



NEW FRONTIERS

Aitken Spence Hotel Holdings PLC
Annual Report 2007/08



The background is a solid dark green. Overlaid on this are several thick, white, curved lines that originate from a single point at the bottom center and sweep upwards and outwards, creating a sense of movement and expansion. These lines vary in length and curvature, some forming broad arches while others are more compact.

NEW FRONTIERS

Entered. Explored. Established.

Paving the path with a vision for the future;
unraveling experiences unmatched and surreal;
exploring with conviction to leverage synergies;
consolidating operations with strategic focus;
constantly seeking new frontiers of development.

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Our Brands



HOTELS & RESORTS

Sri Lanka

The Tea Factory, Nuwara Eliya
Neptune Hotel, Beruwala
Neptune Ayurveda Village, Beruwala
Earl's Regency, Kandy
Hotel Hilltop, Kandy
Bandarawela Hotel, Bandarawela
Browns Beach Hotel, Negombo
Ramada Resort, Kalutara

India

Poovar Island Resort, Trivandrum
Barefoot Resort, Andaman Islands

Oman

Al Falaj Hotel, Muscat
Ruwi Hotel, Muscat
Sur Plaza Hotel, Sur
Al Wadi Hotel, Sohar

HERITANCE
Hotels & Resorts

Sri Lanka

Heritance Ahungalla
Heritance Kandalama



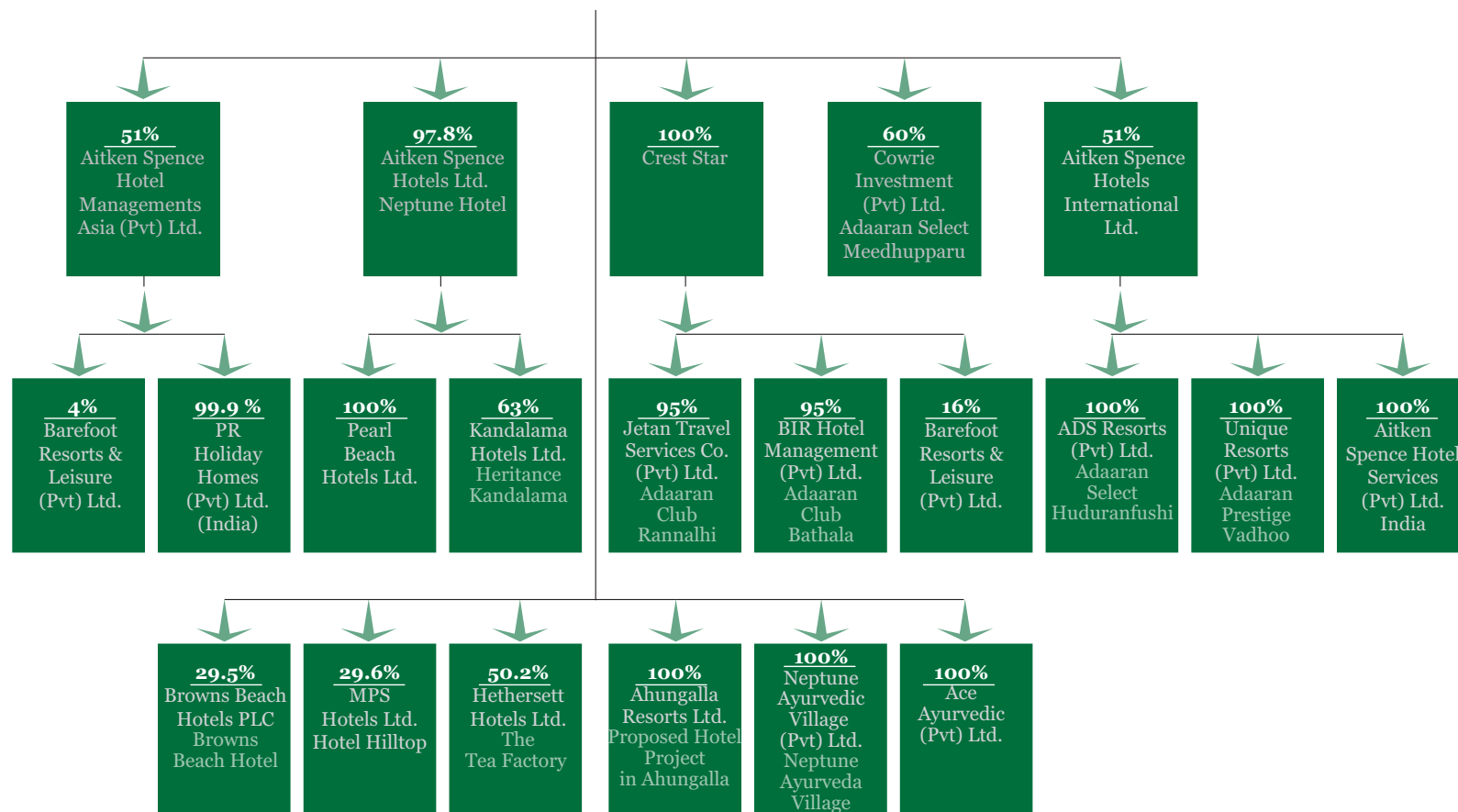
Maldives

Adaaran "Prestige" Water Villas, Meedhupparu
Adaaran "Prestige" Ocean Villas, HudhuRan Fushi
Adaaran "Prestige" Vadoo
Adaaran Ayurveda Village Meedhupparu
Adaaran "Select" Meedhupparu
Adaaran "Select" HudhuRan Fushi
Adaaran "Club" Rannalhi
Adaaran "Club" Bathala

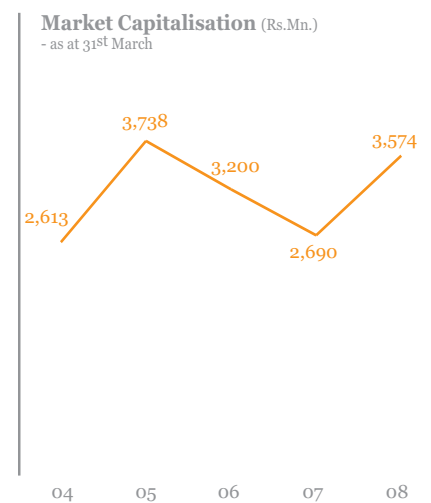
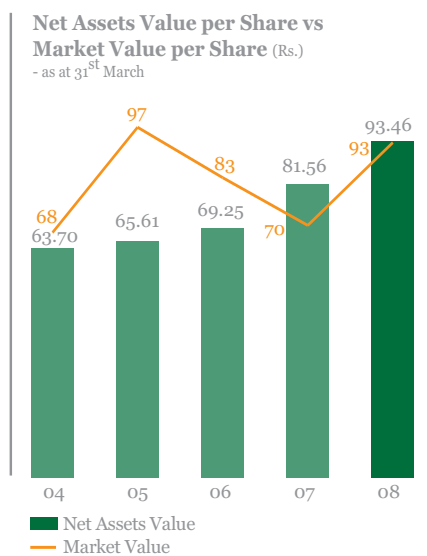
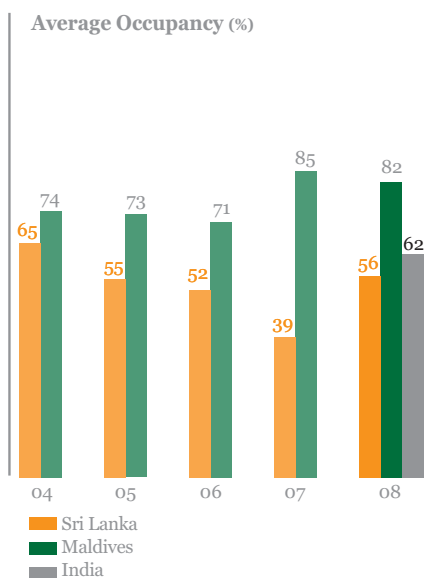
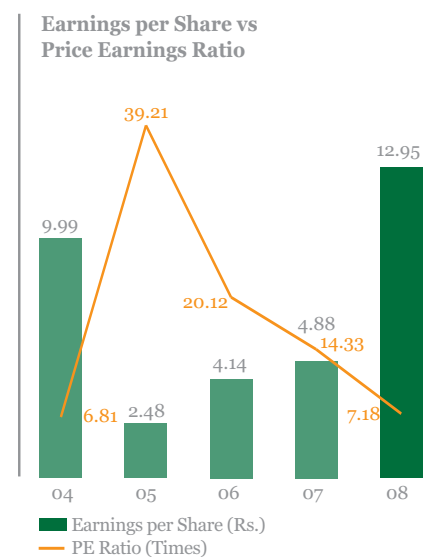
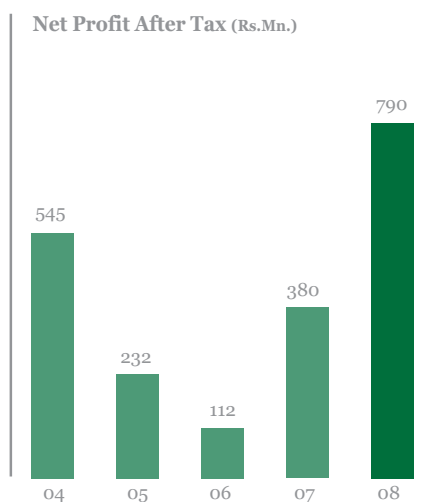
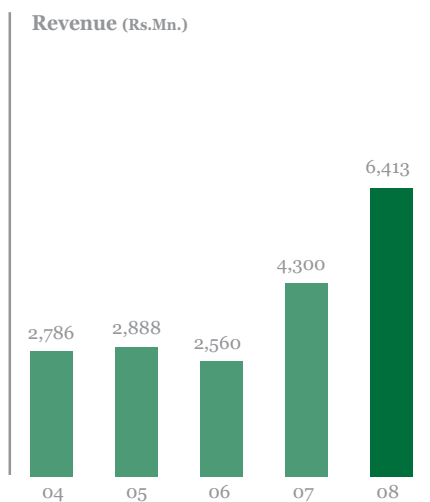
The Group Portfolio

Aitken Spence Hotel Holdings PLC

Heritage Ahungalla



Five Years at a Glance



Our Properties



Heritage Ahungalla

Heritage Ahungalla

Situated approximately 115 km's away from the airport on the southern coastal stretch, Heritage Ahungalle is a 5 star deluxe property with 154 rooms. The hotel has 3 restaurants including a 24 hour coffee shop and a fine dining restaurant, 4 bars and a Night Club. The Hotel also has facilities for business events, recreation, sports and wellness.



Heritage Kandalama

Heritage Kandalama

Designed by the renowned Architect Geoffrey Bawa, this architectural wonder nestled overlooking the Kandalama lake is a 5 star deluxe property with 152 rooms. Heritage Kandalama has 3 restaurants including a fine dining restaurant and 02 bars and a wellness spa managed by Six Senses. The hotel also has facilities for conferences and meetings.

Neptune Hotel

Situated approximately 90 km's away from the airport on the southern golden mile in Beruwala, Neptune Hotel stands out as a popular holiday resort. The hotel has 84 rooms with a restaurant, 2 bars, recreational and sports facilities and a venue for business events.

Neptune Hotel



Neptune Ayurveda Village

The Ayurveda village, located adjacent to the Neptune Hotel, caters to an exclusive segment seeking wellness and health holidays in Sri Lanka. The village comprises of 20 air conditioned bungalows, 7 individual therapy rooms and 3 herbal-baths with a Meditation and Yoga Centre.

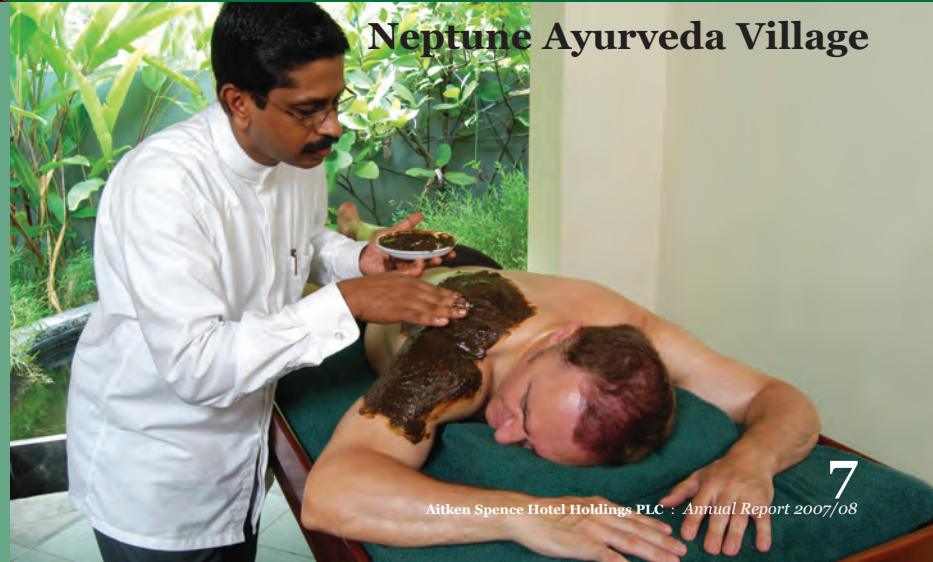
The Tea Factory



The Tea Factory

The Tea Factory is situated 6800 ft above sea level amidst the misty mountains with a panoramic view of the natural landscapes. This classical beauty rated by Sunday Times of England as one of the preferred 100 places to stay in the world, is a former tea factory converted to a hotel whilst retaining the original structure. The hotel has 57 rooms, 2 bars, 2 restaurants including fine dining in a railway carriage converted to a restaurant.

Neptune Ayurveda Village





Adaaran “Prestige” Water Villas, Meedhupparu

Adaaran “Prestige” Water Villas, Meedhupparu

Standing clearly above the rest, Adaaran Prestige Water Villas is a place that needs no further explanation. Situated on the Island of Meedhupparu in the Raa Atoll of the breathtaking Maldives; 20 luxurious water villas await those seeking the ultimate holiday



Adaaran “Prestige” Ocean Villas, HudhuRan Fushi

Adaaran “Prestige” Ocean Villas, HudhuRan Fushi

A selection of 40 exclusive Ocean Villas, with a distinct local touch. Enjoy a new culinary experience of fine dining at a location of your choice with a butler in attendance.

Adaaran “Prestige” Vadoo

Is a veritable diver's paradise with a beautiful house reef boasting different dives for both the seasoned and the novice. With beautifully landscaped gardens, a majestic infinity swimming pool and intimately placed spa facilities, Vadoo is by far the most unique island with 50 brand new subliminally appointed villas on the ocean in the Adaaran Prestige Collection.



Adaaran “Prestige” Vadoo

Adaaran “Select” Meedhupparu

At Meedhupparu every sense is enhanced and pampered; every facility for the uninhibited enjoyment of leisure is at hand. Here it is actually possible to enjoy a care free life.



Adaaran “Select” Meedhupparu



Adaaran “Select” HudhuRan Fushi

Adaaran “Select” HudhuRan Fushi

The name denotes “Island of white gold” in Dhivehi, the language of The Maldives. This island situated in the North Male Atoll, clearly lives up to the expectation of the name. The resort is a natural lush green palm grove island blended with a variety of tropical flora and fauna.



Adaaran “Club” Bathala

Adaaran “Club” Bathala

For divers and lovers of the undersea world, Adaaran Club Bathala remains the finest dive resort in Maldives. Its unique location at the edge of the Ari Atoll makes it the perfect base for exploring the dozens of excellent dive sites nearby.

Adaaran “Club” Rannalhi

In old times Rannalhi was the favourite transit destination for Islanders, being the final fresh water landfall on the journey south from Khaafu Atoll. Known as the measure of gold (Ran means gold and nalhi an unit of measure) for its beauty and fertility. Club Rannalhi is now home to an all action fun resort where good times and friendship make for unforgettable holidays.



Adaaran “Club” Rannalhi



Adaaran Ayurveda Village Meedhupparu

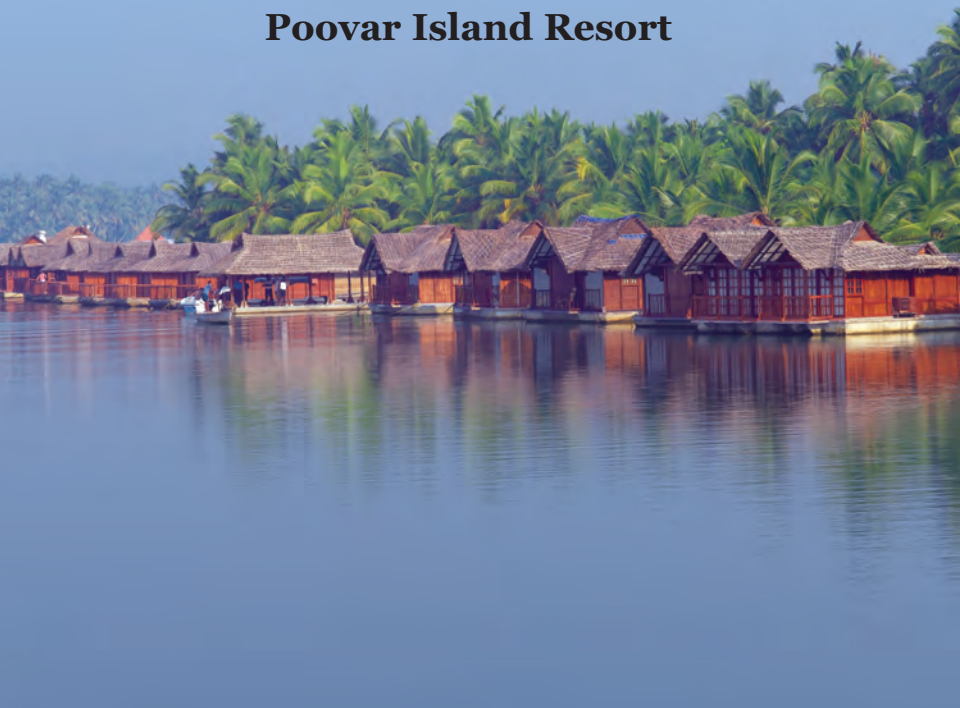
Adaaran Ayurveda Village Meedhupparu

Ayurveda at the resort will help you attain perfect, healthful balance between inner and outer environments. Our exclusive location of the resort guarantees the privacy and tranquillity necessary for those wishing to achieve complete wellness.

Poovar Island Resort

This unique property, in the backwaters of Kerala sits majestically in front of a relaxing water body which will captivate your senses. The resort has 68 rooms including 16 floating cottages. The other facilities include two restaurants, a pool bar, conference hall and a swimming pool. The resort also has an Ayurveda centre providing traditional Ayurveda treatments to rejuvenate mind, body and soul.

Poovar Island Resort



Al Wadi Hotel

Al Wadi Hotel is located 200 Km's from the Seeb International airport - in the city of Sohar, the ancient maritime capital of Oman and home of Sindbad the Sailor. Sohar was recently voted the most beautiful city in the Middle East making it a 'must-visit' place for visitors to Oman. Sohar, is situated on the Batinah coast rich in heritage & culture, making it ideal for tourists who have time to explore the Wadis & the Forts while experiencing great hospitality at the hotel.



Barefoot at Havelock

Barefoot at Havelock

Situated in one of the most romantic places on earth, 'Barefoot at Havelock' is an unique resort on beach no 7 which has been rated by Conde Nast Traveler as one of the best beaches in the world. The breathtaking vistas of an endless ocean, the spectacular 'Mahua' forest cover (part of a protected rain forest) and tranquil countryside gives the leisure seeker or the honeymooner an unforgettable experience. The resort has 18 cottages of which 10 cottages have been built on the lines of traditional Nicobari cottages. The Andamans are known as India's best kept secret for scuba diving. Canoeing, jungle treks, game fishing and excursions to nearby islands.

Al Wadi Hotel



Ruwi Hotel

From business traveler to eager sightseer, Ruwi Hotel offers traditional Omani hospitality blended with international standards of service. Located 25 km's from the Seeb International Airport, in the heart of the city center the hotel overlooks the main business district.



Ruwi Hotel



Al Falaj Hotel

Al Falaj Hotel

Al Falaj Hotel is conveniently located in the heart of the city with easy access to both the business district as well as tourist attractions. A pleasant 25 km drive from the Seeb International Airport will bring you to the Hotel, which is an ideal meeting point for business or pleasure. The Hotel offers the discerning traveller exotic cuisine, large Banquet facilities complemented by courteous staff and a choice of recreational activities that will help you to unwind.



Sur Plaza Hotel

Sur Plaza Hotel

The Sur Plaza Hotel is located in the picturesque city of Sur, 335 km's from Muscat. The traveller has a choice of a breathtaking drive along the coast or a discovering inland drive to reach Sur. The hotel is located close to the Green Turtle Beach at Ras-al-Hadd, a major tourist attraction in Oman together with other historical attractions in the area. Sur Plaza Hotel offers superior facilities and services for leisure and business travellers with a touch of traditional Omani hospitality and warmth.

Financial Calendar

27th June, 2008

Thirty-first Annual General Meeting

4th July, 2008

First and Final Dividend for 2007/08 (ex Dividend date 30th June 2008)

First week of August, 2008

Interim Statement for the three months ended 30th June 2008

First week of November, 2008

Interim Statement for the six months ended 30th September 2008

First week of February, 2009

Interim Statement for the nine months ended 31st December 2008

Group Financial Highlights

	2008	Group 2007 Re-stated
Performance for the Year		
Gross Revenue - Rs.'000	6,412,699	4,299,987
Group Profit Before Interest and Tax - Rs.'000	1,167,536	683,669
Group Profit Before Tax - Rs.'000	810,860	422,675
Group Profit After Tax - Rs.'000	789,566	380,434
Group Profit Attributable to Equity Holders of Parent - Rs.'000	512,651	202,591
Dividend Proposed - Rs.'000	38,433	28,825
Ordinary Dividend per Share - Rs.	1.00	0.75
Earnings per Share - Rs.	12.95	4.88
EPS Growth - %	165.37	17.87
Cost of Finance - Rs.'000	362,461	260,745
Increase in Cost of Finance - %	39.01	608.18
Interest Cover - Number of Times	3.22	2.62
Return on Equity - %	13.86	5.99
Pre Tax ROCE - %	10.13	7.03
Hotel Operations		
Average Occupancy - %	70	61
Position as at the Year End		
Total Assets - Rs.'000	10,568,278	8,790,981
Total Debt - Rs.'000	3,095,155	1,290,325
Total Equity - Rs.'000	4,811,809	4,007,666
Number of Shares in Issue - Number	38,433,144	38,433,144
Net Assets per Share - Rs.	93.46	81.56
Debt/Equity - %	64.32	32.20
Debt/Total Assets - %	29.29	14.68
Current Ratio	0.87:1	0.75:1
Quick Asset Ratio	0.80:1	0.7:1
Market/Shareholder Information		
Market Price per Share - Rs.	93	70
Market Capitalization - Rs.'000	3,574,282	2,690,320
Price Earnings Ratio - Number of Times	7.18	14.34
Dividend Payout - %	7.7	15
Dividend Yield - %	1.08	1.07
Value Added		
To Government - Rs.'000	343,325	273,614
To Employees - Rs.'000	760,721	516,093
To Lenders of Capital - Rs.'000	639,376	438,588
To Shareholders - Rs.'000	53,283	43,675
Retained for reinvestment and future growth - Rs.'000	995,809	511,882
Total Value Added - Rs.'000	2,792,514	1,783,852
Total Employees - Number	1,954	1,806



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New Frontiers of Leadership

Entered. Explored. Established.

Bold decisions and aggressive strategies have driven us to new frontiers of achievement this year.

An inherent pioneering spirit and progressive mindset continue to fuel us as we explore new potential, grasp new opportunities and mitigate risks on our journey towards the creation of a one-stop leisure powerhouse.

Chairman's Statement



Chairman's Statement

As a corporate that is a leader in the hospitality industry, Aitken Spence Hotel Holdings has constantly sought to set the pace through service innovation. A trendsetter can only achieve success if sufficient support is extended towards achieving its goals. At Aitken Spence Hotel Holdings we have witnessed and embraced the strength of this support. You, our shareholders have been the pivot of our operations. Your fortitude and belief in our actions despite the challenges that have plagued our industry in Sri Lanka have given us the assurance that whatever the circumstances, innovation can open new vistas of opportunity. In the light of this, it gives me great pleasure to present the Annual Report and Audited Accounts of Aitken Spence Hotel Holdings PLC for the financial year 2007/08.

Foresight has led to new prospects. Prospects that are beyond our shores but not beyond our reach. Prospects that have been fuelled by:

- A scenario of a downturn in Sri Lanka, which promoted a need to look beyond, at regional opportunities

- The support of the shareholders and the commitment of the Management

Industry Challenges

2007/08 continued to be a year of adversity for Sri Lanka. Increased incidents of violence and terrorism and the resulting adverse international publicity deterred a resurgence in tourist arrivals. Tourist arrivals to Sri Lanka in 2007 recorded 494,008 visitors, a fall of 11.7 per cent from that of 2006. However, the first three months of 2008 have indicated a positive upward trend in arrivals, the continuity of same remains heavily dependent on the prevalence of relative peace in the country.

The security situation in the country and the migration of experienced staff to other destinations where the industry is booming has severely affected the trade in Sri Lanka.

Operational costs also have been a deterrent to the Industry's growth. Sharp cost increases in main cost components such as energy and payroll as well as substantial increases in raw materials have sharply changed the business equation, thereby reducing profitability.

Summed up, the key challenges faced by the Sri Lankan tourism industry are:

- A situation of long-term peace
- A focused destination marketing strategy at a national level
- Increased accessibility into Sri Lanka through air links
- A focused effort to develop human resources for the future
- A critical focus on the business model of all Hotels in view of the spiralling cost

Likewise the challenges for overseas operations are:

- Lack of experienced, trained human resources
- Spiralling global fuel and food costs

Future Potential

I must reiterate that we remain confident of the future prospects for Sri Lanka's tourism industry. In an operational environment where peace is assured, we see great potential for growth. Sri Lanka as a destination is characterized as one that appeals to the high-end, high yield travel segment. Our continued focus on following a high-yield strategy therefore, is one that is born from the conviction that Sri Lanka's tourism industry is currently at a latent stage.

Chairman's Statement

With the down turn in the traditional European markets due to the travel advisories it is important that Sri Lanka focuses on emerging markets such as India, China, East Asia, Middle East and the Eastern Europe. Since emerging markets on average produce a lower yield due to shorter visit periods as opposed to the average 10-11 nights generated by traditional markets, it is critical that Sri Lanka gears itself to market the high yield segment within these emerging markets.

Sri Lanka's efforts to position itself as an eco-tourism destination falls well in line with the strategy adopted by Aitken Spence Hotels. Pacific Asia Tourism Authority (PATA) as an encouraging move towards sustainable tourism has applauded the Earth-Lung Initiative promoted by the Ministry of Tourism and the Sri Lanka Tourism Development Authority. Our Company has been at the forefront of sustainable tourism from its inception, therefore, we are keenly appreciative of the Ministry's efforts to position the destination as eco-friendly and responsive to the environment. As a corporate that has built an identity and garnered global recognition for our sustainability efforts, we feel that

this is an opportune time for the destination to pursue a similar positioning strategy.

A New Era in Tourism Promotion

As our shareholders will recall, I have been a proponent for the long delayed implementation of the new Tourism Act No. 38 of 2005.

This is an initiative that has been enthusiastically and warmly welcomed by private sector stakeholders in the industry, like ourselves, as a most timely piece of legislation that could foster public-private sector cooperation and collaboration in the industry. The Act, which came into effect on October 1, 2007, provided for the establishment of the Tourism Development Authority, the Sri Lanka Tourism Promotion Bureau and the Sri Lanka Institute of Tourism and Hotel Management in an effort to rejuvenate the country's tourism industry.

I am confident, as my colleagues in the industry are, that the future of Sri Lanka's tourism industry is now well placed for greater growth as all related parties engage in the destination's marketing and policy making as one integral unit, setting aside differences of opinion and points of view.

A collective, collaborative effort, I am sure will be the foundation of success for Sri Lanka's re-emergence as a tourism destination of repute.

We commit our resources to the industry, as we have in the past, in the recognition of the fact that substantial amounts of work and planning is yet required for the optimal engagement of all resources towards the implementation of a cohesive destination marketing strategy.

In view of this we reiterate the need for peace in Sri Lanka.

Greater Freedom of Air Travel

Whilst Sri Lanka announced an open skies policy as way back as 2004, bilateral open skies policies with a greater number of individual nations and a wider open skies framework is a necessity for the growth of both the aviation as well as the tourism industry in Sri Lanka. In an era where increasing fuel costs have been curtailing long haul passenger travel as air travel becomes increasingly more expensive, there is a dire need for a more aggressive open skies policy to be put in place. Over the years bilateral relations with India, Malaysia, Singapore and a host of South East Asian nations have been

Chairman's Statement

signed and sealed. It is now an opportune time for the same to be reached with European carriers.

Strategic Expansion for Risk Mitigation

In the year 2006/07, the Company undertook an ambitious drive to set up operations in hotel management in India whilst consolidating its existing operations in Maldives. Essentially, this strategic expansion was the outcome of a diligent risk mitigation strategy wherein the Company spread its risk perceptively to overcome the Company's concentration on returns from the Sri Lankan and Maldivian markets.

I am happy to report that Aitken Spence Hotels achieved its objectives as set out in the previous year and have continued to spread its risk by identifying further growth markets for expansion in the year under review. In enlarging its periphery of operations, the Company recognized Oman as a destination with burgeoning growth potential over the next decade. Within the highly dynamic Middle-Eastern cluster, Oman is projected to attract an approximate 15 million visitors by 2010.

The business model for expansion is one of limited investment at the inception. Entering into Management Contracts with property owners to manage the operations of the hotels under the brand identities of the 'Heritage Hotels and Resorts' and 'Aitken Spence Hotels and Resorts' has been the focus. The Maldivian, Adaaran Hotel's and Resorts has continued to focus the expansion in the Maldives.

Currently, in addition to the Sri Lankan hotels Aitken Spence Hotel Holdings manages five properties in the Maldives, four properties in Oman and two in India. In the forthcoming year 2008/09, the portfolio will increase to six properties in India, and five hotels in Oman.

We can assure you, our shareholders the promise of a fruitful return from this expansionary shift in operations within the next two financial years.

In looking to the future, the Company will continue to consolidate its operations in the region before expanding to other parts of the world. Our current position allows us to be selective in taking up opportunities and this strategy of selective choice will only create a more robust

operating environment for the Company. We will continue to exploit the synergies created by our operations in Sri Lanka with the rest of the portfolio and garner greater synergies for the future.

In Conclusion

I extend my sincere appreciation to the Board of Directors who have worked diligently towards creating greater value for our shareholders, our Management team has worked with unwavering passion to deliver the vision and objectives laid before them and our shareholders for supporting our endeavours at all times. Appreciations are also due to all stakeholders including tour operator partners as well as our esteemed clients who have been the inspiration for our growth.



D.H.S. Jayawardena

Chairman

30th May, 2008

Managing Director's Review



Acknowledgement of Status

The financial year 2007/08 marked yet another year of successful operations for Aitken Spence Hotel Holdings PLC. A growth year wherein the Company grew more robust through consolidation, it was also a year of harvesting returns from the previous financial year.

International acknowledgement of the Company's performance as a leader in hospitality management came by way of further offers of Management Contracts from regional and overseas operators.

Harnessing the achievements and expertise yielded in the Sri Lankan hospitality industry, the Company undertook offers for management of four new properties in Oman consequent to bidding with international hotel management companies for the contracts. At Aitken Spence Hotels we consider this show of confidence by international property owners as an achievement and recognition of not only our capabilities but also our excellence in the industry.

By capitalizing on the core competencies that we have established in the Sri Lankan hospitality industry together with our differentiation strategies, Aitken Spence Hotels has strategically leveraged the power of its experience and brand to penetrate the overseas hospitality industry. By pitching our service and product delivery well above the norm we have continued to set ourselves apart from the rest both in Sri Lanka and outside, thereby establishing and exploring new frontiers.

Managing Director's Review

As a leader in the hospitality industry in Sri Lanka, our global outreach, experience and expertise has been further strengthened by our forays into the highly competitive Indian, Maldivian and Omani markets.

Meeting Challenges with Innovation

Our operations in Sri Lanka continue to be our focal interest. However, the current security situation within the country has led us to follow a latent strategy whereby our operations in Sri Lanka have served a complimentary role to operations in other markets. However, from a service orientation we have embarked on a number of initiatives in the domestic market, which sets the pace for accelerated growth in a more conducive environment.

Human Resources

Going forward, Sri Lanka's hospitality industry will face a severe crisis brought on from a lack of experienced human resources. The industry has experienced an exodus of expertise with migration and overseas employment being lucrative alternatives as tourism and hospitality boom in other markets. The local industry experiencing stagnation in career development and inadequate compensation has prompted industry personnel to leave the Sri Lankan industry. Our recognition of this future challenge has prompted a strategy to mitigate and effectively manage same.

