

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Canowin Hotels & 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.

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

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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 Accounts Receivable and Payable

1.5.1 Receivables

Audit Issue	Management Comment	Recommendation
A sum of Rs.46,325,918 or 50 percent out of trade receivables of Rs.92,048,582 as at 31 December 2024 had remained outstanding for more than 360 days. In addition, receivables from inactive tenants totaled Rs.46,986,804 out of the total Rs.48,493,421 had remained outstanding for more than 90 days.	Legal actions are underway to recover the outstanding balance of Rs.46,989,004 related to inactive tenants. The company has strengthened controls to ensure that no tenant is permitted to exceed outstanding balances beyond 90 percent of their security deposit.	Closely monitor and review aged receivables those overdue for more than 360 days.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.366,647,917 and the corresponding profit in the preceding year amounted to Rs.125,700,809. Therefore, an improvement amounting to Rs.240,947,108 of the financial results was observed. The reason for the improvement is fair value increases in Investment Property by Rs.269,517,245.

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	Improvement /Deterioration 2023-2024	
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	%
Revenue	209,485	183,900	162,509	137,556	130,152	25,585	13.91
Gross Profit	126,979	116,109	131,937	109,856	109,179	10,870	9.36
Other Operating Income	55,755	43,751	5,547	2,290	747	12,004	27.43
Financial Income	60,308	74,868	45,074	12,455	15,511	(14,560)	(19.45)
Administration Expenses	84,651	70,632	58,776	43,506	60,070	14,019	19.84
Profit after Tax	366,648	125,701	97,426	58,865	36,015	240,947	191

- The significant increase in the profit after tax is fair value increases in Investment Property by Rs.269,517,245.

2.3 Ratio Analysis

According to the financial statements and information made available to audit, some important ratios for last five years are as follows.

Ratio	2024	2023	2022	2021	2020
Gross Profit Ratio (%)	60.61	63.13	81	79.9	83.9
Return on Capital Employed (%)	24	15	9	6	4
Current Ratio	15:1	12:1	10:1	8:1	9:1
Quick Ratio	15:1	11:1	10:1	8:1	9:1
Earnings Per Share (EPS)	4.21	1.44	1.12	0.68	0.43

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The Company's main source of revenue is derived from leasing spaces in the Southern Expressway Service Area (Arcade) at Welipenna. It was observed that the Company had not maintained a standardized or consistent method for determining rental fees and service charges on a per square foot basis. Further, the Company had not implemented an approved Revenue Manual, Guideline, or Policy to govern these changes. The lease agreements had been renewed every five years with the same tenants without calling competitive bids, and standard rates were not applied	Action has been taken to get the valuation from the Valuation Department for renting out of expired shops by following the competitive bidding procedure.	Management should establish and implement a properly approved Revenue Manual/Policy, defining the basis for charging rent and service charges per square feet.
(b) As per Section 9(z) of the lease agreement with a tenant, "The Lessee shall not effect any alteration and construct any additional structures of a temporary or semi-	Agreed. There was no board paper on this regard and approval has not been obtained for the alteration of the premises. This is value addition	Need to comply with the lease agreement conditions.

permanent nature, of the said premises without the prior written approval of the Company.

However, it was observed that one shop had been constructed an additional permanent structure in the said premises without approval of the board and the Company had not monitored this matter.

to the building, but management will refer this matter to the next audit committee meeting to take a decision.

- (c) A sum of Rs.2,495,031 was spent on air conditioner repairs during 2024 without a formal service agreement for maintenance and air conditioner repair service obtained from the various suppliers. However, it was observed that during the audit inspection the centralized air conditioning systems on both sides were not functioning effectively, despite the expenditure incurred.

The air conditioning system installed in 2013 is nearly 12 years old and requires major repairs. Discussions are ongoing with SLIC for preventive maintenance, and a comprehensive report will be obtained from a state-owned enterprise to decide on repair or replacement.

Need to be regular maintenance of the air conditioning system to prevent major defects and uninterrupted operation.

- (d) CCTV camera system of the company was not monitored by any designated or responsible officer. This reflects a lack of an effective security oversight mechanism and poses a risk to the overall safety of the premises. Further, the system lacked backup savings capabilities, reliability and effectiveness, even the Company had spent a sum of Rs.4,665,820 on this CCTV system.

Responsible personnel will be assigned immediately to monitor the CCTV system.

Management should assign a responsible officer to monitor the CCTV system regularly and ensure timely responses to any security incidents.

