

## **Canwill Holdings (Pvt) Limited – 2017**

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The audit of the financial statements of the Canwill Holdings (Pvt) Limited (“The Company”) and the consolidated financial statements of the Company and its Subsidiaries (“the Group”) for the year ended 31 December 2017 comprising the statements of financial position as at 31 December 2017 and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended and a summary of significant accounting policies and other explanatory 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. My comments and observations on the performance of the company which I consider should be furnished to the Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

### **1.2 Board’s Responsibility for the Financial Statements**

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The Board of Directors (“Board”) is responsible for the preparation of these financial statements that give a true and fair view in accordance with the Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.3 Auditor’s Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s and Group preparation and fair presentation of the financial statements 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 and Groups internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **2. Financial Statements**

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### **2.1 Opinion**

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In my opinion, consolidated financial statements of the Group give a true and fair view of the financial position as at 31 December 2017, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **2.1.1 Emphasis of Matter**

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Without qualifying my opinion, I draw attention to the following notes to the financial statements which relates to the subsidiary companies, of Helanco Hotels and Spa (Pvt) Ltd and Sinolanka Hotels & Spa (Pvt) Ltd.

##### **Helanco Hotel & Spa (Pvt) Ltd**

Note 2.5 in the financial statements regarding the going concern assumption in the preparation of the financial statements of the Company. As stated in the above Note, the Board of Directors of the Company has resolved to discontinue the construction of Hotel in Hambantota and the Ministry of Public Enterprise Development has given their instructions to transfer the Company's stake to its shareholders in proportion to their shareholding in Canwill Holdings (Pvt) Ltd (Parent Company), in accordance with the Cabinet Decision No. 17/1613/733/029 dated 01 August 2017. Since the independent valuation is in the process as at the reporting date, the Company has not resolved to liquidate and therefore, financial statements continue to be prepared on the Going Concern basis.

##### **Sinolanka Hotels & Spa (Pvt) Ltd**

As stated in the above Note, the approval of the Cabinet of Ministers has been granted on 01 August 2017 (Cabinet decision 17/1613/733/029) for the divestiture of Grand Hyatt Colombo. Also, the company's current liabilities exceed the current assets by Rs. 471,653,072 and as per note 20 to the financial statements amount of commitment for capital expenditure is Rs. 25,887,629,779 as at 31 December 2017. Further Cabinet Committee of Economic Management have instructed to obtain a bridging loan on 10 January 2018, and accordingly company is in the process of obtaining a loan of US\$ 45.3 million to solve the current insolvency.

Note 26 in the financial statements on contingent liabilities. As stated in the above note arbitration has been established against the Company by Interna Contract Spa (Italy) for cancelling the interior decor contract on 27 March 2015 which was awarded on 07 January 2015, ( contract value Euro 28,869,372). Interna Contract Spa (Pvt) Ltd has claimed Euro 20,552,242 for the work done and the loss of profit incurred on execution of the contract. Further claimed to reimburse the cost incurred on arbitration processing as well. On 29 September 2017 arbitration has communicated to award a sum of Euro 7,432,063 to the claimant. However, the management of the Company has challenged the action filed by the Intrena Contract Spa in commercial High Court of Colombo to enforce the aforesaid arbitral award in Sri Lanka on the basis that the arbitral has no jurisdiction to hear or determine the claims of Interna Contract Spa.

### **2.1.2 Report on Other Legal and Regulatory Requirements**

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As required by Section 163(2) of the Companies Act, No. 07 of 2007, I state the followings:

- (a) The basis of opinion and scope and limitations of the audit are as stated above.
- (b) In my opinion:
  - I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
  - The financial statements of the Company give a true and fair view of its financial position as at 31 December 2017, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
  - The financial statements of the Company and the Group comply with the requirements of Sections 151 and 153 of the Companies Act, No. 07 of 2007.

### **2.2 Comments on Group Financial Statements**

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#### **2.2.1 Group's Financial Statements and Basis of Consolidation**

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The Group financial statements comprised the consolidation of the financial statements of the company and its subsidiaries, Sinolanka Hotels and Spa (Pvt) Ltd and Helanco Hotels and Spa (Pvt) Ltd and financial statements of the two subsidiary companies have been consolidated with the company in compliance with Sri Lanka Accounting Standards (SLFRS/LKAS). The above two subsidiaries are fully owned subsidiaries of the Company.

