

*Copyright Reserved*

No. of Pages - 22



The Institute of  
**Chartered Accountants**  
of Sri Lanka

**TOP CA CASE STUDY EXAMINATION**

**MAY 2011**

**ADVANCE INFORMATION**

## **You work for DBD Associate /DBD Business Solutions (Pvt.) Ltd**

DBD Associate was established in 1961 as a two partner firm and over the years has grown into one of the leading firms of Chartered Accountants in Sri Lanka. In the year 1999, the firm was appointed as an independent member firm of DBD International. At present, the firm has 7 partners and over 300 staff providing professional services to over 1000 clients, both local and international, in industries, trade, plantations, banking, finance and services sectors. DBD Business Solutions (Pvt.) Ltd is an associate company of DBD Associate, headed by Mr.Nishan Udawatta -the partner in charge of the Business Advisory Unit of the firm. The company's consultancy services to its clients include advice on Initial Public Offers, Investments, Business Restructuring, Financial Due Diligence and many other advisory assignments.

You are Kamal Withanage, a final year trainee at DBD Associate. Your work has been across the whole spectrum of audits and investigations, interspersed with periods of time spent in different business units of the firm such as taxation and advisory. Your recent work has included assisting in an investment advisory assignment handled by Mr.Nishan Udawatta under DBD Business Solutions (Pvt.) Ltd. Mr.Udawatta was happy about your performance and invited you to become involved with a recently quoted consultancy assignment for Greenpass Resource Holdings Limited.

## **Greenpass Resource Holdings (GRH) Group**

Greenpass Resource Holdings Limited (initially known as Greenpass Resource Holdings (Pvt.) Limited) was incorporated in year 2008 as a private limited company under the Companies Act, No.07 of 2007, initially with the objective of investing in the plantations and hydro power sectors. Since its incorporation, the company has gradually expanded its investment interest to diverse sectors through its subsidiaries and associates. GRH is the holding company for several subsidiaries and derives investment income, dividend income and capital gains from its group companies (**please refer to Appendix 1- Group structure**).

With the acquisition of controlling interest of two plantation companies- Udarata Plantations and Helboda Plantations in mid 2008, GRH was known to the public since both these plantations are listed on Colombo Stock Exchange. In 2009, GRH invested in mini hydro power projects through its fully owned subsidiary Greenpass Power Holdings (Pvt.) Ltd. Accordingly, at present, GRH through its subsidiaries has invested heavily in the plantation sector as well as in power sector and, is planning to expand its business into other sectors such as leisure and real estate development in the future. For the purpose of listing on the Colombo Stock Exchange, the company was converted to a public limited company on 20 February 2011.

Currently GRH has nine directors of whom three are non executives. Mr. Somaweera Senanayake (80) is the chairman of GRH and he was a former Chairman of Lanka Oxygen PLC. The Managing Director/CEO of GRH Group, Mr.Harendra Wijesinghe (47) grew up in a family which owns and operates a few coconut and tea estates in Kurunegala and Daraniyagala areas respectively. He has been involved in the plantation industry for more than thirty years. He has no formal qualifications, but has much practical knowledge and experience in managing plantations. His ambition was always to manage a plantation company and he was very proud when GRH acquired the controlling interest of Udarata and Helboda Plantations. Senior Management of the GRH group mainly represents the Chief Executive Officer, Senior Manager – Accounts, Investments Analyst and Senior Accountant. However, with the increasing business volume, as a result of implementation of new strategies, Mr.Harendra thinks that a few professionals need to be recruited to the senior management of the Group especially for Finance, IT and HR. But he has no clear idea as to what would be the roles and responsibilities of these professionals. Further Mr.Harendra has a concern about the media release that resulted from the investigation of Udarata Plantations' financial statements-2009 and 2010, by the Sri Lanka Accounting and Auditing Standards Monitoring Board. He has requested Mr.Kapila Perera, Senior Manager Accounts (Group) to prepare an internal memo in this regard. (Refer to the **Appendix 2**- Extract of Media Release).

