

ANNUAL REPORT OF WELCOMHOTELS LANKA (PRIVATE) LIMITED FOR THE FINANCIAL YEAR ENDED 31ST MARCH 2018

The Board of Directors of WelcomHotels Lanka (Private) Limited hereby submit their sixth Annual Report for the financial year ended 31st March, 2018.

Business Environment

The overall business environment in the country remained stable during the year with major investments in infrastructure and construction. The Government of Sri Lanka continues to focus on foreign direct investment, infrastructure development and partnerships with the private sector as the key drivers of economic growth.

Nature of Business

The Company, a wholly-owned subsidiary of ITC Limited, India, was incorporated on 23rd April, 2012 with the objective of constructing, building and operating a mixed use development project ('Project') including a luxury hotel and a premium residential condominium at Colombo. The Board of Investment of Sri Lanka provided the Company about 5.86 acres of prime sea facing land in Colombo on a 99 year lease for this purpose. The lease provides for transfer of freehold rights of the proportionate share of the residential condominium property area in favour of purchasers of the residential units subject to fulfilment of certain conditions stipulated in the Lease Deed.

Project Status

The Project execution is progressing as per schedule. The main construction activities are being executed by Larsen & Toubro Ltd. (L&T), the General Contractor. L&T has engaged two major Sri Lankan civil contractors as sub-contractors in line with the Company's commitment to promote local talent and resources as far as practicable. The Company has adopted several advanced methodologies for the Project. During the year, the Project also achieved the significant milestone of having executed the two largest continuous pours of concrete in Sri Lanka.

The Company also appointed internationally renowned technical and marketing consultants for the premium residential apartments during the year.

Financial Statements

The Financial Statements, including the Auditor's Report thereon, for the year ended 31st March 2018, are attached to this Report.

Accounting Policies

The Accounting Policies adopted in the preparation of the Financial Statements are provided in the attached Financial Statements.

Entries made in the Interests Register

The Directors had no interest in any contract with the Company during the year ended 31st March, 2018.

Remuneration of Directors

The Non-Executive Directors were not entitled to any remuneration or other

benefit from the Company during the year ended 31st March 2018.

Mr. A. Pathak, Managing Director, whose services have been seconded to the Company by ITC Limited, the Holding Company, with effect from 1st February, 2016 is entitled to remuneration as approved by the shareholder on the recommendation of the Board of Directors.

Donations

The Company has not made any donation during the year ended 31st March, 2018.

Directors of the Company

Mr. Biswa Behari Chatterjee, Non-Executive Director, resigned as Director of the Company with effect from 4th February, 2018, consequent to his retirement from ITC Limited, the Holding Company. Mr. Chatterjee was also Chairman of the Board of Directors of the Company from 23rd April, 2012 to 21st April 2016. The Directors would like to record their appreciation for the contribution made by Mr. Chatterjee during his tenure as Chairman and Non-Executive Director of the Company.

Mr. Rajendra Kumar Singhi, Executive Vice President & Company Secretary, ITC Limited, the Holding Company, was appointed Non-Executive Director of the Company with effect from 19th February, 2018.

The Directors of the Company, as at 31st March, 2018, are as follows:

1. Mr. Nakul Anand	Chairman & Non-Executive Director
2. Mr. Arun Pathak	Managing Director
3. Ms. Devkanya Roy Choudhury	Non-Executive Director
4. Mr. Supratim Dutta	Non-Executive Director
5. Mr. Alwyn R Noronha	Non-Executive Director
6. Mr. Rajendra K Singhi	Non-Executive Director

Audit Fees

The Audit Fees of the Company Auditors, Messrs. SJMS Associates, Chartered Accountants, 11, Castle Lane, Colombo 4, Sri Lanka, for Statutory Audit of the Accounts of the Company for the year 2017/18 is set out in Note 4 to the attached Financial Statements.

The Auditors were not engaged for rendering any other services to the Company and accordingly there were no other fees paid or payable to them.

The Auditors do not have any other relationship (other than as Statutory Auditors) with the Company.