An initiative aimed at stemming the outflow of resources from within the Aitken Spence Group and minimizing the possible loss of expertise to overseas employers in the long term was set in place during the year. Under the direct purview of our holding company - Aitken Spence PLC - Aitken Spence Resources, an entity that serves as a resource management centre was established. Skilled experts in hospitality will be afforded the opportunity through Aitken Spence Resources to be seconded to our own operations in overseas markets thereby giving them access to both new experiences as well as an avenue for higher income generation. Moreover, the entity provides the assurance of confirmed employment status within the Aitken Spence Hotel Holdings should they wish to return to Sri Lanka thus replenishing the expertise of the Group. Those registered within the Aitken Spence Resources database will also have accessibility to an extensive portfolio of recruiters in the global arena.

During the year under review, pre-empting a short fall in expertise in a scenario where Sri Lanka's tourism industry witnesses a resurgence, and in acknowledgement of the need of the industry to be ready for rapid growth, we launched a resource development centre - the Aitken Spence School of Hospitality. However, the initiative goes beyond commercial value as it seeks to enrich the hospitality industry as well as create a sustainable avenue of

livelihood for countless unemployed youth who desire employment but are unable to secure positions due to a lack of skill. The project therefore, was developed and launched with a view to providing skills enhancement to rural youth with a guaranteed job. We consider this initiative to be one of our focal commitments to Sri Lanka's society. Partnering with an NGO our school develops and empowers youth to acquire Industry relevant skills for career development and has successfully trained 75 youth during the year who are currently employed both within and outside the Aitken Spence Hotel chain.

Rising Operational Costs

Rising costs - in part due to increasing energy and food prices - and as a result of the culmination of inflation pushed operational costs upwards during the year. However, given our positioning of key resorts in Sri Lanka as those that deliver an authentic Sri Lankan experience from cuisine to the arts, use of locally produced indigenous food, helped curtail the enlarging cost structure. Efficiency in power and water usage due to best practices adopted at each resort also assisted in creating greater efficiencies in energy utilization. However the increase in cost in the recent past is of much concern, given the stagnant demand for hotel rooms and the resultant pressure on pricing.

In other markets - Maldives, India and Oman - increasing the healthy demand for

Managing Director's Review

rooms enabled the Company to absorb much of the rising costs to the pricing structure.

Macro Issues

On a macro level, the Company worked together with the industry to overcome key issues facing the Sri Lankan tourism industry, namely the need for a cohesive, national level effort for a destination marketing strategy, and the increased necessity for airline links to critical markets, thereby enhancing the accessibility into Sri Lanka.

Summary of Performance

During the year in review, your company achieved a Profit before Interest and Taxation of Rs.1,168 million. For details of revenue and profits, I urge you to refer the Financial Review, pages 37 to 41 of this report.

However, I will take this opportunity to provide a snapshot of the operations for each market.

Sri Lanka

Focusing on the Sri Lankan operations, the Company continued to sustain its credibility as a hospitality service provider of excellence. Refurbishment programmes undertaken in the previous financial year to upgrade our two flagship properties in Ahungalla and Kandalama added to the appeal for these properties, as did the relaunch of the brand identities of both properties under the Heritance brand.

This position has been further substantiated by the fact that Heritance Kandalama maintained one of the highest levels of occupancy and patronage across the industry despite the adoption of niche marketing strategies.

Heritance Ahungalla demonstrated a similar status wherein a high pricing strategy in line with the exceptional service levels offered were not a deterrent to occupancy. Both Heritance Kandalama and Ahungalla maintained their reputation as prestigious “experiences” as opposed to mere Resorts.

From an overall perspective, the Sri Lanka operations, in addition to providing a solid base for future growth also served as a “showcase” for the acquisition of overseas management contracts. The excellence in operations and services allowed the Company to pitch itself well above that of other international contenders, a rare achievement and one that we at Aitken Spence are proud of.

Maldives

I am happy to note that our investments in the Maldives mitigated the adverse financial performance of the Sri Lankan sector. Maldives has been a stronghold for the Company since the commencement of our operations in this market and has been the very reason for the decision to expand in to India and the region as a follow through and replication of the same business model. Whilst in 2006/07 we further fortified our operations through a

branding exercise, during the year under review the Company mainly engaged in consolidating this newly unveiled brand. The focus of all resorts therefore, was to promote the name “Adaaran” amongst its clientele including that of the tour operator community.

We foresee the brand differentiation as a future focus strategy for this market.

The Adaaran Group also continued its growth strategy with the acquisition of a new resort - bringing the count to five resorts. In the forthcoming financial year, this resort will be fully refurbished and relaunched under the “Adaaran Prestige” brand.

India

India remains a strong growth market. During the year management of two properties commenced and four more are billed to commence operations in the forthcoming financial year including one Heritance Resort.

Oman

Our foray into new frontiers in Oman, places the Company in strong stead for growth. With 4 properties under management we foresee tremendous potential within this market. As a destination that is projecting tourist arrivals approximating 15 million by the year 2010, I need not elaborate further on the scale and scope of operations that are a possibility for the Company in the future.

Managing Director's Review

Recognition of our Valued Customers

Our customers have been pivotal to the growth of the organization over the years. In recognition of their loyalty, the Company launched an exclusive privileges scheme as a reward mechanism for the domestic market during the year. Termed 'Diamond Club Members' the programme includes redemption of points on future bookings, free stay against reward points at any of the Heritance Hotels and Resorts and Aitken Spence Hotels in Sri Lanka, room upgrades against reward points, special recognition to all members at the hotel, purchase of gift vouchers against reward points and the ability to make priority bookings.

In Conclusion

I am happy to note that we remain amongst very few companies who have posted favourable financial results in the industry, an achievement attributable to foresight, being different to all others in the market. Maintaining consistently high service levels also have been a key contributor to our achievements.

Our passion for the people who we consider to be the backbone of this operation and the heart and soul of Aitken

Spence Hotels has been a constant. Our dedication to sustainability permeates to every level of the Company's structure and is a principle both the Company and each one of its individual hotels use as a guiding light in conducting business.

I must therefore, reiterate our dedication to the well-being of the environment, the communities within which we operate, our employees, our shareholders, suppliers, our customers, partners and all stakeholders who are the centre of our operations.

Appreciation is due to all our stakeholders for the support and encouragement without which we would not have achieved what we have today and also to the Management team and all staff of the Aitken Spence Hotel Holdings Group for their dedication and untiring efforts to steer the Company forward. To the Board of Directors, my sincere appreciation for their visionary guidance.



J.M.S. Brito

Managing Director

30th May, 2008

Board of Directors

Mr. D.H.S. Jayawardena

Mr. Harry Jayawardena is one of Sri Lanka's most successful businessmen, and heads many successful enterprises in very diverse fields of activity. He is the Founder Director and current Chairman of the Stassens Group of Companies - a diversified group in exports and import trade, and Lanka Milk Foods (CWE) Ltd. He is also the Chairman of the Distilleries Company of Sri Lanka Ltd., the Sri Lanka Insurance Corporation, Lanka Bell (Pvt) Ltd., and a Director of Hatton National Bank, the largest listed bank in Sri Lanka. He is presently the Honorary Consul for Denmark.

Mr. Jayawardena was appointed to the Board of Aitken Spence & Co. Ltd., on 1st April 2000 and has been Chairman of the Company since 25th April 2003.

Mr. J.M.S. Brito

Mr. Rajan Brito is a Law Graduate of London University, a Fellow of the Institute of Chartered Accountants of England and Wales and obtained a Master's Degree in Business Administration from the City Business School, London. Together with this multi-disciplined knowledge, he also brings with him a wealth of 25 years of international experience working with Price Waterhouse - London, British EverReady PLC, Minmetco Group, World Bank and PERC. Presently

Mr. Brito is Chairman of the Development Finance Corporation of Ceylon and the DFCC Vardhana Bank. He is a former Chairman of Sri Lankan Airlines, and was a non-executive Director of Sri Lanka Insurance Corporation, the Strategic Enterprise Management Agency and the Task Force for Rebuilding the Nation.

Mr. Brito was appointed to the Board of Aitken Spence & Co. Ltd. in April 2000, appointed Managing Director in January 2002; and Deputy Chairman and Managing Director in April 2003.

Mr. R.E.V. Casie Chetty

Mr. R.E.V. Casie Chetty is the Company Secretary of Aitken

Spence and Company PLC., and a Director of Aitken Spence Group Ltd., Aitken Spence Hotel Holdings PLC., and various other companies in the Aitken Spence Group. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka, a Fellow of the Chartered Institute of Management Accountants of UK and a Fellow of the Certified Management Accountants of Sri Lanka. He is also a Member of the Chartered Management Institute of UK and has been awarded the Joint Diploma in Management Accounting Services. He has been actively involved in numerous committees of Professional Institutes and Chambers of Commerce. He served as a Member of the Advisory



Mr. D.H.S. Jayawardena

Mr. J.M.S. Brito

Mr. R.E.V. Casie Chetty

Mr. S.M. Hapugoda

Mr. C.M.S. Jayawickrama

Mr. K.A.A.C. Perera

Mr. G.P.J. Goonewardene

Commission Constituted under the Companies Act No. 17 of 1982. He is currently a Member of the Council of the Employers Federation of Ceylon and an Executive Committee Member of the Chartered Management Institute - Sri Lanka Branch.

Mr. S.M. Hapugoda

Mr. Malin Hapugoda heads the Hotel Sector of the Group. He is a professional hotelier counting many years of managerial experience at senior level within several hotel companies and is the Immediate Past President of the Tourist Hotels' Association of Sri Lanka and a Member of the Tourism Cluster of the National Council for Economic Development (NCED). He is a

Fellow of the Chartered Institute of Management, UK. He is a graduate of the Sri Lanka Institute of Tourism & Hotel Management (SLITHM) and is a fellow and founder President of the Ceylon Hotel School Graduates Association. He holds a diploma in hospitality, restaurant and institutional administration from the Rayerson Institute of Technology, Toronto, Canada.

Mr. C.M.S. Jayawickrama

Mr. Susith Jayawickrama an associate member of the Chartered Institute of Management Accountants UK is presently the Director General Manager of Aitken Spence Hotels and serves on the Boards of several hotel companies

in the Group. He has extensive experience at senior management positions in the Group's hotel sector for almost two decades and has considerable industry exposure. At present he serves in the Tourist Hotels Association of Sri Lanka [THASL] Executive Committee and heads the THASL sub committee for Fiscal and Monetary Policy.

Mr. K.A.A.C. Perera

Mr. Chethiya Perera is the Chief Executive Officer of the Maldives Sector. He is a Fellow of the Ceylon Hotel School Graduates Association and is a Member of HCIMA, UK and the Institute of Management UK. He has had extensive overseas training and has considerable industry experience, particularly in the

Maldives. He also serves as the Managing Director of the hotel companies in the Maldives and counts two decades of experience with the Aitken Spence Group.

Mr. G.P.J. Goonewardene

Mr. Gemunu Goonewardene is the Director, Food and Beverage Services of Aitken Spence Hotels. He is a graduate of the Ceylon Hotel School and a Fellow of CHSGA. He has had extensive overseas training and experience and serves as a member of the Sri Lanka Tourist Board Hotels Classification Committee. He counts over three decades of experience with the Aitken Spence Group.

Group Core Team



Mr. S.M. Hapugoda



Mr. C.M.S. Jayawickrama



Mr. J.M. S. Brito



Mr. G.P.J. Goonewardene



Mr. Rohitha Rajarathne



Mr. K.A.A.C. Perera



Mr. Anil Udawatte

Mr. J.M.S. Brito

(Profile on page 24)

Mr. S.M. Hapugoda

(Profile on page 25)

Mr. C.M.S. Jayawickrama

(Profile on page 25)

Mr. G.P.J. Goonewardene

(Profile on page 25)

Mr. K.A.A.C. Perera

(Profile on page 25)

Mr. Rohitha Rajarathne

Mr. Rohitha Rajarathne is the Head of Engineering at Aitken Spence Hotels.

He is a Chartered Mechanical Engineer by profession and counts over two decades of professional experience after graduating from the University of Moratuwa. He served in the Sri Lanka Navy for over a decade and has had extensive overseas training and experience.

He has obtained a Postgraduate Marine Engineering qualification from Germany and holds an MBA from the University of Colombo. He is a Fellow Member of the Institute of Engineers, Sri Lanka.

Mr. Anil Udawatte

Mr. Anil Udawatte is Director, Sales & Marketing of Aitken Spence Hotels. He is a career Hotelier from Inter Continental Hotels

Corporation and a former Director of Sales & Marketing at Ceylon Inter Continental. He has over 20 years of experience in the hospitality industry in Food & Beverage, Front Office and Sales & Marketing and wide exposure and experience amongst international chain hotels & resorts in the Asia Pacific region.

Corporate Management



Mr. Tilak Gunawardana



Ms. Janaki Perera



Mr. Mangala Wijesekera



Mr. Upul Gamage



Mr. B.H.R. Sariffo'deen



Mr. Pradeep De Alwis



Mr. S.A. Nanayakkara



Mr. Danesha Perera

Corporate Management Profiles

Ms. Janaki Perera

Ms. Janaki Perera is the Director of the Corporate Merchandising Division of the Group. She holds a Bachelor's Degree in Arts from the University of Colombo and is a Member of the Institute of Personnel Management of Sri Lanka. Formerly she held the position as Director, Human Resource Management of Aitken Spence Corporate Finance (Pvt) Ltd. She counts over two decades of experience with the Aitken Spence Group.

Mr. Mangala Wijsekera

Mr. Mangala Wijsekera, Deputy General Manager Finance and Administration, is the Head of Finance and Administration of the overseas ventures of Aitken Spence Hotels.

He holds a Bachelors Degree in Mathematics from the University of Colombo and counts over 14 years of experience in the field of Finance. Prior to the present position he held the positions of Head of Finance of the Maldives Sector and Sri Lankan Sector of Aitken Spence Hotels.

Mr. B.H.R. Sariffo'deen

Mr. Ramzan Sariffo'deen heads the Round Tour Hotels of the group as Regional General Manager and Heritage Kandalama as General Manager. He is a Professional Hotelier counting many years of managerial experience in Sri Lanka and overseas. He is an Executive Committee Member of the Ceylon Hotel School Graduates Association and also the Cultural Triangle Hoteliers Association.

Mr. Danesha Perera

Mr. Danesha Perera is the head of the Central Purchasing Unit at Aitken Spence Hotels.

He is a Fellow of the Institute of Supply & Materials Management and currently holds the position of Vice President at the Institute of Supply & Materials Management. He has served in multi disciplinary companies in Sri Lanka and has undergone extensive training in foreign countries in the field of Production and Materials Management.

He represents the Institute of Supply & Materials Management as a forum member at the Organisation of Professional Associations (OPA) in Sri Lanka.

Mr. S.A. Nanayakkara

Mr. Amal Nanayakkara heads the Training & Development Sector of Aitken Spence Hotels in Sri Lanka and Overseas.

He is a Graduate of the Oberoi School of Hotel Management and holds a Diploma in Food & Beverage from the Ceylon Hotel School. He counts many years of experience in the hospitality industry locally and internationally. He is also a Fellow of the Ceylon Hotel School Graduates Association.

Mr. Pradeep De Alwis

Mr. Pradeep De Alwis is the Deputy General Manager in charge of Marketing of the Aitken Spence Hotels in India. He holds an MBA from the University of Sri Jayewardenepura and is a Member of the Chartered Institute of Marketing UK.

He also holds a Diploma in Print Technology & Management from the Sri Lanka Institute of Printing. He has over 15 years of experience in Sales & Marketing.

Mr. Upul Gamage

Mr. Upul Gamage is the Regional General Manager for South Coast Hotels of Aitken Spence and General Manager of the Heritage Ahungalla.

He is a Professional Hotelier, Fellow & Past President of Ceylon Hotel School Graduates Association and holds an MBA from the Postgraduate Institute of Management (PIM), Sri Jayewardenepura University.

Mr. Tilak Gunawardana

Mr. Tilak Gunawardana is Deputy General Manager Finance of Aitken Spence Hotels. He has over 17 years experience in Auditing, Finance and General Management acquired in Sri Lanka and overseas. Prior to joining the Group he worked in the Senior Management cadre of Ernst & Young and thereafter served as Vice President at Amba Research Lanka (Pvt) Ltd.

He is an Associate Member of the Institute of Chartered Accountants of Sri Lanka, the Society of Certified Management Accountants, Sri Lanka and a Member of the CPA - New Jersey. He is also a Member of the Fiscal & Monetary Affairs Sub Committee formed under the Tourist Hotels Association of Sri Lanka (THASL).

Operational Review

Global Tourism Trends

In the year 2007, global tourist arrivals grew by an estimated 6 per cent to reach an all time high of approximately 900 million as per statistics of the United Nations World Tourism Organization (UNWTO). In fact, world tourism enjoyed its fourth consecutive year of growth during the year, bypassing UNWTO's long-term forecast of 4.1 per cent growth.

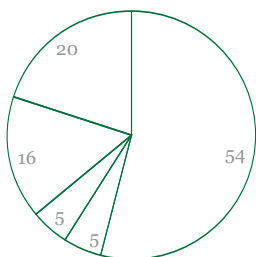
Growth was registered across all regions with the Middle East leading the regional growth ranking, with an estimated 13 per cent rise to 46 million international tourist arrivals. Emerging as a strong tourism destination with visitor numbers accelerating at a much faster rate than for the world in totality, Middle East was followed by Asia and the Pacific. Indicative growth of 10 per cent to 185 million, placed Asia and Pacific well above Africa which registered a growth of 8 per cent settling at 44 million visitor arrivals during the year. The Americas posted a 5 per cent growth achieving 142 million arrivals, driven by the robust results in North America as the USA doubled its growth rate. Europe, the world's largest destination region, with a share of over 50 per cent of all international tourist arrivals, grew by 4 per cent to reach 480 million.

UNWTO deemed 2007 tourism performance to be all the more impressive due to a range of factors: these include the continued

volatility of aviation fuel prices resulting in fuel surcharges by airlines, exchange rate fluctuations notably the continued weakness of the US dollar, and the economic slowdown and credit crunch in the last quarter of 2007. Health and security concerns persisted with the occurrence of isolated terrorist incidents, and isolated outbreaks of avian flu, foot and mouth disease and other health issues as well as natural disasters of the likes of floods, hurricanes, landslides and forest fires.

World Tourist Arrivals for 2007 (%)

Europe	54
Middle East	5
Africa	5
Americas	16
Asia & Pacific	20



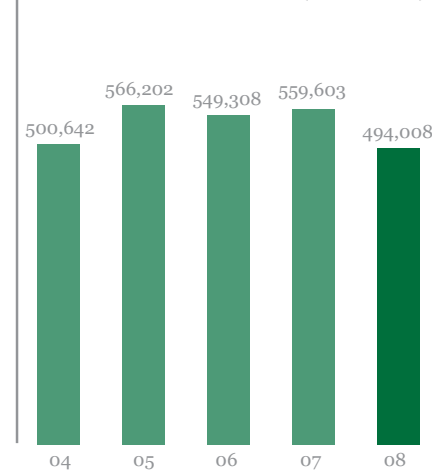
However, the outlook for the year confirms tourism's resilience to external factors buoyed up by the strong world economy.

Interestingly, economic and tourism growth has been driven by emerging markets and developing countries, represented in the 2007 growth indicators. While the more mature developed countries grew at a respectable rate of 5.1 per cent, the emerging markets and developing countries posted a growth rate of 7.7 per cent.

Sri Lanka: Sustainable Tourism

Sri Lanka's tourism industry yielded an approximate USD 385 million in earnings during the year with visitor arrivals settling in marginally short of 500,000. In comparison to the year 2006, the industry experienced a downturn in both earnings and arrivals, a direct result of the exacerbated conflict in the Northern peninsula as well as numerous sporadic terrorist activities within the Island. However, the continued under-achievement of the industry remains a mainstay of a destination that has over the years been plagued by the uncertainty of a conflict situation.

Sri Lanka Tourist Arrivals (Number of Pax)



However, untapped tourism potential allows Sri Lanka to position itself in the future as a destination that is evocative of sustainable tourism. Without over-exploitation of resources and commercialization of the nation's tourism product, a position

Operational Review

strategy of “untouched, unspoilt” is a believable and viable positioning strategy for Sri Lanka.

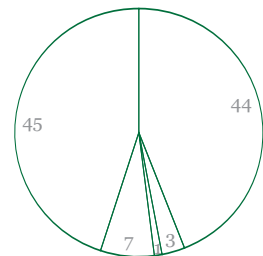
As an exotic tropical destination supported with an abundance of greenery and historical marvels, Sri Lanka holds the potential to offer every tourist visiting the country an opportunity to enjoy vibrant culture, varied ecosystems and wildlife, and warm, friendly people. All within close proximity. A destination that offers a myriad experiences, its tourism offer consists of nature, culture, adventure, therapeutic and spiritual options.

Sri Lanka was one of Asia’s first destinations to have realized the true potential of tourism. In the 1960’s a formal tourism sector was established with environmentally, culturally and socially sensitive development plans. Sri Lanka has fostered a holistic approach to tourism development connecting all stakeholders that are dependent on tourism and distributing tourism benefits to the communities. In the current context tourism remains one of the four key pillars supporting the country’s economy.

Tourism has been a key contributor to protecting and preserving natural and cultural heritage and uplifting the nation’s disappearing traditional performing arts and crafts. National and wildlife parks, numerous historical sites and the livelihoods of Artisans craftsmen and rural communities are dependent on tourism.

Share of Major Generating Tourist Markets - Sri Lanka (%)

Europe	44
Middle East	3
Africa	1
Americas	7
Asia & Pacific	45



Aitken Spence recognized the potential of sustainable tourism even before the term was coined. Our operations in rural communities followed a philosophy of social mobilization and its efforts to protect the heritage, local culture and the environment have been long recognized internationally. As the very first hotel in Asia to be accredited by the Green Globe Award, our premier resort Heritance Kandalama is an

international case-study on sustainable tourism. As a result, Aitken Spence welcomes Sri Lanka’s tourism policy makers’ moves towards a destination positioning which embraces sustainable tourism through the Earth Lung Initiative.

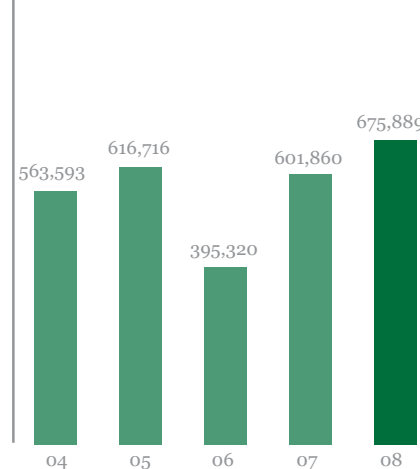
A two pronged strategy of supply side initiatives - where a comprehensive carbon neutral strategy for the industry and its stakeholders is instituted - with a demand side initiative that ensures that the visiting public is aware that they, aside from enjoying the vibrant tourism experience, are positively contributing to a sustainable tourism industry that will set the new frontier for Sri Lanka’s tourism industry, going forward.

Maldives Sets the Standards for Asia’s Beach resorts

Pacific Asia Tourism Authority (PATA) expects tourism to the Maldives to grow by 6.5 per cent year on year over the next four years. The expansion will therefore cater to the growth in arrivals through a progressive addition of one thousand two hundred beds to the industry each year.

In the year 2007/08 Maldives tourism sustained an overall growth rate of over 12 per cent. Tourists’ arrivals for the year notched upwards to 675,000 compared to 600,000 in the previous year.

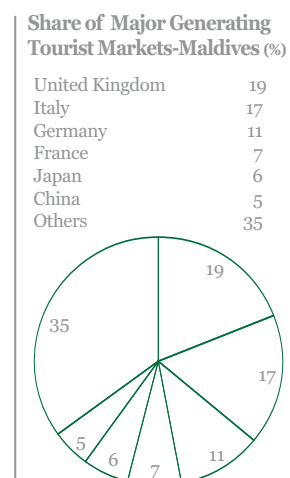
Maldives Tourist Arrivals (Number of Pax)



Operational Review

Overall resort occupancy levels increased by 1.6 per cent to reach 84.4 per cent over that of the previous year. With three new resorts coming into operation during the year 2007/08, the destination's bed nights capacity increased by 10 per cent during the year.

Tourist arrivals remained dominated by Europe, Asia, and the Americas with Europeans accounting for over 73 per cent of the



total arrivals. UK, Italy, Germany, France constituted the region's arrival numbers. Asian visitors continued to grow with a 21 per cent contribution to the overall arrivals figure, this amounted to an approximate 2 per cent growth over the last year.

In recognition of the future potential of Maldives tourism, plans have been underway to enlarge tourism capacity and spatial expansion as advocated in

the Second Tourism Master Plan (1996-2005). Building on this, in the year 2007, the Maldives Tourism Authority unveiled the Third Tourism Master Plan (2007-2011).

The thrust of the Third Tourism Master Plan is on expanding and strengthening the Maldives tourism as an instrument of economic and social development in a manner that benefits all Maldivians in all parts of the country. The Plan stresses the development of the industry along the lines of sustainability, adopting environmentally and socially responsible tourism practices. Accordingly, the Plan emphasizes developing tourism in harmony with nature, facilitating and enhancing private sector investment, developing human resources, creating greater employment opportunities and diversifying markets and products. Contrary to previous Plans, the Third Tourism Master Plan is formulated as a "living document" to ensure its responsiveness to rapid changes in the Maldivian economy and global trends in the industry.

However, for external operators such as Aitken Spence the Third Tourism Plan poses challenges going forward. With the requirement to look inwards for hospitality resources, it predicts a shortage of experienced and skilled resource people in reaching optimal operational efficiency and service excellence. Currently a large proportion of the resource base is expatriate.

Setting the pace as a trend setter, Maldives has aggressively marketed itself as the leader in beach resort experiences. During the year it entrenched its position by being chosen as the *World's Most Romantic Destination* in the 14th Annual World Travel Awards held in the Turks and Caicos Islands. Maldives won this award after successfully competing against world famous destinations such as Paris, Venice, Hawaii and Vienna.

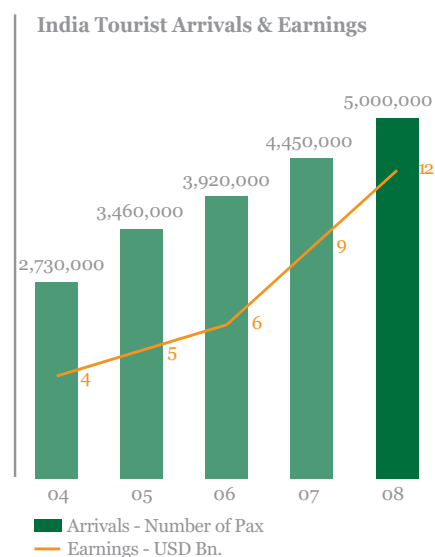
Also nominated as the World's Leading Destination, World's Leading Dive Destination, World's Leading Honeymoon Destination and World's Leading Travel Television Commercial, in addition to the Maldives Tourism Promotion Board being nominated in the World's Leading Tourist and Convention Bureau category, the destination made a mark for itself on the global tourism stage.

India an Emerging Tourism Giant

A notable feature of international tourism growth has been the gradual shift in the preference for destinations, from Europe and North America to Asia. India being one of the major South-Asian tourist destinations, with a diversity of natural attractions and rich tapestry of cultural heritage woven into a range of tourism products, expects to exploit this trend.

The phenomenal explosion in domestic tourism as well as outbound tourism is an inevitable by-product of the prosperity that India has achieved during the last decade. The economic liberalization and reform process of the 1990s, enabled the nations tourism sector to attract investment for tourism related infrastructure development. The National Policy on Tourism was announced in the year 2002, and has aimed to position tourism as a major engine of economic growth.

Operational Review



In view of the Government's strategy for India as a tourism destination, the following facts and forecasts illustrates the growth potential for this destination:

- Inbound tourist expenditure per head to India is third highest in the world and supersedes global average tourist spending
- India has been promoting its healthcare tourism by providing the visitors with private healthcare facilities. It is expected that the number of tourists visiting India for the purpose of medical treatment will reach one million by 2012
- Disposable incomes between 2001-2006 grew at 10.11%, thereby driving domestic as well as outbound tourism
- Room rates account for more than 50% of revenue earned by Indian hotel industry
- Indian outbound tourist flow is expected to increase at 12.79% over the five-year period spanning 2007-2011
- Tourist inflow to India is expected to increase at a rate of 22.65% between 2007 and 2011
- India's share in global tourism is expected to reach 1.5% by 2010

Oman Rides the Wave of Middle Eastern Revival

Interestingly, the profile of tourists that visit Oman has changed over the years. Though the bulk of tourist arrivals have traditionally come from the Gulf region, the number of Gulf tourists has now fallen to less than half of all arrivals, with European visitors compensating for the shortfall. In fact, there has been a notable increase in British and German visitors entering the Sultanate. Tourism growth though continues apace, registering an average of 7 per cent per annum. While some 290,000 visitor arrivals were registered in 1994, the number increased to 503,000 by 1999, and surged to 1.1 million in 2002. The city attracted approximately 6 million tourists in 2007 and expects to draw in 15 million visitors by 2010.

Oman's tourism sector contrasts with that of the rest of the Middle East. Oman is in some ways similar to and in some ways different from the UAE. It targets both the international and local middle-eastern market. However, it focuses less on events and shopping. Oman focuses on holidaymakers in search of peace and relaxation, even though it has far more to offer in terms of beauty and diversity.

Its increased popularity as a holiday destination comes not just from the increasingly effective promotion and marketing strategies deployed by the Omani government, but also from the demand pressures in Dubai.

The high level of investment in Oman points to the confidence that rests in the country's tourism industry. Oman increasingly occupies a more prominent place on the world tourism map, even though it is regarded as a more exclusive destination for international travellers. A relative newcomer to tourism, Oman's public and private investments in the sector amounts to a little more than USD 5.2 billion over the last decade. The Sultanate's Ministry of Tourism has been however actively pushing for controlled growth, through investments in infrastructure projects, liberalising laws on property ownership and assisting operators through sponsorship of events as well as joint ventures and international tourism fairs. As such visitors from more than 60 countries can now acquire visas on arrival. High-end hotels and resorts are well balanced with the nation's commitment to conservation and the environment.

Operational Review

New Frontiers of Operations

From an operational perspective, increased emphasis on overseas expansion has placed the Company on a strong footing as Sri Lanka's industry continues to under perform. By executing strategic initiatives aimed at the retention of the sector's long term stability, the Company in 2006/07 embarked on an ambitious expansionary drive beyond the shores of its conventional hotel portfolio in Sri Lanka and the Maldives. By expanding operations to India through a series of management contracts and investments, Aitken Spence identified the scope for the adaptation of this business model into additional growth markets. Therefore, in the year 2007/08, the Company judiciously embarked on operations in Oman. Given the exponential growth potential of the Maldives as a destination, the Company further invested in a resort during the year.

Currently in the year 2007/08, the Company's operational hotel portfolio stands at:

- 7 hotel properties in Sri Lanka
- 2 hotel properties in India
- 5 properties in Maldives
- 4 hotel properties in Oman

However, given that approximately 04 more hotel properties in India are still under refurbishment/construction, the full returns of the expansionary drive are yet to be experienced. It is expected that within the next two financial years, the returns of investment will impact the Company's bottom-line.

The following segment reviews the operations for the year from a destination-wise perspective. It also provides an overview of the hotel infrastructure.

Sri Lanka: Operational Review

The security situation, exacerbation of violence and adverse reports in the international media did not augur well for Sri Lanka's tourism industry. As with all other tourism properties in the country, Aitken Spence Hotels were directly affected by the knock on effects of the many incidents that marred Sri Lanka as a safe destination. Increased energy and food prices posed further cost constraints on the Sri Lankan operation.

Heritage Kandalama

Blending perfectly with the natural environment, whilst preserving the aura of ancient hermit caves in its environs, Heritage Kandalama virtually leans against a thickly wooded rocky outcrop at the foot of the northern slopes of Sri Lanka's central hills. Perched just above the Dambulla Tank, it overlooks an expanse of water that stretches the eye to the magnificent view of the fifth century AD Sigiriya rock fortress and the first century BC Dambulla Rock Temple, two of Sri Lanka's most prominent UNESCO World Heritage Sites. Heritage Kandalama was the first hotel in Asia to receive the Green Globe 21 certification. Relaunched under the Heritage brand, the resort underwent an infrastructure upgrade valued at Rs.600 million and continues to be a globally accepted case study on sustainable tourism. The Hotel was awarded the Presidential Award for the Best 5-star Resort for the year 2007.

The resort maintained its occupancy to a commendable level during the year despite the industry situation. Revenues demonstrated the resiliency of the property and its ability to overcome negative external environmental effects to sustain the flow of high yield domestic tourists. As such, the company is optimistic of the resort's ability to recoup investments and yield a reasonable return in the future.

Heritage Ahungalla

Sri Lanka's first five star beach resort "The Triton" was relaunched in June 2006 subsequent to a USD 13 million refurbishment that intrinsically transformed the old hotel to a modern resort. Catering to discerning guests, Heritage Ahungalla, is one of legendary Geoffrey Bawa's architectural fantasies come to life.

The property retained a high-yield pricing strategy during the year, much like that of Heritage Kandalama. The adverse country situation marred the performance of the property with occupancies far below optimal. Nevertheless, occupancy levels indicated an upward movement as a result of aggressive marketing and greater awareness amongst the local and foreign holiday makers.