## **Two Plantation Sector Companies Contribute more than 96% of the Group's Revenue**

GRH's main revenue source is from its two plantation sector subsidiaries –Udarata Plantations and Helboda Plantations. Plantation sector, the key sector of operations of GRH contributes more than 96% of the group's revenue. The group owns 43 estates under the purview of Udarata and Helboda Plantations, where the main contribution stems from tea and rubber plantations. **Udarata Plantations** is a public company having issued 35,000,001 ordinary shares and 5,071,161 , 8% cumulative preference shares. Udarata Plantations manages 19 tea/rubber plantations with a total extent of 11,577 hectares on 53-year leasehold rights commencing from 1992. The Secretary to the Treasury of Government of Sri Lanka holds a Golden Share. Udarata Plantations is one of the pioneer plantations in Sri Lanka and contributed Rs.1.9 billion, i.e. almost 40% towards the Group's Plantation Sector revenues for the year ended 31 March 2010. Tea and rubber can be identified as their main crops, while timber grown for commercial purposes also makes a significant contribution. **Helboda Plantations** is also a public company having issued 23,846,154 ordinary shares with the Secretary to the Treasury of Government of Sri Lanka holding a Golden Share. Helboda Plantations manages 24 tea/rubber plantations with a total extent of 11,591 hectares on 53-year leasehold rights commencing from 1992. The company is also into hydro power generation through its subsidiary Helboda Power Holdings (Pvt.) Ltd. Helboda Plantations is also into the cultivation of commercially viable timber and has planted more than 1 million timber plants in marginal tea lands and on selected roadsides and boundaries. During the year ended 31 March 2010, Helboda Plantations has recognized Rs.113.7 million as gain from timber harvesting.

### **GRH Group Financial Information**

The Group's financial statement extracts for the financial years 2009/10 and 2008/09 are shown in **Appendix 3**

## **Greenpass Group - Loan Financing**

At the end of the year ended 31 December 2010, the Greenpass Group had loans totaling Rs.1,561 million, including a loan of Rs.300 million that was due for repayment in March 2011. Greenpass Power Holdings (Pvt) Ltd has taken out a new loan of Rs. 450 million, which has been secured on 4 specific lands in Greenpass Group. A part of this loan has been used to repay the loan due for repayment and left Rs.150 million to be used for further capital investment.

## **Greenpass Holdings Divests 45% in Private Placement, IPO**

For the purpose of implementing the group's future expansion strategies, the management of the company decided to raise capital through a private placement and the launch of an Initial Public Offering. GRH has divested some 23% in the company's stake initially through a successful sell-down/private placement during end 2010 and launched its Initial Public Offering (IPO) on 1 April 2011 which resulted in further the divestment of the controlling stake by 22%.

As reported in a week-end news paper recently, Mr.Jayantha Perera - one of the directors of Greenpass commented that "We are eyeing to set up **two boutique hotels which will be three to four star**". Further he has mentioned that the company has also embarked on a comprehensive program of **timber planting** on its estates for commercial purposes and has already planted more than 1.2 million timber plants.

As per prospectus, the Group's future strategies would include; *further expansion into the rubber production segment plantations, expansion into the low-grown and high-grown segments of the tea plantations, expansion into the mini-hydro power sector, expansion into commercial forestry development on the estates and, development of non-core business to maximize the resource utilization and to ease the over-dependence on core business.*

## Summary of Future Projects as per the Prospectus Issued for the Purpose of IPO

### Objective of the Offering:

The company anticipates generating Rs.1.5 billion from the offering and after setting off the costs of the IPO, the funds would be utilized as appended;

Order of Priority	Utilization Purpose	Estimated Utilization (Rs. Millions)	Timing of Likely Utilization of Funds
1 <sup>st</sup>	Towards new Hydro Power Projects (Note 1)	400	From May 2011
2 <sup>nd</sup>	Towards the development of two boutique hotels (Note 2)	600	From May 2011
3 <sup>rd</sup>	Towards commercial property development project (Note 3)	450	From May 2011
	Total	1,450	

### Note 1

*The company through its subsidiaries that are involved in the power sector will be developing seven new Mini Hydro Plants (MHPs) in order to harness further the existing hydro power potential. The new MHPs in aggregate will contribute 4.4MW of power to the national grid. The estimated cost of developing all seven MHPs is Rs.1 billion, of which Rs.400 million would be funded through the IPO proceeds, while the remainder would be financed by bank borrowings and or/ internally generated funds. The IPO funds of Rs.400 million allocated towards the projects would be in lieu of shares in the subsidiaries. All the MHPs would be located in lands of Helboda Plantations, where Helboda Power Holdings (Pvt.) Ltd would sub-lease the lands for the project from Helboda Plantations Ltd. Except for the approval from the Ministry of Plantations related to sub-lease, all other requisite approvals for the projects have already been received.*

