

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Sinolanka Hotels and Spas (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 2.7 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

Audit Issue	Management Comment	Recommendation
The Company has initiated a project to construct a 475-rooms city hotel with 90 serviced apartments in accordance with Extraordinary Gazette No. 1771/18 dated 15 August 2012. The project was originally scheduled to commence commercial operations within 24 months; however, it remains incomplete to the date. Although Cabinet approval was granted in July 2020 to recommence construction activities, the Board of Directors resolved to suspend the project in May 2022 due to the proposed Debt/Equity financing arrangement was not proceeding as planned according to the announcement of Sri Lanka's pre-emptive default status by CBSL on 12 April 2022. According to the Company's accounting records, approximately Rs.5.3 billion has been incurred on administrative and other expenses since the project's inception,	The completion timeline of the project has been significantly deviated due to various challenges beyond the control of the management of the company, due to various challenges, including difficulties in securing adequate funding, the impact of the COVID-19 pandemic, the ongoing financial crisis in the country, and unsuccessful divestiture programs, etc. 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. In the meantime, cabinet approval has been granted to resume the divestiture process,	Divestiture process or recommence of operation of the company should be expedited without delay.

without generating any income over a span of 13 years.

However, in the Note 2.7 to the financial statements disclosed that 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. In mean time, Canwill Holdings (Pvt) Ltd. (parent entity) has been prioritized for divesture by the State Owned Enterprise Restructuring Unit (SOERU), with the cabinet approval granted.

and the shares of SLIC have already been transferred to the Treasury for divestiture purposes.

Deloitte Touche Tohmatsu India LLP (Deloitte) was appointed as transaction advisor and due diligence process on technical, financial, legal aspects has been completed. The Expression of Interest (EOI) phase is now underway, with shortlisted bidders awaiting the Request for Proposals (RFP). However, the future direction of the divestiture process will depend on the policies of the new government, which had not been finalized as of the reporting date. Despite these developments, the company has not resolved to liquidate in the foreseeable future. The management of the company continues to follow the directives of the line Ministry regarding the way forward.

1.6 Accounts Receivable and Payable

1.6.1 Advances

Audit Issue	Management Comment	Recommendation
(a) The advances of Rs.425,193,994 relating to 09 contracts had been suspended in 2022. As at 31	Some advances can be recovered from the unsettled bills, retention money and liability incurred by	Advance security bonds should be renewed on due date in

December 2024, six of these contracts had not renewed their advance bonds. The company had not taken action to recover a sum of Rs.22,761,998 related to these six contracts prior to the expiry of the respective bonds.

the contractors against to the Company at the termination of contracts. Litro Gas Lanka Ltd one of the shareholder of the Company had not renewed the advance bond for the period of February 2022 to March 2025 but the advance bond renewed only for 3 months from 25 March 2025.

accordance with the contract agreement.

- (b) Performance bonds related to the four contracts value of Rs.240,552,470 had not been extended by the company as at 31 December 2024.
- Given the current status of the project and non-settlement of their dues, some contractors are reluctant to submit a performance bond. However, the project team of the company has identified key contracts that are required to maintain the performance bond.
- Performance Bonds should be renewed on due date in accordance with the contract agreement.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Director General's, Department of Treasury Operation No; PED/S/Canwill /6/11 and letter dated 16 January 2024	A budgetary provision amounting to Rs.99,502,694 was allocated in the year 2024 under the Public Enterprises Department (PED) equity vote 241-01-01-00-2301-032, intended to finance the Company's ongoing operational expenses pending the completion of the proposed divestiture program. Out of this allocation, a sum of Rs.61,035,935 was released by the General Treasury during the year 2024, subject to the specific condition that ordinary shares equivalent to the said amount be issued to reflect the equity infusion.	The company received Rs.61,035,935 and Rs.2,039,258,218 from the 2024 budget to cover recurrent project expenditures and balance due to main contractor respectively. The management plans to issue redeemable non-cumulative preference shares for total amount of Rs.2,100,294,153 to the Treasury. Further, the value per share, preferential dividend per share, other terms and conditions etc should be agreed and confirmed by the treasury before the issuance of the shares.	Need to comply with cited direction.

However, as of the date of audit, 28 February 2025, this amount continued to be presented in the financial statements under the line item “Advance against Redeemable Non-Cumulative Preference Share,” without compliance with the stated requirement of issuing ordinary shares.

(b) Cabinet Decision No.24/1796/60 4/193 and dated 03 September 2024	Cabinet approval was granted for the settlement of outstanding payments of Rs.2,039,258,218 due to the project's main contractor. A special condition required this amount to be treated as an equity infusion from the General Treasury and redeemable non-cumulative preference shares of Sinolanka Hotels & Spa (Pvt) Ltd. to be issued. However, the company has not taken action to issue these preference shares. And this amount had been stated in the financial statement under the line item “Advance against Redeemable Non-Cumulative Preference Share” until the date of audit on 28 February 2025.	-Do-	Need to comply with cited direction.
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1.8 Cash Management

Audit Issue	Management Comment	Recommendation
According to paragraph 6.2 of the Operational Manual for State-Owned Enterprises, as stipulated in Public Enterprise Circular No. 01/2021 dated 16 November 2021, State-Owned Enterprises (SOEs) with an average annual revenue of less than Rs.30 billion and which receive budgetary support to meet their	The company’s main purpose is to construct the Grand Hyatt Hotel and not to make deposits and earn money. However, the company is investing any free cash flows with a minimum risk to maintain effective cash flow management practices. Out of Rs.403,986,372, it is comprised Rs.360,457,037 as the balance of	The management should ensure strict adherence to the Guidelines in the Operational Manual published from the Public Enterprise Circular No. 01/2021 dated 16 November 2021.

recurrent expenditures are not authorized to invest surplus funds.

funds received to settle the main contractor of the project till a decision is to be concluded on the utilization of such funds.

