

ANNUAL REPORT OF WELCOMHOTELS LANKA (PRIVATE) LIMITED FOR THE FINANCIAL YEAR ENDED 31ST MARCH 2019

The Board of Directors of WelcomHotels Lanka (Private) Limited hereby submit their seventh Annual Report for the financial year ended 31st March, 2019.

Business Environment

The overall business environment in the country was adversely impacted by challenges arising from global events and local political instability. Overall GDP growth in 2018 is estimated at 3.2% as against 3.3% in 2017 with the last quarter of 2018 growing only at 1.8% primarily due to a slowdown in the construction and real estate sectors. The Business Confidence Index continues to show a decline with inflation and value of the LKR, which depreciated by 19.6% vis-à-vis the United States Dollar in the calendar year 2018, being the biggest worries. While the Government has taken various steps to bring back stability and set the foundation for future growth, the terror attacks of 21st April, 2019 targeting churches and 5-star hotels will present a serious challenge in the near term.

Nature of Business

The Company is presently engaged in constructing and building a mixed use development project ('Project') including a luxury hotel and a premium residential condominium at Colombo on about 5.86 acres of prime sea facing land in Colombo.

Execution of the Project 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 and few other Sri Lankan organisations as their sub-contractors in line with the Company's commitment to promote local talent and resources as far as practicable. While a slowdown in the pace of project execution is expected in the short-term due to the recent terror attacks the Company is hopeful that the same would pick up shortly.

Sales of the Company's branded apartments, "Sapphire Residences", were launched during the year.

Financial Statements

The Financial Statements, including the Auditor's Report thereon, for the year ended 31st March 2019, 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, 2019.

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 Lanka (Private) Limited ("the Company"), which comprise the statement of financial position as at 31st March 2019, and the statement of comprehensive income, the 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 31st March 2019, 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

The Management is responsible for the other information. Other information are the financial and non-financial information other than financial statements and the auditor's report thereon, included in an entity's annual report. Management is responsible for the other information. 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 and fair presentation of financial statements in accordance with Sri Lanka Accounting Standards (LKASs and SLFRSs), 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.

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 2019.

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, 2019.

Directors of the Company

There has been no change in the Board of Directors of the Company during the year.

The Directors of the Company, as at 31st March, 2019, are as follows:

Mr. Nakul Anand	Chairman & Non-Executive Director
Mr. Arun Pathak	Managing Director
Ms. Devkanya Roy Choudhury	Non-Executive Director
Mr. Supratim Dutta	Non-Executive Director
Mr. Alwyn R Noronha	Non-Executive Director
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 2018/19 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	Nakul Anand
Managing Director	Chairman

Corporate Services (Private) Limited
Secretaries
On this 22nd day of April, 2019

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 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, 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 identified 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
Colombo
Date 22nd April, 2019

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST MARCH, 2019

	Note	2018/19 LKR	2018/19 INR	2017/18 LKR	2017/18 INR
Revenue		-	-	-	-
Cost of sales		-	-	-	-
Gross profit		-	-	-	-
Other income	3	2,42,78,840	98,61,093	-	-
Administrative expenses	4	(93,09,310)	(37,81,068)	(35,86,919)	(15,13,231)
Finance expense	5	-	-	(1,51,09,007)	(63,74,113)
Pre operating profit/ (loss) before tax	6	1,49,69,530	60,80,025	(1,86,95,926)	(78,87,344)
Taxation	7	-	-	-	-
Pre operating profit / (loss) for the year		1,49,69,530	60,80,025	(1,86,95,926)	(78,87,344)
<u>Other comprehensive income</u>		-	-	-	-
Other comprehensive income		-	-	-	-
Total comprehensive income/ (loss) for the year		1,49,69,530	60,80,025	(1,86,95,926)	(78,87,344)
Earnings/ (loss) per share	8	0.11	0.04	(0.13)	(0.06)

The accounting policies and notes from 1 to 24 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31ST MARCH, 2019