Operational Review

The Tea Factory

The Tea Factory sits 6,800 feet above sea level, only six degrees from the Equator. In the mountain range, which gave the world Pure Ceylon Tea, the Hotel began as a factory built in the days of the British Raj. Unused since 1972, the Hethersett factory and estate was converted through sheer vision and innovation to be the only tea factory in the world that is a hotel. It has been converted so that much of the original style and machinery remains, a reminder of the past in perfect blend with innovations of the present.

A holiday at the Tea Factory is a total tea experience. From its architecture, to every conceivable space within the Hotel, a story of tea is told. The hotel's accolades are many: voted amongst the "100 Best Places to Stay in the World" by Sunday Times, UK in 2007; nominated for the "Top 5 Factory Hotels in the World" by The Independent, UK in 2007 and voted to be amongst "Magnificent Seven icons of Modern Hotel Design in the World" by Observer, UK in 2006.

Neptune Hotel

Eminent architect Geoffrey Bawa designed the very first hotel in the Aitken Spence chain, Neptune. Consisting of eighty-four rooms that overlook the magnificent Indian Ocean, the Hotel is situated on one of the widest stretches of golden sandy beaches along the Southern coastline. Within the hotel, the newly established Neptune Ayurvedha Resort pampers and soothes those who yearn for a wholesome experience.

The general industry situation compelled the management company to compete in a difficult market where severe competition is driving the hotel rates to an all time low.

Neptune Ayurveda

A management company decision to convert 20 under utilized rooms in the main hotel to a fully fledged Ayurveda facility has paid rich dividends in an industry where there is less competition and high rates. Featured by some of the mainstream tour operators and specialized ayurvedha operators, the Hotel evolved and earned a reputation as a good ayurvedha facility in Germany, Switzerland and Austria.

In the year under review the Hotel performed commendably especially amidst trying circumstances and security concerns in the major generating markets.

Maldives: Operational Review

During the year under review, the Maldives operations engaged in consolidating its newly unveiled brand Adaaran" launched during the previous financial year. The focus of all resorts was to promote the name "Adaaran" amongst all stakeholders including the tour operators and to consolidate its differentiation focus strategy as a primer for future growth.

The brand identity "Adaaran" represents the promise of a high standard of service that is part of the rich tradition of Maldivian culture. It is also evocative of the aspirations of the group to reach new heights and services

With the launch of brand "Adaaran" in 2006/07, the Company set out with a clear vision to create a "higher" experience through a diversified collection of properties and to attract varied segments of the market in the tourism sector of Maldives. Therefore the brand represents four types of resorts through the following sub-brands:

- Adaaran "Prestige" - 5 star luxury, up market boutique hotels targets discerning clients with a penchant for personalized service
- Adaaran "Select" - 4 star luxury, large resorts with a variety of services and facilities, targets high-end clients
- Adaaran Ayurvedha - caters to a niche market of those seeking a therapeutic experience
- Adaaran "Club" - 3 star to 4 star hotels, caters to an enthusiastic, young, fun loving client segment who take part in activity and animation

The Adaaran group acquired a new resort during the second half of the financial year. The resort will undergo significant upgrades and will be commercially operational by the end of the forthcoming financial year with a tight focus on attracting a high yield client base.

Operational Review

Noteworthy is the fact that all resorts in the Maldives are ISO 22000 certified except Club Bathala which is currently in the process of acquiring same. Amongst other achievements, the 'Prestige' resorts hold a 5 star butler rating and is deemed the only property in the market to have this accreditation from the International Butler Association.

During the year Adaaran was sold by three new operators in growth markets Italy, Russia and Japan.

Adaraan "Select" Meedhupparu

Is a veritable resort within a resort. With 235 rooms - 195 beach and garden villas, 20 Ayurveda Villas and 20 Water Villas - this 4 star resort caters to a niche market. The Ayurvedha Village - first of its kind in Maldives - and twenty luxury water villas spread over 43 acres of thick vegetation within the Meedhupparu island makes Meedhupparu, a resort with a unique identity. The resort's water villas are categorized under the Adaaran 'Prestige' sub-brand.

Adaraan "Club" Rannalhi

This 116 roomed, 4 star resort boasts of water villas and was one of the first resorts in Maldives to popularize the concept of over-water accommodation. Located in an island of lush green vegetation, the resort boasts of a beautiful beach and a house reef that is home to exotic tropical fish. The inventory includes 14 Water Villas and 102 beach villas. The resort continues to be dominated mainly by Italian, British, Russian and French clientele.

Club Rannalhi will undergo extensive refurbishing at an investment of USD 2.5 million in the year 2008/09 and will be relaunched as a 5 star 'Select' property during the year.

Adaraan "Club" Bathala

Located at probably the best dive site in Maldives, Bathala is a 43 roomed, 3 star resort with a peaceful ambience ideal for rest and relaxation. Diving, snorkeling, and swimming amongst exotic tropical fish is the way of life at this resort.

This flagship resort now enjoys its status as a cash cow property for the group. The entire resort, during the financial year in review

continued to be marketed to one Italian operator as has been the case in the past. With a year round occupancy of 78 per cent, the hotel continues to maintain its bottom line and cash flows to a commendable level. For the coming financial year Bathala has been pre-sold demonstrating the popularity of the resort.

Adaraan "Select" HudhuRan Fushi

Added to the Aitken Spence Hotels chain in the year 2006/07, the resort is the former Lohifushi. The resort's close proximity to Male makes it one of the most sought after holiday spots in Maldives. The 4 star resort also known as the surf island, conducts surfing holidays in summer. The newly refurbished resort boasts of 175 villas including 40 prestige water villas and is the 2nd largest resort of the Adaaran group.

The resort completed a successful full year of operations after being launched in November 2006. Nominated as the resort with the best operational performance year round, Hudhuranfushi maintained an average occupancy level of 94 per cent, yielding a high turnover during the year.

Adaraan "Prestige" Vadoo

"Vadoo" is the 5th addition to the Adaaran Resorts and was acquired in October 2007. It is approximately 4.5 acres in extent and is surrounded by a breath-taking reef. Just 15 minutes by speed boat from the Airport and the City of Male, we are confident that the resorts close proximity will be an added selling point.

The intention is to create a unique experience in Vadoo through innovative concepts such as through the construction of 50 exclusive and luxurious water villas of the highest standard. This will include six Japanese style water bungalows and a Japanese concept in one part of the resort. As the resort will be marketed to European and Japanese markets we are confident that this concept will attract discerning, high yield travellers.

India: Operational Review

During the year in review, our Indian operations saw the commercial launch of operations of Barefoot at Havelock, Andaman Islands and Poovar Island Resort at Trivandrum.

Operational Review

The following chart indicates the timelines for expected commencement of the remaining 6 properties in India.

<i>Barefoot Resort Andaman</i>	Commenced operations in June 07	18 rooms
<i>Poovar Island Resort Trivandrum</i>	Commenced operations in June 07	68 rooms
<i>Heritage Madurai</i>	Expected to Commence in August 08	81 rooms
<i>Delhi</i>	Expected to Commence in August 08	50 rooms
<i>Delhi</i>	Expected to Commence in November 08	50 rooms
<i>Delhi</i>	Expected to Commence in December 09	128 rooms
<i>Delhi</i>	Expected to Commence in December 10	280 rooms
<i>Heritage Cochin</i>	Expected to Commence in December 09	50 rooms

Poovar Island Resort, Kerala

Unspoilt and miraculously unexplored, Poovar Island is a rare find in Southern Kerala. Enveloped by the most serene backwaters and opening out to the Sea and a dream golden beach, this Island Resort is Truly a window into Paradise. Deluxe Floating Cottages, or Superior Land Cottages all allow you to bask in a clear view of the shimmering Arabian Sea, Kerala's backwaters and the River of Poovar in one glance.

The Hotel will go through a carefully planned renovation programme to improve the standards of accommodation and other public facilities. A 20 roomed fully fledged Ayurveda facility with a separate pool & restaurant will also be launched for the winter 2008.

Barefoot at Havelock, Andaman Islands

Discover India's best kept secret - the Andaman Islands - by making a journey to Barefoot at Havelock. Voted on Time Magazine in November 2004 as the location with the best beach in Asia, the resort fuses the beauty of the pristine 2 km white sand beach with the profusion of a tropical rainforest.

The resort will see the addition of a pool, an expanded restaurant, reception & public space & a total of 30 rooms by the end of the financial year 2008/09. Infrastructure facilities such as water & steady power supply were totally revamped during the year and will be operational for winter 2008.

Oman: Operational Review

We are currently managing the operations of 4 hotels in Oman, consisting of a total of 425 rooms in the cities of Muscat, Sohar & Sur.

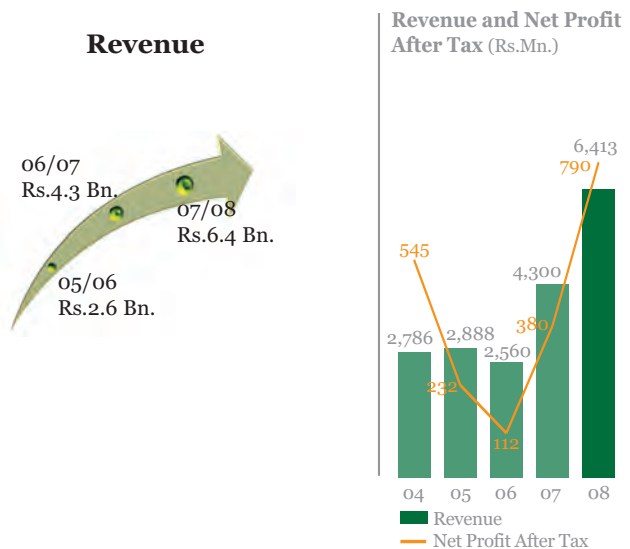
Negotiations are finalized to take over the management of the 5th hotel in Oman during the financial year 2008/09.

Financial Review

Overview of Financial Performance 2007/08

Highlights

- Group revenue increased by 49% to Rs.6,413 million
- Earnings from operations before interest and tax increased by 71% to Rs.1,168 million
- Profit after tax increased by 108% to Rs.790 million
- Profit attributable to equity holders of the Parent increased by 153% to Rs.513 million
- Earnings per Ordinary share increased by 165% to Rs.12.95
- Return on average shareholders funds increased to 14.53% from 6.63%



The Group recorded an impressive performance during the year despite the continuing challenges faced by Sri Lanka's tourism industry. Once again the significant contributors were our resort

hotels in the Maldives, which more than off-set the performance of the Sri Lankan sector hotels, which was below expectations.

During the year under review, profit from the South Asian Sector increased by 25 per cent to Rs.868 million led by our flagship property Adaaran Select Meedhupparu.

Our strategic initiative to diversify our product portfolio by entering into the new markets of India and more recently Oman in the Middle East has already borne fruit, with these operations beginning to contribute towards the profitability of the Group.

In the Sri Lankan sector, renewed fighting in the North and East, and the worsening overall security situation adversely impacted the leisure industry and directly contributed a loss of Rs.58 million to the Group this financial year.

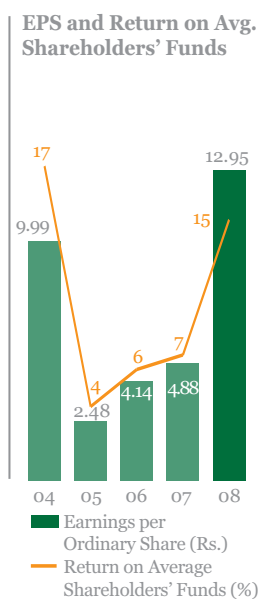
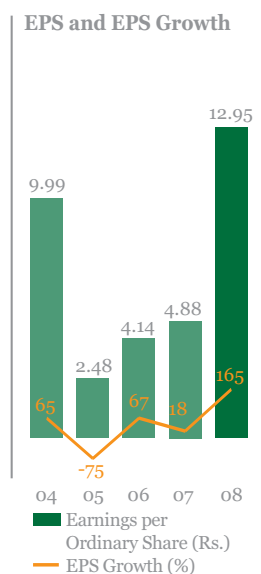
Despite this adverse situation which prevailed in the country, the Sri Lankan Sector was able to substantially reduce its losses by 79 per cent compared to the previous year, where it recorded a loss of Rs.275 million. During the year Heritance Kandalama and Neptune Ayurvedic Village contributed modest profits. Our Associate company Browns Beach Hotel PLC. also recorded an impressive performance during the year, contributing to the profitability of the group.

It is remarkable that the Group has been able to achieve its highest ever Earnings Per Share (EPS) of Rs.12.95 during the year, which is a 165 per cent increase when compared with the previous year's EPS of Rs.4.88.

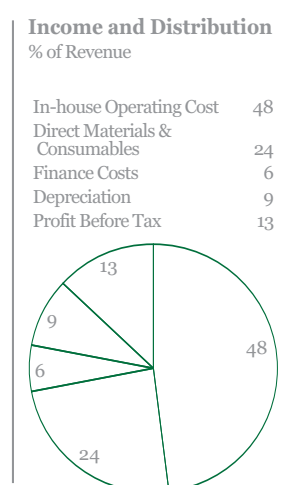
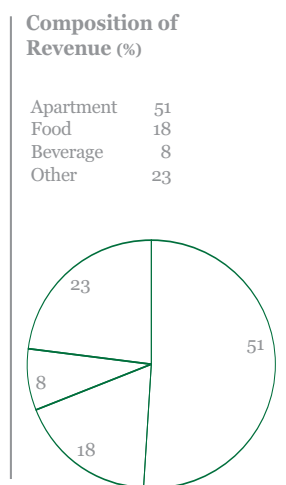
The market value per share increased by 33 per cent during the year, to close at Rs.93 per share compared to Rs.70 at the beginning of the year. Your Company's market capitalization as at 31st March 2008 was Rs.3.6 billion.

The Price Earnings (PE) Ratio stood at 7.18 times at the end of the financial year compared to 14.34 times at the end of the previous year, indicating the positive growth potential in the share price. Net assets per share was Rs.93.46 as at 31st March, 2008, an

Financial Review



increase of 15 per cent from the previous year figure of Rs.81.56. This provides a price to book value ratio of 1.00 compared to the price to book value ratio of 0.86 for the previous year.



Revenue

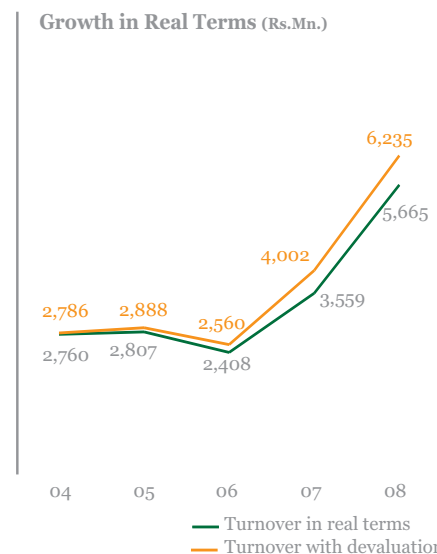
Notwithstanding the challenges faced, Group turnover reached a record Rs.6,413 million for 2007/08 which indicates a growth of 49 per cent over the previous year.

The revenue from the South Asian sector, dominated by the Maldivian operation, recorded a 47 per cent increase while the Sri Lankan sector recorded a growth of 56 per cent over the previous year. The Maldives operation accounted for 82 per cent of Group revenue while the Sri Lankan sector contributed only 18 per cent.

Revenue from room sales contributed 51 per cent to the total revenue while food and beverage accounted for 26 per cent.

The balance 23 per cent was earned from other sources such as guest transfers, diving, excursions, rent and shop income.

The Rupee somewhat rebounded against the Dollar during the year, but still lost about 11 per cent of its value from 2004. The Group recorded a turnover in real terms of Rs.5.7 billion, an increase of 59 per cent from the previous year.



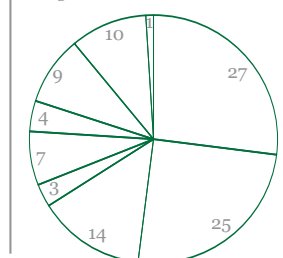
Financial Review

Income - Expenditure Distribution

Inflationary pressure from rising commodity prices, including a sharp increase in world crude oil prices, exerted huge pressure on

Composition of Expenditure (%)

Materials & Consumables	27
Administration & Establishment	25
Payroll	14
Selling & Marketing	3
Finance Costs	7
Repairs & Maintenance	4
Energy	9
Depreciation & Amortization	10
Management Fees	1



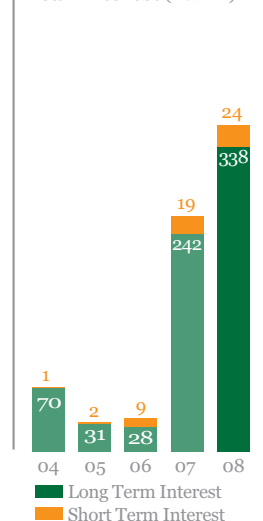
the leisure industry during the year and we witnessed a steep escalation in the cost of direct materials and consumables.

The Sri Lankan inflation rate rose to an unprecedented level during the latter part of the financial year (Point-to-point inflation - 28 per cent as at March, 2008).

The growth in business volumes also resulted in an increase of 40 per cent in direct costs during the year,

mainly in direct materials and consumables. However, overall the Group managed to keep operational expenses under control and as a result the growth in earnings well exceeded the growth in costs in the year under review.

Loan Interest (Rs.Mn.)



Finance cost of the Group increased by 39 per cent to Rs.362 million compared to the previous year. This is mainly due to additional borrowings to invest in a new resort, Vadoo Island in the Maldives and for the servicing of the loans obtained for the refurbishment of Heritance Ahungalla and Heritance Kandalama.

The Group's current cost of loan funds averaged 14 per cent for Sri Lankan

Rupee borrowings while US Dollar borrowings amounted to 6 per cent for the year under review and during the year the Group's interest cover improved from 2.62 times to 3.22.

Group operating profit before finance cost amounted to 18 per cent of net revenue, while it was 16 per cent the previous year, a clear testimony of sound cost management strategies and Group's ability to obtain higher yield.

Despite the worsening security situation in Sri Lanka, the Group was able to increase Average Revenue per Room (ARR) in its Sri Lankan hotels by 18 per cent over the previous year, while Revenue per Available Room Nights (Rev PAR) increased by an impressive 70 per cent from the previous year, fueled mainly by the significant increase in occupancy.

The ARR in the Maldives sector grew by 21 per cent from the previous year, while the RevPAR grew by 16 per cent from the previous year. The growth in both indices indicates that the group has been able to leverage its Brand strength and develop effective marketing strategies in order to increase its revenues.

Cash Flow

The net movement in cash and cash equivalents for the year ended 31st March, 2008 was an outflow of Rs.30 million.

This included net cash inflows from operating activities of Rs.794 million, net cash outflow from investing activities of Rs.2.2 billion and net cash inflow from financing activities of Rs.1.4 billion.

Statement of Changes in Equity

Shareholders' Funds as at 31st March, 2008 stood at Rs. 5.0 billion, as against Rs. 4.2 billion at 31st March, 2007. This constitutes an increase of 19 per cent, which was primarily impacted by profit after taxation of Rs. 790 million.

Dividend

The Directors recommended a first & final dividend of Rs.1.00 per share payable on 4th of July, 2008 (2006/07 - cents 75 per share).

Financial Review

Financial Reporting

The financial statements of the Group have been prepared in accordance with the Sri Lanka Accounting Standards.

There is no impact of changes in Sri Lanka Accounting Standards on Aitken Spence Hotel Holdings PLC's 2008 financial statements. The accounting policies adopted when preparing the financial statements are consistent with those applied in the previous years.

Value Added

The statement of value added below shows the wealth created by the Group and its distribution among the employees, the Government, lenders of Capital and shareholders, and the value retained for expansion and future growth.

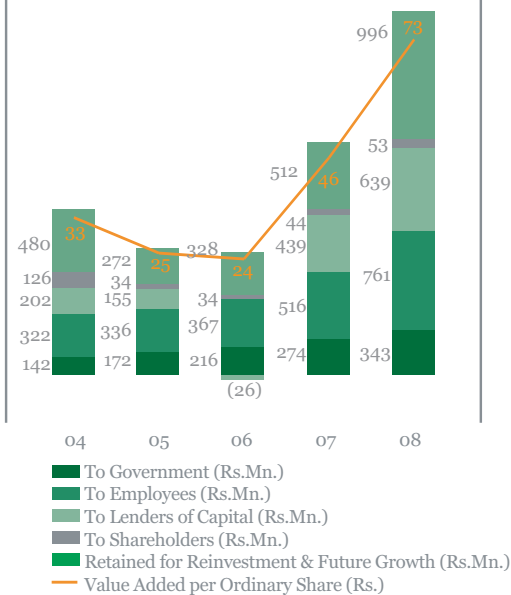
The statement below depicts the Group's value added and its distribution from the financial year 2003/04 to 2007/08.

The total value added of Rs.2,793 million during the year is a 57 per cent increase over the previous financial year.

Out of this value addition, the Group contributed Rs.343 million to the Governments of Maldives and Sri Lanka by way of taxes. Rs.761 million was contributed to the employees of the Group which was 27 per cent of the value created by the group during the year. Due to the increased borrowings in the Group, 23 per cent of the value created being paid to the lenders of capital, resulted in a 46 per cent increase from the previous year.

Rs.996 million was set aside for future expansion and growth. The value added per ordinary share is Rs.72.66 which is a 57 per cent increase over that achieved last year.

Group Value Added and Distribution



Financial Review

Statement of Value Added	%	2007/08 Rs.'000	%	2006/07 Rs.'000	%	2005/06 Rs.'000	%	2004/05 Rs.'000	%	2003/04 Rs.'000
Total Revenue		6,412,699		4,299,987		2,560,479		2,887,669		2,785,793
Purchase of Goods & Services		(3,698,213)		(2,573,740)		(1,910,366)		(1,960,546)		(1,536,176)
		2,714,486		1,726,247		650,113		927,123		1,249,617
Other Income		72,243		57,854		266,691		42,639		20,039
Share of Results of Associate Companies		5,785		(249)		1,787		(444)		2,715
Total Value Added		<u>2,792,514</u>		<u>1,783,852</u>		<u>918,591</u>		<u>969,318</u>		<u>1,272,371</u>

Distributed as follows:

To Government (Income tax & other taxes)	12	343,325	15	273,614	24	215,558	17	172,119	11	141,972
To Employees (Salaries & other costs)	27	760,721	29	516,093	40	367,277	35	336,358	25	322,439
To Lenders of Capital (Interest on loan capital & minority interest)	23	639,376	25	438,588	(3)	(26,403)	16	155,088	16	202,486
To shareholders (Dividends)	2	53,283	2	43,675	4	34,067	4	34,067	10	125,783
Retained for Reinvestment & Future Growth (Depreciation & retained profits)	36	995,809	29	511,882	36	328,092	28	271,686	38	479,691
	100	<u>2,792,514</u>	100	<u>1,783,852</u>	100	<u>918,591</u>	100	<u>969,318</u>	100	<u>1,272,371</u>

Value added per Revenue (Rs.)	0.44	0.41	0.36	0.34	0.46
Value added per Employment Cost (Rs.)	3.67	3.46	2.50	2.88	3.95
Value added per Ordinary Share (Rs.)	72.66	46.42	23.90	25.22	33.11

Value added is a measure of wealth created. The statement above shows the Group's value added from 2003/04 to 2007/08 and its distribution to employees, government and to those who have provided capital. It also indicates the portion retained in the business.





New Frontiers of Care

Entered. Explored. Established.

We have built bridges and passionately committed ourselves new frontiers of care, nourishing and nurturing the world around us. By touching lives of communities and enriching the environment, educating and giving sustenance to the very concept of sustainability, we have reached beyond the conventional to create social mobility in all frontiers of sustainability.

Sustainability Report

Opening New Frontiers through Sustainability

Aitken Spence Hotels pioneered the concept of sustainable development in Sri Lanka. The Best Practices followed by the Company for the conservation and protection of the environment has been recognized as global case studies on sustainable tourism. As such the company's unwavering commitment to sustainability is evident in the inclusive role environmental management plays in the daily operations of the company. In much the same manner, community mobilization through engagement and involvement with the community within which the company's hotels operate is fundamental to the values and ethics of Aitken Spence Hotels.

The Aitken Spence Hotels Group gives leadership to its individual hotels through a comprehensive CSR vision. This vision permeates to every level of the Group's structure and is a principle with which both the Group and each one of its individual hotels use as a guiding light in conducting business through the formulation of policies that promote this ethos of overall sustainability.

The beneficiaries of Aitken Spence Hotels Group's social responsibility efforts can be broadly categorized into the following segments:

- **Our Customers** - As a socially responsible company we make every effort to ensure that our customers are provided with every conceivable amenity, facility and service to ensure their safety and well being.
- **Our Employees** - The emotional, economic and social needs of our employees are met.
- **Communities within which we operate** - We engage with the communities around us to ensure that their ideas and opinions are taken into consideration when conducting our business. We also actively work for the well-being of the community and for the preservation of its culture and heritage.
- **The Environment** - Is a direct beneficiary of our efforts to minimize our impact on Mother Nature.
- **Our Investors** - Benefit in the satisfaction of being an involved party in our responsibility and sustainability efforts.

- **Other Stakeholders** - are part of a team that cares for more than the commercial viability of a venture such as the well being of the people and the environment around it.
- **The Nation** - as a responsible citizen we work towards developing our industry through sustainable, responsible operations which will in the future be the only way in which tourism can yield value to the nation.



The child of today will be the father of sustainability tomorrow. Supporting children with educational material.

The following report seeks to summarize the many activities and initiatives undertaken in the areas of community relations, employee relations, environmental management and customer relations during the year under review.

Environmental Management

Introduction

Aitken Spence Hotels is a trendsetter in the area of social responsibility particularly in environmental sustainability. It has demonstrated its leadership status through a number of key initiatives including the construction of the Heritance Kandalama which is a case study (both locally and internationally) in

Sustainability Report

integrating and operating a sustainable commercial project which has not only empowered the people of the village economically but also socially mobilized a philosophy for sustainability.

Advocating the cause for sustainability, Aitken Spence Hotels operates with a view that tourism is a means to preserve our culture, heritage and environment for future generations. We also believe that as a trendsetter we must create an awareness and understanding amongst young people to take these values to the future. As such we have been working and continue to work with 39 schools in the Dambulla District on awareness building vis-à-vis environmental conservation and cultural preservation as well as championing the cause through workshops and dialogues with the community in every locality that we operate in.

As evidence of being a trendsetter in sustainability, Heritance Kandalama was the first Green Globe 21 certified hotel in Asia, first hotel in the world to be awarded the prestigious Leadership in Energy and Environment Design (LEED) Green Building Certification, the first hotel globally to receive the Thomsons Gold Award for Environmental Commitment, the President's Environmental Award 2005, the Community Leader Award 2005, Kuoni Green Planet Award 2005/06 and the PATA Green Leaf Gold Award 2000 for Environmental Education.

Environmental Management System

Environmental and social sustainability policies govern the sustainability efforts and parameters of each of the company's hotels, dependent on their locality and values of the communities that surround them. Adhering to legislation pertaining to environmental planning, pollution control and natural resources management as laid down by relevant governing authorities the policies formulate the means by which continual improvements are met on a year-on-year basis to reduce greenhouse gas emissions, enhance energy efficiency, management and conservation, reduce consumption of fresh water, waste water management, conservation of ecosystem, maintain air quality, planned land use and noise control as well as the development of social and cultural infrastructure.

Our hotels operate in accordance to an Environmental Management System (EMS) established with environmental committees comprising each of the hotel's employees who advise the management on policy, objectives, targets and programs to sustain and continually improve the awareness and overall effectiveness of the system. Global standards modulated and implemented through an Environmental Management System (EMS) are the framework for the company's sustainability efforts. Working hand in hand with day to day operations of each hotel, the EMS manages the impacts of the company's activities on the environment.

An Environmental and Social Sustainability Policy has been established and this acts as the foundation for the EMS with roles and responsibilities to achieve environmental and social objectives, targets and programs with a year-on-year continual improvement. This policy is given to all employees and is sent to all possible stakeholders and made available to the guests and general public. It is discussed at public seminars where the hotel staff acts as resource persons.

Separate committees are formed for different key areas such as energy, water usage, waste water, solid waste, air pollution, sound pollution, transport, eco system management, social and cultural development involving internal and external stakeholders, in order to sensitize, build up awareness, train and get involved for various activities to satisfy Corporate Social Responsibility and ensure sustainability addressing UN Millennium Development Goals. Brainstorming for solutions is a common feature at committee meetings.

Induction training in environmental conservation is a part of the orientation program of all new recruits as well as refresher courses for present employees. The career progression is not only limited to the jobs they do. Job descriptions of all Executives and Managers include the responsibility for actions to negate and mitigate adverse environmental impacts. We have developed an environmentally sensitive workforce who proliferate environmental consciousness in their families and the wider society.

Sustainability Report

Our hotels have an environmentally friendly purchasing policy, which gives priority to purchase in bulk with no containers, buy in re-usable containers and biodegradable containers. Wherever possible we use “durables as against disposables”. In purchasing cleaning chemicals and detergents, boron and phosphorous free biodegradable materials are purchased, which relieves the disposal issues.

We have graduated from the 3R to the 7R principle, *i.e.* REDUCE, REUSE, RECYCLE to REJECT, REDUCE, REUSE, RECLAIM, REPLACE, REPAIR, RECYCLE. All waste is separated at the origin (beginning of the pipe line), reusing our own waste, selling to outsiders and recycling everything is encouraged and practiced.

Therefore, it is quite appropriate to say that we have converted “Garbage into a Resource”. Our objective therefore, is to achieve a scenario of “Zero Plastic”.

Resource Efficiency Programmes

Aitken Spence hotels strive for the creation of a paperless office. Where use of paper is essential while it is ensured that maximum utilization of the paper is garnered by the use of both sides. Subsequently the used paper is collected and then sold for production of paper bags. Employees and guests are encouraged to use less paper. A portion of the waste paper is utilized for the manufacture of hand made paper with the combination of 30 per cent elephant dung. A demonstration plot at Heritance Kandalama encourages guests and visitors to learn from the exercise. The resort produces 3,000 recycled A4 sheets per day through this paper recycling facility.



How to make 'Elephant Dung' paper

Across all resorts and hotels a “Switching off policy” is practiced in a bid to reduce the utilization of electricity. Photosensitive switches have been installed for garden lights, power factor corrections and key tag activated master switches in all guests’ rooms. Energy efficient bulbs have replaced old bulbs, among other measures. Energy audits are conducted regularly. Replacement of incandescent bulbs has saved 75,000 kWh per year.

Electric Heaters in 80 guest rooms have been modified to use steam from the boiler as the heating medium. Steam boilers have saved 86,500 kWh per year.

Volumes in flushing cisterns have been reduced, photoelectric urinals have been installed and there is a “closing tap policy”. All repairs to leaks are a top priority. Preventing a leak causing one-drop per second will save 36,356 liters of water per annum. Grey water from the filters and softeners in the water treatment plant is used to spray gravel to reduce distribution of dust.

Air and noise pollution is reduced through a regular preventive maintenance programme.

Environmental performance indicators such as kWh per guest night, liters per occupied room etc., are recorded and monitored regularly to comply with the international Green Globe Benchmarks at the Heritance Kandalama and five other hotels.

All wastewater and sewage is treated at the sewage treatment plant with the “Extended Aeration Process”. After aerobic digestion all the water is recycled back to irrigate gardens and the sludge is sun dried and added to compost pits with other collected biomass and the compost fertilizer is sold to visitors. At Heritance Kandalama 23,000 liters of wastewater is recycled on a daily basis.



All sewage and wastewater is recycled

Sustainability Report



A top priority of the company is to reduce the Carbon Footprint. A Dendro plant has been built and commissioned in the Tea Factory at Kandapola to reduce the 225 Tons of Green House gases per year emitted by burning diesel for the boilers.

Mobilizing the “green” message

Utilizing the nursery established at Heritance Kandalama the “Eco Park” was established to demonstrate the 7R process to guests. It is now a practice for the public to visit, experience and learn from the concept point at Heritance Kandalama. An effective system for message mobilization, the centre receives visitors from schools and the community as well as guests from adjoining resorts. The concept nursery won Heritance Kandalama the PATA Green Leaf Gold Award in 2000 for Environmental Education. From 2004 to date more than 1.5 million visitors have benefited from the Eco Park.

The nursery continues to function and plants are distributed to community Organizations Island wide for “Tree Growing Campaigns” to reduce Sri Lanka’s Carbon Foot Print. An Environmental Animator who explains and interprets practices to visitors enhances the learning experience.

Heritance Kandalama has also purchased 198 acres of adjoining forest land with the intention of retaining same as a conservation forest in order to assist in retaining the bio-diversity of the area whilst also reducing the Carbon Foot Print of the nation. Environmental information prepared by the hotel for the guests is

available in the form of bird charts, guidebooks on birds and flora, bird watching & nature trails and trained village guides.

International Benchmarks

The ISO 14000 series developed by the International Organization for Standardization (ISO) is a collection of voluntary standards that assists organizations to achieve environmental and financial gains through the implementation of effective environmental management. The standards provide both a model for streamlining environmental management, and guidelines to ensure environmental issues are considered within decision making practices. In essence, ISO 14001 is the standard for Environment Management Systems.

