

## **Sinolanka Hotels & Spa (Pvt) Ltd - 2023**

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### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the Sinolanka Hotels & Spa (Pvt) Ltd (“Company”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy information, 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 2023, 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 2.7 in the Financial Statements on going concern basis in the preparation of the financial statements. As stated in the above note, the Company’s management has made an assessment on the Company’s 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. The cabinet Ministers had granted their approval by cabinet paper 20/1042/204/050 – I dated 10 July 2020, to recommence the construction activities. However, the Board of Directors of the Company resolved to proceed with scaling down the Grand Hyatt Colombo Project for period of 09 months effective from 30<sup>th</sup> May 2022 and Construction activities had not recommenced even to the reporting date. Further, The Cabinet of Ministers, at their meeting held on 13 March 2023, has granted approval for the Cabinet Memorandum No: MF/018/2023/055, to start the process of Divestiture of the Canwill Holdings among the other SOEs. The said divestiture program has been initiated and the process of Expression of Interest (EOI) has already been completed. Sinolanka Hotels & Spa (Pvt) Ltd will be considered for the proposed divestiture as the subsidiary Company under Canwill Holdings (Pvt) Ltd.

#### **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 qualified 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>
The Company’s management has made an assessment on the Company’s ability to continue as a going concern and is satisfied that it has 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. Although the Cabinet of Ministers had approved through No.20/1092/204/050-1 dated 08 July 2020 to recommence the	Since the management of the Company follows the directives issued by the Government of Sri Lanka, currently working on the proposed divestiture program initiated by the State-Owned Enterprises Restructuring Unit.	The management of the Company should take necessary action to coordinate the appropriate authorities to take decision on future directions of the Project.

construction activities of the Grand Hyatt Colombo project, the Board of Directors of the Company resolved to proceed with scaling down the Grand Hyatt Colombo project for the period of 09 months effective from 30 May 2022 and construction activities had not recommenced even at the reporting date.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.133,364,534 and the corresponding loss in the preceding year amounted to Rs.2,446,366,057. Therefore, an improvement amounting to Rs.2,579,730,591 of the financial result was observed. The reason for the improvement is the foreign currency translation gain.

### 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	2023	2022	2021	2020	2019
Finance Income (Rs.)	9,646,837	11,221,595	28,749,233	10,464,970	11,041,814
Increase / (Decrease) in Finance Income (%)	(14)	(61)	175	(5)	7
Administration Expenses (Rs.)	187,100,078	166,923,295	81,210,002	131,209,337	178,337,425
Increase / (Decrease) in Administration Expenses (%)	12	106	(38)	(26)	120
Net Profit / (Loss) after tax (Rs.)	133,364,534	(2,446,366,057)	760,645,501	(193,289,884)	(5,133,182,782)
Increase / (Decrease) in Net Profit / (Loss) after tax (%)	105	(422)	494	(96)	2,432

### 3. Operational Review

#### 3.1 Operational Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Due to termination with contract to provide interior fit out and finishing works for the Grand Hyatt Colombo project for the price of EURO 28,869,392, the Company had to pay as per the final award of case no:21266/CYK/PTA, EURO 7,432,062 as damages to the contractor, USD 483,500 as costs of arbitration and EURO 516,597 as additional cost of arbitration. This compensation cost is 30 percent from the total contract price.	Current management of the Company wish to highlight the importance of a proper investigation to assess whether any allegation, inefficiencies, or any other wrongdoing has been taken place on this matter.	Action should be taken to conduct proper investigation on this matter.

#### 3.2 Delays in Projects or Capital Work

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Under Extraordinary Gazette No. 1771/18 of 15 August 2012, the Company has started a project to construct and operate a 475 roomed city hotel with 90 serviced apartments at No. 116, Galle Road, Colombo 03 with total investment of USD 158,890,000 (Rs. billion 18.5). Although the commercial operations of the project scheduled to be commenced within 24 months from the commenced date of 19 July 2012, this project had not been completed up to the date of this report. According to the Cabinet Decision No. 20/1042/204/050-I dated 10 July 2020, estimated total cost of the project approximately Rs. 60 billion. The Cabinet had decided, a partial completion of 16 levels together with level 31 to operate as a fully-fledged hotel with 236 rooms out of the 458 rooms. Phase 2 would include completing balance 222 rooms and 100 service apartments. The target completion date of the first phase was August 2021. Even though the 10 years was lapsed from the original project completion date of 19 July 2014, this project activities of this project had not been commenced.	In the year 2012, the Company undertook the partially constructed building to develop a luxury hotel project and as such, changes have been made to the designs and specifications of the hotel due to the upgradation of hotel branding from “Hyatt Regency” to “Grand Hyatt” and subsequent design changes with the time passing as the requirement of adopting latest technology concerned. This was one reason why the project completion was prolonged up to some extent whereas another main and significant reason was financial constraints being experienced from the year 2017.	The management should complete the project within the time frame given for enabling investors to get expected return from their investments and avoid increase of project cost.

#### **4. Accountability and Good Governance**

##### **4.1 Corporate Plan**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
A Corporate Plan had not been prepared for the period which covering the year of 2023.	The management of the Company is of the view that such planning initiatives can only be worked out when the project way forward arrangement is confirmed.	Immediate action should be taken to implement the decisions of Cabinet of Ministers.

##### **4.2 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.	The management of the Company is of the view that such planning initiatives can only be worked out when the project way forward arrangement is confirmed.	The Company should prepare and obtain approval for the action plan at the beginning of the year and implement to achieve its annual targets.