	Note	31.03.2019 LKR	31.03.2019 INR	31.03.2018 LKR	31.03.2018 INR
Assets					
Non Current Assets					
Property, plant and equipment	9A	5,47,96,537	2,15,79,972	1,18,56,919	49,62,121
Capital work-in-progress	9B	18,23,40,62,683	7,18,09,38,566	10,74,72,63,620	4,49,77,29,825
Prepaid lease rental	10	9,31,83,63,160	3,66,97,57,780	9,31,83,63,160	3,89,97,34,982
Non current prepayments	11	2,38,90,70,944	94,08,63,919	1,75,39,92,785	73,40,45,980
		<u>29,99,62,93,324</u>	<u>11,81,31,40,237</u>	<u>21,83,14,76,484</u>	<u>9,13,64,72,908</u>
Current Assets					
Current prepayments	12	14,73,05,487	5,80,11,847	1,25,65,484	52,58,655
Cash and bank balances	13	57,49,55,015	22,64,28,784	4,24,70,617	1,77,73,953
		<u>72,22,60,502</u>	<u>28,44,40,631</u>	<u>5,50,36,101</u>	<u>2,30,32,608</u>
Total Assets		<u>30,71,85,53,826</u>	<u>12,09,75,80,868</u>	<u>21,88,65,12,585</u>	<u>9,15,95,05,516</u>
Equity and Liabilities					
Capital and Reserves					
Stated capital	14	30,55,13,30,002	13,30,38,39,357	20,17,01,06,002	9,03,91,07,941
Accumulated loss		(19,02,95,303)	(1,34,70,56,672)	(20,52,64,833)	(68,38,21,913)
		<u>30,36,10,34,699</u>	<u>11,95,67,82,685</u>	<u>19,96,48,41,169</u>	<u>8,35,52,86,028</u>
Non Current Liabilities					
Advance from customers		7,95,03,900	3,13,10,226	-	-
		<u>7,95,03,900</u>	<u>3,13,10,226</u>	<u>-</u>	<u>-</u>
Current Liabilities					
Other payables	15	27,80,15,227	10,94,87,957	1,92,16,71,416	80,42,19,488
Total Liabilities		<u>35,75,19,127</u>	<u>14,07,98,183</u>	<u>1,92,16,71,416</u>	<u>80,42,19,488</u>
Total Equity and Liabilities		<u>30,71,85,53,826</u>	<u>12,09,75,80,868</u>	<u>21,88,65,12,585</u>	<u>9,15,95,05,516</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
22nd April, 2019

Nakul Anand
Chairman
22nd April, 2019

The accounting policies and notes from 1 to 24 form an integral part of these financial statements.
Figures in brackets indicate deductions.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST MARCH, 2019

	Stated Capital		Retained Earnings	Retained Earnings	Total	
	LKR	INR	LKR	INR	LKR	INR
Balance as at 1st April 2017	15,27,16,66,002	6,97,71,66,891	(18,65,68,907)	(56,22,29,351)	15,08,50,97,095	6,41,49,37,540
Shares issued during the year - 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>
Shares issued during the year - 13.5% Cumulative Non Convertible Preference shares redeemable at the option of the issuer	10,38,12,24,000	4,26,47,31,416	-	-	10,38,12,24,000	4,26,47,31,416
Pre operating profit for the year	-	-	1,49,69,530	60,80,025	1,49,69,530	60,80,025
Foreign Exchange Translation Reserve	-	-	-	(66,93,14,784)	-	(66,93,14,784)
Balance as at 31st March 2019	<u>30,55,13,30,002</u>	<u>13,30,38,39,357</u>	<u>(19,02,95,303)</u>	<u>(1,34,70,56,672)</u>	<u>30,36,10,34,699</u>	<u>11,95,67,82,685</u>

The accounting policies and notes from 1 to 24 form an integral part of these financial statements.