3.2 Operational Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Without a lease agreement, the company had leased out a 630 square feet area to a lessee for electric vehicle charging center. However, the Company had entered into service agreement with the lessee from 16 January 2018, and lessee had agreed to pay 12 percent of the gross monthly revenue. Since	The Board, at its meeting on 24 July 2025, decided to terminate the service contract and investigate, with further action to follow based on the findings. And RDA did not grant approval to construct vehicle charging points at the service	Management should immediately formalize a legally binding lease agreement with the tenant

agreement date the lessee had not submitted any monthly income statements or made the corresponding payments to the Company. Since January 2018 Company had lost rent income amounting to approximately Rs.12,000,000 or monthly service income.

area; therefore, the project will be terminated and reconsidered in line with the lease agreement conditions.

- (b) The Company has incurred continuous net losses from the Subway franchise operation during the last three financial years amounting to Rs.2,517,521 in 2022, Rs.7,694,948 in 2023, and Rs.8,429,823 in 2024. These recurring losses indicate that the franchise operation is not financially sustainable for the Company.

The Company acknowledged the audit observation, noting that profits are limited due to Subway's standard menu. A new budget pack introduced in June 2025 has increased revenue since July 2025, and close monitoring is in place to make the outlet profitable. Reported losses also include Rs.7 million in annual rental expenses.

Management should critically evaluate the financial feasibility of continuing the Subway franchise and consider alternative strategies to minimize further losses.

3.3 Idle or underutilized Property, Plant and Equipment

	Audit Issue	Management Comment	Recommendation
(a)	Out of the total 24,339 square feet available on the upper floor 6,696 square feet had been allocated for rental purposes, while 17,643 square feet were planned to be developed as open air with tree planting in line with the original green concept. However, since the commencement of the operations at the Arcade the Company has not utilized these spaces and unable to achieved the initial environmental sustainability objectives of the project and lost rent income from the spaces.	Upper floor area was rented out for restaurants before 2018; however, tenants have left due to the less customer arrivals to the upper floor. The initial plan will be reviewed, and action will be taken to implement the initial plan with future development of the service area.	Management should explore alternative strategies to utilize the vacant space effectively.

(b) Two LED panels were installed by the Road Development Authority (RDA) in the Arcade in 2018. However, these panels have remained non-operational for the past seven years. The Company had not taken any action either to collect lease rent from the RDA or to transfer of ownership of these assets to the Company. As a result, the opportunity to generate additional income by leasing panels to third parties has not been utilized.	Two LED panels were constructed without Canowin Management's approval. It was later agreed with the RDA to shift them to RDA-owned land, subject to a land survey, for which the Chairman has granted permission.	Management should take immediate steps to resolve this problem without delay.
(c) It was observed that four ATM spaces located on both sides of the arcade remained vacant and had not been leased out by the company at the date of 30 September 2025.	Two banks were asked to install ATMs/CRM machines in the vacant spaces. One Bank is unable to provide, and other bank stated that new CRM machines are sensitive to heat and require uninterrupted air conditioning, and assured that routine maintenance is being done while further improvements to the system will be made.	Management should take prompt action to lease out the vacant ATM spaces.
(d) The company had purchased total of 12 water tanks on two occasions during the year 2024, incurring a total cost of Rs.1,728,000. However as observed during audit visit on 25 July 2025 these water tanks had not been used.	Action will be taken to effectively utilize these assets of the company.	Management should ensure that procured assets are utilized efficiently to minimize the underutilization of company's resources.

3.4 Procurement Management

Audit Issue	Management Comment	Recommendation
(a) The Company has not prepared a Master Procurement Plan in accordance with paragraph 4.2.1 of the Procurement Guidelines.	The Master Procurement plan is being prepared for implementation from the year 2026.	Management should ensure that a comprehensive Master Procurement Plan is prepared and approved in line with the Procurement Guidelines.

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| <p>(b) The evidence of appointing a procurement committee for the year 2024 had not been submitted. In the absence of such an appointment, procurement decisions made during the year were not taken by a duly constituted Procurement Committee. Therefore, those procurement decisions cannot be considered valid in terms of established procurement regulations.</p> | <p>Steps will be taken to appoint a procurement committee by obtaining the Board approval.</p> | <p>The appointment of a Procurement Committee must be properly documented and retained.</p> |
| <p>(c) The Company had not followed procurement guidelines paragraph 3.4.3(d), 4.3.1(a), 5.2.1(a), 5.3.1(a), 6.3.5, 6.3.6, 7.11.1 for 10 procurement activities amounting to Rs.17,162,844 .</p> | <p>Steps are being taken to implement the correct procurement procedure in future. All responsible officers will be called for explanations, and appropriate actions will be taken.</p> | <p>Action should be taken in accordance with the National Procurement Guidelines.</p> |
| <p>(d) According to the Board decision dated 12 December 2023, approval was granted for the installation of two CCTV camera systems covering both sides of the Arcade. However, installation work was commenced by a private contractor without awarding of letter of acceptance. The agreement related to CCTV camera installation in side A was signed on 20 December 2023, but it did not specify the contract value. Notably, the Technical Evaluation Committee (TEC) report was submitted on 29 February 2024, after the installation had already been completed for side A camera system.</p> | <p>As per the instruction of the Board of Directors, work commenced from 12 December 2023. Instruction was given to the procurement division not to issue any letter of award without completing the procurement process. According to instruction given by board, Procurement officer has included information in justification and recommendation of technical Evaluation Committee</p> | <p>Management should ensure that suppliers are not assigned to work without a formal written agreement. The company need to maintain the Board minutes are properly fulfilled, documented, and retained.</p> |
| <p>(e) Company had called bid for repairing the wastewater treatment plants in the Arcade in 2023. However, only one bid was received and it was not evaluated. Subsequently, on 19 March 2024, an updated price of Rs.4,243,280 was obtained from the same contractor, and evaluated with another contractor. The contract had been awarded to the latter contractor at a price of Rs.500,000. However, during</p> | <p>The Assistant Engineer confirmed that the scope of work was covered by the quotation provided by “Pure Water System” and recommended to select the aforesaid company to service the Wastewater Treatment Plants. Through a purchase requisition.</p> | <p>The company should be complied with the procurement guidelines.</p> |