#### **2.2.2 Share Capital and Equity**

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The company's immediate parent undertaking, controlling company and the ultimate holding company is Sri Lanka Insurance Corporation Ltd, which is incorporated in Sri Lanka.

The Sri Lanka Insurance Corporation Ltd, Employee's Provident Fund, Litro Gas Lanka Ltd and Secretary to the Treasury had contributed for the share capital of the company.

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

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Instances of Non-compliances observed in audit were given below.

## Reference to Laws, Rules and Regulations

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- (a) Public Enterprise Circular No. PED/12 dated 02 June 2003.  
Section 6.5.1

Section 7.4.5

- (b) Circular No. PED 03/2016 dated 29 April 2016 issued by the Ministry of Finance

- (c) Section 113 of the Inland Revenue Act, No. 10 of 2006 (duly amended)

## Non-compliance

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Annual Accounts for the year ended 31 December 2017 should be submitted to the Auditor General on or before 28 February 2018. However, company, has submitted its Annual Accounts only on 26 April 2018.

Annual Board of Survey should be appointed to carry out the verification of fixed assets, however company had not carried out board of survey from the year 2012 up to now.

PAYE taxes relevant for the Managing Director's salary, Chief Financial Officer's vehicle allowance and Managing Director and Executive Director's, bonus/incentive payments had been paid without being deducted from employees' earnings.

Self-assessed quarterly income tax payments had not been paid on due dates to the Inland Revenue Department for the year of assessment 2017/2018.

### 3. Financial Review

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#### 3.1 Financial Result

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According to the consolidated financial statements presented, the operations of the Company and the Group for the year ended 31 December 2017 had resulted in a pre-tax net profit of Rs. 230,218,562 and Rs. 96,399,749 respectively as compared with the corresponding pre-tax net profit of Rs. 85,879,218 and Rs. 214,113,763 of the Company and the Group respectively for the preceding year, thus indicating an improvement in the financial results of the Company by Rs. 144,339,344 and deterioration in the financial results of the Group by Rs. 117,714,014 respectively.

#### 3.2 Analytical financial review

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##### 3.2.1 Summary of the Financial Results

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The following table gives a summary of the financial results at various stages for the year under review and the preceding year.

	Year ended 31 December					
	Group Rs.		Change %	Company Rs.		Change %
	2017	2016		2017	2016	
Other income	8,781,359	150,837,363	-94	200,000,000	80,000,000	150
Administrative expenses	(114,651,109)	(141,351,666)	-19	(7,869,759)	(8,242,318)	-5
Impairment of Inventory	(6,027,860)	-	-100	-	-	-
Financial income	208,297,358	204,628,067	2	38,088,317	14,121,535	170
Profit before taxation	96,399,749	214,113,763	-55	230,218,562	85,879,218	168

The following observations were made

- (a) Other Income of the company includes dividend income received from Helanco Hotels & Spa (Pvt) Ltd amounting to Rs. 200 million and Rs. 80 million for the year 2017 and 2016 respectively.
- (b) Profit before income tax had increased from Rs. 85 million to Rs. 230 million mainly due to increase in dividend income from the subsidiary. However, the consolidated profit before tax shows a decreased due to withdrawing unit trust investment and other investments for the purpose of releasing funds to subsidiary company, Sino Lanka Hotels & Spa (Pvt) Ltd.

### 3.2.2 Statement of Financial Position

The following table gives a summary of the financial position for the year under review and the preceding year.

	Year ended 31 December					
	Group Rs.		Change %	Company Rs.		Change %
	2017	2016		2017	2016	
Total Non-current assets	19,227,469,595	16,630,826,307	16	18,500,182,531	18,500,685,975	0
Total Current assets	1,653,757,990	3,542,779,146	-53	410,118,815	1,528,430,576	-73
Total Equity	19,565,448,069	19,565,519,986	0	18,851,958,904	18,705,099,322	1
Total Non current liabilities	4,573,161	2,876,667	59	300,101	241,649	24
Total current Liabilities	1,315,779,516	608,085,465	116	58,342,442	1,324,917,229	-96

- (a) Total current assets had decreased significantly by 73 per cent compared with the previous year due to settlement of the receivable amount from the Sinolanka Hotels and Spa (Pvt) Ltd subsidiary company after receiving money from the capital reduction made in the Helanco Hotels and Spa (Pvt) Ltd.
- (b) The total current liabilities had increased significantly by 116 per cent compared with the previous year due to increase in Construction Work in progress payable from Rs. 505 million to Rs. 1,073 million during the year due to cash flow difficulties in the Sinolanka Hotels and Spa (Pvt) Ltd.