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31ST MARCH, 2019

	2018/19 LKR	2018/19 INR	2017/18 LKR	2017/18 INR
Cash Flows From Operating Activities				
Profit/ (loss) before tax	1,49,69,530	60,80,025	(1,86,95,926)	(78,87,344)
Adjustment for:				
Depreciation and amortization expenses	55,82,951	22,67,571	13,31,103	5,57,067
Operating profit/ (loss) before working capital changes	2,05,52,481	83,47,596	(1,73,64,823)	(73,30,277)
Adjustment for:				
(Increase)/decrease in trade and other receivables	(76,98,18,162)	(30,31,69,789)	(3,89,87,514)	(3,32,57,751)
Increase/(decrease) in trade and other payables	(1,64,36,56,189)	(64,73,04,680)	1,57,91,11,464	65,85,45,868
Increase/(decrease) in advance from customers	7,95,03,900	3,13,10,226	-	-
Net cash flow (used in)/generated from operating activities	<u>(2,31,34,17,970)</u>	<u>(91,08,16,647)</u>	<u>1,52,27,59,127</u>	<u>61,79,57,840</u>
Cash Flows From Investing Activities				
Purchase of property, plant and equipment, etc.	(7,53,53,21,632)	(2,96,75,60,365)	(6,80,01,03,153)	(2,79,05,08,238)
Net cash flow (used in)/generated from investing activities	<u>(7,53,53,21,632)</u>	<u>(2,96,75,60,365)</u>	<u>(6,80,01,03,153)</u>	<u>(2,79,05,08,238)</u>
Cash Flows From Financing Activities				
Proceeds from issue of shares	10,38,12,24,000	4,26,47,31,416	4,89,84,40,000	2,06,19,41,050
Net cash flow (used in)/generated from financing activities	<u>10,38,12,24,000</u>	<u>4,26,47,31,416</u>	<u>4,89,84,40,000</u>	<u>2,06,19,41,050</u>
Net increase/(decrease) in cash and cash equivalents	53,24,84,398	38,63,54,404	(37,89,04,026)	(11,06,09,348)
Cash and cash equivalents at the beginning of the period	4,24,70,617	1,77,73,953	42,13,74,643	17,91,89,567
Foreign exchange translation gain/ (loss)	-	(17,76,99,573)	-	(5,08,06,266)
Cash and cash equivalents at the end of the period (Note 16.1)	<u>57,49,55,015</u>	<u>22,64,28,784</u>	<u>4,24,70,617</u>	<u>1,77,73,953</u>

The accounting policies and notes from 1 to 24 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2019

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 2019 were authorised for issue by the Board of Directors on 22nd April 2019.

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 (ICASL) 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.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

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.

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. 24 of 2017 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 & 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.

The Company assesses at each reporting date whether a financial asset (or a group of financial assets) such as trade receivables, advances and security deposits held at amortised cost and financial assets that are measured at fair value through other comprehensive income are tested for impairment based on evidence or information that is available without undue cost or effort. Expected credit losses are assessed and loss allowances recognised if the credit quality of the financial asset has deteriorated significantly since initial recognition.

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 or 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,

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

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. Sale of goods and services**

Revenue is measured at the fair value of the consideration received or receivable for goods supplied and services rendered, net of returns and discounts to customers. Revenue from the sale of goods and services is shown to exclude taxes which are payable in respect of sale of goods and services.

Revenue from the sale of goods and services is recognised when the Company performs its obligations to its customers and the amount of revenue can be measured reliably and recovery of the consideration is probable. The timing of such recognition in case of goods is when the control over the same is transferred to the customer, which is mainly upon delivery and in case of services, in the periods in which such services are rendered.

Realisations from customers prior to transfer of title of apartments are accordingly treated as advances received.

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. Incremental cost incurred in obtaining contracts to sell apartments (i.e. contract costs) are recognised as assets if those costs are explicitly chargeable to the customer. Further such assets are amortised to the profit and loss when related apartments are sold to the customers.

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.

