

Canwill Holdings (Private) Limited - 2021

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Canwill Holdings (Private) Limited (“Company”) and the Consolidated Financial Statements of the company and its Subsidiaries (“Group”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows 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 and Finance Act No. 38 of 1971. 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 and the Group as at 31 December 2021, and of their 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 Company’s management has made an assessment on the Company and its subsidiaries’ ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company’s ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

However, the Board of Directors of Helanco Hotels & Spa (Pvt) Ltd has resolved to discontinue the project to construct the Hotel in Hambantota in the year 2015. As a Consequence, the hotel construction activity of the project 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 dated 01 August 2017. This programme has not been executed as of reporting date. The company has not resolved to liquidate the Company in the foreseeable future and the management of the company seeks necessary directives from the line ministry on the way forward. Therefore, the Financial Statements of Helanco Hotels & Spa (Pvt) Ltd continue to be prepared on the Going Concern basis.

Furthermore, the management of Sinolanka Hotels & Spa (Pvt) Ltd has made an assessment on the company’s ability to continue as a going concern and is satisfied that it has the resource to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company’s ability to continue as a going concern. In addition, Cabinet of ministers have granted their

approval to recommence the construction activities of the Grand Hyatt Colombo Project at the Cabinet of Ministers meeting dated 08 July 2020. Accordingly, construction works of the project were recommenced during the year 2020. Further, based on the cabinet of minister's approval dated 03 January 2022, the management of the company is working on arrangement of USD 175 Million project finance by way of USD 25 Million equity and USD 150 Million debt capital.

1.2 Basis for the 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 intend to liquidate the Group 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 Group 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 Group.

1.4 Audit Scope

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 whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the company has complied with applicable written law, or other general or special directions issued by the governing body of the company;
- Whether the company has performed according to its powers, functions and duties; and
- Whether the resources of the company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
<p>The Board of Directors of Helanco Hotels & Spa (Pvt) Ltd (Subsidiary) 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 the Company, in accordance with the Cabinet Decision No 17/1613/733/029 dated 01 August 2017. The transfer of shares held by company 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.</p>	<p>The said decision of cabinet of ministers in the year 2017 to restructure the ownership of the company that was not executed as at the report date.</p> <p>However, the current management of the company seek necessary directives from line ministry on way forward of the project and the company.</p> <p>The status remains same as we have submitted two legal opinion to the Department of Public Enterprises on 1st September 2022 requesting for directives on the way forward. We are awaiting directives on the way forward based on our letter</p>	<p>The management should take appropriate actions to coordinate with the appropriate authority for future direction of the project.</p>
<p>The management of Sinolanka Hotels & Spa (Pvt) Ltd (Subsidiary) has made an assessment on the company's ability to continue as a going concern and is satisfied that it has the resource to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the</p>	<p>Equity investment of Rs. 6 Bn which was the Cabinet of Ministers mandated directives given to SLIC to infuse funds until a full divestment decision is reached. (Ref: 20/1042/204/050-1 dated 08th July 2020). Accordingly SLIC infused Rs. 2 Bn by way of rights issue in May 2021 as the 1st Tranche to continue construction of the project till required balance financials are to be formulated through a proper program of financing.</p>	<p>The management should take appropriate actions to coordinate with the appropriate authority for future direction of the project.</p>

company's ability to continue as a going concern. In addition, Cabinet of ministers have granted their approval to recommence the construction activities of the Grand Hyatt Colombo Project at the Cabinet of Ministers meeting dated 08 July 2020. Accordingly, construction works of the project were recommenced during the year 2020 and on-going as at the reporting date. However, the government or the ultimate parent of the company support and directions are required to continuation of the project.

The 2nd tranche Rs 2 Bn was expected from SLIC by issuing ordinary shares on 10th June 2021 acting under the Section 31(1) of the Companies Act No 7 of 2007 pursuant to an unanimous share holder agreement signed and agreed by all shareholders specifically to issue shares in favor of SLIC, However to date the consideration is pending. This project was planned with anticipation of SLIC funding of Rs 6Bn as mandated by the Cabinet of Ministers , however further LKR 4 Bn is still pending which has impacted the project, SLIC has informed us now that (Post Audit 31st Dec 2021) they have constraints on funding the project due to their regulatory covenants

The company is working on a program to infuse USD 175 Mn by way of equity and debt to full completion of the project.

Further, based on on the Cabinet of Ministers approval Ref 21/2278/306/100 dated 01st January 2022, the Management of the Company is working on the arrangement of USD 175 Mn project finance by way of USD 25 Mn equity and USD 150 Mn debt capital.

After a competitive bidding process, an investment facilitating company of Netwyn Solutions - Canada and L.A. Capital Inc. (LAC) - Canada, were mandated on arrangement of part - finance the balance construction work of Grand Hyatt Colombo for USD 175 million by way of equity capital USD 25 million and debt capital USD 150 million. The officials of the said company visited Sri Lanka on 21st March 2022 and engaged with their due diligence process. They expressed

that, they are very much concerned over the current economic adverse environment being experienced in Sri Lanka and the risk associated with their investment due to adverse international ratings and sovereign debt crisis prevalent in the country. Further based on the preemptive debt defaults status announcement by the Central bank of Sri Lanka on 12th April 2022, going forward they said that they will be unable to work with the initially agreed terms such as interest rate, additional SLIC corporate guarantee and fund disbursement procedure (not to disburse USD 175 million at once, and etc.). However the agreement was terminated on lapse of time, thereby a further competitive bidding process was initiated to raise capital which also failed to materialize.

