

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Canwill Holdings (Private) Limited (“Company”) and its subsidiaries (“Group”) 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 reported 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 Group 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 Group’s ability to continue as a going concern. However, the General Treasury ultimate parent has agreed to extend financial assistance to the Group, until such time the Group 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 Group’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 Group'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 Group'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 Group'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 Group 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 Group, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Group has complied with applicable written law, or other general or special directions issued by the governing body of the Group;
- Whether the Group has performed according to its powers, functions and duties; and
- Whether the resources of the Group 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
The management has assessed the ability of the Company and its subsidiaries to continue as a going concern and remains confident in the availability of adequate resources to continue operations for the foreseeable future.	Management of the Company wishes to draw your attention to the proposed divestiture program, initiated under the previous government, which is currently on hold. The future direction of the divestiture process will depend on the new government's policies, which have not been finalized as of the reporting date.	Immediate actions should be taken to overcome the going concern issues in the Company and its Subsidiaries.
The Company, along with its subsidiary entities Sinolanka Hotels & Spa (Pvt) Ltd and Helanco Hotels & Spa (Pvt) Ltd has been prioritized for divestiture under the State-Owned Enterprise Restructuring Program, as approved by the Cabinet. In line with this, Deloitte Touche Tohmatsu India LLP (Deloitte) was appointed as the transaction advisor. The due diligence process has been completed, and shortlisted bidders are currently awaiting the issuance of the Request for Proposals (RFP).	In the meantime, cabinet approval has been granted to resume the divestiture process and settle other long-outstanding dues. Additionally, the line Ministry is working on transferring the share ownership of Litro and EPF to the Treasury to support the divestiture. The shares of SLIC have already been transferred to the Treasury for divestiture purposes.	
It is noted that the hotel development projects undertaken by Sinolanka Hotels & Spa (Pvt) Ltd and Helanco Hotels & Spa (Pvt) Ltd have been suspended since 2022 and 2015 respectively.		

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 3.11 of the Operational Manual for State Owned Enterprises dated 16 November 2021	The secretarial services and payroll processing services had been outsourced since 2015 and 2017, respectively. However, the selection of the respective outsourcing partners had not been conducted in accordance with the government procurement guidelines. Moreover, these services were obtained without entering into formal service agreements. During the contract period, payments amounting to Rs.4,638,980 for secretarial services and Rs.2,403,638 for payroll processing services were made.	The company and its subsidiaries are undergoing divestiture, resulting in minimal staff for accounting and administrative tasks. Management is confident that outsourcing payroll services will provide cost benefits. The company has evaluated market rates and obtained quotes from reputable firms in 2024, determining that cost benefits justify continuing with the existing firm for secretarial services.	Need to comply with the circular guidelines.
(b) Section 2.2 of the PED 3/2015 Public Enterprise Circular and dated 17 June 2015	Although the payment of allowances to the Board of Directors should be determined by the respective Board, with the recommendation of the Secretary to the Line Ministry and with the concurrence of the Minister of Finance, the Company had not complied with this requirement since its inception.	The recommendation of the secretary to the line ministry is received for the payment of allowance to the chairman and the Managing Director.	Need to comply with the circular guidelines.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.18,848,673 and the corresponding profit in the preceding year amounted to Rs.134,447,820. Therefore, a deterioration amounting to Rs.115,599,147 of the financial result was observed. The reason for the deterioration is increases in the finance expenses of Sinolanka Hotel and Spa (Pvt) Limited by Rs.337,764,219 or 68 percent.

3. Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) According to Public Enterprises Circular No. 01/2021 (ii), dated 27 September 2023, the parent company is required to formulate a subsidiary policy with the concurrence of the Directors General of the Department of Public Enterprises. In the absence of an approved subsidiary policy, the Company is required to obtain prior approval from the General Treasury for the Scheme of Recruitment (SOR) applicable to the company and its subsidiaries. Despite these requirements parent company had not formulated a subsidiary policy and had failed to adhere to the approved cadre and Scheme of Recruitment for both the parent company and its subsidiaries.	Considering the current situation of the staff requirements of the group companies, the strategy of the management is to maintain staff that is required only to manage day to day operations and to support the divestiture process.	Need to comply with the circular guidelines.
(b) In the absence of a properly established remuneration policy, the Company had paid allowances to its employees on various inconsistent bases.	Even though a written remuneration policy is not available, salaries and allowances have been structured based on factors such as designatory levels and responsibilities etc, these include categorized allowances such as vehicle allowance, travel allowance, other allowances etc.	The Company should have maintained a proper remuneration policy and allowances for its employees

- (c) Since September 2022, the Company had permitted its staff to work on a roster basis and from home for two days per week, until further notice, without obtaining the required approval from the General Treasury.
- The company has referred to the circular titled “Expenditure Management and Business Sustainability of Commercial Corporations, Statutory Boards, and Government-Owned Companies' (PED Circular No. 04/2022 dated 08/08/2022)” and has implemented cost-saving initiatives accordingly. The highlighted cost-saving measures were communicated to the Secretary to the Treasury through the company’s letter dated 8th September 2022.
- The Company should obtain approval from the Treasury before allow its staff to attend on roster basis and working from home 2 days per week.