Arun Pathak Managing Director Corporate Services (Private) Limited Secretaries On this 13th day of April, 2018	Nakul Anand Chairman
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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF WELCOMHOTELS LANKA (PVT) LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of WelcomHotels (Pvt) Limited ("the Company") which comprise the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements of the Code of Ethics issued by CA Sri Lanka (Code of Ethics) that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation of financial statements in accordance that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs 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 SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our 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 management.
- Conclude on the appropriateness of 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 we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

SJMS ASSOCIATES
Chartered Accountants
No.11, Castle Lane
Colombo 04
13 April 2018

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31ST MARCH, 2018

	Note	2017/18 LKR	2017/18 INR	2016/17 LKR	2016/17 INR
Revenue		-	-	-	-
Cost of sales		-	-	-	-
Gross profit		-	-	-	-
Other income	3	-	-	56,74,497	24,87,699
Administrative expenses	4	(35,86,919)	(15,13,231)	(18,74,832)	(8,21,926)
Finance expense	5	(1,51,09,007)	(63,74,113)	-	-
Pre operating profit/ (loss) before tax	6	(1,86,95,926)	(78,87,344)	37,99,665	16,65,773
Taxation	7	-	-	-	-
Pre operating profit / (loss) for the year		(1,86,95,926)	(78,87,344)	37,99,665	16,65,773
Other Comprehensive Income		-	-	-	-
Total comprehensive income/ (loss) for the year		(1,86,95,926)	(78,87,344)	37,99,665	16,65,773
Earnings per share	8	(0.13)	(0.06)	0.03	0.01

The accounting policies and notes from 1 to 21 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31ST MARCH, 2018

	Note	31.03.2018 LKR	31.03.2018 INR	31.03.2017 LKR	31.03.2017 INR
Assets					
Non Current Assets					
Property, plant and equipment	9	1,18,56,919	49,62,121	-	-
Capital work in progress	10	10,81,30,86,886	4,52,52,76,862	3,96,03,48,489	1,68,41,38,195
Prepaid lease rental	11	9,31,83,63,160	3,89,97,34,982	9,31,83,63,160	3,96,26,33,934
		<u>20,14,33,06,965</u>	<u>8,42,99,73,965</u>	<u>13,27,87,11,649</u>	<u>5,64,67,72,129</u>
Current Assets					
Prepayments	12	1,70,07,35,003	71,17,57,598	1,72,75,70,755	73,46,49,464
Cash and bank balances	13	4,24,70,617	1,77,73,953	42,13,74,643	17,91,89,567
		<u>1,74,32,05,620</u>	<u>72,95,31,551</u>	<u>2,14,89,45,398</u>	<u>91,38,39,031</u>
Total Assets		<u>21,88,65,12,585</u>	<u>9,15,95,05,516</u>	<u>15,42,76,57,047</u>	<u>6,56,06,11,160</u>
Equity and Liabilities					
Capital and Reserves					
Stated capital	14	20,17,01,06,002	9,03,91,07,941	15,27,16,66,002	6,97,71,66,891
Accumulated loss		(20,52,64,833)	(68,38,21,913)	(18,65,68,907)	(56,22,29,351)
		<u>19,96,48,41,169</u>	<u>8,35,52,86,028</u>	<u>15,08,50,97,095</u>	<u>6,41,49,37,540</u>
Current Liabilities					
Other payables	15	1,92,16,71,416	80,42,19,488	34,25,59,952	14,56,73,620
Total Liabilities		<u>1,92,16,71,416</u>	<u>80,42,19,488</u>	<u>34,25,59,952</u>	<u>14,56,73,620</u>
Total Equity and Liabilities		<u>21,88,65,12,585</u>	<u>9,15,95,05,516</u>	<u>15,42,76,57,047</u>	<u>6,56,06,11,160</u>

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

Abhijeet Sreenivasan
Financial Controller

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Signed for and on behalf of the Board.

Arun Pathak
Managing Director
13th April, 2018

Nakul Anand
Chairman

The accounting policies and notes from 1 to 21 form an integral part of these financial statements.