## Note 2

The company through a newly established company - Greenpass Resort (Pvt.) Ltd, one of its subsidiaries, plans to develop two boutique style hotels in scenic locations of Udarata Plantations, while Greenpass Resort (Pvt.) Ltd would be expected to own and manage the two hotels the lands pertaining to these hotels would be sub-leased from Udarata Plantations Ltd. The hotels would be located in Giragama in Kandy and Ayr in Padukka and each would comprise 58 and 34 rooms respectively and will be developed as three-star establishments. (Please refer Appendix- 4 for Estimated Project cost and Projected Cash Flows) This project is expected to cost a sum of Rs.800 million to develop and, will be undertaken by GRH with equity contributions of Rs.625 million while the balance funds required for the project will be raised by way of bank borrowings. The work on this project is expected to commence in May 2011 and these hotels are expected to open for commercial operations from December 2012. In the event, required regulatory approvals are not obtained, the IPO funds allocated for the projects would be utilized for other commercially viable similar projects to be identified by the company in the future. The required regulatory approvals from relevant authorities for the hotel development projects along with the current status of such approvals are given in the table below;

	<b>Approving Authority</b>	<b>Status</b>
1	Board of Investment	Pending
2	National Building Research Organization	Obtained
3	Central Environment Authority	Pending
4	Provincial Council	Pending
5	Sri Lanka Tourist Board	Pending
6	Urban Development Authority	Pending
7	Ministry of Plantation Industries	Pending

### **Note 3**

*The company has incorporated a separate entity- Greenpass Properties (Pvt) Ltd for the purpose of building and operating a commercial building complex in a commercially important area in Colombo with 80,000 sq. ft of rentable space. The building would be located in a land owned by Greenpass Properties (Pvt) Ltd. The total estimated cost of this project is Rs.800 million and IPO proceeds of Rs.450 million would be invested by way of share capital, while remainder of the project would be funded via pre-sales and bank borrowings.*

### **Greenpass Considers Environment as a Key Factor Towards Sustainability.**

GRH Group has won a reputation as one of the most trusted and favoured plantations producing Sri Lanka's finest tea that would satisfy the taste of tea lovers all over the world. Geared toward strong leadership, the organization is led to reflect core values at every area of work. The key ingredients that form their success are: the pulse towards the wellbeing of Mother Nature, the passion for growth, drive towards sustainability and dedication to generate surpassing shareholder value at all times. With the plantation of 1.2 million trees, the GRH is considered one of the most eco-friendly companies in the Island. The GRH makes deliberate efforts to take care of the environment in the best possible manner as it considers the environment as one of the key and important stakeholders. All their business units including the plantations and hydro power adhere to stringent eco-friendly practices that ensure outputs that contribute towards a sustainable environment which lures many to be partners and make investments in the company. The success of GRH is firmly based on effort in accumulating and utilizing resources with an eye to the future. Mr. Harendra Wijesinghe –Managing Director/CEO of GRH is always concerned with the practical implementation of corporate sustainability concept in their corporate level strategies. His view is that the short term profit is not adequate to ensure the long term sustainability of the business and more initiatives are needed to ensure the economic, social and environmental performance of the group.



## Conreach Hotel Holdings PLC

Conreach Hotel Holdings PLC was established in 1975 by its founder Mr. Jehan Zoysa. The Company owns and operates the Palm Heven Hotel which is a 3 star hotel in Bentota. It was the first Hotel in Sri Lanka to offer “the all Inclusive concept” in hotel industry and owing to that the Palm Heven Hotel has been very popular among European visitors. With over 30 years of exposure, the hotel has created a long standing reputation. It is well known among travelers from Germany. The company was owned by Mr.Jehan (75%) and his wife (25%) until it was quoted on Colombo Stock Exchange in 1993. Since then the Zoysa family has been holding 53% of ownership stake while the ownership of the balance has been changing from time to time. Mr.Jehan (65) and his wife –Kamala (62) have managed the business since its inception. They are experienced in all aspects of the hotel business. However, they think that they are old and should retire from the business and hence seek to sell their ownership stake in the company and plan to migrate to Australia with a view to living with their daughter’s family.

