

Property Development PLC and its subsidiary - 2021

1. Financial Statements

1.1 Opinion

The audit of the Financial Statements of the Property Development PLC (the “Company”) and the Consolidated Financial Statements of the Company and its subsidiary (the “Group”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies, 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 considered would be report to Parliament appear in this report. To carry out this audit I was assisted by a firm of chartered accountant in public practise.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2021, and of their financial performance and their 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 Group’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 intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s and the Group’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Group 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 Group.

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 Group'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 Group'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 Group 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 Group and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Group has complied with applicable written law, or other general or special directions issued by the governing body of the Group.
- Whether the Group has performed according to its powers, functions and duties; and
- Whether the resources of the Group 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 Internal Control Over the Preparation of Financial Statements

Audit Issue		Management Comment	Recommendation
<p>There are fully depreciated assets worth of Rs.158,260,826 as at 31 December 2021 which are still in use. The Company has not reassessed or reviewed the useful life of those assets in order to consider them to take into account. Details are given below.</p>		<p>Useful life of most of the assets had been re-assessed in year 2012 with the convergence to SLFRS. However, re-assessed Fixed Assets also have been fully depreciated by 2018. Action initiated to re-assess the fully depreciated Fixed Assets in year 2018 amounting to Rs.107,996,584.25 was not successful as the Auditors pointed out that the re-assessment of Fixed Assets has to be carried out prior to fully depreciation of the assets. In future action will be taken to re-assess the useful life of Fixed Assets on yearly basis based on the materiality.</p>	<p>It is recommended to reassess the useful life of fixed assets which are still in use.</p>
Fully Depreciated Assets	Amounts (Rs.)		
Plant & Machinery (Under IP)	108,992,778		
Plant & Machinery (Under PPE)	215,409		
Motor Vehicle	21,401,770		
Office Equipment	627,763		
Furniture and fittings	17,531,936		
Computer Equipment	9,491,170		
Total	158,260,826		

1.5.2 Inappropriate Valuation or Estimation

Audit Issue	Management Comment	Recommendation
<p>The PDL Tower Building is currently being depreciated over 50 years which appears to be in lower of the building useful life. When an asset is depreciated over a period lesser than its useful life the asset will be undervalued and the depreciation expense will not be correctly matched to the benefit, resulting in profit being misstated.</p>	<p>The management obtained a report on remaining useful life of the BOC Headquarters Building from Central Engineering Consultancy Bureau (CECB) in August 2022. They have submitted the report named as "Prediction of Residual Service Life" and as mentioned in their report</p>	<p>It is recommended to make necessary adjustments base on the prediction of residual service life of the BOC Headquarter Building.</p>

remaining useful life/service life of the BOC Headquarters Building is predicted to be 30 years from now (year 2022). Accordingly, in consultation with the auditors (E & Y) the Management will make the necessary adjustments in the Financial Statements for the year ended 31 December 2022.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.650 million and the corresponding profit in the preceding year amounted to Rs.474 million. Therefore, an increase amounting to Rs.176 million of the financial result was observed. Increase of revenue, other operating income and finance income by 11.1 per cent, 262.1 per cent and 17.8 per cent respectively and the decrease of income tax by 36.3 per cent were the main reasons for the growth of the financial result during the year under review.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review as compared with the preceding year with the percentage of increase or decrease are given below.

Description	Variance Amount Increase/(Decrease) (Rs.)	Variance %	Reason for the Variance
Revenue	91,560,928	11.1	Revenue has increased by 11.1 per cent mainly due to not granting rent charge discount of Rs.96,944,202 during the year 2021 which is given to Bank of Ceylon for the period of 01/04/2020 to 30/09/2020 by considering the impact of COVID – 19 Pandemic.
Other Operating Income	27,546,048	262.1	Other operating income has increased by 262.1 per cent mainly due to increase of sundry income which includes Rs.27,777,778 received from Bank of Ceylon as reimbursement for capital expenditure.
Direct Expenses	8,518,094	6.2	Direct expenses have increased by 6.2 per cent mainly due to increase of maintenance expenses by 30.6 per cent.