	2018/19 LKR	2018/19 INR	2017/18 LKR	2017/18 INR
3. Other Income				
Foreign exchange gain	2,42,78,840	98,61,093	-	-
4. Administrative Expenses				
(a) Auditor's remuneration and expenses				
Audit fees*	4,65,000	1,88,864	4,65,000	1,96,171
Reimbursement of expenses and taxes	68,588	27,858	68,588	28,937
(b) Secretarial remuneration and expenses				
Secretarial fees*	90,000	36,554	60,000	25,311
Reimbursement of expenses and taxes	6,617	2,687	45,727	19,292
(c) Consultancy fees	30,96,154	12,57,534	16,16,501	6,81,961
(d) Depreciation	55,82,951	22,67,571	13,31,103	5,61,559
	<u>93,09,310</u>	<u>37,81,068</u>	<u>35,86,919</u>	<u>15,13,231</u>
*Excluding taxes				
5. Finance expense				
Foreign exchange loss	-	-	1,51,09,007	63,74,113
6. Pre-operating Profit / (Loss)				
The following items have been charged in arriving at the pre-operating profit / (loss)				
Auditor's remuneration and expenses	5,33,588	2,16,722	5,33,588	2,25,108
Secretarial remuneration and expenses	96,617	39,241	1,05,727	44,603
Consultancy fees	30,96,154	12,57,534	16,16,501	6,81,961

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 No 24 of 2017 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.

	2018/19 LKR	2018/19 INR	2017/18 LKR	2017/18 INR
Amount used as the Numerator				
Profit/ (Loss) attributable to ordinary shareholders	1,49,69,530	60,80,025	(1,86,95,926)	(78,87,344)
Amount used as the Denominator				
Weighted average no of ordinary shares in issue	13,96,42,260	13,96,42,260	13,96,42,260	13,96,42,260
Earnings/ (Loss) Per Share	<u>0.11</u>	<u>0.04</u>	<u>(0.13)</u>	<u>(0.06)</u>

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Particulars	Gross Block						Accumulated Depreciation						Net Block					
	Original Cost as at 31.03.2018		Additions during the year			Original Cost as at 31.03.2019		Depreciation upto 31.03.2018		Depreciation for the year				Net Block as at 31.03.2018		Net Block as at 31.03.2019		
	(LKR)	(INR)	(LKR)	(INR)	Foreign Currency Translation Adjustments (INR)	Total (INR)	(LKR)	(INR)	(LKR)	(INR)	Foreign Currency Translation Adjustments (INR)	Total (INR)	(LKR)	(INR)	(LKR)	(INR)		
9A. Property, Plant and Equipment																		
1. Furniture & Fixtures	14,75,745	6,17,599	1,61,744	65,694	(38,417)	27,277	1,32,825	55,587	1,82,305	74,945	(5,528)	68,517	315,130	1,24,105	13,42,920	5,62,013	13,22,359	5,20,771
2. Vehicles	75,00,000	31,38,750	4,48,50,000	1,82,16,276	(7,38,549)	1,74,77,727	8,47,603	3,54,722	33,53,464	13,62,943	(62,301)	12,99,742	42,01,067	16,54,464	66,52,397	27,84,028	4,81,48,933	1,89,62,013
3. Plant & Equipment	2,47,899	1,03,278	2,08,000	84,481	(8,675)	75,806	10,359	4,335	44,333	18,006	(803)	17,203	54,692	21,539	2,37,140	99,243	4,00,807	1,57,846
4. Computers	39,64,778	16,59,260	33,02,825	13,41,475	(1,38,608)	12,02,867	3,40,316	1,42,422	20,02,849	8,13,477	(33,114)	7,80,363	23,43,165	9,22,785	36,24,462	15,16,837	49,24,438	19,39,342
TOTAL	1,31,88,022	55,19,187	4,85,22,569	1,97,07,926	(9,24,249)	1,87,83,677	13,31,103	5,57,066	55,82,951	22,67,571	(1,01,746)	21,65,825	69,14,054	27,22,893	1,18,56,919	49,62,121	5,47,96,537	2,15,79,972
9B. Capital Work-in-progress	10,74,72,63,620	4,49,77,29,825	7,48,67,99,063	3,04,08,38,307	(35,76,29,567)	2,68,32,08,741	—	—	—	—	—	—	—	—	10,74,72,63,620	4,49,77,29,825	18,23,40,62,683	7,18,09,38,566

