

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Hotel Developers (Lanka) Limited (“Company”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of 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.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Paragraph 6.7 of Operational Manual for State Owned Enterprises dated 16 November 2021	Although annual asset verification must be carried out on the fixed assets and stores, the verification of fixed assets had not been carried out for the year 2024. It was also observed that data base for the assets management had not been updated.	The verification is scheduled to be completed during the financial year ending 31 December 2025, after the renovation project was completed. The delay was primarily due to the challenge of limited staff availability during the peak business period. However, to expedite the completion of the process, the Company has decided to outsource the remaining asset verification work.	Action should be taken in accordance with the relevant Public Enterprises Circular to ensure that the annual verification of fixed assets

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.268,347,000 before taxation and the corresponding loss in the preceding year amounted to Rs.784,366,000 before taxation. Therefore, an improvement amounting to Rs.516,019,000 of the financial result was observed. The reason for the improvement was increases in the revenue by Rs.1,056,633 or 24 percent.

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.

Financial Statement Line Item	2024	2023	2022	2021	2020	Increase/Decrease 2020-2024	
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	%
Revenue	5,393,089	4,346,751	2,887,267	1,178,381	1,081,135	4,311,954	398.8
Gross Profit	2,684,204	1,901,133	1,061,770	255,686	270,043	2,414,161	893.9
Administrati on and Sales & Marketing Expenses	1,228,995	1,052,424	855,959	585,498	591,036	637,959	107.9
Depreciation and Other Expenses	1,172,420	1,065,741	673,824	554,539	550,046	622,374	113.1
Net Finance Income	(579,757)	(580,509)	(371,340)	(123,255)	(31,696)	548,061	(1729.1)
Profit after Tax	(339,837)	(688,712)	(885,123)	(957,225)	(918,107)	(578,270)	62.9

2.3 Ratio Analysis

According to the financial statements and information made available to audit, some important ratios from the previous year is as follows.

Ratio	2024	2023
Gross Profit Ratio	50	42
Net Profit/(Loss) Ratio	(5)	(19)
Current Ratio	0.19:1	0.31:1
Quick Ratio	0.17:1	0.23:1
Return on Capital Employed	0.02	(0.02)
Interest Coverage Ratio	0.54	(0.31)

- The company's current ratio and quick ratio are low as 0.19 and 0.17 respectively and the company is in the financially critical situation where its ability to settle its short-term liabilities is very poor as per lower of ratios marked by less than one.

3. Accountability and Good Governance

3.1 Action Plan

Audit Issue	Management Comment	Recommendation
Although the Strategic plan for the period of 2022-2026 had identified two activities such as, renovation of Grand Ball room and expansion of the travel business unit to be achieved in the year 2024, these activities had not been included in the 2024 action plan, and no action had not been taken to implement these activities.	The travel business expansion was postponed in 2024 due to a Treasury directive restricting major decisions due to divestiture. During a recovery year post COVID and economic recession, the renovation of the ballroom, which required significant investment, was deferred. The renovation is now planned for 2026, with substantial cash flow recovery expected.	Action Plan should be prepared in accordance with the Strategic Plan.