Finance Income	30,848,489	17.8	Finance Income has increased by 17.8 per cent mainly due to increase of dividend income from equity securities by Rs.37,325,842 during the year 2021.
Income Tax Expenses	(78,589,031)	(36.3)	Income Tax Expenses has decreased by 36.3 per cent mainly due to the decreased in current tax chargers by 13.6 per cent as a result of reduction in tax rate from 28 per cent to 24 per cent, and due to the over provision of income tax recognized in the previous year.
Profit after Tax from Discontinued Operations for the period	(34,408,099)	(84.8)	This is due to Koladeniya Hydropower (Pvt) Limited are being classified as discontinued operations and disposed on 30 March 2021.

2.3 Ratio Analysis

According to the information made available, certain important ratios of the company for the year under review as compared with the preceding year are given below.

Ratio	2021	2020
Net Profit Ratio (%)	58	46
Return on Total Assets (%)	15	14
Return on Equity (%)	14	11
Current Ratio (Number of Times)	20.7:1	14.7:1

It was observed that all the ratios were improved during the year under review when compare with the preceding year.

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(i) Due to Non- Compliance with Listing Rules 7.13.1 of the Colombo Stock Exchange, the company started its de-listing process in 21 March 2014. Due to complexity prevailed in the delisting process and inability of	At the Extraordinary General Meeting held on 29 March 2022, the shareholders approved the delisting resolution by not less than seventy-five percent (75%) of the shareholders present at the meeting, as required by Rule 5 (2) (a) of the Rules made by the Securities and Exchange Commission of Sri Lanka (SEC), as published in Gazette Extraordinary No. 1215/2 of 18 December 2001. In terms of the said Rule the Company submitted the Delisting	It is recommended to take necessary actions to complete the entire delisting process within target dates of the Company.

obtaining shareholder's approval for the delisting, it was get delayed more than seven years period. The non-compliance announcement has been submitted to the CSE on 07 July 2020. At the time being the company is in the administrative process of carrying out the statutory requirements in delisting the company by way of a share repurchase.

Application to SEC on 08 April 2022 and the Securities and Exchange Commission of Sri Lanka (SEC) vide their letter dated 09 June 2022, communicated their approval for the delisting of the shares of Property Development PLC from the Official List of the Colombo Stock Exchange (CSE) at an exit offer price of Rs.183/- per share and to follow the balance procedure in the delisting process, as laid down in Rule 5 of the SEC.

Accordingly, the Company made the share repurchase offer and it was opened from 14 July 2022 and closed on 10 August 2022. Payments to the shareholders who accepted the offer was completed within the stipulated time period by the CSE Rules. A declaration was made to the CSE together with payment confirmation evidence and other relevant documents on 12 October 2022. The Company is awaiting approval from the CSE for delisting. Further, Form 9 in share repurchase and cancellation was filed with Registrar of Companies (ROC).

On receipt of approval from the CSE, the Company has to complete the following activities to complete the delisting process.

- Notices to be published in all three languages, in newspapers and gazette.
- File with ROC, Form 39 (Change of Status of the Company from Public Limited Company to Limited Company) and Form 3 (Change of Company name from Property Development PLC to Property Development Limited)
- On receipt of new Certificate of Incorporation from ROC, issue new share certificates to shareholders who have not accepted the repurchase offer. This should be completed within one month from the date of new Certificate of Incorporation.

The Company is expected to complete the entire delisting process by end of November 2022 if the CSE approval for delisting is received by 30 October 2022.

3.2 Delays in Projects or Capital Work

Considerable deviations were observed between the Board approved Major Work plans, targets and the actual work performed by the company for the year 2021. See annexure I for the details.

3.3 Human Resources Management

Audit Issue

Following differences were observed between the carder approved by the Board of the Company and the actual staff as at 31 December 2021. Actions have not been taken by the company to recruit relevant persons for the existing vacancies.

Department	Approved Carder	Actual Carder as at 31.12.2021	Difference
Executive Staff	15	13	02
Maintenance Department	61	51	10
Finance Department	18	16	02
HR & Administration Department	16	13	03
Procurement Department	03	-	03
Total	113	93	20

It was further observed the following employee movements during the year under review.

Management Comment

Executive Staff

Currently PDL maintains only the minimum requirement of executives whose presence is essential to provide uninterrupted Services to BOC.