Figures in brackets indicate deductions.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST MARCH, 2018

	Stated Capital		Retained Earnings LKR	Retained Earnings		Total	
	LKR	INR		INR	LKR	INR	
Balance as at 1st April 2016	12,13,26,41,002	5,57,91,79,561	(19,03,68,572)	(18,72,43,559)	11,94,22,72,430	5,39,19,36,002	
Shares issued during the year							
- Equity Shares	1,77,32,75,000	81,24,95,300	-	-	1,77,32,75,000	81,24,95,300	
- 13.5% Cumulative Non Convertible Preference Shares redeemable at the option of the issuer	1,36,57,50,000	58,54,92,030	-	-	1,36,57,50,000	58,54,92,030	
Pre operating profit for the year	-	-	37,99,665	16,65,773	37,99,665	16,65,773	
Foreign Exchange Translation Reserve	-	-	-	(37,66,51,565)	-	(37,66,51,565)	
Balance as at 31st March 2017	<u>15,27,16,66,002</u>	<u>6,97,71,66,891</u>	<u>(18,65,68,907)</u>	<u>(56,22,29,351)</u>	<u>15,08,50,97,095</u>	<u>6,41,49,37,540</u>	
Shares issued during the year							
- Equity Shares	-	-	-	-	-	-	
- 13.5% Cumulative Non Convertible Preference Shares redeemable at the option of the issuer	4,89,84,40,000	2,06,19,41,050	-	-	4,89,84,40,000	2,06,19,41,050	
Pre operating loss for the year	-	-	(1,86,95,926)	(78,87,344)	(1,86,95,926)	(78,87,344)	
Foreign Exchange Translation Reserve	-	-	-	(11,37,05,218)	-	(11,37,05,218)	
Balance as at 31st March 2018	<u>20,17,01,06,002</u>	<u>9,03,91,07,941</u>	<u>(20,52,64,833)</u>	<u>(68,38,21,913)</u>	<u>19,96,48,41,169</u>	<u>8,35,52,86,028</u>	

The accounting policies and notes from 1 to 21 form an integral part of these financial statements.

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31ST MARCH, 2018

	2017/18 LKR	2017/18 INR	2016/17 LKR	2016/17 INR
Cash Flows From Operating Activities				
Profit Before Tax	(1,86,95,926)	(78,87,344)	37,99,665	16,65,773
Adjustments for:				
Depreciation and amortization expenses	13,31,103	5,57,067	-	-
Operating profit before working capital changes	<u>(1,73,64,823)</u>	<u>(73,30,277)</u>	37,99,665	16,65,773
Adjustments for:				
(Increase)/decrease in trade & other receivables	2,68,35,752	2,28,91,865	(1,67,90,38,326)	(71,40,11,048)
(Decrease)/increase in trade and other payables	1,57,91,11,464	65,85,45,868	25,57,49,965	10,87,57,672
Net cash flow from operating activities	<u>1,58,85,82,393</u>	<u>67,41,07,456</u>	<u>(1,41,94,88,696)</u>	<u>(60,35,87,603)</u>
Cash Flows From Investing Activities				
Capital work in progress	(6,85,27,38,397)	(2,84,11,38,667)	(1,49,46,40,479)	(63,55,95,863)
Purchase of property, plant and equipment	(1,31,88,022)	(55,19,187)	-	-
Net cash flow used in investing activities	<u>(6,86,59,26,419)</u>	<u>(2,84,66,57,854)</u>	<u>(1,49,46,40,479)</u>	<u>(63,55,95,863)</u>
Cash Flows From Financing Activities				
Proceeds from issue of shares	4,89,84,40,000	2,06,19,41,050	3,13,90,25,000	1,39,79,87,330
Net cash flow from financing activities	<u>4,89,84,40,000</u>	<u>2,06,19,41,050</u>	<u>3,13,90,25,000</u>	<u>1,39,79,87,330</u>
Net increase/(decrease) in cash and cash equivalents	<u>(37,89,04,026)</u>	<u>(11,06,09,348)</u>	22,48,95,825	15,88,03,864
Cash and cash equivalents at the beginning of the period	42,13,74,643	17,91,89,567	19,64,78,818	8,87,10,186
Foreign Exchange Translation (Gain)/ Loss	-	(5,08,06,266)	-	(6,83,24,483)
Cash and cash equivalents at the end of the period (Note 16.1)	<u>4,24,70,617</u>	<u>1,77,73,953</u>	<u>42,13,74,643</u>	<u>17,91,89,567</u>

The accounting policies and notes from 1 to 21 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2018

1. Company Information

1.1 Domicile and Legal Form

WelcomHotels Lanka (Private) Limited is a limited liability company incorporated in Sri Lanka on April 23, 2012 under the Companies Act No.07 of 2007. The registered office of the Company is at 216, De Saram Place, Colombo 10.

1.2 Principal activity and nature of operations

WelcomHotels Lanka (Private) Limited is in the business of hospitality trade and currently is engaged in developing a mixed use project comprising hotel, residential condominium, retail space, etc. on a plot of land in Colombo leased from the Board of Investment of Sri Lanka for 99 years.

