

## **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 2024 comprising the statement of financial position as at 31 December 2024 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 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **Emphasis of Matter**

I draw attention to Note 2.5 of the financial statements, which indicates the existence of material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. However, the General Treasury ultimate parent has agreed to extend financial assistance to the Company, until such time the Company is able to finance themselves. Therefore, the financial statements continue to be prepared on a going concern basis. My opinion is not modified in respect of this matter.

### **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 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**

| <b>Audit Issue</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <b>Management Comment</b>                                                                                                                                                                                                                                                                                                                                             | <b>Recommendation</b>               |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| The management has assessed the Company's ability to continue its operation as a going concern. Canwill Holdings (Pvt) Ltd, the parent entity with the subsidiaries (Helanco Hotels & Spa (Pvt) Ltd and Sinolanka Hotels and Spa (Pvt) Ltd) had been prioritized for divestiture by the State Owned Enterprise Restructuring Unit (SOERU), with the cabinet approval granted to initiate the process. Deloitte Touche Tohmatsu India LLP (Deloitte) was appointed as transaction advisor and the due diligence process had been completed. The process of Expression of Interest (EOI) phase had been completed and shortlisted bidders are awaiting the Request for Proposals (RFP). | The proposed divestiture program, initiated under the previous government, was currently on hold pending the finalization of policies by the new government. However, cabinet approval has been granted to resume the divestiture process, and the shares of Sri Lanka Insurance Coorporation have already been transferred to the Treasury for divestiture purposes. | Expedite the process without delay. |

## 1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

|     | Reference to Laws, Rules Regulations etc.                                                                         | Non-compliance                                                                                                                                                                                                                                                                                                                                        | Management Comment                                                                                                                                                                                                                                                                                                                 | Recommendation                                                                                                                                 |
|-----|-------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) | Section 3.10 of the Lease Agreement signed between the Company and Urban Development Authority on 28 August 2014. | The lease will be automatically cancelled, and 10 percent of the initially deposited land value will be forfeited without appeal if the land is not fully developed within 36 months from the start of construction. However, despite this breach, the agreement remained in effect during the year under review without any changes.                 | The Board of Directors of the Company decided to discontinue Hotel in Hambanthota in 2015, construction project thereby formally bringing to an end. However, considering the government's involvement and the proposed divesture of companies, the management remains confident that any associated penalties will be waived off. | Actions should be taken to monitor the compliance with terms and conditions of the Lease agreement and take corrective and preventive actions. |
| (b) | Public Enterprises CircularNo.01/2021 (ii) of 27 September 2023.                                                  | Although, the parent Company should introduce the subsidiary policy with the concurrence of the Directors General, Department of Public Enterprises, parent Company and subsidiary Company had not followed, without having such a subsidiary policy, Company should have to obtain the approval from the General Treasury to the SOR of the Company. | Not commented                                                                                                                                                                                                                                                                                                                      | Comply with cited direction.                                                                                                                   |

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.3,810,207 and the corresponding loss in the preceding year amounted to Rs.2,731,176. Therefore, a deterioration amounting to Rs.1,079,031 of the financial result was observed. The reasons for the deterioration are decrease 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 for the last five years are as follows.

| Year                         | 2024        | 2023        | 2022       | 2021       | 2020       |
|------------------------------|-------------|-------------|------------|------------|------------|
|                              | Rs.         | Rs.         | Rs.        | Rs.        | Rs.        |
| Total Income                 | 623,681     | 1,545,793   | 20,638,644 | 20,044,189 | 21,624,281 |
| Administrative Expenses      | 4,433,887   | 4,276,969   | 4,354,515  | 4,418,012  | 3,918,547  |
| Net Profit/ (Loss) after tax | (3,810,207) | (2,731,176) | 12,131,676 | 11,875,894 | 13,456,358 |

## 3. Operational Review

### 3.1 Management Inefficiencies

| Audit Issue                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Management Comment                                                                                                                                                                                                                   | Recommendation                                                               |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|
| (a) The company was incorporated on 21 December 2011. The principal activity of the company was to engage in the business of hospitality trade by owning the Hyatt Regency Hambanthota Hotel. Even though 13 years have passed since its inception the company had not commenced operations. Further, a 97.5 percent of the company's capital had been utilized to fund another subsidiary- Sinolanka Hotels and Spa (Pvt) Ltd within the group. During the past 10 years, the company had incurred approximately Rs.461 million in expenditure without generating any corresponding revenue. | In the current situation, it is also being incurred staff related cost, security services, utility cost, etc. The management of the company is expecting suitable directives from the government on the way forward of this company. | Proper feasibility study should be done before commencing the huge projects. |