The company has also invested in two hotels and details are as appended below:

Name of the Company	No. of Shares	Percentage of Holding	Market Price per share as of 31 March 2011 (Rs.)	Net Asset Value per share as of 31 March 2011 (Rs.)
Rivine Hotel PLC	3,791,663	26.74	125.00	129.00
Egen Hotel Lanka PLC	11,521,166	21.82	55.90	23.30

(Additional information related to Conreach Hotel is given in Appendix 5)

## **Industry Overview**

### **Plantation Sector accounts for more than 30% of the country's employed population**

After Sri Lanka gained independence from the British in 1948, several British estate owners left the industry in anticipation of nationalisation. In the early 1970s, the government nationalised the foreign-owned plantations and centralised their management. However, bureaucracy and increasing inefficiency amid the growing political bargaining power of plantation workers led to the deterioration of the companies' post-nationalisation performance. In view of this, the government initiated privatisation of the plantation sector in 1992; after a change in administration in 1995, tea plantations became fully privatised. Although the economy of the country during the British colonial era was mainly agri-base, the contributions made by the tea industry to the GDP has been gradually declining as a result of the expansion of the country's industrial and services sectors. Nevertheless, the tea industry remains a vital component of Sri Lanka's exports, generating a sum of approximately USD1.18 billion of income in 2009, the export of garment being the main contributor while agriculture sector stayed the largest employers with approximately 2.5 million employees. This sector accounted for more than 30% of the country's workforce. The plantation industry is therefore undoubtedly still an integral part of the island's socio-economic make-up. A substantial fraction of the total population in Sri Lanka depends on the viability of the plantation sector. The sector faces a looming labour shortage because of voluntary unemployment of the youth, leaving the sector by the employees, and high absenteeism. This may be due to the factors such as so called poor living and working conditions of the estate workers and the relatively low social status of estate employment. However it is presumed that the development of the plantation sector will improve the profitability of the plantation companies, and would enable such companies to provide a better remuneration package for workers.

## **Plantation Sector -Opportunities in the green**

Apart from the strong earnings potential (backed by the sustainable rubber prices coupled with high tea prices), the sector with its massive land mass has many more opportunities which are mostly untapped. Tourism would be an ideal opportunity, where the environment full of magnificent scenery and with a soothing climate would be an unmatched competitive advantage over the competitors in the leisure business. Forestry management is another lucrative business the sector could look into. At present this is restricted by stringent regulations and the sector collectively has proposed ways of sustainable forestry management to the regulatory bodies. Furthermore, power generation using hydro, dendro and wind power to source its own electricity requirement would be another opportunity the sector could look into. This would result in savings on the electricity expenditure (where 1 unit of electricity is consumed to produce 1kg of made tea) which would lead to reduce the cost of production significantly.

***(Please refer to Appendix 6 for RECENT ECONOMIC DEVELOPMENTS' HIGHLIGHTS OF 2010 AND PROSPECTS FOR 2011 –Agricultural Sector)***

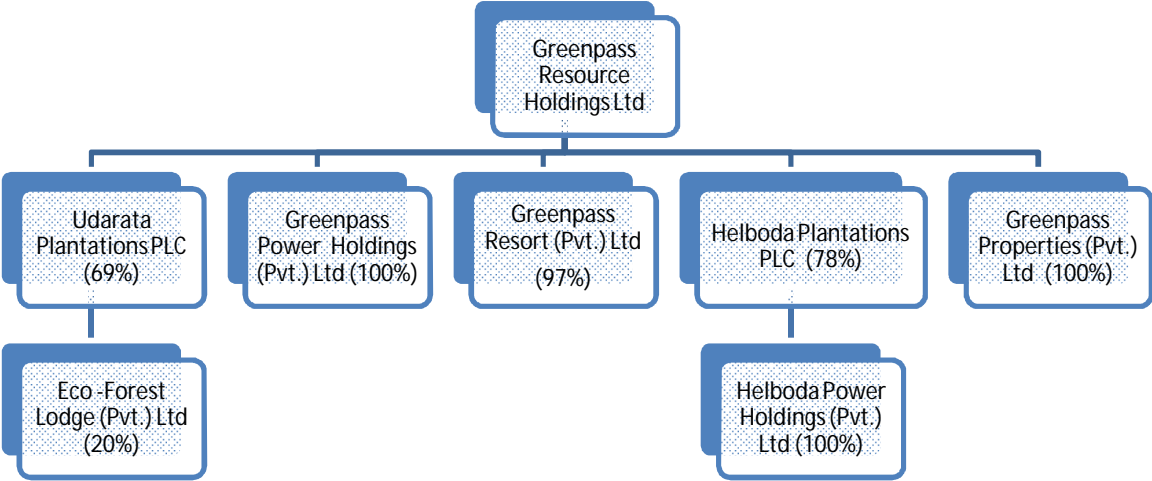
## **Tourism - the way forward !!!!!!!!!!!!!**

With sun, sea, sand, hills, wildlife and all the beauties one could imagine, Sri Lanka has all the attributes to become a top tourist destination in the world. But decades of bloodshed and civil unrest made travelers across the globe bypass the island in search of more peaceful nations in Asia, although such destinations were not as attractive as Sri Lanka.