1.3 Parent Entity

The Company's parent entity is ITC Limited which is incorporated in India.

1.4 Date of Authorisation for issue

The financial statements of the Company for the year ended 31st March 2018 were authorised for issue by the Board of Directors on 13th April 2018.

2. Summary of Key Accounting Policies

2.1 Statement of Compliance

The Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow and Notes together with the Summary of Significant Accounting Policies (being the "Financial Statements") of the Company have been prepared in accordance with Sri Lanka Financial Reporting Standards (SLFRSs/LKAS) as issued by The Institute of Chartered Accountants of Sri Lanka (CA) which is based on International Financial Reporting Standards and International Accounting

Standards ("IFRSs" & "IAS"), as issued by the International Accounting Standards Board.

2.2 Basis of Preparation

The financial statements, presented in Sri Lankan Rupees, have been prepared on a historical cost basis, except where otherwise stated in the accounting policies below.

2.3 Significant Accounting Policies

The accounting policies have been consistently applied by the Company with those of the previous financial year.

2.4 Comparative Information

Previous year's figures and phrases are rearranged, wherever necessary, to conform to the current year's presentation.

2.5 Going Concern

When preparing the financial statements the Directors have assessed the ability of the Company to continue as a going concern. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company does not foresee a need for liquidation or cessation of business activities taking into account all available information about the future. Accordingly, the Company continues to adopt the going concern basis in preparing the financial statements.

2.6 Use of Estimates and Judgments

The preparation of the Company's financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities at the reporting date. Actual results may differ from these estimates.

2.7 Functional and Presentation Currency

These financial statements are being presented in Sri Lankan Rupees which is the Company's functional currency.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

2.8 Events after the date of Statement of Financial Position

All material events after the Statement of Financial Position date have been considered and appropriate adjustments or disclosures have been made in the respective notes to the financial statements.

2.9 Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in Statement of Comprehensive Income.

2.10 Leased Assets

Leasing contracts which transfers substantially all the risks and rewards incidental to ownership of the assets are treated as finance lease. All other leases are classified as operating lease. Payments made under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease unless another systematic basis is more representative of the time pattern of the user's benefit.

2.11 Taxation**Current Taxes**

The provision for income taxes are based on the elements of income and expenditure as reported in the financial statements and computed in accordance with provisions of the Inland Revenue Act, No. 10 of 2006 and amendments thereto. The Company is exempted from income tax for a period of ten years as described in Note 7 to the financial statements.

2.12 Property, Plant and Equipment**2.12.1 Cost**

Property, Plant and equipment, including owner-occupied property, is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses, if any. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

The cost of property, plant and equipment is the cost of acquisition or construction together with any expenses incurred in bringing the asset to its condition for its intended use.

2.12.2 Depreciation

Depreciation is charged to Statement of Comprehensive Income so as to write off the cost or valuation of assets (other than freehold land) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any change in estimate accounted for on a prospective basis.

The estimated useful lives of the assets of the Company are as follows:

Furniture & Fixtures	8 – 10 years
Motor Vehicles	8 – 10 years
Plant and Equipment	7-15 years
Computers	3 years

2.12.3 Capital Work In Progress

All expenses which are directly related to the project are reflected in capital work-in-progress till it is ready for the intended use.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of the inventory comprises purchase price, taxes (other than those subsequently recoverable by the company from the tax authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods. It excludes borrowing costs. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

2.14 Cash and Cash Equivalents

Cash and cash equivalents, for the purpose of statement of cash flow, are defined as cash in hand, demand deposits, and short term highly liquid investments which are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

2.15 Stated Capital

Ordinary shares are classified as equity.

Preference shares are classified as equity and are entitled to a dividend determined at the time of issue of the preference shares, the quantum and timing of such pay-out, subject to adequacy

of profits, being at the discretion of the issuer. The preference shares are cumulative, non-convertible, and redeemable at the option of the issuer.

Incremental costs directly attributable to the issue of ordinary shares and preference shares are recognised as a deduction from equity, net of any tax effects.

2.16 Financial Instruments

Trade and other receivables are initially recognised at the transaction price. All sales are made on the basis of normal credit terms, and the receivables do not bear interest. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognised immediately in Statement of Comprehensive Income.

Financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs.

Subsequent to initial measurement, financial liabilities are recognised at amortised cost unless they are a part of a fair value hedge relationship. The difference between the initial carrying amount of the financial liability and their redemption value is recognised in the Statement of Comprehensive Income over the contractual terms using the effective interest rate.

Financial liabilities at amortised cost are further classified as current and non-current depending whether these will fall due within 12 months after the date of statement of financial position or beyond.

Financial liabilities are derecognised when either the Company is discharged from its obligation; they expire, are cancelled or replaced by a new liability with substantially modified terms.

Financial liabilities include trade and other payables, and other financial liabilities.

2.17 Provisions, Contingent Assets and Contingent Liabilities

Provisions are made for all obligations existing as at the date of statement of financial position when it is probable that such an obligation will result in an outflow of resources and a reliable estimate can be made of the quantum of the outflow.

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. All contingent liabilities are disclosed as a note to the financial statements unless the outflow of resources is remote.

Contingent assets are disclosed where inflow of economic benefits is probable.

2.18 Borrowing Costs

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

2.19 Statement of Cash Flow

The statement of cash flow has been prepared using the "indirect method".

2.20 Revenue Recognition**2.20.1 Revenue from operations**

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

2.20.2 Interest Income

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

2.20.3 Other Income

Other income is recognised on an accrual basis.

2.21 Expenditure Recognition

Expenses are recognised in the Statement of Comprehensive Income on the basis of a direct association between the cost incurred and the earning of specific items of income. The remuneration of the Managing Director is recognised upon its determination by the Board of Directors. 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.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

	2017/18 LKR	2017/18 INR	2016/17 LKR	2016/17 INR
3. Other Income				
Foreign exchange gain	-	-	56,74,497	24,87,699
4. Administrative Expenses				
(a) Auditor's remuneration and expenses				
Audit fees*	465,000	196,171	445,000	195,088
Reimbursement of expenses and taxes	68,588	28,937	65,638	28,776
(b) Secretarial remuneration and expenses				
Secretarial fees*	60,000	25,311	60,000	26,304
Reimbursement of expenses and taxes	45,727	19,292	46,946	20,581
(c) Tax consultancy fees	1,616,501	681,961	1,197,248	524,873
(d) Company annual registration levy	-	-	60,000	26,304
(e) Depreciation	1,331,103	561,559	-	-
	<u>3,586,919</u>	<u>1,513,231</u>	<u>1,874,832</u>	<u>821,926</u>
*Excluding taxes				
5. Finance expense				
Foreign exchange loss	15,109,007	6,374,113	-	-
6. Pre-operating Profit / (Loss)				
The following items have been charged in arriving at the pre-operating profit / (loss)				
Auditor's remuneration and expenses	533,588	225,121	510,638	223,864
Secretarial remuneration and expenses	105,727	44,606	106,946	46,885
Tax consultancy fees	1,616,501	682,002	1,197,248	524,873
Company annual registration levy	-	-	60,000	26,304

9. Property, Plant and Equipment

Particulars	Gross Block						Accumulated Depreciation						Net Block			
	Original Cost as at 01.04.2017		Additions during the year		Original Cost as at 31.03.2018		Accumulated Depreciation as at 01.04.2017		Depreciation for the year		Depreciation upto 31.03.2018		Net Block as at 31.03.2017		Net Block as at 31.03.2018	
	(LKR)	(INR)	(LKR)	(INR)	(LKR)	(INR)	(LKR)	(INR)	(LKR)	(INR)	(LKR)	(INR)	(LKR)	(INR)	(LKR)	(INR)
1. Furniture & Fixtures	-	-	14,75,745	6,17,599	14,75,745	6,17,599	-	-	1,32,825	55,587	1,32,825	55,587	-	-	13,42,920	5,62,012
2. Vehicles	-	-	75,00,000	31,38,750	75,00,000	31,38,750	-	-	8,47,603	3,54,722	8,47,603	3,54,722	-	-	66,52,397	27,84,028
3. Plant and Equipment	-	-	2,47,499	1,03,578	2,47,499	1,03,578	-	-	10,359	4,335	10,359	4,335	-	-	2,37,140	99,243
4. Computers	-	-	39,64,778	16,59,260	39,64,778	16,59,260	-	-	3,40,316	1,42,422	3,40,316	1,42,422	-	-	36,24,462	15,16,837
TOTAL	-	-	1,31,88,022	55,19,187	1,31,88,022	55,19,187	-	-	13,31,103	5,57,067	13,31,103	5,57,067	-	-	1,18,56,919	49,62,121

