

## **1.1 Opinion**

The audit of the financial statements of the Helanco Hotels and Spa (Private) Limited (“Company”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

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

### **Emphasis of Matter**

Without qualifying my opinion, I draw attention to Note 2.5 to the financial statements on going concern assumption in the preparation of the financial statements. As stated in the above note, The Board of Directors of the Company has resolved to discontinue the project to construct the Hotel in Hambantota. As a consequence, the hotel construction activity of the company has come to an end. Further, the Ministry of Public Enterprise Development has given their instructions to transfer the company's stake to its shareholders in proportion to their shareholding in Canwill Holdings (Pvt) Ltd (Parent Company), in accordance with the Cabinet Decision No. 17/1613/733/029 dated 01<sup>st</sup> August 2017. The transfer of shares held by Canwill Holdings (Pvt) Ltd in Helanco Hotels & Spa (Pvt) Ltd should be based on an independent valuation which is in the process as at the reporting date. Hence, the Company has not resolved to liquidate the Company in the foreseeable future. Therefore, the Financial Statements continue to be prepared on the Going Concern basis.

## **1.2 Basis for Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company and the Group, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company and Group have complied with applicable written law, or other general or special directions issued by the governing body of the Company and Group;
- Whether the Company and group have performed according to its powers, functions and duties; and
- Whether the resources of the Company and Group had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 31,848,469 and the corresponding profit in the preceding year amounted to Rs. 63,498,793. Therefore a deterioration amounting to Rs. 31,650,323 of the financial result was observed. The reason for the deterioration was decrease of Finance Income by Rs.49, 061,948 in the year under review.

### 2.2 Trend Analysis of major Income and Expenditure items

Administrative Expense and the Net Profit/Loss for last three years were as follows.

<b>Year</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
Administrative Expenses	6,415,871.75	7,354,114.56	18,926,521.15	10,497,440.00
Net profit/loss after tax	31,848,469.34	63,498,793.11	227,498,057.00	95,160,112.12

### 2.3 Ratio Analysis

According to the financial statements and information made available to audit, some important ratios for the year under review as compared with the preceding year are given below.

<b>Ratios</b>	<b>2018</b>	<b>2017</b>
Current assets ratio	66.07	45.60
Quick assets ratio	66.06	45.60

Return on capital employed            6.35                    13.26

### 3. Operational Review

#### 3.1 Idle or underutilized Property, Plant and Equipment

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
a) Land-Hambanthota The fence had been decayed and any actions have not been taken for rebuilding it.	Agreed with the observation. The Management of the company was in the view that it was not advisable to incur cost for rebuilding perimeter fence of the land since the company has not concluded its decision to construct proposed Hotel project.	A decision should be made immediately in this regard
b) In addition to at the 19 of January, 2019 Land had been cleaned, using machines by third party (about sq. feet 6000) without permission from management of the company.	It was not clear whether such cleaned area comes under the premises leased out by the company and a complaint has been to the Urban Development Authority (UDA), the lessor and to the police Station of Hambanthota in this regard.	Immediate steps should be taken to clear the matter
c) Company had capitalized the cost of the fence Rs.8,943,601. However, approximately 10 per cent of the work had been completed. Further some of the Amano sheets had been removed/staled.	Agreed with the observation. Security personals have been deployed in the premises was not adequate to secure the assets of the premises as one officer for day shift and two officers for night shifts.	Steps should be taken to capitalize the correct amount and to increase the security of the premises

d) There were four buildings in the land which can be access freely by any body.	Agreed with the observation. Same comment as mentioned above.	Steps should be taken to increase the security of the premises
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### 3.2 Defects in Contract Administration

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Company had granted a short term loan of Rs. 400,000,000 to Sino Lanka Hotels and Spa Private Limited without a written agreement for resettlement and interest computations.	Agreed with the observation.  The said loan has been granted subject to the approval of the Board of Directors of the company dated, shareholders of the company by way of circular resolution No. xxx dated xxxx and on the concurrence of the “Hon. Minister of public Enterprise Development” as per the aforementioned letter of Secretary to the Ministry of Public Enterprises Development dated 20 October 2017.	Steps should be taken to enter into a written agreement

## 4. Accountability and Good Governance

### 4.1 Corporate Plan

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Company had not complied with section 5.1 of the Circular No. PED/12 dated 02 June 2003 issued by the Public Enterprise on preparing corporate plan.	Agreed with the comments.  Since the proposed construction activities of the project is on hold, no corporate plan has developed until further direction by the Government Authorities.	Should comply with the Circular