The tourism industry of the Maldives was the biggest gainer from the civil war in Sri Lanka, as wealthy and well to do travelers, mainly from Europe flocked to the island despite the limited diversity of attractions. Premier Sri Lankan conglomerates were relying on the Maldivian resorts to offset the losses of their Sri Lankan hotel operations during the civil war. But now things have completely changed for the better. Today, Sri Lanka is recognised as the best country to visit in the world by no other than the reputed New York Times newspaper.

The highest number of tourist arrivals to Sri Lanka of 566,203 was recorded in 2004 during the period of the ceasefire agreement. Compared to the first five months of 2004, tourist arrivals to the country from January to May represented a growth of 21 per cent, in manifestation of a strong and robust upsurge in tourist arrivals to the country. All the indications are that the country will attract 600,000 tourists at the end of 2011, bringing a great deal of fortune to the economy. As per the Central Bank Annual Report -2010, the hotels and restaurants sub-sector grew by a significant 41.5 per cent during the first half of 2010 compared to the contraction of 8.6 per cent during the first half of the previous year. Tourist arrivals increased by 48.5 per cent with tourists from Western Europe and South Asia growing by 45.2 per cent and 52.6 per cent, respectively. Further the growth in the sector was also reflected in an increase in both foreign and local guest nights. The industry created 52,147 direct jobs and 73,006 indirect jobs. The direct contribution to the economy by the industry does not seem to be immensely significant at this point of time. However, the multiplier effect of the tourism industry is quite substantial to an economy. The tourism generates a spillover of economic benefits to many sectors of the economy, increasing the wealth of fruit growers, vegetable cultivators, fishermen, taxi drivers, poultry farmers, construction firms, cement and ceramic manufacturers , retail groceries and even liquor producers (hopefully only that of legal ones). The recent decision to relax restrictions on sale of liquor at tourist hotels and the subsequent decision to raise the taxes of liquor are signs that the government is thinking of capitalising on the increased tourist arrivals to the country to fill its empty coffers, notwithstanding its noble objective to wipe out the consumption of liquor from the country via 'Mathata Thitha'. The prices of chicken and eggs have already gone up with hotels filling up their shelves ahead of the season. With proper planning tourism can certainly become the golden goose of the economy. As a strategic move in this sector, the government has set an extremely ambitious target of attracting 2.5 million tourists in 2016. If we assume that we will get 600,000 tourists this year to reach the 2.5 million target in 2016, tourist arrivals to the country will go up by at least 26.9% in each year from 2011 to 2016, quite a lofty aim indeed.

**Appendix 1 –Greenpass Group Structure**



**Appendix 2 – Extract of Media Release – on 26 January 2011.**

*“The Sri Lanka Accounting and Auditing Standards Monitoring Board has determined that the estimates of fair value of biological assets used by Udrata Plantations Limited in its financial statements for the year ended 31 March 2010 and 31 March 2009 are clearly unreliable. The company has also not been able to provide the Board with any other estimates which are reliable. Further, the method of valuation used for the year ended 31 March 2009 was not in accordance with International Accounting Standard, IAS 41 Agriculture, which the company has purportedly adopted.*

*As the company has purportedly adopted IAS 41, the Board has concluded that the biological assets should have been valued at a value which approximates cost in accordance with Para. 24 (b) of IAS 41 or at cost less accumulated impairment in accordance with paragraph 30 of IAS 41. Based on such valuation the company would not show a net profit for the relevant financial period.*

*As the impact on the financial statements is substantial the Board has decided to refer the non-compliance to the Attorney General. The Board has also decided to investigate the compliance with auditing standards by the auditors in relation to the audit of financial statements of the company”*

## Appendix 3- Greenpass Group –Financial Information

GREENPASS RESOURCE HOLDINGS (PVT) LIMITED				Page 1	
INCOME STATEMENT					
FOR THE YEAR ENDED 31ST March, 2010					
	Notes	Group		Company	
		2009/10	From 22nd May 2008 to 31st March 2009	2009/10	From 22nd May 2008 to 31st March 2009
		Rs.'000	Rs.'000	Rs.'000	Rs.
Revenue	3	4,885,741	-	28,656	4,860
Cost of Sales	4	(4,556,096)	-	-	-
Gross Profit		329,645	-	28,656	4,860
Other Income	5	163,256	-	-	-
Negative Goodwill		-	2,224,488	-	-
Gain on change in fair value of Timber		237,785	-	-	-
		730,686	2,224,488	28,656	4,860
Administration Expenses		(219,178)	(69)	(8,964)	(69)
Finance Costs	6	(170,448)	-	(15,652)	-
		(389,626)	(69)	(24,616)	(69)
Profit/(Loss) Before Taxation	8	341,060	2,224,419	4,040	4,791
Income Tax Expenses	9	(37,782)	-	(779)	-
Profit/(Loss) After Taxation		303,278	2,224,419	3,261	4,791
Attributable to;					
Equity Holders of the Company		257,786	2,224,419	3,261	4,791
Minority Interest		45,492	-	-	-
		303,278	2,224,419	3,261	4,791

