Limited, No. 101, Inner Flower Road, Colombo 03, not less than 48 hours, before the Meeting.
5. A shareholder appointing a Proxy (other than a Director of the Company) to attend the meeting should indicate the Proxy holder's National Identity Card (NIC) number on the Form of Proxy and request the Proxy holder to bring his/ her National Identity Card with him/her.

CORPORATE INFORMATION

Name of the Company : HOTEL DEVELOPERS (LANKA) PLC

Legal Form : A Public Quoted Company with Limited Liability

Date of Incorporation : 15th March 1983

Company Registration No : PQ 143

Directors : Mr. Palihawadana Arachchige Irenius Sirinimal Perera - Chairman
Mr. Ishan Priyantha Dantanarayana
Ms. Dheeshana Ameresekere
Mr. Veluppillai Kanagasabapathy
Mr. Punchy Hewage Priyantha Deniyaya
Ms. Maha Tantrige Indivari Visakha Amarasekere
Mr. Patikiri Arachchige Susantha Athula Kumara
Mr. Lal Ranjith Sahabandu Weerasinghe
The above Directors do not hold shares in the company

Registered Office : Hotel Developers (Lanka) PLC
C/o Hilton Colombo
No. 2 Sr Chittampalam A Gardiner Mawatha
Colombo 02
Tel: +94 112433435
Fax: +94 112446545
Email: hdl_hilton@slt.net.lk
Web site: www.hoteldevelopers.lk

Secretaries and Registrars : P W Corporate Secretarial (Pvt) Ltd
No. 3/17 Kynsey Road,
Colombo 08

Bankers : DFCC Bank PLC – Head office
Peoples Bank – Corporate Branch

Lawyers : M/s. D L & F De Saram
Attorneys-at-Law and Notaries Public
47, Alexandra Place
Colombo 07

Auditor : Auditors General
National Audit Office
Polduwa Road
Battaramulla

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