an audit inspection on 25 July 2025, it was observed that the repaired wastewater treatment plant was not operated, and untreated wastewater was being discharged into the environment.

3.5 Human Resources Management

	Audit Issue	Management Comment	Recommendation
(a)	Although the cadre position and Scheme of Recruitments with the Board approval and recommendations of the Line Ministry should submit to the Department of Management Services to get the approval according to section 3.2. (i) of the Public Enterprises Circular number 01/2021 dated 16 November 2021, the Company had not obtained approval from the Department of Management Services.	As per letter dated 18 May 2022 Director General of Department of Management Services states that the Board of Directors has the authority to make appropriate decisions on all related matters. However, approval from Management Services will be obtained in the future if deemed necessary.	Need to be comply with the Public Enterprises Circular.
(b)	Company had paid additional vehicle allowance of Rs.50,000 per month from April 2020 and it was increased by Rs.50,000 from April 2024 to the chairman of the Company contrary the Public Enterprises Circular No.01/2015(i) dated 27 October 2016. Accordingly, vehicle allowance amounting to Rs.3,300.000 had been paid without approval from the Treasury.	The vehicle allowance has been approved by the Board of Directors. The present Chairman and Board members are paid only within the limits specified in Public Enterprises Circular No. 01/2020 dated 27 January 2020.	Need to be comply with the Public Enterprises Circulars.

4. Accountability and Good Governance

4.1 Corporate Plan

	Audit Issue	Management Comment	Recommendation
	Although state owned enterprises should prepare corporate plan including current year as per paragraph 2.3 of Guidelines on Corporate Governance for State Owned	The Corporate Plan of the company will be prepared.	The Company takes immediate steps to align with the corporate governance framework

Enterprises dated 16 November 2021, the Company had not prepared the corporate Plan for the year under review.

by ensuring the timely preparation and submission of these key planning documents in future period.

4.2 Internal Audit

Audit Issue	Management Comment	Recommendation
Although state owned enterprises are required to have an Internal Auditor as per Paragraph 4.4 of the Guidelines on Corporate Governance, the Company had not appointed an Internal Auditor and is also not covered under the parent company's internal audit function.	Internal audit functions of Canowin Hotel and Spas (Pvt) Ltd have been handed over to the auditing staff of Sri Lanka Insurance Cooperation. We will take necessary steps to coordinate with the Audit Department of SLIC to conduct periodic internal audits in the future.	Should comply with the stipulated governance requirements.

4.3 Audit Committee

Audit Issue	Management Comment	Recommendation
Although Audit Committee (AC) should meet at least once in three months as per section (h) in paragraph 4.2 of the Guidelines on Corporate Governance for State own Enterprises (SOE), only one meeting had been held during the year under review.	An Audit Committee (AC) member representing the parent company has resigned in August 2024. Also, the board of directors resigned from the company in January 2025. The Sri Lanka Insurance Corporation has appointed a new member to the Audit committee and arrangements are being made to hold Audit Committee meetings as soon as possible after the appointment of other directors.	Should comply with the stipulated governance requirements.

4.4 Environmental Issues

Audit Issue	Management Comment	Recommendation
It was observed that the Company had failed to maintain a proper waste disposal system and it was dumping waste within its premises. This has resulted in the arcade	Due to the high daily usage of the service area, fully separating waste is challenging, despite the	Management should implement an effective waste disposal system with proper collection,

area becoming untidy and emitting unpleasant odors. company's efforts to do so properly. However, the Mathugama Pradeshiya Sabha has repeatedly refused to collect waste, citing the lack of a disposal yard. Following guidance from the Waste Management Authority (WMA), the company obtained quotations from recommended private collectors and selected one. A systematic waste disposal process is now in place with WMA's support. segregation, and disposal.