Appendix 3 - Greenpass Group Financial Information (contd.)

<b>GREENPASS RESOURCE HOLDINGS (PVT) LIMITED</b>					
<b>BALANCE SHEET</b>					
<b>AS AT 31ST MARCH, 2010</b>					
<b>Notes</b>	<b>Group</b>		<b>Company</b>		
	<b>31/3/2010</b>	<b>31/3/2009</b>	<b>31/3/2010</b>	<b>31/3/2009</b>	
	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>	
<b>ASSETS</b>					
<b>Non-current Assets</b>					
Leasehold Right to Bare Land of (JEDB/SLSPC) Estates	11	1,024,453	1,109,053	-	-
Immovable (JEDB/SLSPC) Estate Assets on Finance Lease (other than Bare Land) Property, Plant and Equipment	12	1,898,140	1,933,626	-	-
Biological Assets - Timber Plantations	13	5,258,471	4,382,491	-	-
	15	5,769,166	4,940,108	-	-
		<u>13,950,230</u>	<u>12,365,278</u>	<u>-</u>	<u>-</u>
Investments		-	89,710	1,071,650	911,650
Goodwill		516	-	-	-
<b>Current Assets</b>					
Inventories	18	463,514	317,024	-	-
Trade and Other Receivables	19	519,924	584,855	2,625	4,860
Amount Due From Related Parties	20	12,533	21,289	23,681	-
Cash and Cash Equivalents	21	55,954	17,720	6,150	48
		<u>1,052,441</u>	<u>940,888</u>	<u>32,456</u>	<u>4,908</u>
<b>Total Assets</b>		<u>15,002,671</u>	<u>13,395,876</u>	<u>1,104,106</u>	<u>916,558</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity Attributable to Equity Holders of the Parent</b>					
Stated Capital	22	1,068,000	900,000	1,068,000	900,000
Revaluation Surplus		310,150	-	-	-
Retained Earnings		2,417,759	2,224,419	6,852	4,790
		<u>3,795,909</u>	<u>3,124,419</u>	<u>1,074,852</u>	<u>904,790</u>
Minority Interest		1,301,812	1,256,320	-	-
Total Equity		<u>5,097,721</u>	<u>4,380,739</u>	<u>1,074,852</u>	<u>904,790</u>
<b>Non-current Liabilities</b>					
Interest Bearing Borrowings	23	1,360,450	1,058,110	-	-
Retirement Benefit Obligations	24	979,389	740,828	-	-
Deferred Income	25	547,532	453,411	-	-
Net Liability to Lessor of JEDB/SLSPC Estates	26	543,597	550,984	-	-
Redeemable Debentures	27	100,000	100,000	-	-
		<u>3,530,968</u>	<u>2,903,333</u>	<u>-</u>	<u>-</u>
<b>Current Liabilities</b>					
Trade and Other Payables	28	1,022,260	920,663	12,057	11,650
Amounts Due to Related Parties	29	12,669	3,214	16,418	118
Dividend Payable		-	-	-	-
Short Term Borrowings		270,383	210,150	-	-
Income Tax Liability		34,604	7,563	779	-
Bank Overdrafts		220,250	140,256	-	-
Current Portion of Interest Bearing Borrowings	23	640,260	326,289	-	-
Current Portion of Net Liability to Lessor of JEDB/SLSPC Estates	26	4,173,557	4,503,669	-	-
		<u>6,373,983</u>	<u>6,111,804</u>	<u>29,254</u>	<u>11,768</u>
<b>Total Equity and Liabilities</b>		<u>15,002,671</u>	<u>13,395,876</u>	<u>1,104,106</u>	<u>916,558</u>



## Appendix 4 - Estimated Cost and Projected Cash flows - Two Hotel Projects

Table 1. Rs.Mn

	Giragama Project	Ayr Project
<b>Estimated Cost</b>		
Building	383	225
Hotel Backup	118.6	69.4
Preliminary Expenses	2.4	1.6
	<u>504</u>	<u>296</u>
<b>Cost is financed by</b>		
Equity financing	393.7	231.4
Borrowings	110.3	64.6
	<u>504</u>	<u>296</u>