	31.03.2019	31.03.2019	31.03.2018	31.03.2018	31.03.2019	31.03.2019	31.03.2018	31.03.2018
	LKR	INR	LKR	INR	LKR	INR	LKR	INR
10. Prepaid Lease Rental								
Prepaid lease rentals (note 10.1)	<u>9,31,83,63,160</u>	<u>3,66,97,57,780</u>	<u>9,31,83,63,160</u>	<u>3,89,97,34,982</u>				
10.1 Prepaid Lease Rental								
Prepaid lease rentals amounting to LKR 9,22,42,50,000 (USD 7,35,00,000) 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 in phases.								
On completion of the current phase 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 except to the extent such prepaid lease rentals pertain to the land area allocated to the apartments which shall be charged to the Statement of Comprehensive Income on sale of the apartments.								
	31.03.2019	31.03.2019	31.03.2018	31.03.2018				
	LKR	INR	LKR	INR				
Prepaid lease premium for land	<u>9,22,42,50,000</u>	<u>3,63,26,94,135</u>	<u>9,22,42,50,000</u>	<u>3,86,03,48,625</u>				
Stamp duty on lease of land	<u>9,41,13,160</u>	<u>3,70,63,645</u>	<u>9,41,13,160</u>	<u>3,93,86,357</u>				
	<u>9,31,83,63,160</u>	<u>3,66,97,57,780</u>	<u>9,31,83,63,160</u>	<u>3,89,97,34,982</u>				
11. Non Current Prepayments								
Security deposit	<u>1,39,72,951</u>	<u>55,02,827</u>	-	-				
Capital advances	<u>2,11,02,10,936</u>	<u>83,10,43,271</u>	<u>1,68,81,69,519</u>	<u>70,64,98,944</u>				
Contract Cost	<u>26,48,87,057</u>	<u>10,43,17,821</u>	<u>6,58,23,266</u>	<u>2,75,47,036</u>				
	<u>2,38,90,70,944</u>	<u>94,08,63,919</u>	<u>1,75,39,92,785</u>	<u>73,40,45,980</u>				
12. Current Prepayments								
Security deposit	<u>49,28,914</u>	<u>19,41,105</u>	<u>69,27,216</u>	<u>28,99,040</u>				
Other advances	<u>14,23,76,573</u>	<u>5,60,70,742</u>	<u>56,38,268</u>	<u>23,59,615</u>				
	<u>14,73,05,487</u>	<u>5,80,11,847</u>	<u>1,25,65,484</u>	<u>52,58,655</u>				
13. Cash and Bank balances								
Cash at bank	<u>57,44,24,509</u>	<u>22,62,19,860</u>	<u>4,23,46,071</u>	<u>1,77,21,831</u>				
Cash in hand	<u>5,30,506</u>	<u>2,08,924</u>	<u>1,24,546</u>	<u>52,122</u>				
	<u>57,49,55,015</u>	<u>22,64,28,784</u>	<u>4,24,70,617</u>	<u>1,77,73,953</u>				

	31.03.2019			31.03.2018		
	No. of Shares	Amount LKR	Amount INR	No. of Shares	Amount LKR	Amount INR
14. Stated Capital						
Equity capital						
Opening balance	<u>13,96,42,260</u>	<u>13,90,59,16,002</u>	<u>6,39,16,74,861</u>	<u>13,96,42,260</u>	<u>13,90,59,16,002</u>	<u>6,39,16,74,861</u>
Issued during the year	-	-	-	-	-	-
Closing balance	<u>13,96,42,260</u>	<u>13,90,59,16,002</u>	<u>6,39,16,74,861</u>	<u>13,96,42,260</u>	<u>13,90,59,16,002</u>	<u>6,39,16,74,861</u>
No. of Shares issued:- 2018/19 - NIL and 2017/18 - Nil						
	31.03.2019			31.03.2018		
	No. of Shares	Amount LKR	Amount INR	No. of Shares	Amount LKR	Amount INR
Preference shares						
Opening balance	<u>6,26,41,900</u>	<u>6,26,41,90,000</u>	<u>2,64,74,33,080</u>	<u>1,36,57,500</u>	<u>1,36,57,50,000</u>	<u>58,54,92,030</u>
Issued during the year	<u>10,38,12,240</u>	<u>10,38,12,24,000</u>	<u>4,26,47,31,416</u>	<u>4,89,84,400</u>	<u>4,89,84,40,000</u>	<u>2,06,19,41,050</u>
Closing balance	<u>16,64,54,140</u>	<u>16,64,54,14,000</u>	<u>6,91,21,64,496</u>	<u>6,26,41,900</u>	<u>6,26,41,90,000</u>	<u>2,64,74,33,080</u>
No. of Shares issued:- 2018/19 - 10,38,12,240 and 2017/18 - 4,89,84,400						
Total Stated Capital	<u>30,60,96,400</u>	<u>30,55,13,30,002</u>	<u>13,30,38,39,357</u>	<u>20,22,84,160</u>	<u>20,17,01,06,002</u>	<u>9,03,91,07,941</u>