Of the Aitken Spence Hotels, Heritance Kandalama complies with ISO 14001 whilst the remaining eight hotels are working towards meeting the compliance requirements for ISO 14001 certification. It is expected that by the end of the year 2008, all hotels and resorts in Sri Lanka will be ISO 14001 certified.

Whilst the ISO 14000 series is a global standard for all industries, Aitken Spence Hotels continued to benchmark against the Green

Sustainability Report



Globe 21, a global Benchmarking, Certification and improvement system that assists the international travel and tourism industry to attain sustainability. Developed under the aegis of The World Travel & Tourism Council (WTTC), Green Globes standards are based on Agenda 21 and principles of Sustainable Development endorsed by one hundred and eighty two Heads of state at

the United Nations Rio de Janeiro Earth Summit. Six of the Company's hotels are currently Green Globe Benchmarked whilst three others are working towards the Benchmarking. By the end 2009 all Aitken Spence Hotels in Sri Lanka will be Green Globe certified, an achievement that no other Hotel Management Company in Sri Lanka can claim and one which portrays our commitment to sustainable tourism.

Customer Relations

“Earning Loyalty”

Whilst customer relations are a part and parcel of the service philosophy of Aitken Spence and an aspect for which the Company has received consistent recognition from both customers, the industry as well as international partners, during the year under review, the Company undertook an initiative to reward the consistent loyalty of our customers.



In unveiling an exclusive loyalty rewards programme, ‘The Diamond Club’ with the tag line ‘Welcome to a world of extended privileges’ the programme

seeks to reward its loyal guests who have patronized the Company's resorts and hotels over the years.

The programme will enable the Company to not only reward the existing clientele but also to consolidate a loyal customer base in the future.

Some of the exclusive privileges granted to Diamond Club Members include redemption of points on future bookings, free stay against reward points at any of the Heritance Hotels and Resorts and Aitken Spence Hotels in Sri Lanka, room upgrades against reward points, special recognition to all members at the hotel, purchase of gift vouchers against reward points and the ability to make priority bookings.

In addition to this, the Diamond Club's new website www.diamondclub.lk allows members to log in and monitor guests' stays, points earned and redeemed, update personal info and view special offers as well. This interactive website is inter-linked with the terminals at the various hotels thus enabling the online updating of Member's information.

“Delightful Experiences”

At Aitken Spence Hotels, our value proposition is “experience”. Our offer to our customers goes beyond the conventional and is one that aspires to offer a series of unique experiences. For example at Heritance Kandalama we offer:

- Bird watching trails
- Butterfly & Dragonfly watching route
- Wild Orchid Walk
- Elephant back trekking
- Horse riding along the banks of the tank
- River safaris
- Rafting and canoe rides to the bird island
- Mountain climbing
- Cycling tours around the tank
- Dining on a floating “angula”
- Bird watching by boat
- Night hikes
- Lake safari
- Village tour by three wheeler
- “Ambula” traditional lunch
- Visit to a “Kotuwa”
- Eco park study tours
- Visit to a “Puranagama”

Sustainability Report

Likewise at our resort in the hill capital, The Tea Factory, the total experience surrounding tea and life in the tea country is captured through:

- A cultural experience endemic to the area including cuisine, music and art
- The tea trek and trail from tea plantations to the entire process of plucking, withering, curing and processing, to brewing your own cup of tea
- The Spa is the only spa in Sri Lanka to utilize natural spring water from the mountains of Sri Lanka's tea country
- Horseback riding across tea estates
- Nature walks and bird watching in tea country accompanied by the resident naturalist with an opportunity to visit the Koorawatte Forest Reserve, home to 53 varieties of birds, including 7 of the 23 endemic birds of Sri Lanka, Wild Buffalo, Monkey, Deer and even Leopard
- Colonial experience with dining and relaxation in the presence of your own Appu (butler) at a planter's bungalow

“Food Safety & Quality Standards to minimize hazards to customers”

ISO 22000-2005/HACCP, the latest international standard on food safety management systems, ensures high food hygienic standards, while preserving the quality of cuisine. Gradually built to develop into the norm for the hospitality and Food & Beverage industries, compliance to the standard will eventually be a mandatory requirement for all food-handling operations globally.

Heritage Kandalama, The Tea Factory and Earl's Regency received certification in October 2006 for compliance with ISO 22000 by external auditor SGS whilst Heritage Ahungalla also received certification in the year under review. All Aitken Spence Hotels are expected to be ISO 22000 certified by end 2009.

During the certification process the hotels exposed the entire food chain from the producer, the supplier through to the consumer, in ensuring that high standards of quality and hygiene are maintained.

Effective interactive communications throughout the food chain downstream and upstream were developed to ensure delivery of safe food.

A structural management system was incorporated into the overall operational management system, which has been aligned with the ISO 9001 quality standard. Based on these basic standards, the sector's chefs with advice from SGS compiled their own quality and safety standards manual for individual hotels.

With auditable requirements, ISO 22000 standard combines the HACCP plan with prerequisite programmes (PRPs). The standard requires that all hazards expected to occur are identified and analyzed, in order to control critical points where hazards can occur in the operational flow.

The standard includes planning, implementing and maintaining of a food safety management system, which will comply with all regulatory requirements, assess customer requirements, effective communication within the food chain, confirming to the food safety policies of the state, and demonstrate conformity to all relevant parties while seeking certification.

All food handlers in the chain have been trained, while the other stakeholders are sensitized and their awareness enhanced.

All stakeholders play an active role in maintaining the standards.

Community Relations

Social Best Practices

● **Employment to societies and communities within which we operate:**

Over 60 per cent of the Aitken Spence Hotels & Resort staff originate and live within close proximity of each resort and in border villages.

● **Empowerment of societies and communities within which we operate:**

The Hotels and Resorts empower the people around the property, by sourcing and procuring a range of services and products for the resort. We give right of first preference to communities around us, when sourcing for materials and services.

Sustainability Report

- **Social Mobility on Environmental and Cultural Preservation:**

The Company works with a consortium of 39 schools in the Dambulla District to create awareness towards environment and cultural preservation amongst the youth, as we believe that the next generation is the rightful inheritors of Sri Lanka's legacy.

- **Promotion of local talent:**

Our properties promote local talent at all times by exposing traditional artists from the proximity of the resort such that they can foster their abilities as well as use their art form as a means of livelihood sustenance.

Cultural Best Practices

- **Promotion of Sri Lankan Cuisine:**

Our resorts are renowned for their Sri Lankan Cuisine. We take pride in the fact that we are able to preserve and promote our indigenous cuisine the world over. A genuine endeavor is made to bring to the table recipes, methods of preparation and serving which are authentic to Sri Lanka. Cuisine is an art form and Sri Lankan cuisine in particular is one that needs to be preserved as it is unique to the nation.

- **Preservation of indigenous art-forms:**

Our resorts act as catalysts in the preservation of indigenous art forms. For example at Heritance Kandalama which is in close proximity to Kalundewa, in the Dambulla District and is home to the indigenous art form "Sokari", great efforts have been made to preserve the art-form through inclusion and exposure. Due to modernization and changes in lifestyles, "Sokari" is now almost non-existent. In a bid to revive this dying art, Heritance Kandalama undertook an initiative to popularize it and invited the few "inland Sokari" artists remaining in Kalundewa to perform at the resort.

- **Promotion of local artists:**

Our resorts allow local artists to exhibit their arts, crafts and sculpture at the resort premises in a bid to integrate the guests and the artists, thereby transferring an awareness of our art & craft traditions to the outside world.

Social Mobilization

The Aitken Spence Hotels Group conducts awareness and educational programmes across the country in every locality and community in which it operates, in a bid to engage the community, specifically youth, to take a progressive stance towards environmental and cultural preservation. One of our most successful initiatives has been the engagement process that Heritance Kandalama has undertaken in bringing the Dambulla District through the integration of 39 schools and their students to create awareness towards environment and cultural preservation amongst the youth as we believe that the next generation is the rightful inheritors of Sri Lanka's legacy.

Engaged in various activities that heighten awareness on environmental issues through interactive seminars, visits to the Eco Park, city cleaning programmes and competitions, the programme aims to improve environmental conservation and biodiversity enhancement.

Activities for social mobilization include productivity improvements through introduction of the Japanese 5S system to schools, public and private institutions, replacement of polythene based advertising and décor material with bio-degradable cloth which are conducted by the hotel staff as continuous CSR initiatives.

The Company's long term and corporate aim is to enrich the nation through inclusion. Towards this goal the resorts distributed, on a complimentary basis, anti smoking stickers to all possible stakeholders to reduce the smoking habit and to ensure a better and healthier environment.

Heritance Kandalama has used its extensive knowledge in environmental management to assist different stakeholders including the local government of Dambulla to operate a wet-garbage disposal system.

Mentoring a generation of hoteliers - Aitken Spence School of Hospitality

The Aitken Spence School of Hospitality commenced operations with a view to enhance the employability and skills of the youth of

Sustainability Report

Sri Lanka. Since our core business is hospitality and given that there is a dearth of hospitality related skills, we embarked on a venture to address these needs.

A market study indicated the future shortfall of trained personnel in this industry. In order to fill the gap in the tourism employment sector, a hotel school was built, established and operated as a part of the Corporate Social Responsibility initiative of the Company which opened its doors in November 2007. The students are charged a nominal fee for theory and practical lessons to cover the cost of operations. Any shortfall is borne by the company. Presently the school is conducting training programmes on F & B services and it is proposed to hold basic level courses in cookery, house-keeping and reception. Those who pass out are guaranteed employment in Hotels run by the company. Initially the intake is limited to 300 students of which all are residential and provided with hostel facilities.

The fees charged are nominal and any cost overruns are borne by the Company. It is estimated that the total financial commitment of Aitken Spence is approximately Rs.8 million per annum. This is a continuous contribution of this company for this venture. The total cost of the project has been estimated at Rs.73.2 million.



Hotel School - Opening Ceremony

The project provides education to young men and women of employable age for a period of 3 months. The students while in the school receive theoretical knowledge in all aspects and some practical knowledge. This is supplemented by exposing them to the actual working environment in our own hotels at Ahungalla and Beruwala. This provides the students with an opportunity to acquire further skills, attitude and knowledge.

The students who pass out are absorbed into our own hotels or in the alternative they are free to seek employment elsewhere. There are also many informal establishments ranging from restaurants to guest houses in the area which are patronized by tourists. These outfits are being operated with workers who have had no formal training. The proposed hotel school will also be able to train such staff to provide a better service to the guests. This will eventually raise the standard of these establishments as well as national standards.

In addition to the education, the students receive meals during the period of the course and are assured of placement at Aitken Spence Hotels for practical training of 9 months after which they are absorbed into the Group's cadre. Whilst on placement the students receive free food and accommodation. After completing two years at



Aitken Spence School of Hospitality

Sustainability Report

the Group, the students are given an opportunity to be exposed to international hotel management trends through the School's foreign employment unit.

For the group, this is the single most successful and fulfilling social service initiative as we feel that we are paying dividends to our country and fellow citizens by transforming the country's youth population into employable, respected citizens.

Employee Relations

Investing In People

As Human Resource specialists, Aitken Spence Hotel Managements have demonstrated the ability to remain an appealing employer. Despite continually facing a lack of quality new entrants to the industry, it has nevertheless, been successful in attracting and retaining specialized resource personnel with international exposure due to prudent HR policies and practices.

Aitken Spence Hotels firmly believes that the very backbone of its operations constitutes a talented team. Therefore, it is an undisputed fact that the organization's strength lies in the commitment and motivation of its staff. It also believes that people take pride in work done well and that training/development is essential to enable them to be competent at the workplace. It is this belief that has made Aitken Spence a word synonymous with professionalism.

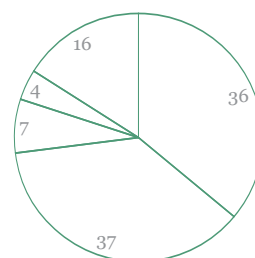
The strategic expansionary drive to the region and Oman during the year necessitated the expansion of focus on meeting the HR needs of the new properties. As such a staff strength of approximately 3,200 personnel for a total room strength of 2,318 was required.

In light of this, a dire need and a focus for the future remains the development of HR to suite the expansionary moves of the Company.

One of the main objectives of the Management is to continuously improve performance of those employed in the company. Therefore the Management is committed to ensure that adequate plans and resources exist to recruit, motivate, train, develop and retain its existing and future staff.

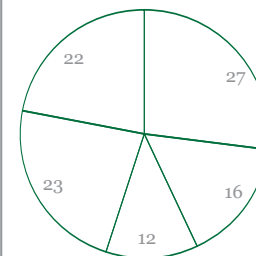
Age Analysis of Employees (%)

51 - 60 Yrs	4
41 - 50 Yrs	16
31 - 40 Yrs	36
21 - 30 Yrs	37
Below 20 Yrs	7



Functional Analysis of Staff (%)

Food & Beverage	16
Accounts & Administration	12
Maintenance	23
Rooms Division	22
Ayurvedic/Others	27



From an organizational perspective, it is considered as development of knowledge, attitude and skills of employees to enable them to perform their duties to achieve the performance level set by the Management.

Recruitment Practices

The Company adopts a selection procedure that enables the Management to predict as accurately as possible, the Company's expectations of a person's performance in a particular job and where he is most likely to be successful.

The Five-Point Plan shown below is a technique for measuring the degree of individual processor in each of the mentioned characteristics.

First Impression and Physical Make-up - Appearance, Expression and Mannerism.

Mental and Manual Skills

Qualifications: Educational, Technical and Professional

Flexibility: Ability (or otherwise) to relate to circumstances & people

Motivation: Drive, Determination and Needs.

When recruiting skilled staff for overseas appointment, preference is given to staff currently within the group. Likewise where there are

Sustainability Report

vacancies with promotional opportunities, preference is given to staff within the group.

As a community development exercise, the company policy is to give preference to applicants from the area.

Retention Practices

The Company's compensation and benefits are structured to give employees the satisfaction of working for the organization. As such:

- The aim to recruit and retain excellent employees, salaries and benefit packages are reviewed on an annual basis to ensure that each hotel is in line with local market conditions and competitor rates
- Our properties have long service recognition programmes to recognize employees who have been loyal towards the organization
- Outstanding performance is recognized by way of Employee of the Month/Year. Further the Employee of the Year is given an award of a familiarization programme in the Maldives
- Appropriate employee facilities are provided such as Accommodation Facilities, Cafeteria and Recreational facilities. These areas are maintained in good standards and are adequate for the number of employees

Industrial Relations

Industrial Relations is generally used to describe the relationship that exists between the Management of an undertaking and its staff which may be organized and represented within a trade union framework or a welfare society.

Few of the hotels in the Aitken Spence Group have trade unions and it has been accepted that their existence could play a useful role.

The responsibility for good industrial relationship depends on each undertaking upon its Management, and the Company believes that this can result only from frank discussions between the Management and staff.

The Management in collaboration with employee representatives believes in the following factors:

- Provision of opportunities for employees to discuss matters affecting their jobs with those to whom they are responsible
- Ensure that Managers are apprised of the views of employees and of the problems which they may encounter in meeting Management objectives
- Review staff working conditions, accommodation, recreational facilities, meals and cafeteria facilities
- The Company also strictly adheres to the Wages Board policies of Sri Lanka, and on all occasions has cleared all anomalies whenever there has been an increase in the wages board salary. This practice has helped the Company to maintain a good relationship with its employees

Heritage Kandalama's win at HRM Awards

Sri Lanka's most awarded hotel, Heritage Kandalama was the only resort hotel to be felicitated, bagging a HRM Silver Award at the HRM Awards organized by the Association of Human Resource Professionals (HRP) together with Hewitt Associates.

Employee commitment makes Aitken Spence Hotels Sparkle

Heritage Kandalama was awarded the Presidential Award for Best 5-star Resort while Skills Development Chef of the Aitken Spence Group, Dimuthu Kumarasinghe won the award for the Best Chef.

The Presidential Awards for Travel and Tourism Excellence was inaugurated by the Ministry of Tourism to foster competitiveness and uplift the standards of the local tourism and travel industry. The hotel was selected by an eminent panel of judges based on a comprehensive evaluation criterion comprising revenue generation, innovation, social, cultural, environmental and economic best practices, as well as its contribution as a role model for tourism excellence.

Given that the Group's Skills Development Chef Dimuthu Kumarasinghe could probably be considered as one of the world's

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best chefs, which makes him a fitting winner of the Presidential Award. In his list of unprecedented merits: Dimuthu boasts of a record nine gold medals at the Culinary World Cup 2006 in Luxembourg and four gold medals at the Culinary Olympics 2004 in Germany. He has been felicitated by the World Association of Cooks Societies for his achievements and contribution towards innovative culinary skills. He currently works at Heritance Ahungalla while passing on his skills to his peers within the Group's hotel as its Skills Development Chef.



Certifications and Awards List 2007

- ICASL Award for Annual Report 2007 - Aitken Spence Hotel Holdings PLC. won the Gold Award in the Hotel Companies Category at the Institute of Chartered Accountants of Sri Lanka.
- ISO 22000 Certification - Heritance Kandalama, The Tea Factory and Earl's Regency - Managed by Aitken Spence have been certified in compliance with ISO 22000 by SGS - the certifying company.



Heritance Kandalama

- HOTEL CLUB - Hotel Award - Best Hotels and Resorts in Asia
- ISO 14001/2004 Certification-SLS 2007/2010
- The Ceylon Chamber of Commerce Award for special projects on CSR Infrastructure

- Central Province (IDB) 5 Star Award GOLD (Large Services) 2007
- Presidential Award for Travels & Tourism 2007 Five star Resort
- National HRM award 2007 Heritance Kandalama-SILVER
- Green Globe 21 Benchmark 2006 Bronze Medal
- Recognized as one of the Top Five Best Practices by the United Nations Global Compact - The UN's corporate citizenship programme in 2007
- Recognized as one of the top 15 Green Hotels in the world by the popular US-based Travel & Leisure magazine for its environmental commitment



Tea Factory

- Recognized by the Sunday Times of UK as one of the '100 Best Places to Stay in the World' in 2007
- Recognized by The Independent of UK as one of the 'Top Five Factory Hotels in the World' in 2007

Heritance Ahungalla

- Thomas Cook Best Property Award

Adaaran

- Adaaran "Prestige" Water Villas has been validated as "Five Star butler rating" by the International Institute of Modern Butlers, USA

Browns Beach Hotel - Associate Company

- Certificate of recognition - Chartered Accountants Annual Report Awards Competition (2007)
- Animal Friendly Award by TUI in 2007

Corporate Governance

Adherence to the principles and practices of good Corporate Governance is increasingly taking significance in the corporate world and Aitken Spence Hotel Holdings PLC is strongly committed to achieving exemplary Corporate Governance practices.

Corporate Governance is the system by which the company and its subsidiaries are directed and controlled. A good Corporate Governance structure encourages companies to create value through entrepreneurship, innovation and establishes accountability and transparency commensurate with the inherent risks and opportunities available to the company. It influences how the objectives of the company are set and achieved, risks identified and managed and organizational performance optimized. The Board of Directors ensures that all activities of the board are conducted

upholding the highest standards of transparency, accountability and ethics.

The Company firmly believes that the adoption and implementation of sound principles of Corporate Governance is important to the Company's overall success. The conversion of this belief to practice has, over the years enabled the Company to enhance its reputation and acquire the confidence and trust of all stakeholders.

Good Corporate Governance evolves with the changing circumstances of the Company. The Company is primarily guided by the Code of Best Practices on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and the Listing Rules of the Colombo Stock Exchange on Corporate Governance. This report sets out the Company's Corporate Governance practices.

CORPORATE GOVERNANCE	ADHERENCE TO PRINCIPLES
<i>The Board of Directors</i>	
Composition and Balance	The Board of Directors comprise of seven Directors including the Chairman and the Managing Director. The Company believes that the present composition of the Board, which has at its disposal, a vast reservoir of knowledge and experience in all areas of the Company's operations such as Hoteliering, Marketing, Finance, Legal and Commerce enables optimum efficiency and effectiveness. The names and profiles of the Directors are given on pages 24 and 25 of this report.
Directors Discussions	The board regularly discusses and takes strategic decisions for the Company.
The Responsibilities of the Board	<p>The Board of Directors are responsible for;</p> <ul style="list-style-type: none"> • Formulation of business strategies taking into consideration the Company's strength, competencies and risks • Implementing and monitoring of such strategies • Reviewing and ratifying systems in operation relating to risk management, internal control, codes of conduct and compliance with the laws, statutes and regulations • Reviewing, monitoring and ratifying all capital expenditures, acquisitions and divestitures • Monitoring Senior Management performance • Ensuring that effective information and audit systems are in place • Ensuring that due attention is given to annual and interim financial statements prior to publication • Determining the quantum of the final dividend for approval by the shareholders • Approving and monitoring financial and other reporting

Corporate Governance

Obtaining independent professional advice	The Board in discharging its duties seeks independent professional advice from external parties when necessary at the Company's expense.
Company Secretaries	All Directors have independent and joint access to the Company Secretaries who act in a professional manner. The Company Secretaries advise the Board on matters relating to the Companies Act, Colombo Stock Exchange regulations and other applicable rules and regulations and ensures appropriate, timely and accurate information is submitted to the Board and its committees.
Independent Judgment	Each Director exercises independent judgment in all matters considered by the Board and acts free from any undue influence and bias from other parties. Matters considered include making decisions on issues relating to strategy, implementation of such strategies, performance review, resource allocation and standards of conduct & business ethics.
Dedication of adequate time and effort to matters of the Board and the Company	The Board of Directors devote adequate time to the fulfilment of their duties as Directors of the Company. The Board has delegated the day to day operations of the Company and the group to the Management Committee. The Management Committee comprises the Managing Director, the Executive Directors and a specialist team of Senior Managers of the Company.
Professional development and enhancement of skills of Directors	Directors are provided with opportunities to attend workshops, seminars and professional training programmes arranged by the parent Company's Human Resource Development Division.
Chairman and Managing Director	The roles of the Chairman and the Managing Director are distinct and separate, which ensures a balance of power within the organization, so that no individual has unfettered powers of decision making.
Chairman's Role	The Chairman of the Company is one of the most successful and experienced business leaders in Sri Lanka. The Chairman provides leadership and strategic direction to the Board and ensures that all meetings are conducted in a professional manner.
Financial Acumen	The Board includes three senior Professional Accountants, one of whom is the Managing Director. They possess the necessary experience and expertise.
Provisions for Supply of Information	The Company has a well developed stream-lined Management Information System in place.

Corporate Governance

Appointments to the Board	<p>There is a clear and transparent procedure for the appointment of Directors to the Board.</p> <p>The Articles of Association of the Company empower the Board of Directors to either fill a casual vacancy in the directorate or appoint additional Directors. The Directors so appointed hold office until the next annual general meeting and are eligible for re-election.</p>
Re-Election of Directors	<p>The Company's Articles of Association provide for one third of the Directors for the time being, or if their number is not a multiple of three the number nearest to (but not greater than) one third to retire from office. A Director appointed to the office of Managing Director shall not, while holding that office, be subject to retirement by rotation. Retiring Directors are selected on the basis of those who have been longest in office since their last election. In the event there are one or more Directors to be appointed on the same date the retiring Director shall be determined either by agreement or by lot. A retiring Director shall be eligible for re-election. In order to ensure that the Board is comprised of members who add value to the group, the Board evaluates the qualifications and contribution of each retiring Director before recommending such person for re-election.</p>
Appraisal of the Performance of Directors	<p>The performance of each director is regularly evaluated.</p>
<i>Directors' Remuneration</i>	
Disclosure of Remuneration	<p>The total remuneration of the Directors is disclosed in Note 28.2 to the financial statements.</p>
Remuneration Procedure	<p>The Board has delegated powers to the Remuneration Committee established by the parent Company, to review and oversee implementation of policies with regard to the remuneration of Executive Directors and Executive Employees. The Remuneration Committee consists of the Chairman of the parent Company, who is also the chairman of the committee, and two Non Executive Directors of the parent Company. The names of the members of the Remuneration Committee are listed below:</p> <p>Mr. D.H.S. Jayawardena - Chairman Mr. G.C. Wickremasinghe Mr. R. Sivaratnam</p> <p>No Director is involved in determining his remuneration package. Such remuneration packages offered are fair to the Company and the Director.</p>

Corporate Governance

Level and Make-Up of Remuneration Packages	The Company believes that its success is mainly due to the efforts of its employees and has structured the remuneration packages in such a manner to attract, retain and motivate the best professional talent in the country. An attractive remuneration package in line with comparative industry levels is given to the Managing Director, other Executive Directors and the Senior Management of the group. Whenever required the Remuneration Committee obtains market research information from third parties in order to benchmark compensation packages with the industry norms.
<i>Relations with Shareholders</i>	
Long term shareholder value	The group's market price increased to Rs.93 per share as at 31st March, 2008 compared to Rs.70 per share as at 31st March, 2007. This resulted in a market capitalization of Rs.3.6 billion, an increase of 33 per cent from the previous year.
Constructive use of the Annual General Meeting	The Company welcomes active participation by its shareholders and allows opportunity for shareholder participation. The Board considers the Annual General Meeting as an opportunity to communicate and maintain appropriate dialogue with its shareholders and welcomes their suggestions. It also enables shareholders to meet and discuss appropriate Company matters with the directors after the AGM.
Making available Notice of Meeting and the related papers	The notice of the Annual General Meeting and the relevant documents are published and despatched to the shareholders at least 15 market days prior to the Annual General Meeting as per the new Companies Act No. 07, of 2007.
Major Transactions and their impact on the consolidated group net assets	During the financial year there were no major transactions, which materially altered the Company's net asset base or the consolidated group net asset base other than what has been disclosed in this Annual Report.
<i>Accountability and Audit</i>	
Assessment of the position and prospects of the Company	The Annual Report of the Board of Directors and the Statement of Director's Responsibility are presented on pages 68 to 73 of this report together with the Management Report, presented as an Operational Review, on pages 29 to 36. These reports provide a balanced and understandable assessment of the company's position and prospects.
Maintaining a sound system of Internal Control and Risk Management	The Board has implemented a sound system of internal control and Risk Management to safeguard the shareholders' investment and the Company's assets. The Board is fully aware that Internal Controls have inherent limitations and do not provide absolute assurance against errors and fraud. The details of the Company's Risk Management system is provided on pages 61 to 65 of this annual report.

Corporate Governance

Periodical review of the adequacy and effectiveness of internal controls	The adequacy and the effectiveness of the internal controls are periodically reviewed by the Board, the Audit Committee and the Senior Management of the Company and the observations are reported to the Board for appropriate action.
Financial Reporting	The Board of Directors confirm that the financial statements of the Company and its subsidiaries have been prepared in accordance with the Sri Lanka Accounting Standards and the Companies Act No. 07 of 2007. The Company has duly complied with all the reporting requirements of the relevant Laws and Regulatory Authorities. The consolidated financial statements and the financial statements of the company were audited by Messrs KPMG Ford, Rhodes, Thornton & Co.
Statement by the Auditors about their reporting responsibilities	The Auditors Report on the financial statements is presented on page 74 of this annual report.
Declaration by the Board as to whether the business is a going concern	The relevant declaration is presented in the Annual Report of the Board of Directors on page 68 of this annual report.
Audit Committee	<p>The parent Company audit committee is a sub committee of the Board of Directors of Aitken Spence and Company PLC. The Audit Committee comprises of 3 Non Executive Directors. The names of the members of the Audit Committee are listed below:</p> <p>Mr. G.C. Wickremasinghe - Chairman Mr. R. Sivaratnam Mr. C. H. Gomez</p> <p>The Audit Committee comprises of members with a mix of Financial and Industry experience and assists the Board in discharging its duty by ensuring that the Group's internal controls and conduct of business are in accordance with the best practices appropriate to the Company, reviews the integrity of the Company's financial reporting and oversees the independence of the external auditors. The Audit Committee also monitors and guides the internal audit function.</p>
Maintaining appropriate relationship with external auditors	The Audit Committee is responsible for making recommendations on the re-appointment or removal of external auditors based on the performance of the Auditors.
Statutory Obligations	The Directors, to the best of their knowledge and belief, are satisfied that all financial obligations due to the Government and to employees have been duly paid or adequately provided in the financial statements.

Corporate Governance

<i>Relationship with other stakeholders</i>	
Employees	<p>The Board ensures that the vision, goals and objectives formulated by the Board are clearly communicated and understood by all employees. This ensures goal congruence and the understanding by all employees of the strategic direction of the Company. All employees are aware of their responsibilities and duties and the group strictly follows the ILO conventions with regard to employment. The Group ensures that no person below the minimum age is offered employment. The group affords equal opportunities to potential employees regardless of gender, race or religion and once recruited would continue in their career path without discrimination. The Code of Ethics, which has been duly documented, is given to all executives of the Company who confirm their acceptance of the same. The violation of the Code of Ethics is considered an offence, which is subject to disciplinary action.</p>
Institutions and Regulatory Bodies	<p>The Board ensures that a meaningful relationship is maintained with institutions such as the relevant Line Ministries, The Central Bank of Sri Lanka, The Board of Investment, Registrar of Companies, The Securities and Exchange Commission of Sri Lanka, The Colombo Stock Exchange, The Department of Inland Revenue, professional and trade Associations and various chambers of commerce. The Group's operations and activities strictly adhere to the rules, regulations and codes of conduct set out by the relevant regulatory and advisory bodies and the laws of the country.</p>

Risk Management

The Group is subject to a variety of risks during the course of its day to day operations. In response to this, Aitken Spence Hotel Holdings PLC employs a stringent and sophisticated Risk Management process which allows the company to identify, prioritize, map and mitigate such risks, while allowing the group to increase long term shareholder value.

The Group, while fully understanding that profit is in part the reward for successful risk taking and the relationship between risk

and reward, employs a structured approach to managing uncertainty and threats through a sequence of activities including risk assessment, risk evaluation & risk mitigation. The Risk Management system is reviewed periodically to ensure adequacy and effectiveness.

There are Several key risks to which the group is exposed due to our business activities. The assessment of such risks and the related responses are as follows:

TYPE OF RISK FACED	IMPACT ON AITKEN SPENCE HOTEL HOLDINGS PLC	AITKEN SPENCE HOTEL HOLDINGS PLC RESPONSE
<i>Country Risk</i> <ul style="list-style-type: none"> High country risk due to the ongoing ethnic conflict High inflation 	<ul style="list-style-type: none"> Adverse travel advisories and publicity will significantly reduce occupancies and room rates while increased Marketing and Promotional expenditure will be required to increase occupancies. Continuous increase in the price of consumables and materials resulting in reduction of profits. 	<ul style="list-style-type: none"> Making prudent investments in the Maldives and India to mitigate the country risks associated with tourism in Sri Lanka. During the financial year 2007/08 the group made further investments in Maldives by acquiring its fifth resort in the islands. The group continued its operations in India and ventured into the high growth market in the Middle East by securing a further 4 Management contracts in Oman. Preparation of detailed operational and capital expenditure budgets, which are then used to compare with actual performance and the resulting variances are scrutinized for reasons. Stringent cost control initiatives are in place to minimize wastage without any dilution of quality.
<i>Industry Risk</i> <ul style="list-style-type: none"> Exposure to high levels of operational gearing due to large capital investments 	<ul style="list-style-type: none"> Increased sensitivity towards sales volume resulting in high losses during low occupancy periods. 	<ul style="list-style-type: none"> Increasing the flexibility of its operational cost structure through seasonal recruitments, using rental agreements as apposed to outright purchase and outsourcing non-core operations. Entering into guaranteed performance contracts with travel agents in order to reduce the volatility in earnings associated with the industry. All the assigned rates, credit limits,

Risk Management

<ul style="list-style-type: none"> Competitive actions of existing players and the threat of new entrants 	<ul style="list-style-type: none"> Reduction in market share and rates, increase in promotional expenditure. 	<p>duration, settlement procedures, termination and penalties imposed for delayed payments are incorporated in the agreements to reduce the risk of default in payments.</p> <ul style="list-style-type: none"> Major investment decisions are made after due diligence, where all possible risks attributable to the investment are recognized. All reconstruction and re-engineering of existing businesses and proposals for new investments are subject to an exhaustive project feasibility evaluation. In addition to performing sensitivity analysis on key assumptions, the Company obtains professional advice from outside sources when necessary. The company puts great emphasis on service excellence, adopts positioning/branding strategies to counter direct and indirect threats from new and existing players. Leveraging the group's long term relationships with major tour operators, brand image and reputation, strength of the sister company in the travel industry (Aitken Spence Travels Ltd.), uniqueness of properties, innovative product/service developments gives the company a significant competitive advantage against its competitors.
<p><i>Business and Operational Risks</i></p> <ul style="list-style-type: none"> Breakdown of internal Controls, Processes and Procedures 	<ul style="list-style-type: none"> Disruptions to the normal course of business, wastage of management time and resources, increased possibility of fraud and misuse. 	<ul style="list-style-type: none"> Periodical review of implementation and effectiveness of internal controls by the corporate internal audit department supplemented by regular management audits carried out by internal teams within the group. The external auditors are also engaged to carry out internal audits whenever necessary to ensure compliance and transparency.