Table 2; Projected Cash Flows -Giragama Project

Rs.Mn

Year	Cash Generated from			Net Cash Flow
	Operation	Financing	Investing	
0	0	503.9	(503.90)	0.00
1	95.70	(22.72)		72.98
2	146.64	(22.72)		123.92
3	139.72	(22.72)		117.00
4	152.70	(22.72)		129.98
5	168.39	(22.72)		145.67
6	174.54			174.54
7	181.11			181.11
8	187.65			187.65
9	194.36			194.36
10	201.20			201.20

**Appendix 4 – Estimated Cost and Projected Cash Flows –Two Hotel Projects (Contd)**

**Table 3; Projected Cash Flows -Ayr Project**  
**Rs.Mn**

Year	Cash Generated from			Net Cash Flow
	Operation	Finansing	Investing	
0	0	296.1	(296.10)	0.00
1	57.82	(13.34)		44.48
2	84.24	(13.34)		70.90
3	79.95	(13.34)		66.61
4	87.76	(13.34)		74.42
5	96.87	(13.34)		83.53
6	100.58			100.58
7	104.11			104.11
8	107.62			107.62
9	111.33			111.33
10	115.33			115.33

## Appendix 5

Table 1

Historical share prices of Conreach Hotel Holdings PLC (Rs.)					
	Dec 2010	Jan 2011	Feb 2011	Mar 2011	Apr 2011 (only 1st two weeks)
Highest Market Price	175.00	170.25	195.00	190.00	180.00
Lowest Market Price	155.00	160.00	160.00	190.00	170.00
Source: Colombo Stock Exchange					

Table 2: Shareholding Structure as at 31/03/2011			
No.	Name of the Shareholder	Share Holding	Holding%
1	Mr.Jehan Zoysa and Family	3,816,000	53.00%
2	Compact Management Services Ltd	2,159,280	29.99%
3	Other Shareholders	1,224,720	17.01%
	<b>Total</b>	<b>7,200,000</b>	<b>100.00%</b>

## Appendix 5 (Contd)

Table 3

<b>Historical Financial Position of Conreach Hotel Holdings PLC</b>					
Balance Sheet as at 31 March					
Rs.'000'	2007	2008	2009	2010	2011
<b>ASSETS</b>					
<b>Non-current Assets</b>					
Property, Plant and Equipment	798,045	790,508	780,794	795,967	783,989
Investments in associates	381,437	466,023	484,219	453,360	446,866
Other Investments	4,452	12,535	12,535	12,535	12,535
Loans to associate company	750	750	750	-	
	1,184,684	1,269,816	1,278,298	1,261,862	1,243,390
<b>Current Assets</b>					
Inventories	10,119	9,601	9,709	8,616	8,651
Receivables and Prepayments	39,619	40,330	48,491	28,401	69,915
Current tax receivables	3,064	1,304	2,756	4,493	3,553
Cash and cash equivalents	42,543	62,224	68,760	47,446	12,785
	95,345	113,459	129,716	88,956	94,904
<b>Total Assets</b>	<b>1,280,029</b>	<b>1,383,275</b>	<b>1,408,014</b>	<b>1,350,818</b>	<b>1,338,294</b>
<b>EQUITY &amp; LIABILITIES</b>					
<b>Capital and reserves</b>					
Stated Capital - o/s - 7,200,000	90,731	90,731	90,731	90,731	90,731
Capital reserves	829,567	764,436	758,150	751,864	748,081
Retained earnings	262,790	375,544	408,049	375,424	359,075
	1,183,088	1,230,711	1,256,930	1,218,019	1,197,887
<b>Non-current liabilities</b>					
Borrowings	60,000	43,750	36,250	28,810	23,546
Deferred tax liabilities	1,588	55,160	54,545	52,925	47,311
Defined benefit obligations	4,695	4,659	6,263	3,921	5,803
	66,283	103,569	97,058	85,656	76,660
<b>Current liabilities</b>					
Trade and other payables	23,489	26,705	39,013	22,163	46,462
Borrowings	7,169	22,290	15,013	24,980	17,285
	30,658	48,995	54,026	47,143	63,747
<b>Total Liabilities</b>	<b>96,941</b>	<b>152,564</b>	<b>151,084</b>	<b>132,799</b>	<b>140,407</b>
<b>Total Equity and Liabilities</b>	<b>1,280,029</b>	<b>1,383,275</b>	<b>1,408,014</b>	<b>1,350,818</b>	<b>1,338,294</b>