The preference shares are entitled to a dividend of 13.5% and are cumulative, non-convertible, and redeemable at the option of the issuer.

	31.03.2019	31.03.2019	31.03.2018	31.03.2018		
	LKR	INR	LKR	INR		
15. Other Payables						
Auditor's remuneration and expenses	<u>5,33,588</u>	<u>2,10,138</u>	<u>5,48,383</u>	<u>2,29,498</u>		
Retention money	<u>3,07,20,242</u>	<u>1,20,98,246</u>	<u>8,41,11,904</u>	<u>3,52,00,832</u>		
Sundries*	<u>24,67,61,397</u>	<u>9,71,79,573</u>	<u>1,83,70,11,129</u>	<u>76,87,89,158</u>		
	<u>27,80,15,227</u>	<u>10,94,87,957</u>	<u>1,92,16,71,416</u>	<u>80,42,19,488</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	<u>57,44,24,509</u>	<u>22,62,19,860</u>	<u>4,23,46,071</u>	<u>1,77,21,831</u>		
Cash in hand	<u>5,30,506</u>	<u>2,08,924</u>	<u>1,24,546</u>	<u>52,122</u>		
	<u>57,49,55,015</u>	<u>22,64,28,784</u>	<u>4,24,70,617</u>	<u>1,77,73,953</u>		
17. Operating Lease						
Lease rental for land payable to Board of Investment of Sri Lanka.						
Not later than one year	<u>25,833</u>	<u>10,174</u>	<u>22,822</u>	<u>9,551</u>		
Later than one year and not later than five years	<u>1,03,332</u>	<u>40,694</u>	<u>91,287</u>	<u>38,204</u>		
Later than five years	<u>22,47,470</u>	<u>8,85,099</u>	<u>20,08,323</u>	<u>8,40,483</u>		
18. Contingencies and Commitments						
Capital commitments pending as at Balance Sheet date is LKR 25,09,90,04,853 INR 9,88,44,90,091 (2017/18: LKR 19,38,79,37,161, INR 8,11,38,51,702)						
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	10,38,12,24,000 (4,89,84,40,000)	4,26,47,31,416 (2,06,66,51,836)	30,60,96,40,000 (20,22,84,16,000)	13,33,06,98,196 (8,46,55,92,096)
ITC Ltd	Parent Company	Purchase of goods and services	1,97,23,344 (30,99,860)	80,10,833 (13,07,831)	50,84,517 (28,91,819)	20,02,384 (12,10,226)
ITC Ltd	Parent Company	Technical service fee	1,02,11,985 (91,36,947)	41,47,700 (38,54,878)	26,19,934 (23,00,546)	10,31,782 (9,62,779)
ITC Ltd	Parent Company	Reimbursement of expenses #	5,46,35,154 (6,78,63,174)	2,21,90,614 (2,86,31,473)	1,20,86,375 (1,66,86,738)	47,59,856 (69,83,400)
International Travel House Ltd	Associate of Parent Company	Purchase of services	82,30,842 (-)	33,43,039 (-)	- (-)	- (-)

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 3,89,43,071, INR 1,58,17,117) (2017/18 - LKR 6,23,81,266, INR 2,61,06,560) 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.

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.