Risk Management

- | | | |
|--|--|--|
| <ul style="list-style-type: none"> • Failure to comply with statutory requirements, established norms/trade practices and safety issues | <ul style="list-style-type: none"> • High cost of legal and penalty fees reduces profits and deterioration of relationships with regulatory bodies and employees. | <ul style="list-style-type: none"> • Cordial relationships are maintained with regulatory bodies based on mutual trust and understanding. |
| <ul style="list-style-type: none"> • Fraud, failure and inadequacy of computer systems, human error, inadequacy of information systems | <ul style="list-style-type: none"> • Reduction in profits, disruptions to the normal course of business, making incorrect decisions, loss of competitive advantage. | <ul style="list-style-type: none"> • Operation of a stringent system of internal controls, standardization of procedures and compliance audits. Implementation of a fully integrated central reservations and property management system linking all internal units which achieves a seamless flow of information and operational efficiency. The group employs a streamlined management information system which facilitates prompt and accurate decision making. |
| <ul style="list-style-type: none"> • Natural or Manmade disasters | <ul style="list-style-type: none"> • Loss of property and equipment resulting in significant losses to the group. | <ul style="list-style-type: none"> • Transfer of risks to third parties via insurance policies as far as possible. The adequacy of insurance covers are regularly reviewed and adjusted when necessary, the assets being revalued to match the nearest market value and the insurance covers are enhanced accordingly in order to eliminate any possible risk of under insurance. Appropriate contingency plans and disaster management systems are adopted to safeguard the assets of the company. |
| <ul style="list-style-type: none"> • Inappropriate labour action | <ul style="list-style-type: none"> • Adverse impact on service levels, expected quality standards, operational efficiency and group reputation. | <ul style="list-style-type: none"> • Maintaining cordial relationships with labour unions and adopting interest based negotiations for mutually beneficial solutions. By developing the skills of the staff through regular training programs and succession planning enables the group to effectively face unforeseen union action. |
| <ul style="list-style-type: none"> • Risks associated with sourcing hotel inputs | <ul style="list-style-type: none"> • Low quality inputs will reduce differentiation of the Company's products, and adversely impact the Company's reputation. | <ul style="list-style-type: none"> • A specialized Central Procurement Division ensures risks associated with sourcing are minimized and best prices are achieved through bulk buying incentives and leveraging the group's reputation. |

Risk Management

Financial Risk

- | | | |
|--|--|--|
| <ul style="list-style-type: none"> • Exchange Rate Fluctuations (Exchange Rate Risk) | <ul style="list-style-type: none"> • Adverse movements in currency rates which will reduce the Rupee amounts received from foreign currency receipts. | <ul style="list-style-type: none"> • Negotiation of room rates in stronger currencies reduces the risk from exchange rate fluctuations. |
| <ul style="list-style-type: none"> • Exposure to adverse movements in interest rates (Interest Rate Risk) | <ul style="list-style-type: none"> • Adverse movements in interest rates resulting in high finance costs to the group. | <ul style="list-style-type: none"> • Matching outflows with inflows of the same currency to the extent that is permitted by the prevailing laws. • The treasury division of the parent company monitors exchange rates on a daily basis and advises the company on the best rates to obtain for foreign currency conversions. |
| <ul style="list-style-type: none"> • Exposure to defaulting by debtors (Credit Risk) | <ul style="list-style-type: none"> • Increase in working capital resulting in cash being tied up unnecessarily. | <ul style="list-style-type: none"> • Entering into loans with interest rate “Caps” mitigates this risk. • Working closely with the parent company treasury department to negotiate favourable terms and conditions for loan facilities obtained. • Having thorough credit policies and stringent controls to check the credit worthiness of clients prior to granting credit and periodically reviewing these policies and controls to assess their adequacy. • Comprehensive systems are in place to monitor granting of credit, reviewing of debtors. The group conducts excellent working capital practices and take legal or industrial action where appropriate. The group also takes steps to obtain advances from travel agents/tour operators where possible. • Regular planning and monitoring systems are in place with cash flow projections being prepared in line with fluctuations in occupancy levels. |

Risk Management

<ul style="list-style-type: none"> Exposure of not being able to meet financial commitments as and when they fall due (Liquidity Risk) 	<ul style="list-style-type: none"> Penalty charges and unfavorable interest rates and terms in future loans and overdraft facilities. 	<ul style="list-style-type: none"> A regular review mechanism is in place to monitor the performance of all hotels to ensure the achievement of approved budget targets in order to balance the two extremes of liquidity and profitability.
<p>Legal Risk</p> <ul style="list-style-type: none"> Judiciary action on non-performance of legal and statutory requirements 	<ul style="list-style-type: none"> Loss due to penalties and legal fees, loss of reputation and loss of stakeholder confidence. 	<ul style="list-style-type: none"> Creating awareness of statutory obligations at all levels, periodic assessment of contracts and expert advice is sought when entering into material contracts. The group recognizes and conforms to its responsibilities as a public quoted company, a tax payer and an employer. The Board and Management seek the advice of external consultants as well as the legal division of the parent company on all matters relating to contracts and litigation.
<p>Reputation Risk</p> <ul style="list-style-type: none"> Possible risk to earnings or capital arising from negative publicity 	<ul style="list-style-type: none"> Decline in customer base, trigger costly litigation, deterioration of corporate image, reduction in market share. 	<ul style="list-style-type: none"> Deployment of an effective compliance system, the group is committed to best environmental practices to ensure strict compliance with local regulations and maintains harmonious relationships with the localities in which the hotels operate. Further, the group employs a well defined hygiene quality assurance system to ensure the highest quality of service. At operational level, systems are in place to promptly address any issues/complaints brought about by the clients and to take proactive steps to mitigate similar occurrences in the future.



The background is a solid dark green. Overlaid on this are several thick, white, curved lines that sweep across the frame. These lines originate from the bottom left and right corners, curve upwards and inwards, and then curve back outwards towards the top corners, creating a sense of dynamic movement and stability. The lines vary in thickness and opacity, with some appearing more prominent than others.

New frontiers of stability

Entered. Explored. Established.

Challenges met with grit, determination, and sound judgment. By establishing and consolidating our presence, by building new pillars of stability, we have strengthened our business proposition, mitigated risks and created a foundation for future growth.

Annual Report of the Board of Directors

The Directors are pleased to submit their Report together with the Audited Accounts for the year ended 31st March 2008.

The company was re-registered during the year as required under the provisions of the Companies Act No. 07 of 2007.

Principal Activity of the Group

The principal activity of the companies in the Group is hoteliering and there has been no change in the nature of such activity during the year.

Review of the Year and Future Developments

The Review of the Chairman and the Managing Director contain detailed accounts of the year's operations and future aspirations of the Group.

Internal Controls

The statements of Corporate Governance Practices and Statement of Directors' Responsibilities on pages 55 to 60 and 73 respectively set out in detail the Group's system of internal controls.

Corporate Governance

The Corporate Governance Practices adopted by the Group are set out on pages 55 to 60 of this report.

Risk Management

Specific steps taken by the Group in managing various risks are detailed on pages 61 to 65 of this report.

Going Concern

The Board is satisfied that the Group has adequate resources to continue its operations in the foreseeable future, thus

adopting the going concern basis in preparing the accounts.

Customers

The Group continuously strives to provide a unique experience to all its clients with emphasis on quality and service. Both local and foreign clientele are treated equally assuring value for money.

Suppliers

The Group endeavors to transact business with reputed organizations capable of offering quality goods and services at competitive prices with a view to build mutually beneficial business relationships.

Employment Policy

As at 31st March 2008, the number of permanent and contract employees in the Group were 1,954 (31st March 2007 - 1,806). The total distributed as remuneration during the year amounted to Rs.498,364,177/- (2006/07 - Rs.345,665,994/-). As a socially responsible 'Equal Opportunity Employer', the Group's recruitment and employment policies are non-discriminatory.

The Group is committed to the development and utilization of skills of the local labour force. In addition, the management has provided the opportunity for the employees to develop and share their knowledge in its endeavor to be a learning organization.

Environmental Policy

The Group is committed to environment conservation and minimizing any adverse impact resulting from its operations. In order to monitor and manage the environmental and social performance of the hotels a

Annual Report of the Board of Directors

formal Environmental Management System has been established. The Group's environmental and social practices are detailed on pages 44 to 54 of this report.

Group Revenue

The revenue of the Group was Rs.6,412,698,587/- (2006/07 -Rs.4,299,986,553/-) and is analysed on page 90.

Taxation

A detailed statement of the income tax rates applicable to the individual companies in the Group and a reconciliation of the accounting profits with the taxable profits are given in Note 06 to the financial statements.

It is the Group's policy to provide for deferred taxation on all known timing differences on the balance sheet liability method for tax liable companies. The deferred tax liability of the Group is given in Note 21 to the financial statements.

Group Profits

	2007/08 Rs.	2006/07 Rs.
The Net Profit of the Group for the year after providing for all expenses ,known liabilities and depreciation of property,plant & equipment was	810,860,274	422,675,239
From which Income Tax on Group Profits have to be added/(deducted)	(21,294,454)	(42,241,096)
Leaving the Group with a Net Profit after Taxation of	789,565,820	380,434,143
From which Minority Interests has to be added/(deducted)	(276,914,650)	(177,843,359)
Leaving a Profit for the year applicable to Shareholders of	512,651,170	202,590,784
To which the adjusted balance of the previous year has to be added	1,182,624,861	1,014,128,613
And the transfer to Dividend Reserves has to be deducted	-	-
The amount available to the Company for appropriation therefore	1,695,276,031	1,216,719,397

Appropriations

The amount has been appropriated by your Directors as follows:

Dividends Paid-Preference	-	14,850,000
Dividends Paid-Ordinary	28,824,858	19,216,572
Leaving an unappropriated balance to be carried forward of	1,666,451,173	1,182,652,825
	1,695,276,031	1,216,719,397

Annual Report of the Board of Directors

Statutory Payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments in relation to the government and the employees have been either duly paid or appropriately provided for in the Financial Statements.

Corporate Donations

Donations to charitable organizations and causes amounted to Rs.5,719,763/- (2006/07 - Rs.195,902/-) none of which were for government approved charities under the Inland Revenue Act. No donations were made for political purposes.

Property, Plant & Equipment

The total expenditure on acquisition of property, plant & equipment during the year amounted to Rs.731,375,292/- (2006/07-Rs.1,685,840,037/-) details of which are given in Note 09 to the financial statements.

Real Estate Holdings of the Group

The Real Estate Holdings of the Group are given on page 127 of this report.

Dividend

The Directors recommend a first & final dividend of Rs.1/- per ordinary share and 9% Preference Dividend on cumulative preference shares for the financial year 2007/08 (2006/07 cents 75 per share).

Stated Capital

The stated capital of the Company is Rs.1,056,433,440/- comprising 38,433,144 Ordinary Shares and 16,500,000 Preference Shares. There was no change in the stated capital of the Company during the year.

Reserves

The total reserves of the group as at 31st March 2008 stood at Rs.2,701,001,355/- (31st March 2007 - Rs.2,750,316,318/-). This comprises of Reserves of Rs.1,034,550,182/- (31st March 2007-Rs.1,567,663,493/-) and Retained Earnings of Rs.1,666,451,173 (31st March 2007-Rs.1,182,652,825/-). The movement in reserves is given in the Statement of Changes in Equity on pages 78-79.

Shareholdings

As at 31st March 2008 there were 2,239 registered shareholders. The distribution of shareholdings as at 31st March 2008 is shown on page 120.

Share Information

Information relating to share trading, earnings, dividends, net assets and market value per share is given in the Shareholder and Investor Information, on page 121 of this report.

Major Shareholders

The names of the 20 largest shareholders of the Company and their shareholding as at 31st March 2008 is given in the Shareholder and Investor Information, on page 123 of this report.

Directors

The Board of Aitken Spence Hotel Holdings PLC consists of seven directors with wide financial and commercial knowledge and experience in the industry. The names of the Directors are given on page 130 of this report.

All the Directors of the company held office during the entire financial year.

Annual Report of the Board of Directors

Retirement of Directors

The following Directors retire and being eligible are recommended by the Board for re-election at the forthcoming Annual General Meeting.

1. Mr. D.H.S. Jayawardena, in terms of Article 85 of the Articles of Association of the Company.
2. Mr. R.E.V. Casie Chetty, in terms of Article 85 of the Articles of Association of the Company

Mr. H. Cader has resigned from the Board of Directors with effect from 19th July 2007.

Directors' Interest in Contracts

The Directors have disclosed their interests in contracts with the Company at meetings of the Directors, the details of which are set out in Note No. 28 Related Party Transactions to the financial statements on page 114-117.

Interest Register

The Interests Register is maintained as per the requirements of the Companies Act No. 07 of 2007 and is available for inspection.

Directors' Fees

A sum of Rs.28,800/- was paid as Directors' fees during the financial year ended 31st March 2008.

Directors' Shareholding

The Directors of the Company together with their spouses held 33,111 shares as at 31st March 2008 which amounted to 0.086 % (31st March 2007 - 0.07 %) of the total ordinary share capital.

There was no material variation from this figure within two months from the year end.

Ordinary Shareholdings of the Directors together with their spouses are as follows:

As at 31st March	2008	2007
Mr. D.H.S. Jayawardena	-	-
Mr. J.M.S. Brito	9,000	3,000
Mr. R.E.V. Casie Chetty	23,863	23,863
Mr. S.M. Hapugoda	-	-
Mr. C.M.S. Jayawickrama	-	-
Mr. K.A.A.C. Perera	-	-
Mr. G.P.J. Goonewardena	248	248
	<u>33,111</u>	<u>27,111</u>

Shares held by the Directors in the Group Companies:

Hethersett Hotels Ltd.,

As at 31st March	2008	2007
Mr. R.E.V. Casie Chetty	2,500	2,500

Public Shareholding

The percentage of the shares held by the public as at 31st March 2008 is 25.4 % (31st March 2007 - 25.4 %)

Changes in Accounting Policies

The Accounting Policies adopted by the Company and its subsidiaries have been consistently applied from previous years.

Annual Report of the Board of Directors

Post Balance Sheet Events

No circumstances have arisen since the Balance Sheet date which would require adjustments to or disclosure in the financial statements.

Annual General Meeting

The Thirty First Annual General Meeting of the Company will be held at the “Sapphire Ballroom” Ceylon Continental Hotel, Colombo on 27th June 2008.

Auditors

The accounts for the year have been audited by Messrs. KPMG Ford Rhodes, Thornton & Co., who offer themselves for re-appointment.

The amount paid by the Group to the Auditors was Rs.3,353,504/- and Rs.99,421/- was paid for permitted non audit related services including tax consultancy services.

As far as the Directors are aware, the Auditors do not have any relationship with the Company that would have an impact on their independence.


By Order of the Board of Directors.



D.H.S Jayawardena
Chairman



J.M.S Brito
Managing Director



Director

Aitken Spence Corporate Finance (Pvt) Ltd.,
Secretaries

30th May 2008, Colombo.

Statement of Directors' Responsibilities

The Companies Act No. 07 of 2007 requires the Directors to prepare financial statements for each financial year giving a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit and loss of the Company and the Group for the financial year.

The Directors confirm that in preparing the financial statements of the Company and the Group, appropriate Accounting Policies and Standards have been selected, consistently applied and supported by reasonable and prudent judgements and estimates. Any material departures if any, have been disclosed and explained in the financial statements.

Having reviewed the Group's future financial projections, cash flows and current performance, the Directors consider that the Company and the Group have adequate resources to continue operations. The Directors have thus adopted a going concern basis in preparing the financial statements.

The Directors have taken the responsibility to ensure that the companies within the Group maintain accounting records, which disclose with reasonable accuracy the financial position of the Company and the Group and that the financial statements comply with the Companies Act No. 07 of 2007 thereafter, Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995, and the listing rules of the Colombo Stock Exchange.

The Directors have taken reasonable measures to safeguard the assets of the Company and of the Group and to establish appropriate systems of internal controls in order to prevent and detect error, fraud and other irregularities.

The Auditors have carried out reviews and sample checks on the system of internal controls, as they considered appropriate and necessary for expressing their opinion on the financial statements. The Directors have extended full co-operation to the Auditors and have provided them every opportunity to carry out their statutory obligation of expressing an opinion on the financial statements.

The Directors also confirm that to the best of their knowledge all taxes and levies payable by the Group, all contributions, levies and taxes payable on behalf of and in respect of the employees and all other known statutory obligations including retirement gratuities as were due as at the Balance Sheet date have been either duly paid or appropriately provided for in the financial statements.

By Order of the Board of Directors

Aitken Spence Corporate Finance (Pvt) Ltd.

Secretaries

Colombo

30th May, 2008

Independent Auditor's Report



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
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TO THE SHAREHOLDERS OF AITKEN SPENCE HOTEL HOLDINGS PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Aitken Spence Hotel Holdings PLC, the consolidated financial statements of the Company and its subsidiaries as at that date which comprise the balance sheet as at March 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 75 to 117 of this Annual Report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended March 31, 2008 and the financial statements give a true and fair view of the Company's state of affairs as at March 31, 2008 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at March 31, 2008 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the members of the Company.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Sections 153(2) to 153(7) of the Companies Act No. 07 of 2007.

KPMG Ford, Rhodes, Thornton & Co.
Chartered Accountants

Colombo
30 May 2008

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A.N. Fernando FCA
M.R. Mihular FCA
P.Y.S. Perera FCA
T.J.S. Rajakarier FCA
Ms. S. Joseph ACA

S. Sirikananathan FCA
Ms. M. P. Perera FCA
C.P. Jayatilake FCA
W.W.J.C. Perera FCA

Income Statement

For the year ended 31 st March	Notes	GROUP		CHANGE %	COMPANY		CHANGE %
		2008 Rs.'000	2007 Rs.'000		2008 Rs.'000	2007 Rs.'000	
Gross Revenue	1	6,412,699	4,299,987	49	302,063	155,295	95
Bed Tax		<u>(322,031)</u>	(231,373)	39	<u>-</u>	<u>-</u>	
Net Revenue		6,090,668	4,068,614	50	302,063	155,295	95
Other Operating Income	2	45,177	32,064	41	294,232	633,807	(54)
Staff Costs		<u>(760,721)</u>	(516,093)	47	<u>(66,933)</u>	(54,967)	22
Depreciation & Amortisation		<u>(536,441)</u>	(352,966)	52	<u>(94,516)</u>	(86,015)	10
Other Operating Expenses - Direct		<u>(1,473,619)</u>	(1,049,791)	40	<u>(73,584)</u>	(47,908)	54
Other Operating Expenses - Indirect	3	<u>(2,224,594)</u>	(1,523,949)	46	<u>(139,683)</u>	(122,809)	14
Profit from Operations	4	1,140,470	657,879	73	221,579	477,403	(54)
Interest Income		27,066	25,790	5	10,568	290	3,544
Finance Cost	5	<u>(362,461)</u>	(260,745)	39	<u>(200,325)</u>	(175,121)	14
		805,075	422,924	90	31,822	302,572	(89)
Share of Results of Associates	1	<u>5,785</u>	(249)	2,423	<u>-</u>	<u>-</u>	
Profit Before Taxation	1	810,860	422,675	92	31,822	302,572	(89)
Income Tax Expense	6	<u>(21,294)</u>	(42,241)	(50)	<u>(8,760)</u>	(35,828)	(76)
Profit for the period		<u>789,566</u>	<u>380,434</u>	108	<u>23,062</u>	<u>266,744</u>	(91)
Attributable to:							
Equity Holders of the Parent		512,651	202,591	153	-	-	
Minority Interest		<u>276,915</u>	177,843	56	<u>-</u>	<u>-</u>	
		<u>789,566</u>	<u>380,434</u>	108	<u>23,062</u>	<u>266,744</u>	(91)
Earnings per Ordinary Share (Rs.)	7	12.95	4.88	165	0.21	6.55	(97)
Dividend per Ordinary Share (Rs.)	8	1.00	0.75	33	1.00	0.75	33

Figures in brackets indicate deductions.

The Significant Accounting policies and notes on pages 82 to 117 form an integral part of these financial statements.

Balance Sheet

As at 31st March	Notes	GROUP		COMPANY	
		2008 Rs.'000	2007 Rs.'000	2008 Rs.'000	2007 Rs.'000
ASSETS					
Non-Current Assets					
Property, Plant & Equipment	9	6,664,681	6,469,263	1,653,574	1,736,895
Leasehold Property	10	1,407,987	52,500	-	-
Intangible Assets	11	3,048	3,048	-	-
Investments in Subsidiaries	12	-	-	939,020	836,968
Investments in Associates	13	188,358	183,015	98,987	98,987
Long-Term Investments	14	86,600	10	-	-
		8,350,674	6,707,836	2,691,581	2,672,850
Current Assets					
Inventories	15	174,557	149,759	19,557	16,123
Trade and Other Receivables	16	1,093,271	927,444	119,930	186,640
Amounts due from Related Parties	17	180,559	184,880	925,143	1,205,874
Deposits & Prepayments		254,085	207,206	4,392	2,802
Current Tax Receivable		7,019	23,725	1,999	20,956
Short Term Deposits		389,079	510,876	36,505	13,118
Cash and Cash Equivalents		119,034	79,255	14,852	6,619
		2,217,604	2,083,145	1,122,378	1,452,132
TOTAL ASSETS		10,568,278	8,790,981	3,813,959	4,124,982

The Significant Accounting policies and notes on pages 82 to 117 form an integral part of these financial statements.

Balance Sheet

As at 31st March	GROUP			COMPANY	
	Notes	2008 Rs.'000	2007 Rs.'000	2008 Rs.'000	2007 Rs.'000
EQUITY AND LIABILITIES					
Equity Attributable to equity holders of the parent					
Stated Capital	18	1,055,810	1,055,810	1,056,433	1,056,433
Reserves		1,034,550	1,061,184	356,650	356,650
Retained Earnings		1,666,451	1,182,653	876,528	882,291
		3,756,811	3,299,647	2,289,611	2,295,374
Minority Interest		1,219,998	873,019	-	-
Total Equity		4,976,809	4,172,666	2,289,611	2,295,374
Non-Current Liabilities					
Interest - Bearing Borrowings	19	2,930,155	1,125,325	1,101,359	311,932
Amounts due to Ultimate Holding Company		-	615,000	-	615,000
Government Grants	20	1,547	-	-	-
Deferred Tax	21	94,939	97,756	-	10,240
Retirement Benefit Obligations	22	20,915	18,927	7,743	7,383
		3,047,556	1,857,008	1,109,102	944,555
Current Liabilities					
Trade Creditors		254,528	161,403	19,925	9,380
Other Provisions and Payables	23	871,695	1,049,337	98,738	117,216
Amounts due to Ultimate Holding Company		526,787	794,179	78,780	647,884
Amounts due to Related Parties	24	57,796	77,249	5,480	22,930
Interest Bearing Borrowings	19	498,300	285,423	212,323	41,435
Current Tax Payable		2,064	37,572	-	38,329
Short Term Bank Borrowings		332,743	356,144	-	7,879
		2,543,913	2,761,307	415,246	885,053
TOTAL LIABILITIES		5,591,469	4,618,315	1,524,348	1,829,608
TOTAL EQUITY AND LIABILITIES		10,568,278	8,790,981	3,813,959	4,124,982

These Financial Statements are prepared in compliance with the requirements of the Companies Act No. 07 of 2007.



C. M. S. Jayawickrama
Director

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

Approved and signed for and on behalf of the Board



D.H.S. Jayawardena
Chairman
30th May, 2008, Colombo



J.M.S. Brito
Managing Director

The Significant Accounting policies and notes on pages 82 to 117 form an integral part of these financial statements.

Statement of Changes in Equity

Group For the year ended 31st March	 Attributable to Equity Holders of the Parent.....							
		Stated Capital	Revaluation Reserve	General Reserves	Exchange Fluctuation Reserves	Retained Earnings	Total	Minority Interest	Total Equity
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 31st March, 2006		1,055,810	329,371	260,287	166,713	1,014,151	2,826,332	664,405	3,490,737
Adjustment due to change in percentage holding in subsidiaries		-	-	-	-	(22)	(22)	-	(22)
Currency translation differences		-	-	-	90,411	-	90,411	28,675	119,086
Surplus on revaluation		-	214,402	-	-	-	214,402	-	214,402
Effect of Acquiring new Companies		-	-	-	-	-	-	83,244	83,244
Net Income recognised directly in Equity		-	214,402	-	90,411	(22)	304,791	111,919	416,710
Net Profit for the period		-	-	-	-	202,591	202,591	177,843	380,434
		-	214,402	-	90,411	202,569	507,382	289,762	797,144
Preference Dividend Paid- 2006/07	(Note - 8)	-	-	-	-	(14,850)	(14,850)	-	(14,850)
Ordinary Dividend Paid- 2005/06	(Note - 8)	-	-	-	-	(19,217)	(19,217)	-	(19,217)
Dividends of Subsidiaries		-	-	-	-	-	-	(81,148)	(81,148)
Balance as at 31st March, 2007		1,055,810	543,773	260,287	257,124	1,182,653	3,299,647	873,019	4,172,666
Adjustment due to change in percentage holding in subsidiaries		-	-	-	-	(28)	(28)	-	(28)
Currency translation differences		-	-	-	(26,634)	-	(26,634)	(14,830)	(41,464)
Effect of Acquiring new Companies		-	-	-	-	-	-	97,065	97,065
Net Income recognised directly in Equity		-	-	-	(26,634)	(28)	(26,662)	82,235	55,573
Net Profit for the period		-	-	-	-	512,651	512,651	276,915	789,566
		-	-	-	(26,634)	512,623	485,989	359,150	845,139
Ordinary Dividend Paid- 2006/07	(Note - 8)	-	-	-	-	(28,825)	(28,825)	-	(28,825)
Dividends of Subsidiaries		-	-	-	-	-	-	(12,171)	(12,171)
Balance as at 31st March, 2008		1,055,810	543,773	260,287	230,490	1,666,451	3,756,811	1,219,998	4,976,809

Figures in brackets indicate deductions.

The Significant Accounting policies and notes on pages 82 to 117 form an integral part of these financial statements.

Statement of Changes in Equity

Company

For the year ended 31st March

	Stated Capital Rs.'000	Revaluation Reserve Rs.'000	General Reserve Rs.'000	Retained Earnings Rs.'000	Total Rs.'000
Balance as at 31st March, 2006	1,056,433	206,841	20,840	649,614	1,933,728
Net Profit for the period	-	-	-	266,744	266,744
Surplus on revaluation	-	128,969	-	-	128,969
Preference Dividend Paid- 2006/07 (Note - 8)	-	-	-	(14,850)	(14,850)
Ordinary Dividend Paid- 2005/06 (Note - 8)	-	-	-	(19,217)	(19,217)
Balance as at 31st March, 2007	1,056,433	335,810	20,840	882,291	2,295,374
Net Profit for the period	-	-	-	23,062	23,062
Ordinary Dividend Paid- 2006/07 (Note - 8)	-	-	-	(28,825)	(28,825)
Balance as at 31st March, 2008	1,056,433	335,810	20,840	876,528	2,289,611

Figures in brackets indicate deductions.

The Significant Accounting policies and notes on pages 82 to 117 form an integral part of these financial statements.

Cash Flow Statement

<i>For the year ended 31st March</i>	GROUP		COMPANY	
	2008 Rs.'000	2007 Rs.'000	2008 Rs.'000	2007 Rs.'000
Profit before taxation	810,860	422,675	31,822	302,572
Adjustments for				
Depreciation	490,058	352,966	94,516	86,015
Amortisation of pre paid lease rentals	1,500	1,500	-	-
Amortisation of leasehold rights	44,883	-	-	-
Provision for doubtful debts	10,214	2,790	3,420	(46)
Surplus on acquisition of Subsidiaries	(900)	(2,883)	-	-
Amortisation of goodwill on acquisition	-	82	-	-
Interest	362,461	260,745	200,325	175,121
(Profit)/Loss on sale of property, plant & equipment	(6,318)	142	(1,436)	836
Gratuity provision	5,201	6,202	2,131	2,699
Share of results of Associates	(5,785)	249	-	-
(Gains)/Loss on Foreign Exchange	7,691	(15,231)	(7,355)	(5,569)
Effect of Companies Acquired during the year	97,065	13,166	-	-
Transfer of Property, Plant and Equipment	-	2,933	-	-
Operating profit before working capital changes	1,816,930	1,045,336	323,423	561,628
(Increase)/Decrease in Inventories	(24,798)	(60,654)	(3,434)	(15,226)
(Increase)/Decrease in Amounts due from Related Parties	4,321	(132,680)	280,731	(283,391)
(Increase)/Decrease in Trade and Other Receivables	(176,041)	(172,788)	66,710	(36,474)
(Increase)/Decrease in Deposits & Prepayments	(46,879)	(44,490)	(1,590)	3,831
Increase/(Decrease) in Trade Creditors	93,125	10,806	7,125	8,286
Increase/(Decrease) in Other Provisions & Payables	(177,642)	516,317	(18,478)	49,808
Increase/(Decrease) in Amounts due to Ultimate Holding Company	(267,392)	391,932	(569,104)	326,518
Increase/(Decrease) in Amounts due to Related Parties	(19,453)	(37,425)	(17,450)	(5,730)
Cash Generated from operations	1,202,171	1,516,354	67,933	609,250
Interest paid	(362,461)	(260,745)	(200,325)	(175,121)
Gratuity paid	(3,213)	(2,451)	(1,771)	(963)
Income Tax Refund/(Paid)	(42,564)	(48,654)	(38,372)	(40,537)
Net cash flow from operating activities	793,933	1,204,504	(172,535)	392,629

Figures in brackets indicate deductions.

The Significant Accounting policies and notes on pages 82 to 117 form an integral part of these financial statements.

Cash Flow Statement

<i>For the year ended 31st March</i>	GROUP		COMPANY	
	2008 Rs.'000	2007 Rs.'000	2008 Rs.'000	2007 Rs.'000
Net Cash flow from Operating Activities (brought forward from previous page)	793,933	1,204,504	(172,535)	392,629
Cash flow from Investing Activities				
Investments made during the year	(1,488,510)	(12)	(102,052)	(79,291)
Purchase of property, plant & equipment	(731,375)	(1,685,840)	(11,479)	(318,558)
Proceeds from sale of property, plant & equipment	18,326	3,376	1,720	1,052
Dividend Received From Associate Companies	443	887	-	-
Net cash used in investing activities	(2,201,116)	(1,681,589)	(111,811)	(396,797)
Cash flow from financing activities				
Government grants (Net)	1,547	-	-	-
Proceeds from long term borrowings	2,320,501	626,378	1,000,000	52,500
Repayment of long term borrowings	(903,574)	(375,602)	(654,685)	(2,600)
Dividends paid	(28,825)	(34,067)	(28,825)	(34,067)
Dividend paid by subsidiary companies to minority Shareholders	(12,171)	(81,148)	-	-
Net cash used in financing activities	1,377,478	135,561	316,490	15,833
Net Increase/(Decrease) in cash & cash equivalents	(29,705)	(341,524)	32,144	11,665
Cash & cash equivalents at the beginning of the year	205,075	575,511	19,213	193
Cash & cash equivalents at the end of the year	175,370	233,987	51,357	11,858
Analysis of cash & cash equivalents at the end of the year				
Cash at bank and in hand	119,034	79,255	14,852	6,619
Short term deposits	389,079	510,876	36,505	13,118
Short term Bank Borrowings	(332,743)	(356,144)	-	(7,879)
Cash & Cash Equivalent as previously Reported	175,370	233,987	51,357	11,858
Effect of Exchange Rate Change	-	(28,912)	-	7,355
Cash & cash equivalents as restated	175,370	205,075	51,357	19,213

Figures in brackets indicate deductions.

The Significant Accounting policies and notes on pages 82 to 117 form an integral part of these financial statements.

Significant Accounting Policies

1. GENERAL

1.1 Reporting Entity

Aitken Spence Hotel Holdings PLC, is a Company incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange.

1.2 Principal Activities & Nature of Operations

The principal activity of the company and other entities in the group is Hoteliering.

The consolidated financial statements include the Company and its Subsidiaries (together referred to as the Group) and interest in associates.

The financial statements were authorised for release by the Board on 30th May 2008.

1.3 Statement of Compliance

The Consolidated Financial Statements have been prepared in accordance with the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka.

1.4 Basis of Preparation

The financial statements are presented in Sri Lankan Rupees rounded to the nearest thousand. They are prepared on the historical cost convention except for certain items of property, plant & equipment, which valuations are based as explained in paragraph 2.4 below:

The preparation of financial statements in conformity with Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka requires the management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently by all entities in the Group to all periods presented in these consolidated financial statements. The preparation and presentation of these financial statements is in compliance with the requirements of the Companies Act No. 07 of 2007.

1.5 Basis of consolidation

1.5.1 Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

A listing of the Company's Subsidiaries is set out in Note 12 to the financial statements.

1.5.2 Minority Interest

The proportion of the profits or losses after taxation applicable to outside Shareholders of subsidiary companies are included under the heading "Minority Interest" in the Consolidated Income Statement.

The interest of the minority shareholders in the net assets employed is shown under the heading "Minority Interest" in the Balance Sheet.

All Group subsidiary and associate companies have a common financial year, which ends on 31st March.