#### **4. Operational Review**

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##### **4.1 Performance**

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##### **4.1.1 Planning**

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A corporate plan had not been prepared by the company as required by the Section 5.1 of the Public Enterprises Circular No. PED/ 12 dated 02 June 2003.

##### **4.1.2 Operating and Review**

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A sum of Rs. 1,450 million and Rs. 400 million had been invested by the company in share capital of the Sino Lanka Hotels and Spa (Pvt) Ltd and Helanco Hotels & Spa (Pvt) Ltd. Constructions of Grand Hyatt Colombo and Grand Hyatt Hambantota were expected to be carried out under the Sri Lanka Hotels and Spa (pvt) Ltd and Helanco Hotels and Spa (pvt) Ltd. The following observations are made in this regard.

##### **(a) Construction of the Hyatt Regency Hambantota Hotel**

The following observations were made

- (i) According to the decisions of Board of Directors the company had incorporated on 21 December 2011 to construct a hotel project in Hambantota. However no cabinet approval was available to invest in the Hyatt Regency Hambantota Hotel and no evidence were available regarding the board meetings about the initial administrative process taken place before March 2015.
- (ii) The constructions of the hotels had been abandoned after August 2015 by the current Board of Directors due to insufficient cash flows.

##### **(b) Construction of the Grand Hyatt Colombo Hotel**

Currently, the construction of the Grand Hyatt Colombo has been suspended due to insufficient cash flows and the approval of the Cabinet of Ministers had been granted on 01 August 2017 (Cabinet decision 17/1613/733/029) for the divestment of Grand Hyatt Colombo Hotel.

## **4.2 Unauthorized transactions**

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A sum of Rs. 758,402 had been incurred by the company as incorporation expenses of Inreach Hotels and spa (pvt) Ltd from the year 2012 to 2015. without any board approval

## **4.3 Management Activities**

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A sum of Rs. 4,923,105 had been paid to the staff of the group as incentive/bonus without following a proper procedure as required by the internal memorandum for performance evaluation. However Operations of such company had not been commenced and it was observed that expenses incurred thereon had become fruitless.

## **5. Human Resources Management**

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(a) According to the letter dated 25 August 2015 issued by the Human Resource subcommittee of the Department of Public Enterprises the approved remuneration package for a Managing Director is Rs. 250, 000. However it was observed that director board of the company had approved a sum of Rs. 400,000 as net salary to the Managing Director disregarding the aforesaid direction.

(b) Most of the personal files had not been maintained and copies of relevant Certificates, had not been included.

## **6. Accountability and Good Governance**

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### **6.1 Budgetary Controls**

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Updated Annual Budget had not been sent to the line Ministry, Department of Public Enterprises and Auditor General as required by the Section 5.2.5 of the Public Enterprises Circular No. PED/ 12 dated 02 June 2003.

### **6.2 Audit Committee**

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According to the Section 7.4.1 of the public Enterprises Circular No. PED/12 dated 02 June 2003 Audit Committees for Public Enterprise should meet regular basis at least once in three months, However only two Audit Committee meetings had been held during the year under review.

### **6.3 Procurement Plan**

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A Procurement Plan had not been prepared for the year under review.

**7. Systems and Controls**  
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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chief Executive Officer of the Company from time to time. Special attention is needed in respect of the following areas of control.

**Areas of Control**  
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**Observation**  
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|----------------------------------|---|
| (a) Bank reconciliation          | Bank reconciliation statements not being prepared on monthly basis                        |
| (b) Payment Procedure            | A proper procedure had not been followed over the payments.                               |
| (c) Recording of Journal entries | Journal entries had been posted to the accounting system prior to obtaining the approval. |