In view of the above circumstances, we are awaiting for directives from the Ministry of Finance and Treasury on the way forward of the Project

As of date the project has limited funds to manage recurrence expenses, upkeep and maintenance of the completed work and payroll up to December 2022, we have made numerous request to get a directive on 100% divestment from line ministry.

As per Board Paper ref: SNHS/2022/21 dated 13th October 2022 and subsequent Board minute ref 2022-14 dated 20th October 2022 Item 5 which discusses the current Grand Hyatt Project status in detail, Board of Directors unanimously decided taking into account the current stressful economic background, deteriorating cash flow situation, funds not made available by SLIC and cabinet of ministers approved debt/equity funding

option not forthcoming. Seek Cabinet approval to proceed with 100% divestment as early as possible to avoid further cost to the company from unsettled liabilities

2. Financial Review

The principal activity of the Company is investment promotion in the leisure sector and controlling and monitoring of subsidiary companies of Sinolanka Hotels & Spa (Pvt) Ltd and Helanco Hotels & Spa (Pvt) Ltd as a holding company.

The principal activity of the Sinolanka Hotels & Spa (Pvt) Ltd is engaging in business of hospitality trade, owning Grand Hyatt Colombo which is currently under construction.

The principal activity of the Helanco Hotels & Spa (Pvt) Ltd was to engage in business of hospitality trade, owning Hyatt Regency Hambanthota Hotel. However, the Board of Directors of the company of Helanco Hotels & Spa (Pvt) Ltd has resolved to discontinue the project to construct the Hotel in Hambanthota in the year 2015. The current Board of Directors is seeking necessary directives from the Ministry of Finance on way forward of Helanco Hotels & Spa (Pvt) Ltd.

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 5,008,966 and the corresponding loss in the preceding year amounted to Rs. 4,076,470. Therefore, an improvement amounting to Rs. 932,436 of the financial result was observed. The reasons for the improvement is increase in Financial Income.

2.2 Trend Analysis of major Income and Expenditure items

Revenue, Administrative Expenses and the net profit/loss for the last five years were as follows.

2.3 Ratio Analysis

Year	2021 Rs.	2020 Rs.	2019 Rs.	2018 Rs.	2017 Rs.
Finance Income	16,009,682	1,225,668	9,435,080	25,564,060	38,088,317
Administrative Expenses	(9,411,210)	(6,540,697)	(9,931,740)	(8,725,269)	(7,869,756)
Net profit/(loss) after tax	5,008,966	(4,076,470)	(255,178)	18,477,650	165,373,105

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

Ratios	2021	2020	2019	2018	2017
Percentage of Finance Income Growth/ (Reduction)	1206%	(87%)	(63%)	(33%)	170%
Percentage of Administrative Expenses Growth/ (Reduction)	44%	(34%)	14%	11%	(5%)
Percentage of Net Profit Growth/ (Reduction)	(223%)	1,498%	(101%)	(89%)	161%

3. Accountability and Good Governance

3.1 Corporate Plan

Audit Observation	Management Comment	Recommendation
According to the chapter 5.1 of Public Enterprises Circular No. PED/12 dated 02 June 2003, the entity had not prepared a corporate plan.	The company has been currently entrusted to complete the construction of the project and project completion plan is in place which is to be extended as corporate plan as needful.	The company should prepare and implement a corporate plan to achieve its objectives.

3.2 Annual Action Plan

Audit Observation	Management Comment	Recommendation
Annual action plan had not been prepared for the year under review.	Action plan with regard to completion of the project is in place.	The company should prepare and implement an action plan to achieve its annual targets.

3.3 Internal Audit

Audit Observation	Management Comment	Recommendation
According to the section 3.7.5 of Public Enterprises Circular No. PED/12 of 02 June 2003, the internal audit manager is responsible to review the systems and procedures, to ensure that operations are carried out in a true and fair manner. But the role of the internal auditor of the entity has been limited to conduct a pre audit on the payments and certify the bills/payment vouchers.	From 2015 onwards outsourced periodic internal audit function to a firm of Chartered Accountants by duly following procurement process. They have submitted quarterly reports to the Audit Committee up to 30th June 2018. They were nominated for the year 2019 & 2020 due to suspension of construction activities and subsequent covid19 restrictions not invited for Internal Audit. Will arrange Internal Audit outsource from the year 2022 onwards. Key matters have been brought to the attention of the Audit Committee by the Manager Internal Audit.	The board should ensure that effective functioning of internal audit for the company as an effective management tool to achieve corporate objectives.

3.4 Audit Committee

Audit Observation

According to the section 7.4.1 of Public Enterprises Circular No. PED/12 of 02 June 2003, the audit committee should meet on a regular basis at least once in three months. However, the audit committee meeting had been held only one occasion for the financial year under review.

Management Comment

Due to lockdown, restrictions to gatherings unable to conduct Audit committee meetings on a regular basis. Will strictly comply with in the year 2022

Recommendation

The board should ensure that effective functioning of the Audit Committee in accordance with applicable laws and regulations and best practices.

3.5 Budgetary Controls

Audit Observation

According to section 5.2 of Public Enterprises Circular No. PED/12 of 02 June 2003, the entity had not prepared an annual budget for the financial year under review.

Management Comment

Agreed with the observation.

Recommendation

The board should ensure that the effective budgetary control is in place within the company for enabling management to proper control over expenditure of the company.