Significant Accounting Policies

1.5.3 Associates

Associates are those entities in which the Group has between 20% - 50% of the voting rights but which are not subsidiaries or joint ventures and in respect of which the Group exercises significant influence, but not control, over the financial and operating policies.

The results of Associate Companies are accounted for under the equity basis of accounting, where the Groups share of profits and losses is incorporated in the consolidated income statement, and the related investments carried forward in the consolidated balance sheet at values adjusted to reflect the Group's share of retained assets. Dividends declared by the associates are recognized against the equity value of the Group's investment.

A listing of the Associates is set out in Note 13 to the financial statements.

1.5.4 Transactions eliminated on consolidation

Intra group balances and any unrealised gains and losses or income and expenses arising from intra group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains. But only to the extent that there is no evidence of impairment.

1.5.5 Goodwill

Goodwill represents the excess of the cost of an acquisition of a subsidiary or an associate over the Groups interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is initially recognised at cost.

In accordance with the revised Sri Lanka Accounting Standard 25 - Business Combinations (revised 2004)

the company will no longer amortise the goodwill but test the goodwill for impairment annually and assess for any indication of impairment to ensure that its carrying amount does not exceed the recoverable amount. If an impairment loss is identified, it is recognised immediately to the income statement.

Goodwill on acquisition of a subsidiary is presented as an intangible asset and the goodwill on an acquisition of an equity accounted investment is included in the carrying value of the investment.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceed the cost of the acquisition of the entity, the group will reassess the measurement of the acquiree's identifiable assets and liabilities and the measurement of the cost and recognise the difference immediately to the consolidated income statement.

1.6 Changes in Accounting Policies

The accounting policies adopted are consistent with those in the previous financial year. The accounting policies of the company have been revised where relevant to reflect the changes in the provision of the revised standards.

1.7 Foreign Currency

1.7.1 Foreign Currency Transactions

All foreign exchange transactions in individual companies are translated at the rate of exchange prevailing at the time the transaction was effected. All monetary assets and liabilities in foreign currency at the year end are translated at the rate prevailing on the Balance Sheet date. Non-Monetary items which are carried in terms of historical cost or fair value denominated in foreign currency is translated using the exchange rate at the date of transaction. Non Monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to reporting currency using the exchange

Significant Accounting Policies

rate that was prevailing on the date the fair value was determined. The resulting gains or losses on translations are dealt with in the income statement.

1.7.2 Financial Statement of Foreign Entities

Subsidiaries incorporated outside Sri Lanka are treated as foreign entities. Assets and Liabilities both monetary and non-monetary of foreign entities are translated at the rate of exchange prevailing on the Balance Sheet date. Income, Expenses and the Cash Flows of the foreign entities are translated at the exchange rate approximating to the actual rate at the time of the transaction. For practical purposes this is presumed to be the average rate during each month.

Exchange differences arising on translating the financial statements of foreign entities are classified under equity in the consolidated financial statement.

Goodwill arising on the acquisition of foreign entities is reported using the exchange rate that prevailed at the date of acquisition in accordance with the Sri Lanka Accounting Standard No. 21 - Effects of Changes in Foreign Exchange Rates.

2. PROPERTY, PLANT AND EQUIPMENT

2.1 Owned Assets

Items of property, plant and equipment are stated at costs less accumulated depreciation and impairment. The cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. The cost of self constructed assets include the cost of materials, direct labour, and any other costs directly attributable to bringing the asset to working condition of its intended use. This also includes costs of dismantling and removing the items and restoring the site on which they are located.

The Group revalues Land at least once in every five years and is stated at its fair value at the date of revaluation less any

subsequent impairment losses. On revaluation of land any increase in the revaluation amount is credited to the revaluation reserve unless it offsets a previous decrease in value of the same asset that was recognized in the income statement. A decrease in value is recognized in the income statement where it exceeds the increase previously recognized in the revaluation reserve. Upon disposal, any related revaluation reserve is transferred from the revaluation reserve to accumulated profits and is not taken into account in arriving at the gain or loss on disposal. The details of land valuation is disclosed in note 9.4 to the financial statements.

Where parts of an item of property, plant and equipment has different useful lives, they are accounted for as separate items of property, plant and equipment.

2.2 Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner - occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses if any. The property held under finance leases and leased out under operating lease is classified as investment property and stated at the fair value model. Lease payments are accounted for as described in the accounting policy. Property held under operating leases that would otherwise meet the definition of investment property may be classified as investment property on a property by property basis.

2.3 Subsequent Costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item, when that cost is incurred, if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense incurred.

Significant Accounting Policies

2.4 Depreciation

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment.

Depreciation is provided proportionately in the year of purchase and in the year of disposal of the asset.

The estimated useful lives are as follows:

Leasehold Premises	over the remaining lease period
Buildings	10 - 50 years
Plant & Equipment	05 - 15 years
Kitchen Equipment	05 - 15 years
Office Equipment	03 - 10 years
Sports Equipment	05 - 10 years
Motor Vehicles	04 - 05 years
Boats	10 years
Swimming Pool Equipment	15 - 20 years
Furniture & Fittings	10 - 20 years
Crockery, Cutlery & Glassware	03 - 05 years
Soft Furnishing	05 - 10 years

Land is not depreciated.

Buildings in the Maldivian Resorts are depreciated on an annuity method over the period of the lease except for buildings at BIR Hotel Management Pvt Ltd., which are written off over the remaining lease period.

2.5 Leasehold Property

Leasehold property comprising of land use rights and is amortised on a straight line basis over the period of the lease. Leasehold property are tested for impairment annually and is written down where applicable. The impairment loss if any, is recognised in the income statement.

3. INTANGIBLE ASSETS

An intangible asset is recognised initially at cost when it is probable that future economic benefits that are attributable to the asset will flow to the Group and when the cost of the asset

can be measured reliably. These intangible assets are carried in the balance sheet at cost less accumulated amortisation and any accumulated impairment losses.

Cost of Intangible assets less any residual value is amortised over the useful economic life of the asset while the carrying amount of the Goodwill arising on acquisition of an entity is assessed for impairment at each balance sheet date and accounted as explained in 1.5.5 above.

4. INVESTMENTS

4.1 Unquoted investments are treated as long term investments and valued at cost in the financial statements. Investments in preference shares are treated as long term investments and stated at cost of the shares in the financial statements.

4.2 Investments in subsidiary companies are valued at cost and treated as long term investments in the parent companies financial statements.

4.3 Investment in associate companies are treated as long term assets and valued as explained in para 1.5.3 above. In the parent company's financial statements, the investments are valued at cost.

5. CURRENT ASSETS

5.1 Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. The cost of Inventories are based on weighted average cost other than in Hotels in the Maldives where inventories are valued on first in first out basis. The cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

5.2 Trade and Other Receivables

Trade and Other Receivables are stated at the amounts estimated to be realised after providing for bad and doubtful debts.

Significant Accounting Policies

5.3 Cash & Cash Equivalents

Cash & cash equivalents comprise cash in hand, and short term deposits. Bank Overdrafts that are repayable on demand and form an integral part of the Group's cash management is included as components of cash and cash equivalents for the purpose of presenting the Cash Flow Statement.

5.4 Impairment

The carrying amounts of the Group's non financial assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amounts are estimated.

For goodwill, the recoverable amount is estimated at each balance sheet date, or as and when an indication of impairment is identified.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairments are recognised in the income statement.

Impairment losses recognised in respect of subsidiaries acquired are allocated first to reduce the carrying amount of any goodwill allocated to the entity and then to reduce the carrying amount of the other assets in the entity on a pro rata basis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessment of the time value of money and risks specific to the asset or cash generating unit.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in

prior periods are assessed at each balance sheet date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversal of impairment losses are recognised in the income statement.

6. LIABILITIES AND PROVISIONS

6.1 Liabilities classified as current liabilities on the Balance Sheet are those which fall due for payment on demand or within one year from the Balance Sheet date. Non current liabilities are those balances payable after one year from the Balance Sheet date. All known liabilities are accounted for in the Balance Sheet. Provisions and Liabilities are recognised in the Balance Sheet.

6.2 Provisions are recognised in the Balance Sheet when there is a legal or constructive obligation as a result of a past event, the settlement of which is expected to result in an outflow of resources embodying economic benefits.

6.3 Trade and Other Payables

Trade and Other Payables are stated at cost.

6.4 Taxation

6.4.1 The Group's liability to taxation has been computed in accordance with the Inland Revenue Act No. 10 of 2006 and amendments thereto.

6.4.2 Deferred Tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of

Significant Accounting Policies

assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits, and differences relating to investment in subsidiaries, jointly controlled entities and associates to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

7. INCOME STATEMENT

7.1 Revenue

The Group revenue represents apartment and other sales to customers outside the Group and excludes valued added tax and intra-group revenue. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due.

7.1.1 Apartment revenue is recognised for the rooms occupied on a daily basis, whilst food and beverage sales are accounted for at the time of sale. All revenues are recognised on an accrual basis and matched with the related expenditure.

7.1.2 Interest Income is accrued on a time proportion basis.

7.1.3 Dividends from investments are recognised when the right to receive such is established.

7.2 Profits

The profit earned by the Group before taxation as shown in the Consolidated Income Statement, is after making a provision for bad and doubtful debts, all known liabilities and depreciation of property, plant & equipment.

7.3 Expenditure

All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to revenue in arriving at the profit for the year.

7.4 Financing Costs

Financing costs are recognised as an expenditure in the period in which they are incurred. However, finance costs that are directly attributable to the acquisition, construction or production of assets that take a substantial period of time to get ready for its intended use or sale, are capitalised as part of the asset.

7.5 Disposal of Property, Plant & Equipment

Gains or Losses on the disposal of property, plant & equipment have been accounted for in the Income Statement.

7.6 Operating Lease Payments

Payments made on operating leases are recognised in the Income Statement on a straight line basis over the term of the lease.

8. SEGMENTAL INFORMATION

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segments) which are subject to risks and rewards that are different from those of other segments.

8.1 Primary and Secondary Segments

The Group is in the hospitality industry and cannot segment its products and services. The Group manages hotels in two principal geographical areas, Sri Lanka and South Asia. In presenting segmental information segment revenue and assets are based on the geographical locations of the assets. The primary segment is considered to be the geographical segment based on the Group's management and internal reporting structure.

Significant Accounting Policies

8.2 Segmental information analysed by geographical segments are disclosed in Notes 1 & 25 to the financial statements.

8.3 All transfers made between the hotels in the Group are based on normal market price.

9. CASH FLOW

The cash flow of the Group has been presented using the indirect method.

10. COMMITMENT AND CONTINGENCIES

Commitments and Contingent Liabilities of the Group are disclosed where appropriate.

11. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

All material post Balance Sheet events have been considered, disclosed and adjusted where applicable.

12. EMPLOYEE BENEFIT PLAN

12.1 Defined Benefit Plan Retirement Gratuity

Provision has been made in the accounts for retirement Gratuities payable based on an actuarial valuation carried out on a projected unit credit method as recommended by SLAS 16 - Retirement Benefit Cost. The actuarial valuation was carried out by professionally qualified actuaries, M/s Actuarial & Managements Consultants (Pvt) Ltd.

12.1.1 The principal actuarial assumptions used in determining the liability were:

- (i) Rate of interest being equal to the market yields on the Balance Sheet date of government bonds - 12%.
- (ii) Salary increments ranging between 7% to 11% per annum.
- (iii) Retirement age at 55 years.
- (iv) The Group continues in business as a going concern.

12.1.2 The actuarial valuation was made on 31st March 2007. It is proposed that a valuation is obtained at least once in three years.

12.1.3 The liability is not externally funded.

12.2 Defined Contribution Plan

Obligations for contributions to defined contribution plans are recognised as an expense in the Income Statement as incurred. The Group contributed to the Employees' Provident Fund at 15% (new employees 12%) and Employees' Trust Fund at 3%.

12.3 Government Grants

A government grant is recognised in the balance sheet initially as deferred income when there is a reasonable assurance that it will be received & the conditions attached to it are complied with.

Grants that compensate the group for expenses incurred are recognised as revenue in the Income Statement on a systematic basis in the periods in which the expense is incurred. Grants that compensate the group for the cost of an asset is recognised in the Income Statement as revenue on a systematic basis over the useful-life.

13. DIVIDENDS

Dividends on redeemable cumulative preference shares are recognised as a liability when the right to receive such is established. Dividends are recognised as a liability in the period in which they are declared while the final dividend is approved by the shareholders and is recognized as a liability when approved at the Annual General Meeting of the shareholders.

14. Comparative Information

The Accounting Policies have been consistently applied by the group and are consistent with those used in the previous year. Comparative information is re-classified where ever necessary to comply with the current presentation.

Notes to the Financial Statements

1. REVENUE

1.1 Analysis of Segmental Revenue

	External Rs.'000	GROUP		Total 2006/2007 Rs.'000
		Intra Group Rs.'000	Total 2007/2008 Rs.'000	
Sri Lankan Sector				
Resorts & Hotels	1,018,444	1,226	1,019,670	694,925
Others	<u>17,641</u>	<u>161,000</u>	178,641	<u>74,213</u>
Total Sri Lankan Sector	1,036,085	162,226	1,198,311	769,138
South Asian Sector	<u>5,376,614</u>	<u>134,822</u>	5,511,436	<u>3,760,366</u>
	<u>6,412,699</u>	<u>297,048</u>	6,709,747	<u>4,529,504</u>
Intra group revenue			(297,048)	<u>(229,517)</u>
Total			6,412,699	<u>4,299,987</u>

1.2 Geographical Segment Analysis - Revenue and Profits

	Gross Revenue		Profit/(Loss) Before Taxation	
	2007/2008 Rs.'000	2006/2007 Rs.'000	2007/2008 Rs.'000	2006/2007 Rs.'000
Sri Lankan Sector				
Resorts & Hotels	1,018,444	692,336	(206,284)	(336,794)
Others	<u>17,641</u>	<u>-</u>	142,012	<u>61,760</u>
	1,036,085	692,336	(64,272)	(275,034)
Share of results of Associates	<u>-</u>	<u>-</u>	5,785	<u>(249)</u>
Total Sri Lankan Sector	1,036,085	692,336	(58,487)	(275,283)
South Asian Sector	<u>5,376,614</u>	<u>3,607,651</u>	868,447	<u>695,075</u>
Total	<u>6,412,699</u>	<u>4,299,987</u>	809,960	<u>419,792</u>
Amortisation of Surplus on acquisition			900	<u>2,883</u>
Profit before Taxation			810,860	<u>422,675</u>

Notes to the Financial Statements

1.3 Segments of Revenue

	Group	
	2007/2008 Rs.'000	2006/2007 Rs.'000
Apartment	3,276,791	2,090,576
Restaurant	1,134,232	831,726
Bar	552,199	359,694
Spa and Ayurvedic	164,383	107,134
Transfers & Excursions	793,001	571,686
Rent and Shop Income	208,839	153,148
Telephone	20,785	20,038
Diving and Windsurfing	237,034	159,161
Laundry	7,794	6,824
Management Fees	17,641	-
Total	6,412,699	4,299,987

1.4 Share of results of Associate Companies

	Group	
	2007/2008 Rs.'000	2006/2007 Rs.'000
M. P. S. Hotels Ltd.	(532)	1,692
Browns Beach Hotels PLC.	6,317	(1,941)
Total	5,785	(249)

2. OTHER OPERATING INCOME

	GROUP		COMPANY	
	2007/2008 Rs.'000	2006/2007 Rs.'000	2007/2008 Rs.'000	2006/2007 Rs.'000
Recreation	440	355	48	26
Dividends (net) from investments	-	-	280,792	627,847
Profit on sale of Property, Plant & Equipment	6,318	(142)	1,436	(836)
Surplus on acquisition of subsidiaries	-	2,883	-	-
Amortisation of surplus on acquisition	900	-	-	-
Foreign Currency Exchange Gain/(Loss)	7,691	18,114	7,355	5,569
Commission	106	40	-	-
Receipts on Insurance Claims	22,691	429	3,737	268
Reversal of provision for Doubtful Debts	596	275	-	46
Others	6,435	10,110	864	887
Total	45,177	32,064	294,232	633,807

Notes to the Financial Statements

3. OTHER OPERATING EXPENSES - INDIRECT

	GROUP		COMPANY	
	2007/2008 Rs.'000	2006/2007 Rs.'000	2007/2008 Rs.'000	2006/2007 Rs.'000
Administration & Establishment	1,313,815	847,872	68,247	53,281
Repairs and Maintenance	211,455	180,705	5,813	13,684
Energy	480,191	319,152	37,716	32,617
Selling & Marketing	173,556	123,746	16,419	18,541
Management fees	45,577	52,474	11,488	4,686
Total	2,224,594	1,523,949	139,683	122,809

4. PROFIT FROM OPERATIONS BEFORE INTEREST

Profit from Operations is stated after charging all expenses including the following:

	GROUP		COMPANY	
	2007/2008 Rs.'000	2006/2007 Rs.'000	2007/2008 Rs.'000	2006/2007 Rs.'000
Cost of inventories & services	1,473,619	1,049,791	73,584	47,908
Depreciation & amortisation	536,441	352,966	94,516	86,015
Auditors' remuneration	3,354	2,781	290	225
Fees paid to Auditors for non Audit services				
- KPMG Ford, Rhodes, Thornton & Co.	99	-	40	-
- Other Professional firms	826	883	-	-
Finance charges on leases	1,500	1,500	-	-
Provision for Bad and Doubtful Debts	10,214	2,790	3,420	(46)
Donations	5,720	196	56	-
Management fees	45,577	52,474	11,488	4,686
Contribution to Provident Fund	16,399	13,707	6,152	5,225
Contribution to Employees Trust Fund	3,308	2,734	1,052	887
Total	2,097,057	1,479,822	190,598	144,900

5. FINANCE COST

	GROUP		COMPANY	
	2007/2008 Rs.'000	2006/2007 Rs.'000	2007/2008 Rs.'000	2006/2007 Rs.'000
Interest on long-term loans	338,113	241,695	199,239	173,037
Interest on short-term loans	24,348	19,050	1,086	2,084
Total	362,461	260,745	200,325	175,121

Notes to the Financial Statements

6. TAX EXPENSE

6.1 Aitken Spence Hotel Holdings PLC., being a Company involved in the promotion of tourism is liable to Income Tax at a concessionary rate of 1% on the Hotel's operating profits in terms of Section 45 of the Inland Revenue Act No. 10 of 2006. Investment income received from companies incorporated outside Sri Lanka is taxed at 10% as per the Inland Revenue (Amended), Act No. 10 of 2006.

6.1.1 The profits of **BIR Hotel Management (Pvt)Ltd., Jetan Travel Services Co. (Pvt) Ltd., Cowrie Investments (Pvt) Ltd., ADS Resorts (Pvt) Ltd., Unique Resorts (Pvt) Ltd., Crest Star Ltd., Crest Star (BVI) Ltd., and P. R Holiday Homes (Pvt) Ltd.** being non resident companies in Sri Lanka and not deriving Income from Sri Lanka are out of the Scope of Income Taxation in Sri Lanka.

6.1.2 The profits of **BIR Hotel Management (Pvt)Ltd., Jetan Travel Services Co. (Pvt)Ltd., Cowrie Investments (Pvt) Ltd., ADS Resorts (Pvt) Ltd. and Unique Resorts (Pvt) Ltd.** being Companies incorporated in the Republic of Maldives are not liable for corporate tax in the Maldives. **Crest Star Ltd.**, a Company incorporated in Hong Kong is not liable for Income Tax. **Crest Star (BVI) Ltd.**, a company incorporated in the British Virgin Islands is exempt from Income Tax.

6.1.3 The Profit of **Neptune Ayurvedic Village (Pvt) Ltd.**, is exempt from Income Tax for a period of five years in the terms of Section 19 of the Inland Revenue (Amendment) Act No. 10 of 2006.

6.1.4 The Profit of **Ace Ayurvedic (Pvt) Ltd.**, and **Aitken Spence Hotels (International) Ltd.**, are exempt from Income Tax in terms of Section 13 of the Inland Revenue Act No.10 of 2006.

6.1.5 The profit of **Aitken Spence Hotel Managements Asia (Pvt) Ltd.**, is exempt from Income Tax for a period of Three years, in terms of an agreement concluded with the Board of Investment of Sri Lanka under Section 17 of the BOI Law No. 4 of 1978.

6.1.6 The profits and income of **Kandalama Hotels Ltd., Hethersett Hotels Ltd., Aitken Spence Hotels Ltd., Browns Beach Hotels PLC., MPS Hotels Ltd.** being Companies involved in the promotion of tourism are liable to tax at a concessionary rate of 15% in terms of Section 45 of the Inland Revenue Act No. 10 of 2006.

6.1.7 The Profits of **P.R. Holiday Homes (Pvt) Ltd.**, being a Company incorporated in India would be liable for tax in India once the Company commences commercial operations.

6.1.8 Social Responsibility levy of 1% which is payable on the income tax liability of the Companies in Sri Lanka, as per the Finance Act No. 11 of 2006 has been accounted and provided for in the income tax expenses.

Notes to the Financial Statements

6.2 Tax Expense

	GROUP		COMPANY	
	2007/2008 Rs.'000	2006/2007 Rs.'000	2007/2008 Rs.'000	2006/2007 Rs.'000
Taxation on current year profits	23,762	39,580	19,000	39,500
(Over)/Under provision in previous years	-	(1,152)	-	(967)
Tax on Dividends	349	3,333	-	-
Deferred tax charge/(reversal)	(2,817)	480	(10,240)	(2,705)
	<u>21,294</u>	<u>42,241</u>	<u>8,760</u>	<u>35,828</u>

6.3 Reconciliation of Accounting Profit to Tax Expense

	GROUP		COMPANY	
	2007/2008 Rs.'000	2006/2007 Rs.'000	2007/2008 Rs.'000	2006/2007 Rs.'000
Operating Profit Before Tax	805,075	422,924	31,822	302,572
Share of Profits of Associate Companies	5,785	(249)	-	-
Other Consolidated Adjustments	<u>900</u>	<u>(2,801)</u>	<u>-</u>	<u>-</u>
Profit After Adjustments	811,760	419,874	31,822	302,572
Income not liable for Income Tax	(1,020,822)	(768,134)	(3,256)	(30,000)
Off-Shore Profits	<u>277,536</u>	<u>597,847</u>	<u>-</u>	<u>-</u>
Adjusted Profits	68,474	249,587	28,566	272,572
Aggregate Disallowed Expenses	186,045	120,231	103,380	96,157
Capital Allowances	(184,005)	(798,289)	(88,699)	(783,230)
Aggregate Allowable Expenses	(9,027)	(2,383)	(3,206)	(963)
Current year Losses not utilised	<u>159,004</u>	<u>826,708</u>	<u>147,225</u>	<u>804,634</u>
Taxable Income	<u>220,491</u>	<u>395,854</u>	<u>187,266</u>	<u>389,170</u>

Group tax expense is based on the taxable profit of individual companies within the group.

Notes to the Financial Statements

6.3 Reconciliation of Accounting Profit to Tax Expense (Contd.)

	GROUP		COMPANY	
	2007/2008 Rs.'000	2006/2007 Rs.'000	2007/2008 Rs.'000	2006/2007 Rs.'000
Income Tax Charged at				
Standard Rate	1,162	-	-	-
Concessionary Rate of 15%	3,600	80	-	-
Income Tax at Other Rates	19,000	39,500	19,000	39,500
	23,762	39,580	19,000	39,500
Dividend Tax	349	3,333	-	-
Under (Over) Provision for Previous Year	-	(1,152)	-	(967)
	24,111	41,761	19,000	38,533
Deferred Tax Charge/(Reversal)	(2,817)	480	(10,240)	(2,705)
Total Income Tax Expense	21,294	42,241	8,760	35,828

- 6.4** The Companies in the Group have tax losses amounting to Rs.1,157,819,485/- which are available to be set off against the future tax profits of those companies. Deferred tax assets not accounted on these losses amounts to Rs.24,246,884/-

7. EARNINGS PER ORDINARY SHARE

The Company's earnings per ordinary share is based on the profit attributable to Aitken Spence Hotel Holdings PLC., and the average weighted number of ordinary shares which are deemed to be in issue for the year.

	GROUP		COMPANY	
	2007/2008 Rs.	2006/2007 Rs.	2007/2008 Rs.	2006/2007 Rs.
Profit after taxation and minority interest attributable to Aitken Spence Hotel Holdings PLC	512,651,171	202,590,784	23,062,477	266,743,812
Preference dividend	(14,850,000)	(14,850,000)	(14,850,000)	(14,850,000)
	497,801,171	187,740,784	8,212,477	251,893,812
Weighted Average No. of shares deemed to be in issue for the year	38,433,144	38,433,144	38,433,144	38,433,144
Earnings per ordinary share (Rs.)	12.95	4.88	0.21	6.55

Notes to the Financial Statements

8, DIVIDENDS

	Group	
	2007/2008 Rs.'000	2006/2007 Rs.'000
Preference Dividend		
Preference dividend paid	-	14,850
Ordinary Dividend		
Final ordinary dividend paid - 2006/07	<u>28,825</u>	<u>19,217</u>
	<u>28,825</u>	<u>34,067</u>
Final ordinary dividend proposed - 2007/08	38,433	28,825
Preference dividend proposed - 2007/08	14,850	-
Ordinary Dividend per Share (Rs.)	1.00	0.75

The Directors have recommended a first & final ordinary dividend payment of Rs.1.00 per share and a 9% cumulative preference dividend for the year ended 31st March 2008 (2006/2007 - Cents 75 per share). If approved at the Annual General Meeting on 27th June 2008 the dividend will be paid out of taxable profits/reserves of the Companies incorporated outside Sri Lanka.

In accordance with the Sri Lanka Accounting Standard No. 12 (revised) - Events After the Balance Sheet date, the recommended dividends have not been recognised as a liability as at 31st March 2008.

However for the purpose of computing dividend per share, dividend to be approved has been taken in to consideration.

Notes to the Financial Statements

9. PROPERTY, PLANT AND EQUIPMENT

9.1 Group

	Land (Freehold)	Buildings (Freehold)	Plant & Equipment	Motor Vehicles	Furniture & Fittings	Furnishing, Cutlery, Crockery & Glassware	Capital Work-In Progress	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost of Valuation								
Balance as at 01.04.2007	631,177	5,241,300	1,300,647	75,963	576,564	220,394	24,247	8,070,292
Exchange Difference	6,007	(48,889)	(6,813)	(703)	(2,275)	(1,532)	714	(53,491)
Additions	49,412	250,532	190,733	17,331	35,424	22,672	165,271	731,375
Transfers	-	-	8,606	-	(968)	(7,638)	-	-
Disposals	-	-	(1,033)	(2,419)	-	(14,669)	(10,339)	(28,460)
Balance as at 31.03.2008	686,596	5,442,943	1,492,140	90,172	608,745	219,227	179,893	8,719,716
Accumulated Depreciation								
Balance as at 01.04.2007	-	702,459	555,836	56,776	164,934	116,834	4,190	1,601,029
Exchange Difference	-	(10,961)	(5,066)	(638)	(1,603)	(1,332)	-	(19,600)
Transfers	-	-	-	-	-	-	-	-
Charge for the Year	-	248,288	130,382	8,062	62,067	39,842	1,417	490,058
Disposals	-	-	(903)	(2,419)	-	(13,130)	-	(16,452)
Balance as at 31.03.2008	-	939,786	680,249	61,781	225,398	142,214	5,607	2,055,035
Written Down Value as at								
31.03.2008	686,596	4,503,157	811,891	28,391	383,347	77,013	174,286	6,664,681
Written Down Value as at								
31.03.2007	631,177	4,538,841	744,811	19,187	411,630	103,560	20,057	6,469,263

The exchange difference has arisen as a result of the translation of property, plant and equipment of foreign entities which are accounted for in United States Dollars and translated to the reporting currency at the closing rate.

Assets pledged as security against borrowings are disclosed in Note No. 19.1.

Notes to the Financial Statements

9.2 Company

	Land (Freehold)	Buildings (Freehold)	Plant & Equipment	Motor Vehicles	Furniture & Fittings	Furnishing, Cutlery, Crocery & Glassware	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost or Valuation							
Balance as at 01.04.2007	261,600	945,975	400,585	1,060	205,329	48,940	1,863,489
Additions	-	-	7,162	-	2,664	1,653	11,479
Disposals	-	-	-	-	-	(1,719)	(1,719)
Balance as at 31.03.2008	261,600	945,975	407,747	1,060	207,993	48,874	1,873,249
Accumulated Depreciation							
Balance as at 01.04.2007	-	49,705	46,484	1,060	16,111	13,234	126,594
Charge for the Year	-	18,920	41,007	-	20,765	13,824	94,516
Disposal	-	-	-	-	-	(1,435)	(1,435)
Balance as at 31.03.2008	-	68,625	87,491	1,060	36,876	25,623	219,675
Written Down Value as at 31.03.2008	261,600	877,350	320,256	-	171,117	23,251	1,653,574
Written Down Value as at 31.03.2007	261,600	896,270	354,101	-	189,218	35,706	1,736,895

9.3 No Borrowing Costs have been capitalised during the year. The total interest cost capitalised to date under buildings amounts to Rs.116,521,714/-.

9.4 Revaluation details of Land and Buildings

	Location	Year of Valuation	Land (Freehold) Rs.'000	Buildings (Freehold) Rs.'000	Total Rs.'000
Aitken Spence Hotel Holdings PLC	Galle Road - Ahungalla	1982	2,800	-	2,800
Aitken Spence Hotel Holdings PLC	Galle Road - Ahungalla	1996	11,855	92,412	104,267
Aitken Spence Hotel Holdings PLC	Galle Road - Ahungalla	2002	102,574	-	102,574
Aitken Spence Hotel Holdings PLC	Galle Road - Ahungalla	2007	128,969	-	128,969
Pearl Beach Hotels Ltd.	Moragalla - Beruwala	2004	110,560	-	110,560
P.R. Holday Homes (Pvt) Ltd.	Cochin - Kerala	2006	24,653	-	24,653
			<u>381,411</u>	<u>92,412</u>	<u>473,823</u>

Notes to the Financial Statements

- 9.4.1** The book value of freehold land of the Company as at 31st March, 1982 has been revalued by Rs.2,800,000/- based on a valuation carried out by a firm of chartered valuers on 14th September 1980. The book value of freehold Land & Buildings of the company as at 31st March, 1996 was revalued by Rs.104,266,777/- based on a valuation carried out on 11th February, 1994 by Mr. M.S.T.P. Senadhira F.S.I., F.I.V. an independent professional valuer based on “contractors principle method”.
- 9.4.2** The Land at Heritance Ahungalla was valued by Mr. K. Arthur Perera, A.M.I.V. (Sri Lanka) a professional valuer on 31st March 2002 on “market pricing basis ” and the excess of Rs.102,573,540 over the net book value as at 31st March 2002 has been placed to the credit of revaluation reserve.
- 9.4.3** The Land at Pearl Beach Hotel Ahungalla was valued by Mr. K. Arthur Perera, A.M.I.V. (Sri Lanka) a professional valuer on 31st March 2004 on “market pricing basis” and the excess of Rs.110,560,000 over the net book value as at 31st March 2005 has been placed to the credit of revaluation reserves.
- 9.4.4** The Land of P.R. Holiday Homes Private Ltd., in Kerala India was valued by Mr. Joseph George Barch, A II .A F.I.V a professional valuer on 17th October 2006 and the excess of Rs.24,652,683 over the net book value as at 17th October 2006 has been placed to the credit of revaluation reserve.
- 9.4.5** The Land at Heritance Ahungalla was valued by Mr. J. Rajasooriya H.N.D. (Valuation) A.I.V. (S/L) A.I.Q.S (S/L) M.P.V.A. (S/L) a professional valuer on 26th March 2007 and the excess of Rs.128,969,250 over the net book value as at 31st March 2007 has been placed to the credit of revaluation reserve.

9.5 The carrying value of freehold land and buildings if they were carried at cost is as follows:

Company	Land			Buildings		
	Written Down Value as at	Revaluation Surplus	Carrying Amount at Cost as at	Written Down Value as at	Revaluation Surplus	Carrying Amount at Cost as at
	31.03.2008		31.03.2008	31.03.2008		31.03.2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Aitken Spence Hotel Holdings PLC	261,600	246,198	15,402	901,374	92,412	808,962
Pearl Beach Hotels Ltd	121,640	110,560	11,080	-	-	-
P.R. Holiday Homes (Pvt) Ltd	153,760	24,653	129,107	-	-	-
	537,000	381,411	155,589	901,374	92,412	808,962

Notes to the Financial Statements

9.6 Unexpired lease periods of land:

Kandalama Hotels Ltd.	34 years
Hethersett Hotels Ltd.	86 years
Aitken Spence Hotels Ltd.	35 years
BIR Hotel Management (Pvt) Ltd.	3.5 years
Jetan Travel Services Co. (Pvt) Ltd.	7.6 years
Cowrie Investments (Pvt) Ltd.	15 years
ADS Resorts (Pvt) Ltd.	6 years
Unique Resorts (Pvt) Ltd.	12 years

9.7 Capital Expenditure Commitments

The following commitments for capital expenditure approved by the Directors as at 31st March, 2008 have not been provided for in the accounts:

	GROUP	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Approximate amount approved but not contracted for	1,952,542	187,000
Approximate amount contracted for but not accounted	142,702	-
	<u>2,095,244</u>	<u>187,000</u>

10. LEASEHOLD PROPERTY

10.1 Pre paid lease Rental

	GROUP	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Cost		
Balance brought forward	75,000	75,000
Payments made during the year	-	-
Balance carried forward	<u>75,000</u>	<u>75,000</u>
Accumulated Amortisation		
Balance brought forward	(22,500)	(21,000)
Amortised during the year	(1,500)	(1,500)
Balance carried forward	<u>(24,000)</u>	<u>(22,500)</u>
Net Balance	<u>51,000</u>	<u>52,500</u>
Payable		
- Less than one year	1,500	1,500
- More than one year	49,500	51,000
	<u>51,000</u>	<u>52,500</u>

The Land and Buildings of Neptune Hotel which was acquired on a 50 year lease from Aitken Spence and Company PLC., is amortised over the period of the lease.