	31.03.2018 LKR	31.03.2018 INR	31.03.2017 LKR	31.03.2017 INR
10. Capital Work In Progress				
Project consultancy charges	1,183,848,955	495,440,787	885,426,655	376,527,685
Interest on loan	411,633,591	172,268,658	411,633,591	175,047,185
Site development, Excavation, and Piling charges	2,380,994,683	996,446,275	1,916,215,488	814,870,636
Structural and Civil Works and Other Works	6,251,407,036	2,616,213,845	409,751,493	174,246,822
Rates and taxes	18,446,075	7,719,682	15,646,318	6,653,597
Project management expenses	566,756,546	237,187,615	321,674,944	136,792,270
	<u>10,813,086,886</u>	<u>4,525,276,862</u>	<u>3,960,348,489</u>	<u>1,684,138,195</u>
11. Prepaid Lease Rental				
Prepaid lease rentals (note 11.1)	9,318,363,160	3,899,734,982	9,318,363,160	3,962,633,934
11.1 Prepaid Lease Rental				
Prepaid lease rentals amounting to LKR 9,224,250,000 (USD 73,500,000) was paid to the Board of Investment of Sri Lanka (BOI) on 4th May 2012 for 5.86 acres of land taken on a 99 year lease for developing a mixed use project.				
On completion of the project, the prepaid lease rentals for the leasehold land area will be amortised on a straight line basis over the balance period of the lease.				
The details of the land and stamp duty on lease are as follows:				
Prepaid lease premium for land	9,224,250,000	3,860,348,625	9,224,250,000	3,922,612,313
Stamp duty on lease of land	94,113,160	39,386,357	94,113,160	40,021,621
	<u>9,318,363,160</u>	<u>3,899,734,982</u>	<u>9,318,363,160</u>	<u>3,962,633,934</u>
12. Prepayments				
Capital advances	1,688,169,519	706,498,944	1,714,319,165	729,014,225
Security deposit	6,927,216	2,899,040	4,656,112	1,980,012
Other advances	5,638,268	2,359,614	8,595,478	3,655,227
	<u>1,700,735,003</u>	<u>711,757,598</u>	<u>1,727,570,755</u>	<u>734,649,464</u>
	<u>31.03.2018 LKR</u>	<u>31.03.2018 INR</u>	<u>31.03.2017 LKR</u>	<u>31.03.2017 INR</u>
13. Cash and Bank balances				
Cash at bank	42,346,071	17,721,831	421,374,643	179,189,567
Cash in hand	124,546	52,122	-	-
	<u>42,470,617</u>	<u>17,773,953</u>	<u>421,374,643</u>	<u>179,189,567</u>
14. Stated Capital				
Equity Capital				
Opening balance	13,905,916,002	6,391,674,861	12,132,641,002	5,579,179,561
Issued during the year	-	-	1,773,275,000	812,495,300
Closing balance	<u>13,905,916,002</u>	<u>6,391,674,861</u>	<u>13,905,916,002</u>	<u>6,391,674,861</u>
No. of Shares issued:- 2017/18 - NIL and 2016/17 - 17,732,750				
Preference Shares				
Opening balance	1,365,750,000	585,492,030	-	-
Issued during the year	4,898,440,000	2,061,941,050	1,365,750,000	585,492,030
Closing balance	<u>6,264,190,000</u>	<u>2,647,433,080</u>	<u>1,365,750,000</u>	<u>585,492,030</u>
No. of Shares issued:- 2017/18 - 48,984,400 and 2016/17 - 13,657,500				
The preference shares are entitled to a dividend of 13.5% and are cumulative, non-convertible, and redeemable at the option of the issuer.				
Total Stated Capital	20,170,106,002	9,039,107,941	15,271,666,002	6,977,166,891

7. Taxation

The Company had entered into a Project Agreement with the Board of Investment of Sri Lanka on 04th May 2012. Thereafter, the mixed use project of the Company has been duly declared a Strategic Development Project under the Strategic Development Projects Act, 2008. By virtue of the same, the provisions of the Inland Revenue Act 2006 relating to the imposition of income tax on the Company on the profit and income from the mixed use project shall not apply for a period of 10 years (tax exemption period). The tax exemption period shall commence from the first year in which the Company makes taxable profits or three years after commencement of commercial operations, whichever falls first. After the expiration of the aforesaid tax exemption period, the profits and income of the Company shall be charged at a concessionary tax rate which shall be the lower of 6% or 50% of the prevailing tax rate for the hotel industry, for a period of 15 years immediately succeeding the last date of the tax exemption period.