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|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>(b) Despite reporting a taxable loss of Rs.2,731,176 for the year of assessment 2023/2024, the company had paid an advance tax of Rs. 1,221,311 as the first installment during the previous financial year. This amount has since been carried forward as a tax receivable.</p>                                                                                                                                                                                                                                                                                   | <p>As the option is available, the company has made a refund claim for this amount when filing income tax returns for 2023/24, and future actions to be initiated accordingly.</p>                                                                                                                                                                                                                  | <p>This matter should be reviewed promptly and that necessary action to be taken to either claim refund or adjust the overpayment against future liability.</p>                            |
| <p>(c) In connection with providing security and protection for the proposed hotel development project at Hambantota, an agreement was entered into by the company with a security firm. The contract was awarded to the service provider on 01 September 2017. However, the agreement did not specify a contract expiry date. It was observed that a total sum of Rs.10,597,800 had been paid to the aforesaid service provider over a period of seven-years without renewing or amending the original service agreement by the company as of the date of audit.</p> | <p>The management has not noticed issues regarding the services provided by S D Agencies Ltd had given that their charges are below prevailing market rates the Company has continued to engage their services. However, recognizing the importance of having a formal agreement with an expiry date, and we shall review the existing agreement and make the required corrections accordingly.</p> | <p>The agreement should be reviewed and actions should be taken to monitor the compliance with terms and conditions of the Lease agreement and take corrective and preventive actions.</p> |

### 3.2 Under -utilization of Funds

| Audit Issue                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Management Comment                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Recommendation                                                                                                                                             |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>As per the directives issued by the Department of Public Enterprises, the Company granted a short-term loan of Rs.400 million to Sino Lanka Hotels &amp; Spa (Pvt) Ltd. with an interest rate of 8.79 percent and without the execution of a formal written agreement. Due to financial difficulties, Sinolanka Hotels &amp; Spa (Pvt) Ltd. had failed to repay the loan within the expected timeframe.</p> <p>Consequently, on 18 October 2024, Canwill Holdings repurchased of 40 million shares at Rs.10 per share, from the Company. Thereby offsetting the outstanding loan amounting of Rs.400 million. Further, the Board of directors</p> | <p>Although no formal agreement exists with inolanka Hotels and Spa (Pvt) Ltd regarding the loan, it was granted with Board approval and the concurrence of the Department of Public Enterprises Development. Due to the prolonged outstanding balance and financial challenges, the Board decided to address the matter at the group level. As part of the proposed divestiture strategy, Canwill Holdings (Pvt) Ltd will repurchase shares to capitalize the loan into stated capital, while the interest</p> | <p>Necessary actions should be taken to make use of this fund in profitable manner and mitigate risks in all future lending and investment activities.</p> |

approved the suspension of the interest for the year 2023 and the writing off of the interest receivable amounting to Rs.126,075,753. As a result, it was observed that the company derived no financial benefit from this investment over a period of 7 years.

receivable will be written back to optimize the group's financial position.

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

| Audit Issue                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Management Comment                                                                                                                                                                                                                                                                                                                                                                                                                       | Recommendation                                                                                                              |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| <p>The company entered into a lease agreement on 28 August 2014 with the Urban Development Authority, for a 99 years term acquiring a 3.812-hectare, block of land in Hambanthota for the construction and operation of a luxury hotel complex. The total cost incurred for the acquisition of land amounting to Rs.177,974,935 and an additional amount of Rs.111,103,548 was incurred as initial costs related to the commencement of the Hyatt Regency project. Despite this significant investment, no construction activities had been undertaken since the project was put on hold by the Board of Directors in 2015. The amount expended on the initial construction of the hotel complex had been written off in the same year without obtaining Treasury approval. As of the audit date, ten years have passed without any progress, and the land remains unutilized.</p> | <p>Agreement with the Urban Development Authority and payment of Rs.177,974,935. Construction activities have been ceased as per the Board of Directors' decision in 2015. The current management of the company, expect necessary directives from the government to move forward with the proposed divestiture program, which is currently on hold or any other arrangement that would lead to deciding on the said leasehold land.</p> | <p>Necessary actions should be taken to make use of this property for the intended purpose or any other useful purpose.</p> |