Notes to the Financial Statements

10.2 Leasehold Rights

	GROUP	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Acquisition Cost		
Balance Brought Forward	-	-
Additions	<u>1,401,920</u>	
Balance carried forward	<u>1,401,920</u>	-
Accumulated Amortisation		
Balance brought forward	-	-
Exchange Difference	(50)	-
Amortised during the year	<u>(44,883)</u>	-
Balance carried forward	<u>(44,933)</u>	-
Unamortised leasehold rights as at 31.03.2008	<u>1,356,987</u>	-
Total	<u>1,407,987</u>	<u>52,500</u>

During the year a subsidiary of Aitken Spence Hotel Holdings PLC acquired the leasehold rights to Vadoo Island Resort in the Maldives for a sum of US \$ 13 million. Acquisition cost is amortised over the period of the lease.

11. INTANGIBLE ASSETS

11.1 Goodwill

	GROUP	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Balance brought forward	3,130	4,514
Less: Accumulated Amortisation as at 31.03.2006	-	(1,921)
Goodwill on acquisition of Subsidiaries	-	537
Balance carried forward	<u>3,130</u>	<u>3,130</u>
Accumulated Amortisation		
Balance brought forward	(82)	(1,921)
Transfer of amortisation on adoption of SLAS 41	-	1,921
Amortised during the year	<u>-</u>	<u>(82)</u>
Balance carried forward	<u>(82)</u>	<u>(82)</u>
Unamortised Goodwill as at 31.03.2008	<u>3,048</u>	<u>3,048</u>

There has been no permanent impairment in goodwill which requires a provision in the financial statement.

Notes to the Financial Statements

12. INVESTMENTS IN SUBSIDIARIES

12.1 Investments in Subsidiaries – Unquoted

	Number of Shares	Company Holding	COMPANY Group Holding	31.03.2008 Rs.'000	31.03.2007 Rs.'000
a) Equity Shares					
Aitken Spence Hotels Ltd. (Ordinary Shares of Rs.10 each)	14,672,504	97.83%	97.83%	149,214	149,162
Crest Star Ltd. (Ordinary Shares of HK\$ 1 each)	10,000	100.00%	100.00%	9,921	9,921
Crest Star (BVI) Ltd. (Ordinary Shares of US\$ 1 each)	3,415,000	100.00%	100.00%	185,628	185,628
Cowrie Investments (Pvt) Ltd. (Ordinary Shares of MRF 1000 each)	52,740	60.00%	60.00%	321,733	321,733
Hethersett Hotels Ltd. (Ordinary Shares of Rs.10 each)	3,514,500	50.21%	50.21%	35,145	35,145
Ahungalla Resorts Ltd. (Ordinary Shares of Rs.10 each)	10,000	100.00%	100.00%	100	100
Neptune Ayurvedic Village (Pvt) Ltd. (Ordinary Shares of Rs.10 each)	500,000	100.00%	100.00%	5,000	5,000
Ace Ayurvedic (Pvt) Ltd. (Ordinary Shares of Rs.10 each)	100,000	100.00%	100.00%	1,000	1,000
Aitken Spence Hotels (International) Ltd. (Ordinary Shares of Rs.10 each)	5,644,582	51.00%	51.00%	181,024	79,024
Aitken Spence Hotel Managements Asia (Pvt) Ltd. (Ordinary Shares of Rs.10 each)	25,500	51.00%	51.00%	<u>255</u>	<u>255</u>
Net book value as at 31st March				889,020	786,968
b) Preference Shares					
Hethersett Hotels Ltd. (Preference Shares of Rs.10/- each)	5,000,000			<u>50,000</u>	<u>50,000</u>
Net book value of Investments in subsidiaries – unquoted as at 31st March				<u>939,020</u>	<u>836,968</u>

Kandalama Hotels Ltd., and Pearl Beach Hotels Ltd., are Subsidiaries of Aitken Spence Hotels Ltd., BIR Hotel Management (Pvt) Ltd., and Jetan Travel Services Co. (Pvt) Ltd., are Subsidiaries of Crest Star (BVI) Ltd., ADS Resorts (Pvt) Ltd., and Unique Resorts (Pvt) Ltd., are Subsidiaries of Aitken Sence Hotels (International) Ltd., PR Holiday Homes (Pvt) Ltd., is a subsidiary of Aitken Spence Hotel Managements Asia (Pvt) Ltd.

Notes to the Financial Statements

13. INVESTMENTS IN ASSOCIATE COMPANIES

13.1 Investment In Associate Companies - Unquoted

	No. of Shares	Group Holding	GROUP		No. of Shares	Company Holding	COMPANY	
			31.03.2008 Rs.'000	31.03.2007 Rs.'000			31.03.2008 Rs.'000	31.03.2007 Rs.'000
M. P. S. Hotels Ltd. (Ordinary Shares of Rs.10/- each)	985,000	29.60%	32,912	32,912	985,000	29.60%	32,912	32,912
Net book value as at 31st March			32,912	32,912			32,912	32,912
Share of movement in equity value			7,118	8,093				
Equity value of investment			40,030	41,005				

13.2 Investments in Associate Companies - Quoted

	No. of Shares	Group Holding	GROUP		No. of Shares	Company Holding	COMPANY	
			31.03.2008 Rs.'000	31.03.2007 Rs.'000			31.03.2008 Rs.'000	31.03.2007 Rs.'000
Browns Beach Hotels PLC (Ordinary Shares of Rs.10/- each)	2,841,719	29.46%	67,810	67,810	2,754,951	28.69%	66,075	66,075
Net book value as at 31st March			67,810	67,810			66,075	66,075
Share of movement in equity value			(4,915)	(11,233)				
Surplus on revaluation			85,433	85,433				
Equity value of Investment			148,328	142,010				
Market value of quoted investment as at 31st March			82,410	76,726			79,894	74,384
Equity value					Net book value			
– Unquoted (Note No. 13.1)			40,030	41,005	- Unquoted		32,912	32,912
Equity value					Net book value			
– Quoted (Note No. 13.2)			148,328	142,010	- Quoted		66,075	66,075
Equity value of investments					Net book value			
in Associate Companies as at 31st March			188,358	183,015	31st March		98,987	98,987

Notes to the Financial Statements

14. LONG TERM INVESTMENTS

	GROUP		COMPANY	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Unquoted Investment				
Barefoot Resort and Leisure (Pvt) Ltd. (25000 shares of INR 10/- each)	86,590	-	-	-
Hotel Training Institute (Pvt) Ltd. (1000 shares of Rs.10/- each)	10	10	-	-
Total	86,600	10	-	-

15. INVENTORIES

	GROUP		COMPANY	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Food	50,304	48,519	3,032	3,126
Beverage	20,085	28,233	3,627	2,240
Maintenance	36,236	29,962	10,103	9,129
Stationery	6,995	10,433	590	523
Housekeeping	18,636	8,238	825	403
Ayurveda Stocks	2,526	1,307	-	-
Fuel & Others	39,775	23,067	1,380	702
Total	174,557	149,759	19,557	16,123

There were no inventories pledged as security for overdraft facilities as at 31st March 2008. (as at 31st March 2007 - nil)

16. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Trade Debtors	1,012,518	726,212	31,289	28,892
Provision for bad debts	(25,085)	(14,871)	(3,565)	(145)
	987,433	711,341	27,724	28,747
Other Receivables	105,838	216,103	92,206	157,893
Total	1,093,271	927,444	119,930	186,640

No loans were given to Employees over and above Rs.20,000/-.

No loans have been given to the Directors of the company.

Notes to the Financial Statements

17. AMOUNTS DUE FROM RELATED PARTIES

	GROUP		COMPANY	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Aitken Spence Travels (Pvt) Ltd.	72,224	18,982	23,446	4,761
Ace Travels and Conventions (Pvt) Ltd.	36,037	8,109	6,179	1,463
Aitken Spence Hotel Managements (Pvt) Ltd.	70,026	156,985	1,655	89
Aitken Spence Exports (Pvt) Ltd.	1,542	399	-	-
Aitken Spence Shipping Ltd.	94	63	76	-
Ace Freight Management (Pvt) Ltd.	-	198	-	-
Ace Cargo (Pvt) Ltd.	243	144	2	-
Port Management Container Services (Pvt) Ltd.	140	-	140	-
Ace International Express (Pvt) Ltd.	123	-	-	-
Aitken Spence Resources (Pvt) Ltd.	130	-	-	-
Ahungalla Resorts Ltd.	-	-	244,857	243,897
Aitken Spence Hotels Ltd.	-	-	9,249	10,905
Ace Ayurvedic (Pvt) Ltd.	-	-	-	3,400
Neptune Ayurvedic Village (Pvt) Ltd.	-	-	24,903	22,090
Hethersett Hotels Ltd.	-	-	19,500	15,500
Cowie Investments (Pvt) Ltd.	-	-	-	77,559
Crest Star (BVI) Ltd.	-	-	-	153,048
Kandalama Hotels Ltd.	-	-	261,044	599,569
Aitken Spence Hotel Managements Asia (Pvt) Ltd.	-	-	204,768	73,593
Aitken Spence Hotels (International) Ltd.	-	-	129,324	-
Total	180,559	184,880	925,143	1,205,874

Notes to the Financial Statements

18. SHARE CAPITAL & RESERVES

18.1 Stated Capital

	COMPANY	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Issued & Fully Paid		
Ordinary Share Capital		
At the beginning of the year - 38,433,144 Ordinary Shares	384,331	384,331
Issued during the year	-	-
At the end of the year - 38,433,144 Ordinary Shares	384,331	384,331
Preference Share Capital		
At the beginning of the year - 16,500,000 Preference Shares	165,000	165,000
Issued during the year	-	-
At the end of the year - 16,500,000 Preference Shares	165,000	165,000
Share Premium	507,102	507,102
Total	1,056,433	1,056,433

In accordance with Section 58 of the Companies Act No. 07 of 2007, which became effective from 3rd May 2007, share capital and share premium has been reclassified as stated capital. The comparative information has been reclassified accordingly.

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per individual present at the meeting of shareholders or one vote per share in case of a poll.

Preference Shares do not carry the right to vote. All shares rank equally with regard to residual assets, except that preference shareholders participate only to the extent of the face value of shares adjusted for dividends in arrears.

A Preference shareholder is entitled to dividends at 9% annually.

Notes to the Financial Statements

18.2 Reserves

18.2.1 Share Premium

The share premium consists of the excess of the issue price over the par value of the shares issued, prior to the new Companies Act coming into effect.

18.2.2 Revaluation Reserves

The revaluation reserve relates to property, plant and equipment which has been revalued by the Group.

18.2.3 General Reserves

The general reserve relates to retained earnings set aside by the Group.

18.2.4 Exchange Fluctuation Reserves

The exchange fluctuation reserves comprise of all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Notes to the Financial Statements

19. INTEREST BEARING BORROWINGS

19.1 Analysed by lending institution

Lending Institution	GROUP		Remarks
	31.03.2008 Rs.'000	31.03.2007 Rs.'000	
DFCC Bank PLC	268,182	300,867	Repayable in 66 monthly instalments commencing from September 2007 for which a Corporate Guarantee from Aitken Spence and Company PLC has been provided as security.
Bank of Ceylon	45,500	52,500	Repayable in 60 monthly installments commencing from June 2007 for which a Corporate Guarantee from Aitken Spence and Company PLC has been provided as security.
Hongkong & Shanghai Banking Corporation Ltd.	230,620	321,211	Repayable in 60 monthly instalments commencing from January 2007 for which a Mortgage Over leasehold rights of a Maldives Hotel Property has been provided as security.
Hatton National Bank PLC	2,416,262	438,847	Comprises of four Loans Loan 1 - Repayable in 60 monthly instalments commencing from July 2006 for which a Mortgage Over leasehold rights of a Maldives Hotel Property has been provided as security. Loan 2 - Repayable in 72 monthly instalments commencing from May 2008 for which a Mortgage Over leasehold rights of a Maldives Hotel Property has been provided as security. Loan 3 - Repayable in 72 monthly instalments commencing from May 2008 for which a Corporate Guarantee from Aitken Spence and Company PLC has been provided as security. Loan 4 - Bridging Finance Loan for which a Corporate Guarantee from Aitken Spence Hotel Holdings PLC has been provided as security.
Nations Trust Bank PLC	467,891	297,323	Repayable in 60 monthly instalments commencing from September 2007 for which a Mortgage Over leasehold rights of a Maldives Hotel Property has been provided as security.
Total Loans	3,428,455	1,410,748	
Current portion of interest bearing borrowings	(498,300)	(285,423)	
Total interest bearing borrowings	2,930,155	1,125,325	

Notes to the Financial Statements

19.2 Movement in Interest bearing borrowings

	GROUP		COMPANY	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Balance brought forward	1,410,748	1,109,954	353,367	303,467
Exchange difference	(14,220)	50,018	-	-
Loans received during the year	2,320,501	626,378	1,000,000	52,500
	3,717,029	1,786,350	1,353,367	355,967
Loan repayments during the year	(288,574)	(375,602)	(39,685)	(2,600)
	3,428,455	1,410,748	1,313,682	353,367
Current portion of interest bearing borrowings	(498,300)	(285,423)	(212,323)	(41,435)
Interest bearing borrowings outstanding as at 31st March	2,930,155	1,125,325	1,101,359	311,932

19.3 Currency Analysis of Interest Bearing Borrowings

	GROUP		COMPANY	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Rupees	1,313,682	353,367	1,313,682	353,367
United States Dollars	2,114,773	1,057,381	-	-
	3,428,455	1,410,748	1,313,682	353,367

20. Government Grants

	GROUP		COMPANY	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Receipts				
Balance brought forward	-	-	-	-
Received during the year	1,560	-	-	-
Balance carried forward	1,560	-	-	-
Accumulated Amortisation				
Balance brought forward	-	-	-	-
Amortised during the year	(13)	-	-	-
Balance carried forward	(13)	-	-	-
Net Balance	1,547	-	-	-

The group received a government grant amounting to Rs.1,560,000/- during the year 2007/08 for the construction of an alternative fuel plant for Boiler operations at Kandapola Nuwara Eliya. The project has been in operation since December 2007 and the grant, recognised as deferred income, is being amortised over the useful life of the plant.

Notes to the Financial Statements

21. DEFERRED TAXATION

	GROUP		COMPANY	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Deferred Tax Liability				
Tax effect on Capital Allowances	240,065	219,634	144,299	132,048
Tax effect of share based payments	7,241	1,466	-	-
	<u>247,306</u>	<u>221,100</u>	<u>144,299</u>	<u>132,048</u>
Deferred Tax Assets				
Tax effect on Defined Benefit Plan	(2,941)	(2,644)	(1,161)	(1,108)
Tax effect on Tax losses	<u>(149,426)</u>	<u>(120,700)</u>	<u>(143,138)</u>	<u>(120,700)</u>
	<u>(152,367)</u>	<u>(123,344)</u>	<u>(144,299)</u>	<u>(121,808)</u>
Net Deferred Tax Liability	<u>94,939</u>	<u>97,756</u>	<u>-</u>	<u>10,240</u>
Balance brought forward	97,756	97,276	10,240	12,945
Transfer from/(to) Income Statement	<u>(2,817)</u>	<u>480</u>	<u>(10,240)</u>	<u>(2,705)</u>
Balance carried forward	<u>94,939</u>	<u>97,756</u>	<u>-</u>	<u>10,240</u>

22. RETIREMENT BENEFIT OBLIGATIONS

22.1 Provision for retiring gratuities

	GROUP		COMPANY	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Balance brought forward	18,927	15,176	7,383	5,647
Provision for the year	5,201	6,202	2,131	2,699
Payments made during the year	<u>(3,213)</u>	<u>(2,451)</u>	<u>(1,771)</u>	<u>(963)</u>
Balance carried forward	<u>20,915</u>	<u>18,927</u>	<u>7,743</u>	<u>7,383</u>

Notes to the Financial Statements

23. OTHER PROVISIONS AND PAYABLES

	GROUP		COMPANY	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Other Payables	591,116	514,215	98,738	117,216
Advances Received from Operators	259,932	511,783	-	-
Provision for Repairs of Buildings	20,647	23,339	-	-
Total	871,695	1,049,337	98,738	117,216

During the year Rs.2.6 million was utilised from the remaining provision of Rs.23.3 million available for the reconstruction of Tsunami damaged Hotels, Plant, Equipment and Buildings.

24. AMOUNTS DUE TO RELATED PARTIES

	GROUP		COMPANY	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Aitken Spence Exports (Pvt) Ltd.	635	30,974	111	36
Elevators (Pvt) Ltd.	424	567	-	142
Aitken Spence Travels (Pvt) Ltd.	111	-	-	-
Aitken Spence Overseas Travel Services (Pvt) Ltd.	258	-	-	-
Elpitiya Plantations Ltd.	130	-	59	-
Aitken Spence Aviation (Pvt) Ltd.	684	-	-	-
Ace Cargo (Pvt) Ltd.	-	30	-	-
Ace Freight Logistics (Pvt) Ltd.	-	147	-	147
Aitken Spence Hotel Managements (Pvt) Ltd.	55,554	45,531	-	20,510
Aitken Spence Hotels (International) Ltd.	-	-	-	2,082
Jetan Travel Services Co. (Pvt) Ltd.	-	-	2,629	-
ADS Resorts (Pvt) Ltd.	-	-	2,669	-
Kandalama Hotels Ltd.	-	-	12	13
Total	57,796	77,249	5,480	22,930

Notes to the Financial Statements

25. SEGMENTAL INFORMATION

25.1 Assets

	GROUP			
	Total Assets		Net Assets	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Sri Lankan Sector				
Resorts & Hotels				
Aitken Spence Hotel Holdings PLC - Heritance Ahungalla	1,981,294	2,088,454	459,867	260,942
Aitken Spence Hotels Ltd. - Neptune Hotel	143,912	154,305	136,478	135,713
Ahungalla Resorts Ltd.	139,194	142,225	137,191	140,394
Pearl Beach Hotels Ltd.	122,513	122,541	121,529	121,683
Neptune Ayurvedic Village (Pvt) Ltd. - Neptune Ayurveda Village	45,607	41,788	35,509	33,692
Kandalama Hotels Ltd. - Heritance Kandalama	789,655	881,199	413,510	713,411
Hethersett Hotels Ltd. - The Tea Factory Hotel	174,702	166,701	99,976	97,436
	<u>3,396,877</u>	<u>3,597,213</u>	<u>1,404,060</u>	<u>1,503,271</u>
Others				
Aitken Spence Hotels (International) Ltd.	46,840	135,209	(137,110)	37,390
Aitken Spence Hotel Managements Asia (Pvt) Ltd.	44,708	1,197	29,681	(9,173)
	<u>91,548</u>	<u>136,406</u>	<u>(107,429)</u>	<u>28,217</u>
Associate Companies	87,635	82,294	87,635	82,294
Total Sri Lankan Sector	<u>3,576,060</u>	<u>3,815,913</u>	<u>1,384,266</u>	<u>1,613,782</u>
South Asian Sector				
Crest Star (BVI) Ltd.	182,249	220,332	166,613	204,250
Cowrie Investments (Pvt) Ltd. - Adaaran "Select" Meedhupparu	2,420,755	2,323,152	1,647,522	1,465,424
BIR Hotel Management (Pvt) Ltd. - Adaaran "Club" Bathala	228,361	285,483	59,184	121,403
Jetan Travel Services Co. (Pvt) Ltd. - Adaaran "Club" Rannalhi	729,348	695,591	410,696	303,253
ADS Resorts (Pvt) Ltd. - Adaaran "Select" HudhuRan Fushi	1,766,477	1,334,072	540,956	369,472
Unique Resorts (Pvt) Ltd. - Adaaran "Prestige" Vadoo	1,491,585	-	604,554	-
Ace Ayurvedic (Pvt) Ltd.	2,487	1,225	1,743	60
Aitken Spence Hotel Services (Pvt) Ltd.	270	-	270	-
P R Holiday Homes (Pvt) Ltd.	167,638	112,165	157,957	91,974
Total South Asian Sector	<u>6,989,170</u>	<u>4,972,020</u>	<u>3,589,495</u>	<u>2,555,836</u>
	<u>10,565,230</u>	<u>8,787,933</u>	<u>4,973,761</u>	<u>4,169,618</u>
Goodwill on Consolidation	3,048	3,048	3,048	3,048
Total	<u>10,568,278</u>	<u>8,790,981</u>	<u>4,976,809</u>	<u>4,172,666</u>

Notes to the Financial Statements

25.2 Property, Plant & Equipment

	GROUP			
	Capital Expenditure		Depreciation & Amortisation	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Sri Lankan Sector				
Resorts & Hotels				
Aitken Spence Hotel Holdings PLC - Heritance Ahungalla	11,479	318,558	94,516	86,015
Aitken Spence Hotels Ltd. - Neptune Hotel	2,804	6,193	8,793	8,985
Ahungalla Resorts Ltd.	5,790	87,407	1,417	838
Neptune Ayurvedic Village (Pvt) Ltd. - Neptune Ayurveda Village	379	219	1,127	1,056
Kandalama Hotels Ltd. - Heritance Kandalama	23,018	63,302	50,479	48,035
Hethersett Hotels Ltd. - The Tea Factory Hotel	11,410	15,801	8,566	10,043
	<u>54,880</u>	<u>491,480</u>	<u>164,898</u>	<u>154,972</u>
Others				
Aitken Spence Hotels (International) Ltd.	-	-	-	18
Aitken Spence Hotel Managements Asia (Pvt) Ltd.	675	-	108	-
	<u>675</u>	<u>-</u>	<u>108</u>	<u>18</u>
Total Sri Lankan Sector	<u>55,555</u>	<u>491,480</u>	<u>165,006</u>	<u>154,990</u>
South Asian Sector				
Cowie Investments (Pvt) Ltd. - Adaaran "Select" Meedhupparu	83,522	97,905	107,304	91,351
BIR Hotel Management (Pvt) Ltd. - Adaaran "Club" Bathala	311	3,026	10,033	9,869
Jetan Travel Services Co. (Pvt) Ltd. - Adaaran "Club" Rannalhi	46,624	20,486	56,466	59,439
ADS Resorts (Pvt) Ltd. - Adaaran "Select" HudhuRan Fushi	392,960	1,032,113	152,728	37,296
Unique Resorts (Pvt) Ltd. - Adaaran "Prestige" Vadoo	101,621	-	44,883	-
Ace Ayurvedic (Pvt) Ltd.	-	-	21	21
P R Holiday Homes (Pvt) Ltd.	50,782	40,830	-	-
Total South Asian Sector	<u>675,820</u>	<u>1,194,360</u>	<u>371,435</u>	<u>197,976</u>
Total	<u>731,375</u>	<u>1,685,840</u>	<u>536,441</u>	<u>352,966</u>

Notes to the Financial Statements

25.3 Liabilities & Non-Cash Expenses

	GROUP			
	Total Liabilities		Non-Cash Expenses	
	31.03.2008 Rs.'000	31.03.2007 Rs.'000	31.03.2008 Rs.'000	31.03.2007 Rs.'000
Sri Lankan Sector				
Resorts & Hotels				
Aitken Spence Hotel Holdings PLC - Heritance Ahungalla	1,521,427	1,827,512	3,566	2,699
Aitken Spence Hotels Ltd. - Neptune Hotel	7,433	18,592	871	1,216
Ahungalla Resorts Ltd.	2,003	1,831	-	-
Pearl Beach Hotels Ltd.	984	858	-	-
Neptune Ayurvedic Village (Pvt) Ltd. - Neptune Ayurveda Village	10,097	8,096	105	44
Kandalama Hotels Ltd. - Heritance Kandalama	376,144	167,789	3,188	742
Hethersett Hotels Ltd. - The Tea Factory Hotel	74,727	69,265	478	1,403
	<u>1,992,815</u>	<u>2,093,943</u>	<u>8,208</u>	<u>6,104</u>
Others				
Aitken Spence Hotels (International) Ltd	183,950	97,819	251	659
Aitken Spence Hotel Managements Asia (Pvt) Ltd	15,027	10,370	-	-
	<u>198,977</u>	<u>108,189</u>	<u>251</u>	<u>659</u>
Total Sri Lankan Sector	<u>2,191,792</u>	<u>2,202,132</u>	<u>8,459</u>	<u>6,763</u>
South Asian Sector				
Crest Star (BVI) Ltd	15,637	16,082	-	-
Cowie Investments (Pvt) Ltd. - Adaaran "Select" Meedhupparu	773,233	857,727	2,178	(386)
BIR Hotel Management (Pvt) Ltd. - Adaaran "Club" Bathala	169,176	164,080	128	13
Jetan Travel Services Co. (Pvt) Ltd. - Adaaran "Club" Rannalhi	318,652	392,337	755	(726)
ADS Resorts (Pvt) Ltd. - Adaaran "Select" HudhuRan Fushi	1,225,521	964,600	-	-
Unique Resorts (Pvt) Ltd. - Adaaran "Prestige" Vadoo	887,033	-	-	-
Ace Ayurvedic (Pvt) Ltd.	745	1,165	-	-
P R Holiday Homes (Pvt) Ltd.	9,680	20,192	-	-
Total South Asian Sector	<u>3,399,677</u>	<u>2,416,183</u>	<u>3,061</u>	<u>(1,099)</u>
Total	<u>5,591,469</u>	<u>4,618,315</u>	<u>11,520</u>	<u>5,664</u>

Notes to the Financial Statements

26. FOREIGN CURRENCY TRANSLATION

The Principle exchange rates used for translation of assets and liabilities as at the Balance Sheet date is as follows:

	31.03.2008 Rs.	31.03.2007 Rs.
US Dollar	107.84	109.32
Indian Rupee	2.72	2.56

27. CONTINGENT LIABILITIES

The contingent liability as at 31st March 2008 on guarantees given by Aitken Spence Hotel Holdings PLC to third parties on facilities obtained by subsidiaries amounted to Rs.1,463,500,000/-. All guarantees given are temporary until the primary securities are executed.

28. RELATED PARTY TRANSACTIONS

28.1 Transactions with Related Companies

The Companies in the Group carry out transactions with related Companies as defined in the Sri Lanka Accounting Standard 30 Related Party Disclosures (revised 2005) in the ordinary course of business. The pricing policy applicable to such transactions are comparable with those that would have been charged from unrelated companies. Details of significant related party disclosures are given below:

The names of the Related Companies, the Directors and their relationship, the nature of transactions and the balance outstanding as at 31st March 2008 are as follows:

Name of the Related Party	Relationship	Nature of Transaction	GROUP		COMPANY	
			Transaction Value Rs.'000	Outstanding as at 31.03.2008 Rs.'000	Transaction Value Rs.'000	Outstanding as at 31.03.2008 Rs.'000
Aitken Spence and Co. PLC	Mr. D.H.S. Jayawardena - Chairman	Interest paid on Loans	79,511	-	58,186	-
	Mr. J.M.S. Brito-Deputy Chairman & Managing Director	Corporate Gurantee Charges paid	12,459	-	12,459	-
		Lease Rent paid on Account of the land and building leased to Neptune Hotel	1,500	526,787		78,780
Aitken Spence Travels (Pvt) Ltd.	Mr. J.M.S. Brito-Chairman	Sale of Hotel rooms in the ordinary course of business	284,719	72,224	93,249	23,446
Ace Travels & Conventions (Pvt) Ltd.	Mr. J.M.S. Brito-Chairman	Sale of Hotel rooms in the ordinary course of business	86,184	36,037	14,595	6,179

Notes to the Financial Statements

Name of the Related Party	Relationship	Nature of Transaction	GROUP		COMPANY	
			Transaction Value Rs.'000	Outstanding as at 31.03.2008 Rs.'000	Transaction Value Rs.'000	Outstanding as at 31.03.2008 Rs.'000
Aitken Spence Exports (Pvt) Ltd.	Mr. J.M.S. Brito-Chairman Mr. R.E.V. Casie Chetty - Director	Purchase of mineral water bottles and vegetables	38,679	907	997	(111)
Aitken Spence Printing (Pvt) Ltd.	Mr. J.M.S. Brito-Chairman	Printing & Typesetting hotel promotional literature and Annual Report	1,281	-	1,106	-
Aitken Spence Aviation (Pvt) Ltd.	Mr. J.M.S. Brito-Chairman	Purchase of Exchange for overseas Traveling	6,822	(684)	931	-
Aitken Spence Overseas Travel Services (Pvt) Ltd.	Mr. J.M.S. Brito-Chairman	Purchase of Air Tickets for overseas Traveling	7,075	(258)	229	-
Aitken Spence Hotel Managements (Pvt) Ltd.	Mr. J.M.S. Brito-Chairman	Management fees for managing the Hotels	45,577	-	11,488	-
	Mr. S.M. Hapugoda - Managing Director					
	Mr. C.M.S. Jayawickrama - Director	Central Purchasing & Merchandising unit handling charges	7,381	-	2,762	-
	Mr. G.P.J. Goonewardene - Director	Export of Hotel Supplies to Maldives	78,470	14,472	-	1,655
Elevators (Pvt) Ltd.	Mr. J.M.S. Brito-Chairman Mr. R.E.V. Casie Chetty - Director	Repairs and Maintenance of Hotel Elevators	2,564	(424)	207	-
Ace Distriparks. (Pvt) Ltd.	Mr. J.M.S. Brito-Chairman	Handling and storage of salvaged stocks	207	-	-	-
Elpitiya Plantations Ltd.	Mr. J.M.S. Brito-Chairman	Purchase of tea leaves	1,102	(130)	365	(59)
Aitken Spence Hotel Managements Asia (Pvt) Ltd.	Mr. G.P.J. Goonewardene - Director	Management fee for Managing overseas hotels	17,641	-	-	204,768

Notes to the Financial Statements

Name of the Related Party	Relationship	Nature of Transaction	GROUP		COMPANY	
			Transaction Value Rs.'000	Outstanding as at 31.03.2008 Rs.'000	Transaction Value Rs.'000	Outstanding as at 31.03.2008 Rs.'000
Distilleries Company of Sri Lanka Ltd.	Mr. D.H.S. Jayawardena - Chairman	Purchase of Beverages	16,170	(3,018)	6,437	(1,599)
Stassen Exports Limited	Mr. D.H.S. Jayawardena - Chairman	Purchase of Food Items	202,600	(20,685)	20,349	(3,905)
Lanka Milk Foods (CWE) Ltd.	Mr. D.H.S. Jayawardena - Managing Director	Purchase of Milk Powder	6,098	(984)	1,677	(440)
Hatton National Bank PLC	Mr. D.H.S. Jayawardena - Director	Interest Payments	190,198	-	99,292	-
		Interest Earned	25,684	-	10,567	-
		Loan Funding	2,128,545	(2,416,262)	1,000,000	(1,000,000)
DFCC Bank PLC	Mr. J.M.S. Brito-Chairman	Interest Payments	30,610	(213,636)	30,610	213,636
Sri Lanka Insurance Corporation Ltd.	Mr. D.H.S. Jayawardena - Chairman	Provision of Insurance Services	43,149	-	4,869	-
		Claims Received	22,691	-	3,736	-
Lanka Bell (Pvt) Ltd.	Mr. D.H.S. Jayawardena - Chairman	Provision of telecommunication services	5,249	(351)	1,599	(157)
Periceyl (Pvt) Ltd.	Mr. D.H.S. Jayawardena - Chairman	Purchase of Beverages	3,389	(122)	144	(39)

28.1.2 The Company and the Subsidiaries in the ordinary course of business have for the sale of hotel rooms, contracted with certain Tour Operators, for whom Aitken Spence Travels Ltd., acts as local agents and receives an agency commission. The total revenue generated by such Companies and the balance outstanding as at 31st March 2008 is disclosed above.

28.1.3 The approximate turnover to the group on Sale of Executive Weekend packages to Aitken Spence and Co. PLC and its Subsidiaries (excluding the Hotel Companies) is Rs.8.5 million.

28.2 Transactions with Key Management Personnel

There were no transactions with Key Management Personnel and their close family members during the year which requires disclosure as per Sri Lanka Accounting Standard 30 - Related Party Disclosures (revised 2005). However the Employment benefits of Key Management Personnel are as detailed below.