8. Earnings Per Share

Earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of shares in issue during the year.

	2017/18 LKR	2017/18 INR	2016/17 LKR	2016/17 INR
Amount used as the Numerator				
Profit/ (Loss) attributable to ordinary shareholders	(18,695,926)	(7,887,811)	3,799,665	1,665,773
Amount used as the Denominator				
Weighted average no of ordinary shares in issue	139,642,260	139,642,260	128,643,509	128,643,509
Earnings Per Share	(0.13)	(0.06)	0.03	0.01

	31.03.2018 LKR	31.03.2018 INR	31.03.2017 LKR	31.03.2017 INR
15. Other Payables				
Auditor's remuneration and expenses	548,383	229,498	510,638	217,149
Retention - Contractor	84,111,904	35,200,832	106,266,843	45,189,975
Sundries*	1,837,011,129	768,789,157	235,782,471	100,266,496
	<u>1,921,671,416</u>	<u>804,219,487</u>	<u>342,559,952</u>	<u>145,673,620</u>
* Includes payables to related parties (refer note 20)				
16. Notes to the Cash Flow Statement				
16.1 Cash and Cash Equivalents at the End of the Year				
Cash at bank	42,346,071	17,721,831	421,374,643	179,189,567
Cash in hand	124,546	52,122	-	-
	<u>42,470,617</u>	<u>17,773,953</u>	<u>421,374,643</u>	<u>179,189,567</u>
17. Operating Lease				
Lease rental for land payable to Board of Investment of Sri Lanka.				
Not later than one year	22,822	9,551	22,147	9,418
Later than one year and not later than five years	91,287	38,204	88,589	37,672
Later than five years	2,008,323	840,483	1,971,098	838,209
18. Contingencies and Commitments				
Capital Commitments pending as at Balance Sheet date is LKR 19,387,937,161, INR 8,113,851,702 (LY: LKR 22,804,418,862, INR 9,697,597,121)				
There were no significant contingent liabilities as at the date of statement of financial position other than those disclosed above.				
19. Events after the date of Statement of Financial Position				
There were no significant events occurring after the date of statement of financial position.				
20. Related Party Transactions				
20.1 The Company had the following transactions with its related parties during the financial year.				

Related Party	Nature of Relationship	Nature of Transaction	Transaction Value (LKR)	Transaction Value (INR)	Outstanding Balance as at the date of Statement of Financial Position (LKR) *	Outstanding Balance as at the date of Statement of Financial Position (INR) *
ITC Ltd	Parent Company	Share issue	4,898,440,000 (3,139,025,000)	2,066,651,836 (1,397,987,330)	20,228,416,000 (15,329,976,000)	8,465,592,096 (7,009,547,089)
ITC Ltd	Parent Company	Purchase of Services	3,099,860 (1,768,549)	1,307,831 (775,332)	2,891,819 (1,269,841)	1,210,226 (540,000)
ITC Ltd	Parent Company	Technical Service fee	9,136,947 (8,831,286)	3,854,878 (3,871,636)	2,300,546 (2,246,125)	962,779 (955,165)
ITC Ltd	Parent Company	Reimbursement of Expenses #	67,863,174 (105,794,423)	28,631,473 (46,380,276)	16,686,738 (95,006,329)	6,983,400 (40,401,441)

Note: Figures in brackets relate to the previous year

* The amounts are classified as Other Payables except share issue which is classified as stated capital.

- includes compensation costs charged to the Company by the parent company (LKR 62,381,266, INR 26,106,560 LY - LKR 87,939,899, INR 37,396,442) for the employees of the Company who are covered under the share based compensation plans of the parent company. These plans are assessed, managed, and administered by the parent company.

	2017/18 LKR	2017/18 INR	2016/17 LKR	2016/17 INR
21. Transactions with the Key Management Personnel of the Company				
Key management personnel are 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.				
Key Management Personnel Compensation	30,192,409	12,738,177	24,142,842	10,584,222
Short term employee benefits				