

Hotel Developers (Lanka) PLC – 2017

The audit of the financial statements of the Hotel Developers (Lanka) PLC (“the Company”) for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement 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.

This report is issued in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Board’s Responsibility for the Financial Statements

The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with 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

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 misstatements.

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 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 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

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Hotel Developers (Lanka) PLC as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.1 Emphasis of Matter

I draw attention to Note No. 12.3 to the financial statements which describe the fully depreciated assets at a cost of Rs.1,986,019,251 and continue to be in used by the Company. The Company has carried out detail assets verification and valuation of each and every asset with the assistance of a Chartered Valuer and that assignment has come to its final stage of the reconciliation. My opinion is not qualified in respect of this matter.

2.1.2 Report on Other Legal and Regulatory Requirements

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 comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

2.2 Comments on Financial Statements

The following observations are made.

- (a) Although the total sale proceed amounted to Rs.6,619,751 over a disposed assets had been recorded, the cost and cumulative depreciation thereon had not been derecognized from the books of accounts during the year under review.
- (c) Provision for impairment had not been made in respect of amounting to Rs.3,236,129 receivable from Sri Lanka Cricket for more than 150 days .

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company for the year under review had resulted in a pre-tax net profit of Rs.172,976,000 as compared with the corresponding pre-tax net profit of Rs.172,945,000 for the preceding year, thus indicating an improvement of Rs.31,000 in the financial results. Although revenue had been increased by Rs.474,682,000 during the year under review, the significant increase in depreciation and administrative expenses was the main reason attributed for a slight improvement in the financial results of the year under review.

In analyzing the financial results of the Company for last four years and the year under review, the value addition of the Company had fluctuated from 2013 to 2017. After taking into account the salaries, taxes and depreciation charged for the years 2016 and 2017, the value addition of the Company were Rs.1,565,701,000 and Rs.1,112,222,000 respectively.

3.2 Analytical Financial Review

3.2.1 Significant Accounting Ratios

Some important accounting ratios of the Company for the year under review as compared with the previous year are as follows.

	2017	2016
Gross profit margin (percentage)	81.73	82.65
Profit mark up (Gross profit on cost of sales) (percentage)	447.42	476.51
Net profit ratio (percentage)	5.74	6.81
Beverage cost percentage (percentage)	0.32	0.16
Finance cost on turnover (Number of times)	0.003	0.001
Inventory turnover (times)	10.06	10.38
Food inventory turnover (times)	56.27	31.38
Current ratio	0.86: 1	1.18:1
Acid test ratio	0.80: 1	1.12:1
Revenue per available room (Rs.)	12,014	10,966
Average rate per room (Rs.)	21,077	28,968

The profit markup, net profit ratio and gross profit margin of the Company for the year ended 31 December 2017 had been decreased by 29.09 per cent, 1.07 per cent and 0.92 per cent respectively with compared to the preceding year.

3.2.2 Working Capital Management

In analyzing the position of current assets and current liabilities of the Company, the positive working capital position of the Company prevailed in the years from 2013 to 2016 had turned into a negative value of Rs. 119,898,000 in the year 2017. Hence, it was revealed that, the Working Capital Management of the Company was at very weak level. Similarly, the negative solvency margin of Rs.4,678,851 prevailed in the year 2013 had increased to Rs.6,433,127 in the year under review.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

In terms of Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements of the Company should be furnished to the Auditor General on or before 28 February 2018. However, the revised financial statements for the year 2017 were submitted to audit only on 01 June 2018.

4.2 Corporate Plan.

A Corporate Plan for a period of not less than three years had not been prepared by the Company in terms of provisions in Public Enterprises Circular No. PED/12 of 02 June 2003.

5. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company. Special attention is needed in respect of Assets Management and Control over Debtors of the Company.