

## **1. Financial Statements**

### **1.1 Opinion**

The audit of the financial statements of the Helanco Hotels & Spa (Pvt) Ltd (“Company”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 2022, 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. 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 way forward. Therefore, the Financial Statements of the Company continue to be prepared on the Going Concern basis. However, the Board of Directors of the Company have resolved to discontinue the project to construct the Hotel in Hambanthota in the year 2015. As a consequence, the hotel construction activities of the project have come to an end. Further, the Ministry of Public Enterprise Development has given their instructions to transfer the Company’s stake in portion of shareholding in Canwill Holdings (Pvt) Ltd (Parent Company), in accordance with the Cabinet Decision No. 17/1613/733/029 dated 01 August 2017. This program has not been executed as of reporting date. Further, as per the cabinet decision No. 23/0431/604/046 dated 14 March 2023, the Cabinet of Minister has granted approval to transfer the shares held by Sri Lanka Insurance Corporation Ltd and shares held by Litro Gas Lanka Limited in Canwill Holdings (Pvt) Ltd to the General Treasury with immediate effect.

### **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 intend 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 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 skepticism 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**

| <b>Audit Issue</b>  | <b>Management Comment</b>   | <b>Recommendation</b>   |
|---|---|---|
| <p>The Board of Directors of the Company have resolved to discontinue the project to construct the Hotel in Hambanthota in the year 2015. As a consequence, the hotel construction activities of the project have come to an end. Further, the Ministry of Public Enterprise Development has given their instructions to transfer the Company's stake in portion of shareholding in Canwill Holdings (Pvt) Ltd (Parent Company), in accordance with the Cabinet Decision No. 17/1613/733/029 dated 01 August 2017. Further, as per the cabinet decision No. 23/0431/604/046 dated 14 March 2023, the Cabinet of Minister has granted approval to transfer the shares held by Sri Lanka Insurance Corporation Ltd and shares held by Litro Gas Lanka Limited in Canwill Holdings (Pvt) Ltd to the General Treasury with immediate effect. This program has not been executed as of reporting date.</p> | <p>The opinion of the board of director was to divest Helanco Hotels &amp; Spa (Pvt) Ltd along with Grand Hyatt Divestment plan, in line with this decision was taken by the Board of Directors of Helanco Hotel &amp; Spa (Pvt) Ltd on 17th January 2023 Board Meeting.</p> <p>This followed by the Cabinet of minister's approval on 14th March 2023 to divest Canwill Holdings (Pvt) Ltd along with its two subsidiaries, whereas Helanco Hotel &amp; Spa (Pvt) Ltd is a subsidiary of Canwill Holdings (Pvt) Ltd.</p> | <p>Decisions of Cabinet of Ministers should be implemented.</p> |

## 2. Financial Review

### 2.1 Financial Result

The Principal activity of the Company was to engage in business of hospitality trade, by owing Hyatt Regency Hambanthota Hotel. The board of Directors of the Company has resolved to discontinue the project to construct the Hotel in Hambanthota in the year 2015. As a Consequence, the hotel construction activities of the project have to an end, the Company seek necessary directives from the line Ministry on way forward.

The operating result of the year under review amounted to a profit of Rs. 12,131,676 and the corresponding profit in the preceding year amounted to Rs. 11,875,894. Therefore, an improvement amounting to Rs. 255,782 of the financial result was observed. The reasons for the improvement is increase in the finance income.

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

The analysis of Income, Administration expenses and net profit /(loss) with variances and the percentage of increase or decrease for the last five years are as follows.

| Year  | 2022       | 2021       | 2020       | 2019       | 2018       |
|---|------------|------------|------------|------------|------------|
| Total Income Rs.  | 20,638,644 | 20,044,189 | 21,624,281 | 39,142,280 | 49,770,092 |
| Percentage of Income Growth/ (Reduction)                  | 3%         | -7%        | -45%       | -21%       | -44%       |
| Administration Expenses                                   | 4,354,515  | 4,418,012  | 3,918,547  | 4,003,549  | 6,415,872  |
| Percentage of Administration Expenses Growth/ (Reduction) | 1%         | 13%        | -2%        | -38%       | -13%       |
| Net Profit/ (Loss) after tax                              | 12,131,676 | 11,875,894 | 13,456,358 | 25,299,887 | 31,848,469 |
| Percentage of Increase/(Decrease) of Net Profit           | 2%         | -12%       | -47%       | -21%       | -50%       |

### 2.3 Ratio Analysis

According to the financial statements and information made available to audit, some important ratios for last five years are as follows.

| Ratios                                     | 2022     | 2021   | 2020    | 2019  | 2018   |
|--|----------|--------|---------|-------|--------|
| Increase/ (Decrease) in Net assets         | 1.11%    | 1.75%  | 2.02%   | 3.95% | 4.03%  |
| Increase/ (Decrease) in Net Finance Income | 2.97%    | -7.27% | -44.77% | 0.01% | 55.59% |
| EPS  | Rs. 0.24 | 0.24   | 0.27    | 0.51  | 0.64   |

### 3. Operational Review

#### 3.1 Operational Inefficiencies

| <b>Audit Issue</b>  | <b>Management Comment</b>  | <b>Recommendation</b>  |
|---|--|--|
| As per the directives given by the Department of Public Enterprises, the company had given a short-term loan of Rs. 400 Mn to Sino Lanka Hotels & Spa (Pvt) Ltd (Rs. 300 Mn transferred on 12 January 2018 and Rs. 100 Mn transferred on 18 January 2018 with the interest rate of 8.79% without any written agreement with Sino Lanka Hotels & Spa (Pvt) Ltd. Even though the Company had shown the interest receivable of Rs. 126.07Mn in the Financial Statements, this amount had not been settled by Sino Lanka Hotels & Spa (Pvt) Limited even up to the date of audit. | Sino Lanka Hotel & Spa (Pvt) Ltd does not have the funds to repay this loan and once receipt of post divestment proceeds from Grand Hyatt Project, this loan will be settled after negotiating on the interest rates at the time of divesture. | The management of the Company should have proper policy for intercompany transactions. |

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

| <b>Audit Issue</b>   | <b>Management Comment</b>   | <b>Recommendation</b>  |
|--|---|--|
| The Company has acquired a land of 3.8 hectare by investing Rs.177.97 million from Urban Development Authority on lease basis. However, the land had not been used for any useful purpose. | Since the planned project Hyatt Regency Hambanthota did not proceed as expected the land belonging to UDA was remaining idle, however we have sent several requests to the line ministry with legal opinions to give us a directive on the way forward. We are yet to receive positive responses and we have been informed that the Board of Directors has to reach an agreement in this regard and the board resolved in January 2023 to proceed with divestment along with the Grand Hyatt project. | Necessary actions should be taken to make use of this property for the intended purpose or any other useful purpose. |

### 4. Accountability and Good Governance

#### 4.1 Annual Action Plan

| <b>Audit Issue</b>  | <b>Management Comment</b>   | <b>Recommendation</b>  |
|---|---|--|
| Annual Action Plan for the year under review had not been prepared for the Company. | There was no annual plan prepared due to nonfunctioning of the construction activities and since there was no directives on the way forward. One security officer deployed round the clock to secure the land and utilities are paid., there are no activities on this Company and neither staff assigned to. | Immediate action should be taken to implement the decisions of Cabinet of Ministers. |