Notes to the Financial Statements

	GROUP		COMPANY	
	2008 Rs.'000	2007 Rs.'000	2008 Rs.'000	2007 Rs.'000
<i>Year Ended 31st March</i>				
Short Term Employment Benefits	29	1,959	7	1,937
Post Employment Benefits	-	-	-	-
	29	1,959	7	1,937

29. EMPLOYEES SHARE OPTION SCHEME

At an Extraordinary General Meeting of the Company held on 2nd of February, 2000, the Shareholders approved a Stock Option Scheme upto 5% of the Issued Share Capital of the Company. No options were offered to the employees as at 31st March 2008.

30. ACQUISITION OF MINORITY SHARES

The Company made an offer to the Minority Shareholders of Aitken Spence Hotels Ltd. on 8th June, 1999 to purchase their shares at Rs.31/-per share. During this financial year 2,600 shares were acquired at the revised price of Rs.20/- per share. The Company as at 31 st March, 2008 held 97.83% of the equity share capital of Aitken Spence Hotels Ltd.

31. EVENTS AFTER THE BALANCE SHEET DATE

The Board resolved to recommend the payment of :

A first and Final Dividend of Rs.1.00 per Ordinary Share for the financial year 2007/08 on 4th July 2008 once approved by the shareholders at the Annual General Meeting.

There has been no material events occurring after the Balance Sheet date that require adjustments to or disclosure in the Financial Statements.

32. ULTIMATE HOLDING COMPANY

The Ultimate Holding Company of Aitken Spence Hotel Holdings PLC, is Aitken Spence and Co. PLC

33. CAPITAL EXPENDITURE COMMITMENT

There are no capital expenditure commitments other than those disclosed in Note No. 9.7 to the financial Statements.

34. AVERAGE NO OF EMPLOYEES

The average number of employees as at 31st March 2008 amounts to 1,954. (2006/07 - 1,806)

35. OPERATING LEASES

The Company does not have non cancellable operating leases.

36. COMPARATIVE INFORMATION

Comparative Information relating to Share of Results of Associates for 2006/07 has been reclassified by Rs.68,385/- to reflect a net of tax position as required by SLAS - 3 Presentation of Financial Statements.

Consolidated Income Statement in USD

For the year ended 31 st March

	2008 USD '000	2007 USD '000
Gross Revenue	59,465	39,334
Bed Tax	(2,986)	(2,117)
Net Revenue	56,479	37,217
Other Operating Income	419	293
Staff Costs	(7,054)	(4,721)
Depreciation & Amortisation	(4,974)	(3,229)
Other Operating Expenses - Direct	(13,665)	(9,603)
Other Operating Expenses - Indirect	(20,629)	(13,940)
Profit from Operations	10,576	6,017
Interest Income	251	237
Finance Cost	(3,361)	(2,385)
Operating Profit After Interest	7,466	3,869
Share of Results of Associate Companies	54	(2)
Profit Before Taxation	7,520	3,867
Tax Expense	(198)	(387)
Profit for the period	7,322	3,480
Attributable to		
Equity Holders of the Parent	4,754	1,853
Minority Interest	2,568	1,627
	7,322	3,480
Earnings per Ordinary Share (USD)	0.12	0.05
Exchange Rate used for translation - (USD)	Rs.107.84	Rs.109.32

Consolidated Balance Sheet in USD

As at 31st March

	2008 USD '000	2007 USD '000
ASSETS		
Non-Current Assets		
Property, Plant & Equipment	61,802	59,177
Leasehold Property	13,057	481
Intangible Assets	28	28
Investment in Associates	1,747	1,674
Long - Term Investments	803	-
	<u>77,437</u>	<u>61,360</u>
Current Assets		
Inventories	1,619	1,370
Trade and Other Receivables	10,138	8,484
Amounts due from Related Parties	1,674	1,691
Deposits & Prepayments	2,356	1,895
Current Tax Receivable	65	217
Short - Term Deposits	3,608	4,673
Cash and Cash Equivalents	1,104	725
	<u>20,564</u>	<u>19,055</u>
TOTAL ASSETS	<u>98,001</u>	<u>80,415</u>
EQUITY AND LIABILITIES		
Equity Attributable to Equity Holders of the Parent		
Stated Capital	9,791	9,658
Reserves	9,593	9,707
Retained Earnings	15,453	10,818
	<u>34,837</u>	<u>30,183</u>
Minority Interest	<u>11,313</u>	<u>7,986</u>
Total Equity	<u>46,150</u>	<u>38,169</u>
Non-Current Liabilities		
Interest - Bearing Borrowings	27,171	10,294
Amounts due to Ultimate Holding Company	-	5,626
Government Grants	14	-
Deferred Tax	880	894
Retirement Benefit Obligations	194	173
	<u>28,259</u>	<u>16,987</u>
Current Liabilities		
Trade Creditors	2,360	1,476
Other Provisions and Payables	8,083	9,599
Amounts due to Related Parties	536	707
Amounts due to Ultimate Holding Company	4,885	7,264
Interest Bearing Borrowings	4,622	2,611
Current Tax Payable	19	344
Short - Term Bank Borrowings	3,087	3,258
	<u>23,592</u>	<u>25,259</u>
TOTAL LIABILITIES	<u>51,851</u>	<u>42,246</u>
TOTAL EQUITY AND LIABILITIES	<u>98,001</u>	<u>80,415</u>
Exchange Rate used for translation - (USD)	107.84	109.32

Shareholder & Investor Information

1. Stock Exchange Listing

Aitken Spence Hotel Holdings PLC is a Public Quoted Company, the issued ordinary shares of which have been listed with the Colombo Stock Exchange.

The Stock Exchange Code for Aitken Spence Hotel Holdings PLC shares is "AHUN-N-0000"

2. Shareholders

There were 2,239 registered shareholders as at 31st March, 2008 distributed as follows:

			31.03.2008			31.03.2007		
Range			Members	Total	%	Members	Total	%
1	to	1,000 shares	1,803	403,338	1.05	1,839	429,905	1.12
1,001	to	5,000 shares	284	623,382	1.62	305	681,911	1.77
5,001	to	10,000 shares	58	441,829	1.15	64	494,050	1.29
10,001	to	50,000 shares	66	1,616,476	4.21	73	1,688,912	4.39
50,001	to	100,000 shares	13	991,266	2.58	11	860,620	2.24
100,001	to	500,000 shares	8	1,708,176	4.44	11	2,651,979	6.90
500,001	to	1,000,000 shares	4	2,782,450	7.24	3	1,781,840	4.64
1,000,001	&	Above	3	29,866,227	77.71	3	29,843,927	77.64
			2,239	38,433,144	100.00	2,309	38,433,144	100.00

3. Analysis of Shareholders

Category	31.03.2008 Shareholding	%	31.03.2007 Shareholding	%
Nationals	38,071,029	99.06	38,076,264	99.07
Non - Nationals	362,115	0.94	356,880	0.93
	38,433,144	100.00	38,433,144	100.00
Category	Shareholding	%	Shareholding	%
Aitken Spence and Company PLC and Subsidiaries	28,629,243	74.49	28,629,243	74.49
Other Institutions	6,511,895	16.94	6,366,220	16.56
Individuals	3,292,006	8.57	3,437,681	8.95
	38,433,144	100.00	38,433,144	100.00

* Percentage of shares held by the public as at March 31st, 2008 is 25.42%.

Shareholder & Investor Information

4. Share Trading

	31.03.2008	31.03.2007
Number of Shares traded during the year	1,483,300	1,061,500
Value of Shares traded during the year	117,309,900	79,151,600
Number of Transactions	961	152

5. Dividends

The Directors recommended a first and final dividend of Rs.1.00 per ordinary share for the financial year 2007/08 (2006/07 - Cents 75 per share)

6. Ratios

	2007/08	2006/07
Earnings per Share (Rs.)	12.95	4.88
Price Earnings Ratio (Times)	7.18	14.34
Net Asset per Share (Rs.)	93.46	81.56

7. Market Value

Financial Year	Highest Rs.	Lowest Rs.	Year End Rs.
2003-04	95.00	44.50	68.00
2004-05	120.00	58.00	97.25
2005-06	102.00	52.25	83.25
2006-07	95.00	55.50	70.00
2007-08	98.00	55.00	93.00

8. Market Capitalization (as at 31st March)

Financial Year	Capital & Reserves Rs.'000	Market Capitalization Rs.'000
2004	2,593,399	2,613,454
2005	2,668,258	3,737,623
2006	2,809,552	3,199,559
2007	3,299,647	2,690,320
2008	3,756,811	3,574,282

Shareholder & Investor Information

9. Group Holding in Subsidiary and Associate Companies

	31st March 2008	31st March 2007
Aitken Spence Hotels Ltd. (Rs.10 each)	97.83	97.81
Kandalama Hotels Ltd. (Rs.10 each)	61.63	61.62
Pearl Beach Hotels Ltd. (Rs.100 each)	97.83	97.80
Ahungalla Resorts Ltd. (Rs.10 each)	100.00	100.00
Hethersett Hotels Ltd. (Rs.10 each)	50.21	50.21
Neptune Ayurvedic Village (Pvt) Ltd.	100.00	100.00
Crest Star (BVI) Ltd. (US\$ 1 each)	100.00	100.00
Jetan Travels Services Co. (Pvt) Ltd. (MRF 10 each)	95.00	95.00
B.I.R. Hotel Management (Pvt) Ltd.(MRF 100 each)	95.00	95.00
Cowie Investments (Pvt) Ltd. (MRF 1000 each)	60.00	60.00
ADS Resorts (Pvt) Ltd. (MRF 10 each)	51.00	51.00
Unique Resorts (Pvt) Ltd. (MRF 10 each)	51.00	-
PR Holiday Homes (Pvt) Ltd. (INR 100/- each)	50.98	40.80
Aitken Spence Hotel Services (Pvt) Ltd. (INR 10/- each)	51.00	-
Ace Ayurvedic (Pvt) Ltd.	100.00	100.00
M.P.S. Hotels Ltd. (Rs.10 each)	29.60	29.60
Browns Beach Hotels PLC (Rs.10 each)	29.46	29.46
Crest Star Ltd. (HK\$ 1 each)	100.00	100.00

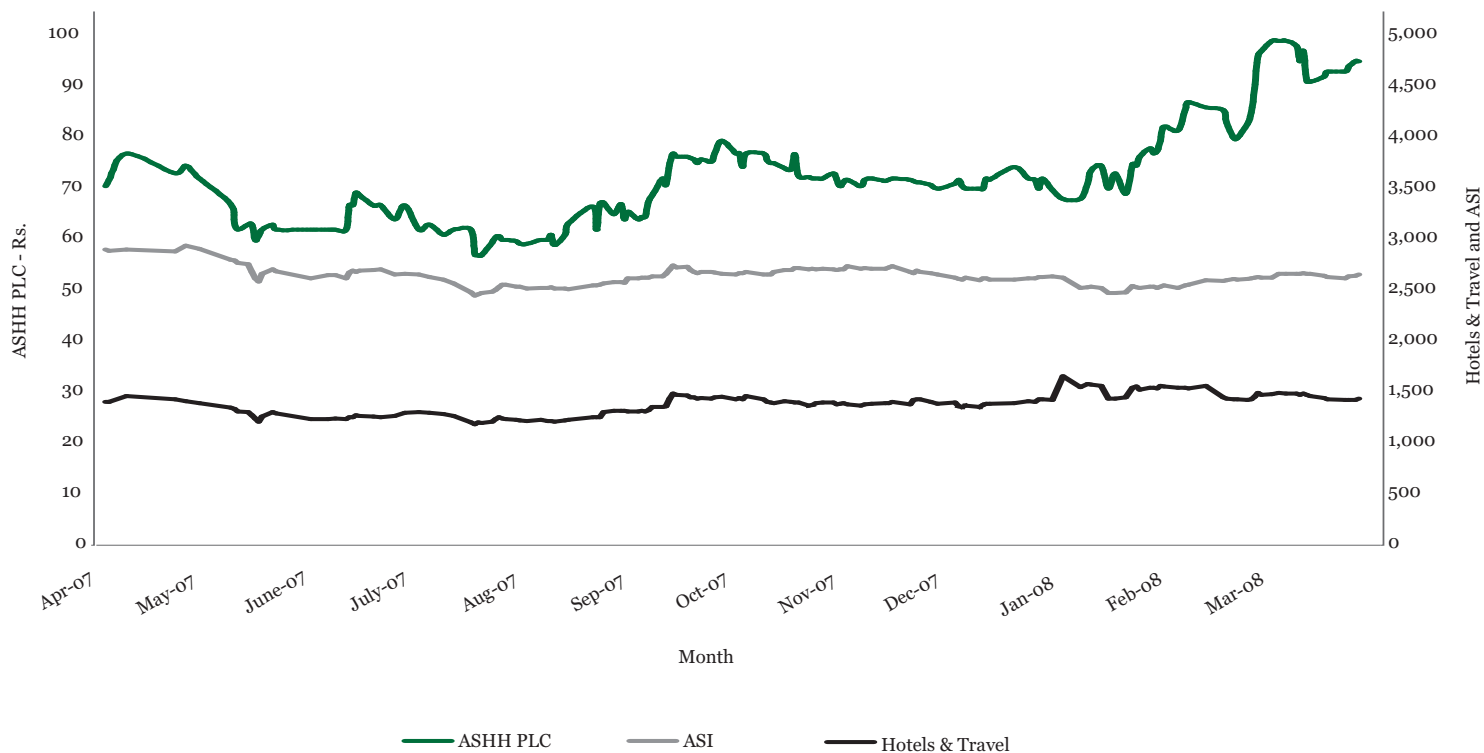
Shareholder & Investor Information

10. Twenty Largest Shareholders

	31st March 2008		31st March 2007	
	No. of Shares	Share Holding %	No. of Shares	Share Holding %
Aitken Spence and Company PLC - A/C No. 1	27,368,127	71.21	27,368,127	71.21
Employees Provident Fund	1,475,500	3.84	1,475,500	3.84
Nilaveli Beach Hotels Limited	1,022,600	2.66	1,000,300	2.60
Sri Lanka Insurance Corporation Limited - Life Fund	972,010	2.53	486,710	1.27
Bank of Ceylon A/C Ceybank Unit Trust	783,085	2.04	754,485	1.96
Freudenberg Shipping Agencies Limited	521,800	1.36	521,800	1.36
Ace Cargo (Private) Limited	505,555	1.32	505,555	1.32
Aitken Spence Hotel Managements (Pvt) Ltd.	403,502	1.05	403,502	1.05
G C Wickremasinghe	316,551	0.82	316,551	0.82
Aitken Spence Aviation (Private) Limited	297,616	0.77	297,616	0.77
Bank of Ceylon A/C Ceybank Century Growth Fund	198,652	0.53	193,552	0.50
D D H S Wickremeratne	129,422	0.32	129,422	0.32
F A A Mack	127,633	0.33	127,633	0.33
Eagle Insurance Company Limited. A/C No. 3	125,000	0.32	-	-
Employees Trust Fund Board	109,800	0.29	137,677	0.36
National Savings Bank	100,000	0.26	100,000	0.26
Commercial Bank of Ceylon. A/C No. 2	94,000	0.25	100,000	0.26
A T Wickremasinghe	92,689	0.24	92,689	0.24
Union Assurance PLC/No. - 01 A/C	83,500	0.22	-	-
Blue Oceanic Beach Hotel Limited	80,332	0.21	-	-
Other Shareholders	3,625,770	9.43	4,422,025	11.53
Total	38,433,144	100.00	38,433,144	100.00

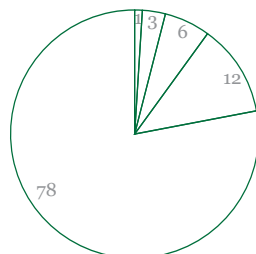
Shareholder & Investor Information

Share Price Vs Indices ASHH PLC Vs Hotels & Travel Sector and ASI



Shareholder Distribution (%)

Up to 1000	1
1,001 to 10,000	3
10,001 to 100,000	6
100,001 to 1,000,000	12
Above 1,000,000	78



Shareholder & Investor Information

11. History of movement in Ordinary Share Capital

Year	Issue	Number of Shares	Share Capital Rs.
	Shares in issue at the time of listing	1,281,612	12,816,120
1979/80	Initial Public Offer	500,000	5,000,000
1980/81	Private Placement	300,000	3,000,000
1980/81	Rights Issue	368,743	3,687,430
1981/82	Rights Issue	1,839,063	18,390,630
1982/83	Rights Issue	1,429,806	14,298,060
1983/84	Rights Issue	791,792	7,917,920
1984/85	Rights Issue	822,790	8,227,900
1994/95	Bonus Issue	2,444,602	24,446,020
1994/95	Share swap to acquire Aitken Spence Hotels Ltd.	9,699,199	96,991,990
1994/95	Share swap to acquire Brown's Beach Hotels Ltd.	638,020	6,380,200
1994/95	Share swap to acquire M. P. S. Hotels Ltd.	473,557	4,735,570
1999/00	Bonus Issue	3,431,531	34,315,310
1999/00	Rights Issue	14,412,429	144,124,290
	Total as at 31st March, 2008	38,433,144	384,331,440

12. History of movement in Preference Share Capital

Year	Issue	Number of Shares	Share Capital Rs.
1981/82	12% cum Redeemable Preference Shares	200,000	2,000,000
1982/83	Redemption	(40,000)	(400,000)
1983/84	Redemption	(40,000)	(400,000)
1984/85	Redemption	(40,000)	(400,000)
1985/86	Redemption	(40,000)	(400,000)
1990/91	Redemption	(40,000)	(400,000)
1996/97	9% cum Redeemable Preference Shares	16,500,000	165,000,000
	Total as at 31st March, 2008	16,500,000	165,000,000

Decade at a Glance

Year ended 31st March	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000	2005 Rs.'000	2004 Rs.'000	2003 Rs.'000	2002 Rs.'000	2001 Rs.'000	2000 Rs.'000	1999 Rs.'000
TRADING RESULTS										
Revenue	6,412,699	4,299,987	2,560,479	2,887,669	2,785,783	2,350,812	1,877,388	1,817,497	1,270,855	1,132,367
Profit/(Loss)										
before Taxation	810,860	422,675	159,861	263,087	578,777	358,644	208,931	316,724	230,724	176,409
Taxation	(21,294)	(42,241)	(48,034)	(30,641)	(34,056)	171	(1,480)	(9,734)	(6,529)	(5,275)
Profit/(Loss) after Taxation	789,566	380,434	111,827	232,446	544,721	358,815	207,451	306,990	223,745	171,134
Profit/(Loss) attributable to Shareholders	512,651	202,591	173,847	110,146	413,461	232,687	151,709	260,313	195,101	157,965
SHAREHOLDERS' FUNDS										
Stated Capital	1,055,810	1,055,810	1,055,810	1,055,810	1,055,810	1,055,810	1,055,810	1,055,810	1,055,810	479,314
Reserves	2,701,001	2,243,837	1,750,742	1,612,448	1,537,589	1,077,881	814,805	666,673	290,525	154,077
LIABILITIES										
Current Liabilities	2,543,913	2,761,307	1,513,524	825,160	829,256	1,012,013	1,215,587	1,204,241	872,065	1,075,831
Long-Term Liabilities	2,930,155	1,125,325	851,514	239,092	323,821	561,965	694,083	844,662	194,607	358,696
Amount due to ultimate										
Holding Company	-	615,000	615,000	-	-	-	-	-	-	-
Other Liabilities & Charges	117,401	116,683	112,452	28,237	29,551	19,557	16,360	13,528	12,155	6,712
Minority Interest	1,219,998	873,019	664,405	755,691	829,092	754,803	694,658	651,403	383,509	387,466
Deferred Income	-	-	16,780	18,300	19,793	21,288	22,778	24,295	25,791	27,250
ASSETS										
Property, Plant & Equipment	6,664,681	6,469,263	4,801,544	3,250,387	3,360,687	3,356,532	3,417,346	3,369,458	1,957,893	1,934,086
Leasehold Property	1,407,987	52,500	54,000	55,500	57,000	58,500	59,915	-	-	-
Intangible Assets	3,048	3,048	2,593	2,816	3,037	3,220	3,443	26,555	16,120	12,718
Investments	188,358	183,015	98,717	97,817	99,752	97,037	88,158	149,420	423,106	98,497
Long-Term Investments	86,600	10	10	10	34,049	34,049	48,177	-	-	-
Current Assets	2,217,604	2,083,145	1,626,363	1,128,208	1,070,387	953,979	897,042	854,819	437,342	444,045
RATIOS										
Return on average										
Shareholders' funds (%)	14.53	6.63	6.35	4.19	17.49	11.62	8.59	17.30	19.71	27.56
Debt Equity Ratio	0.64	0.32	0.31	0.12	0.15	0.27	0.36	0.47	0.23	0.61
Interest cover (Times)	3.22	2.62	5.29	9.04	9.09	4.20	2.41	3.01	2.68	2.36
SHARE INFORMATION										
Market price per share (Rs.)	93.00	70.00	83.25	97.25	68.00	45.00	20.25	18.50	33.25	43.00
Earnings per										
Ordinary Share (Rs.)	12.95	4.88	4.14	2.48	9.99	5.67	3.56	6.39	6.22	5.80
Price Earning Ratio (Times)	7.18	14.34	20.12	39.21	6.81	7.94	5.69	2.90	5.35	7.41
Net Assets per										
Ordinary Share (Rs.)	93.46	81.56	69.25	65.61	63.70	51.78	44.97	39.60	31.41	24.07

Real Estate Holdings of the Group

Description of the Property	Location	Building in sq. ft.	Land Extent in Acres		Net Book Value as at 31st March '08 Rs.'000
			Freehold	Leasehold	
Aitken Spence Hotel Holdings PLC					
Heritance Ahungalla 154 rooms	Ahungalla	253,590	14.00	-	1,156,835
Ahungalla Resorts Ltd.					
Adjacent to Heritance Ahungalla	Ahungalla	-	10.86	-	217,406
Kandalama Hotels Ltd.					
Heritance Kandalama 152 rooms	Dambulla	313,000	170.00	50.00	461,578
Hethersett Hotels Ltd.					
The Tea Factory Hotel 57 rooms	Nuwara Eliya	50,999	-	25.00	114,852
Aitken Spence Hotels Ltd.					
Neptune Hotel 84 rooms	Beruwela	116,837	-	6.44	23,865
Pearl Beach Hotels Ltd.					
	Beruwela	30,620	5.3	-	121,640
Neptune Ayurvedic Village (Pvt) Ltd.					
Neptune Ayurvedic Village 20 rooms	Beruwela	21,012	0.12	1.46	26,915
Jetan Travel Services Co. (Pvt) Ltd.					
Adaaran Club Rannalhi 116 rooms	Maldives	133,245	-	10.20	413,441
BIR Hotel Management (Pvt) Ltd.					
Adaaran Club Bathala 46 chalets	Maldives	39,693	-	5.10	8,793
Cowrie Investments (Pvt) Ltd.					
Adaaran Select Meedhupparu 235 rooms	Maldives	303,984	-	43.00	1,551,455
ADS Resorts (Pvt) Ltd.					
Adaaran Select HudhuRan Fushi 177 rooms	Maldives	194,650	-	78.00	1,078,676
PR Holiday Homes (Pvt) Ltd.					
	India	-	16.65	-	153,760

Milestones

- 1978** Incorporates Ahungalla Hotels Ltd., as a Public Quoted Company.
-
- 1981** Commences commercial operations of Triton Hotel with 126 rooms.
-
- 1986** Triton Hotel is awarded Five Star Status.
-
- 1990** The Company increases the room strength to 160.
-
- 1993** The Company enhances its authorized share capital from Rs.100 Mn to Rs.500 Mn.
-
- 1994** The Company acquires approximately 97% of the share capital of Aitken Spence Hotels Ltd., thereby gaining controlling interest of Neptune Hotel, Kandalama Hotel and Pearl Beach Hotel.
- The Company also acquires Aitken Spence & Co. Ltd., investments in Browns Beach Hotel and Hotel Hilltop.
-
- 1995** The Company acquires a majority holding in Hethersett Hotels Ltd., the owning company of the Tea Factory.
- The Company acquires Crest Star Ltd., from Aitken Spence & Co. Ltd., thereby acquiring controlling interest in Club Rannalhi and Bathala Resorts, Maldives.
-
- 1996** “The Tea Factory” in Nuwara Eliya commences operations.
-
- 1997** The Company changes its name to Aitken Spence Hotel Holdings Ltd.

- 1999** The Company acquires the minority holding of Aitken Spence Hotels Ltd.
- Aitken Spence Hotels Ltd., is de-listed from the Colombo Stock Exchange.
-
- 2000** The third hotel in Maldives, the 215-room Meedhupparu Island Resort is launched in June 2000.
-
- 2003** The 20-room specialized Ayurvedic Village “Neptune Ayurveda Village” is constructed and launched in December 2003.
-
- 2005** Twenty all-suite super luxury Water Villas are constructed and launched at Meedhupparu, Maldives.
-
- 2006** The Company’s new “Heritage” brand is launched.
-
- 2007** Completes renovations and unveils Heritage Ahungalla.
- The Company acquires its forth resort in Maldives “Adaaran Select Hudhuranfushi”.
- The Company ventures into India and is successful in securing Management contracts for five resorts.
-
- 2008** The Company made further investments in Maldives through the acquisition of Vadoo Island Resort.
- The Company ventures into Oman by securing Management contracts for four hotels.

Glossary

DEBT/EQUITY RATIO

Non-Current Interest bearing borrowings and Preference Share Capital divided by the total shareholders' interest and minority interest less Preference Share Capital.

DIVIDEND COVER

Net profit attributable to the shareholders divided by the total dividend proposed during the year.

CURRENT RATIO

Current Assets divided by Current Liabilities.

QUICK ASSET RATIO

Current Assets excluding Inventory divided by Current Liabilities.

DIVIDENDS PER ORDINARY SHARE

Ordinary dividends proposed divided by the number of issued Ordinary Shares which ranked for those dividends.

EARNINGS PER ORDINARY SHARE

Profit after tax, Minority Interest and preference dividend divided by the weighted average number of ordinary shares in issue during the year.

INTEREST COVER RATIO

Profits before Interest and Taxation divided by total Interest charged for the year.

MARKET VALUE PER SHARE

The price at which an ordinary share can be purchased in the stock market at the year end.

MARKET CAPITALIZATION

The number of ordinary shares in issue multiplied by the market price per share.

DIVIDEND YIELD RATIO

Ordinary dividend per share divided by Market Value per share.

DIVIDEND PAY-OUT RATIO

Ordinary dividend per share divided by Earnings per share.

NET ASSETS PER ORDINARY SHARE

Total Assets less Total Liabilities (including minority interest and preference share capital) divided by the number of ordinary shares in issue as at 31st March.

NEGATIVE GOODWILL

The excess of the fair value of net assets acquired over the cost of acquisition of a Company.

GOODWILL ON ACQUISITION

The excess of the cost of acquisition over the fair value of the share of net assets acquired when purchasing an interest in a Company.

PRICE EARNING RATIO

Market price per share divided by Earnings per share.

RETURN ON SHAREHOLDERS' FUNDS

Attributable profits divided by average Shareholders' funds.

SHAREHOLDERS' FUNDS

The sum of Share Capital, Capital Reserves and Revenue Reserves.

CAPITAL EXPENDITURE

The total of additions to property, plant and equipment.

CAPITAL RESERVES

Reserves identified for specific purposes and considered not available for distribution.

CASH EQUIVALENTS

High liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

MINORITY INTEREST

Part of the net results of operations and net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent Company.

RETURN ON EQUITY

Profit after Tax, Minority Interest and preference dividend divided by total Equity less preference share capital and minority interest.

RETURN ON CAPITAL EMPLOYED

Profit before Tax divided by total shareholders' funds, minority interest, non current interest bearing borrowings and deferred taxation.

Corporate Information

NAME

Aitken Spence Hotel Holdings PLC

LEGAL FORM

A Public Quoted Company with limited liability, incorporated in Sri Lanka on March 14, 1978

COMPANY REGISTRATION NUMBER

PQ 97

REGISTERED OFFICE

No. 305, Vauxhall Street, Colombo 2, Sri Lanka

DIRECTORS

Mr. D.H.S. Jayawardena - Chairman
Mr. J.M.S. Brito, LLB,FCA,MBA
Mr. R.E.V. Casie Chetty, FCA, FCMA, M.C.M.I., J.Dip, MA
Mr. S.M. Hapugoda
Mr. C.M.S. Jayawickrama, ACMA
Mr. K.A.A.C. Perera
Mr. H. Cader (Resigned w.e.f. July 19, 2007)
Mr. G.P.J. Goonewardene

SECRETARIES

Aitken Spence Corporate Finance (Private) Limited

LAWYERS

Julius & Creasy Attorneys-at-Law

AUDITORS

Messrs. KPMG Ford, Rhodes, Thornton & Co
Chartered Accountants

BANKERS

Hatton National Bank
People's Bank
Bank of Ceylon
Hongkong and Shanghai Banking Corporation
Citibank N A
Union Bank
ICICI Bank
Nations Trust Bank
DFCC Bank

SUBSIDIARY COMPANIES

ADS Resorts (Private) Limited
(Adaaran Select HudhuRan Fushi)
Ace Ayurvedic (Private) Limited
Ahungalla Resorts Limited
Aitken Spence Hotel Managements Asia (Private) Limited
Aitken Spence Hotel Services (Private) Limited
Aitken Spence Hotels (International) Limited
Aitken Spence Hotels Limited
(Neptune Hotel)
BIR Hotel Management (Private) Limited
(Adaaran Club Bathala)
Cowrie Investments (Private) Limited
(Adaaran Select Meedhupparu)
Crest Star (BVI) Limited
Crest Star Limited
Hethersett Hotels Limited
(The Tea Factory)
Jetan Travel Services Company (Private) Limited
(Adaaran Club Rannalhi)
Kandalama Hotels Limited
(Heritance Kandalama)
Neptune Ayurvedic Village (Private) Limited
P R Holiday Homes (Private) Limited
Pearl Beach Hotels Limited
Unique Resorts Private Limited
(Adaaran Prestige Vadoo)

ASSOCIATE COMPANIES

Browns Beach Hotels PLC
(Browns Beach Hotel)
MPS Hotels Ltd
(Hotel Hilltop)

HOLDING COMPANY

Aitken Spence and Company PLC

WEBSITE

www.aitkenspencehotels.com

Notice of Meeting

Notice is hereby given that the Thirty First Annual General Meeting of Aitken Spence Hotel Holdings PLC will be held at the "Sapphire Ballroom" Ceylon Continental Hotel Colombo at 11.00 a.m. on Friday, 27th June, 2008, for the following purposes:-

- To receive and consider the Statement of Accounts, for the year ended 31st March 2008 with the Reports of the Directors and Auditors thereon.
- To declare a dividend as recommended by the Directors.
- To re-elect Mr. D.H.S. Jayawardena who retires by rotation in terms of Article 85 of the Articles of Association, as a Director.
- To re-elect Mr. R.E.V. Casie Chetty who retires by rotation in terms of Article 85 of the Articles of Association, as a Director.
- To re-appoint the retiring Auditors, Messrs. KPMG Ford, Rhodes, Thornton & Co., and authorise the Directors to determine their remuneration.
- To consider any other business of which due notice has been given.

By order of the Board of

AITKEN SPENCE HOTEL HOLDINGS PLC

Aitken Spence Corporate Finance (Private) Limited

Secretaries

4th June 2008, Colombo

Note:

1. A member entitled to attend and vote at the meeting is entitled to appoint a Proxy to attend and vote in his/her stead and a Form of Proxy is enclosed for this purpose. A Proxy need not be a member of the Company.
2. The completed Form of Proxy must be deposited at the Registered Office No. 305, Vauxhall Street, Colombo 2, not less than forty eight hours before the time fixed for the meeting.
3. Any member or Proxyholder attending the meeting is kindly requested to bring this report.
4. It is proposed to post the dividend warrants on 04th July 2008 provided the final dividend recommended is approved. In accordance with the rules of the Colombo Stock Exchange the shares of the Company will be quoted ex-dividend with effect from 30th June 2008.

Notes

Form of Proxy

I/We

of

being a member/members of **Aitken Spence Hotel Holdings PLC** hereby appoint

.....

of (whom failing)

Don Harold Stassen Jayawardena of Colombo (whom failing)

Joseph Michael Suresh Brito of Colombo (whom failing)

Ranjan Emmanuel Victor Casie Chetty of Colombo (whom failing)

Srilal Malin Hapugoda of Colombo (whom failing)

Chrishanthus Mohan Susith Jayawickrama of Colombo (whom failing)

Koddipilli Arachchige Athula Chethiya Perera of Colombo (whom failing)

Gemunu Presanna Jayasundera Goonewardena of Colombo

as my/our Proxy to represent me/us and to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on the 27th day of June 2008 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this day of Two Thousand Eight.

.....
Signature

Note: Instructions as to completion are noted on the reverse hereof.

INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the form of proxy by filling in legibly your full name and address, signing in the space provided and filling in the date of signature.
2. If the proxy form is signed by an Attorney, the relative power of attorney should also accompany the proxy form for registration, if such power of attorney has not already been registered with the Company.
3. In the case of a Company/Corporation, the proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association.
4. The completed form of proxy should be deposited at the Registered Office of the Company, No. 305 Vauxhall Street, Colombo 2 before 11.00 a.m. on 25th June 2008 being 48 hours before the time appointed for the holding of the meeting.