However, it was observed that a sum of Rs.403,986,372 had been invested in short-term government securities, including repurchase agreements (repos) and call deposits, notwithstanding the fact that the Company is financed by the General Treasury.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.22,117,174 and the corresponding profit in the preceding year amounted to Rs.133,364,534. Therefore, a deterioration amounting to Rs.111,247,360 of the financial result was observed. The reason for the deterioration is increases in the finance expenses by Rs.337,764,219 or 68 percent.

2.2 Trend Analysis of major Income and Expenditure items

The analysis of Income, Administration expenses and Net Profit /(Loss) for the last five years are as follows.

Year	2024	2023	2022	2021	2020
	Rs.	Rs.	Rs.	Rs.	Rs.
Finance income	12,731,519	9,646,837	11,221,595	28,749,233	10,464,970
Administration Expenses	166,941,213	187,100,078	166,923,295	81,210,002	131,209,337
Net Profit/ (Loss) after tax	22,117,174	133,364,534	(2,446,366,057)	760,645,501	(193,289,884)

In accordance with the stated objectives of the Company, operational income should be generated through its core business activities. However, it was observed that no such business operations are currently being carried out, and the primary source of income is interest income from the fixed deposit.

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
(a) The contract for the interior fit-out and furnishing works of the Grand Hyatt Colombo Project had been awarded to an interior designer. However, the contract was subsequently terminated by the Company on several grounds. In response, Interior designer initiated arbitration proceedings in Singapore under the Rules of the International Chamber of Commerce (ICC). The Arbitral Tribunal ruled in favor of Interior designer, awarding damages amounting to EUR 7,432,062, in addition to legal and arbitration costs, including a further sum of EUR 516,597. The interior designer thereafter filed an application with the High Court of Sri Lanka to enforce the Arbitral Award. The Court ruled in favor of Interior designer and awarded legal costs amounting to Rs.500,000. A provision for compensation amounting to Rs.1,848,102,857 was initially recognized in the financial statements for the year ended 31 December 2019. As of 31 December 2024, the total liability recognized in the financial statements amounted to Rs.2,774,266,797.	Since the matter has been opened up to negotiate for an amicable settlement, which is in favor of the company, further liability has not been recognized after 31 December 2019. However, the total liability recognized as of 31 December 2024 was Rs.2,774,266,797	The proper provision should be made for contingent liabilities.
(b) In accordance to with the agreement relating to material importing made with a contractor, the Company is responsible for procuring imported materials on behalf of the contractor, but due to lack of foreign currency, the Company had agreed to allow the contractor to open LCs for material procurement on behalf of the Company. These LC reimbursements will be made within 14 days of submission by the contractor. If payments are delayed	Project construction works recommenced in 2020, following the Cabinet of Ministers Approval Ref.20/1042/204/050-1 dated 10 July 2020. This approval directed SLIC to infuse Rs.6 Bn in equity into Canwill Holdings (Pvt) Ltd. However, only Rs. 2 Bn was received in May 2021,	The management should take timely and appropriate decisions. without paying any penalties

beyond this period, financing charges may apply based on the AWPLR+1%. The company had paid Rs.373,208,192 as a finance cost to constructors for two years without any value addition to the company. leaving a balance of Rs. 4 Bn outstanding. This shortfall has impacted our ability to make all contractor bill payments.

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The Company obtained a bridging finance facility from People's Bank, secured by a counter-guarantee from the Government of Sri Lanka through the General Treasury. This arrangement was based on Cabinet Approval Ref.18/1507/805/040 dated 01 August 2018, under the subject "Part Finance the Construction of the Grand Hyatt Colombo Pending Divestiture." The loan proceeds were utilized to settle long-outstanding dues and to finance ongoing construction activities during that period. As of 31 December 2024, the outstanding balance of the facility amounted to Rs.4,901,946,737, with no repayments having been made. Due to the current financial position of the project, the Company requested an extension of the facility for a further 12 months, commencing 12 July 2024. The bank approved the extension up to 18 July 2025.	This loan was approved in 2019 subject to "part finance the construction of the Grand Hyatt Colombo pending divestiture". However, the proposed divestiture that was scheduled to be completed in 2019 had not happen within the stipulated time frame, and the settlement also did not happen accordingly. Further, this facility was utilized for the project, after which it was recommenced in 2020. Since the company was unable to secure adequate funding sources to complete the project and it was unsuccessful in the proposed divestiture programs, the said loan remains unsettled to date.	Need to be get appropriate decision to settle the finance facility without delay and avoid additional interest cost without getting any benefits of using the facility.
(b) The company had entered into an agreement with an elevator service provider for the maintenance of OTIS equipment for a period of 12 months commencing from 01 January 2024. Out of 26 elevators and escalators the maintenance had been done only for 15 elevators at a	The company has entered into service contracts for 15 numbers of elevators upon the full completion of testing and commissioning works. However, the remaining elevators and escalators have not yet been handed over, as the	Need to be take the necessary remedial actions to prevent major breakdowns and mitigate significant loss in the near future.

cost of Rs.4,683,443 for the period of one year. However, the Company had not carried out maintenance on the remaining 09 elevators and 02 escalators, and it was observed that these assets had been significantly affected by corrosion.

contractor has been unable to complete the required work due to periodic project suspensions caused by financial constraints. During the suspension period, the Company was instructed to proceed with only essential maintenance at a bare minimum cost. As a result, maintenance activities were carried out only for the handed-over units. Nevertheless, the company have jointly conducted periodic inspections on the remaining units within this scope and has undertaken necessary remedial actions to prevent major breakdowns and mitigate significant financial burdens on the company.