	2018/19 LKR	2018/19 INR	2017/18 LKR	2017/18 INR
Key Management Personnel Compensation				
Short term employee benefits	3,19,97,268	1,29,96,010	3,01,92,409	1,27,38,177

22. Financial risk management objectives

The Company is engaged in the construction of a mixed-use development project in phases consisting of a hotel, residences and other commercial spaces. The Company has a system-based approach to risk management, anchored to policies and procedures and internal financial controls aimed at ensuring early identification, evaluation and management of key financial risks (such as market risk, credit risk and liquidity risk) that may arise as a consequence of its business operations as well as its financing activities. Accordingly, the Company's risk management framework has the objective of ensuring that such risks are managed within acceptable and approved risk parameters in a disciplined and consistent manner and in compliance with applicable regulation. It also seeks to drive accountability in this regard.

Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to the changes in market prices. Mainly the changes in market prices, such as foreign exchange rates and interest rates will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return.

a) Foreign Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial asset fluctuating due to changes in foreign exchange rates. Currently the Company is exposed to foreign currency risk on purchases and cash deposits denominated in currencies other than the functional currency of the Company. The currency giving rise to this risk is primarily US Dollars.

The company as at the reporting date, holds cash deposits at bank denominated in currencies other than the functional/reporting currency. A reasonable possible strengthening or weakening of the US Dollar (USD) against the Sri Lanka Rupee (LKR) as at the reporting date would have affected the measurement of USD denominated bank balances and affected Statement of Comprehensive Income by the amounts shown below. This analysis assumes that all other variables remain constant.

	As at 31 st March 2019 (LKR)	As at 31 st March 2019 (INR)
USD denominated bank balances	57,26,37,808	22,55,16,221
Impact of 1% increase in USD rate - gain/(loss)	57,26,378	22,55,162
Impact of 1% decrease in USD rate - gain/(loss)	(57,26,378)	(22,55,162)

b) Interest Risk

Interest rate risk mainly arises as a result of the Company having interest sensitive assets and liabilities which are directly impacted by changes in interest rates. Currently the Company does not have any interest sensitive assets or liabilities.

Credit Risk

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. As the company has not yet commenced its operations, the company is not

exposed to credit risk from any operating activities (primarily trade receivables). For sale of apartments, monies are collected in advance and hence there is no exposure to any credit risk on this account.

The financial assets of the company, which mainly comprises cash at bank of LKR 57,44,24,509 INR 22,62,19,860 (2017/18 - LKR 4,23,46,701 INR 1,77,21,831), is held with globally established highly rated banks. Other financial assets include deposits which are not of significant value.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The parent company has invested LKR 30,55,13,30,002 INR 13,30,38,39,357 (2017/18 - LKR 20,17,01,06,002 INR 9,03,91,07,941) in the equity and preference capital of the Company to fund the project and is expected to subscribe to further equity or preference shares as may be required by the Company for the smooth execution of the project. The Company closely monitors its fund requirements and has a system in place to seek timely fund infusions from the parent company.

23. New Accounting Standards issued and effective during the year

Sri Lanka Financial Reporting Standard (SLFRS 9) - Financial Instruments

This standard applies to classification and measurement of financial assets and liabilities. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. SLFRS 9 also introduces expanded disclosure requirements and changes in presentation. There is no material impact in the financial statements due to application of this standard.

Sri Lanka Financial Reporting Standard (SLFRS 15) - Revenue from Contracts with customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including Sri Lanka Accounting Standard (LKAS 18) - Revenue, Sri Lanka Accounting Standard (LKAS 11) - Construction Contracts and IFRIC 13 - Customer Loyalty Programmes. SLFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. There is no material impact in the financial statements due to application of this standard.

24. New Accounting Standards issued but not effective

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Financial Reporting Standard that has an effective date in the future and has not yet been applied in preparing the financial statements for the year ended 31st March 2019.

Sri Lanka Financial Reporting Standard (SLFRS 16) - Leases

This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and provides a single lessee accounting model requiring lessees to recognise assets and liabilities for all leases other than short term leases (lease term is 12 months or less) and leases for which the underlying asset has a low value. This standard is effective for the annual periods beginning on or after 1st January, 2019 and is therefore not applicable for the current period. The Company has assessed the potential impact on its Financial Statements resulting from the application of SLFRS 16 as not material for the current period.