Appendix 5 (Contd)

Table 4

<b>Historical Financial Performance of Conreach Hotel Holdings PLC</b>					
<b>Income Statements for the year ended 31 March</b>					
<b>Rs.'000'</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
Turnover	71,316	163,220	119,439	167,947	181,878
Direct Costs	(20,023)	(47,466)	(43,366)	(61,435)	(56,486)
	51,293	115,754	76,073	106,512	125,392
Marketing Expenses	(3,308)	(3,902)	(4,455)	(3,731)	(3,268)
Administrative Expenses	(77,842)	(101,667)	(111,915)	(124,537)	(115,418)
Other Operating Income	2,288	6,524	18,529	5,484	6,600
Amortisation of Negative goodwill	9,963	-	-		
Operating (loss)/Profit	(17,606)	16,709	(21,768)	(16,272)	13,306
Finance Income/(Cost) - net	1,690	3,933	10,301	(1,501)	2,723
Share of profits/ (losses) of associates	(6,565)	14,709	(26,173)	(6,494)	16,240
(Loss)/profit before tax	(22,481)	35,351	(37,640)	(24,267)	32,269
Tax release / (charge)	3,330	(7,966)	5,261	3,467	(454)
Profit/(loss) after tax	(19,151)	27,385	(32,379)	(20,800)	31,815

## Appendix 5 (Contd)

### Table 5

Summary of Revenue Budget for Financial Year 2011/12 to 2015/2016

DESCRIPTION	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
	TOTAL Rs. ' 000	TOTAL Rs. ' 000	TOTAL Rs. ' 000	TOTAL Rs. ' 000	TOTAL Rs. ' 000
NET ACCOMMODATION SALES	405,272	421,484	434,128	442,810	447,238
NET OUTLET SALES	27,910	29,026	29,897	30,495	30,800
TOTAL SALES	433,182	450,510	464,025	473,305	478,038
Direct Material Cost	87,263	90,753	93,475	95,346	96,299
Service Charge	28,983	30,142	31,047	31,667	31,984
Other Direct Expenses	11,653	12,119	12,483	12,732	12,860
Direct Labour	2,921	3,037	3,129	3,191	3,223
TOTAL VARIABLE COST	130,820	136,052	140,134	142,936	144,365
GROSS OPERATING PROFIT	302,362	314,458	323,891	330,369	333,673
NET OTHER INCOME	2,629	2,655	2,682	2,709	2,736
NET NON-OPERATING INCOME	1,646	1,663	1,679	1,696	1,713
<i>TOTAL OTHER/NON-OPE. INCOME</i>	4,275	4,318	4,361	4,405	4,449
GROSS PROFIT	306,637	318,776	328,252	334,774	338,122
Personnel Cost	51,662	53,212	54,276	54,819	57,560
Marketing & Sales Promotion	8,059	8,301	8,467	8,551	8,979
Administration & Establishment	74,385	76,617	78,149	78,930	82,877
TOTAL OVERHEAD COST	134,106	138,129	140,892	142,301	149,416
NET PROFIT(Before Inter & Deprn.)	172,531	180,647	187,361	192,473	188,707
Depreciation	(19,800)	(19,800)	(19,800)	(19,800)	(19,800)
Finance Charges	(12,525)	(9,647)	(7,200)	(4,800)	(2,400)
Dividend Income	1,729	1,729	1,729	1,729	1,729
NET PROFIT/LOSS	141,935	152,929	162,090	169,602	168,236

**Appendix 6- Extract from the Central Bank Annual Report 2010**

**The Central Bank Annual report 2010- 'RECENT ECONOMIC DEVELOPMENTS' HIGHLIGHTS OF 2010 AND PROSPECTS FOR 2011 –Agricultural Sector;**

- *Total tea production during the first half of 2010 increased by 26.2 per cent to 166.9 million kg compared to the corresponding period of 2009.*
- *The prices at the Colombo Tea Auction (CTA) continued to remain high in the first half of 2010.*
- *All categories of rubber registered the highest ever price in Sri Lanka in the first half of 2010.*
- *Coconut production declined by 12 per cent to 1,371 million nuts in the first half of 2010 compared to an impressive growth of 18 per cent in the first half of 2009.*
- *The price of coconut oil, copra and fresh coconuts declined in the first half of 2010.*
- *The production of Other Field Crops recorded mixed performance during the 2009/2010 Maha season.*