Management intends to fill the two executive vacancies as and when required based on the need analysis done by time to time.

Non-Executive Staff

Maintenance Department

Attempts were made to fill the vacancies through paper advertisements in Feb, April, July, August and Oct 2021 and also in April and Oct 2022. Attempts were unsuccessful as most of the times candidates did not fit in as per the requirement, further, at times the salary projected did not meet some of the selected candidates' expectations. Further it was observed that employees leave the company for foreign employment at present. In response to the press advertisement, a few applications received compare to last year. However, action has been taken to fill certain vacancies through internal promotions and action is being taken to fill the vacancies.

Recommendation

It recommended to fill the existing vacancies.

Description	Number of Employees
Actual Carder as at 31.12.2020	99
Retired at age 60	(6)
Retired at age 55	(2)
Resigned	(4)
	87
Newly joined	4
Re-joined	2
Carder as at 31.12.2021	93

A labour turnover ratio of 12.5 per cent was observed during the year 2021.

Finance Department

Action will be initiated to fill the vacancies as and when required based on the need analysis done by time to time.

HR & Admin Department

Action will be initiated to fill the vacancies as and when required based on the need analysis done by time to time.

Annexure I

Project Name	Total Budget as at 31 December 2021 (Rs. Mn)	Time Targets Initial Date of Commencement of Work	Initial Expected Date of Completion of Work	Substantial Estimated Date of Completion of Work	Actual Date of Commencement	Deviations	Management Comment
Supply & Installation of Motorized valves of AHUs, Central Control and Monitoring system.	28	22 October 2020	20 May 2021	30 September 2022	02 November 2021	Delay of 499 days was observed between the initial expected date and substantial estimated date of work completion. Only Rs.10.411 million has been utilized and works are still in progress.	Due to Covid-19 Pandemic, the Management of Bank of Ceylon has decided to suspend the construction / renovation work awarded to outside Contractors in the BOC HQ Building as indicated below; i. Second Wave – From 25/10/2020 to 06/04/2021 ii. Third Wave – From 28/04/2021 to 02/08/2021 Due to the above suspension of work and due to the spread of Covid-19 among staff of Nosters (Pvt) Limited, the completion of the project got delayed.
Replacement of Condenser Water Piping System from Floor 17 to Rooftop	3	December 2021	-	-	-	Project was deferred to 2024.	The Management decided to defer the project to 2024.

Supply & Installation of Fresh Air Supply Fans at Floor 17	3.5	30 July 2021	27 November 2021	15 January 2022	20 December 2021	Delay of 143 days was observed between the initial expected date and substantial estimated date of work completion. Only Rs.2.8 million has been utilized out of the total budget.	Due to delay occurred in manufacturing the Fresh air supply fan in “S & P” factory in Spain, the completion of the project got delayed,.
Purchase of a new standby AHU Unit	3	-	-	-	-	Purchase of Standby AHU Unit was cancelled.	The Management decided to cancel the purchase of a Standby AHU Unit.
Replacement of Timer Ceiling on Floors 1 & 3 with Aluminium Composite panel Ceiling	8	13 October 2020	10 February 2021	31 March 2022	02 August 2021	Delay of 294 days was observed between the initial expected date and substantial estimated date of work completion. When the project is actually commenced it has already passed the initial expected date of work	Due to Covid-19 Pandemic, the Management of Bank of Ceylon has decided to suspend the construction / renovation work awarded to outside Contractors in the BOC HQ Building as indicated below; i. Second Wave – From 25/10/2020 to 06/04/2021 ii. Third Wave – From 28/04/2021 to 02/08/2021 Due to the above suspension of work and due to shortage of construction materials such as

						completion. Only Rs.1.9 million has been utilized out of the total budget.	Aluminium Composite Panels in the market, the completion of the project got delayed.
Renovations to Life Lobbies at Floors 1 & 2	8	20 March 2020	16 September 2020	14 September 2022	02 August 2021	Delay of 499 days was observed between the initial expected date and substantial estimated date of work completion. When the project is actually commenced it has already passed the initial expected date of work completion. Only Rs.0.5 million has been utilized out of the total budget.	Due to Covid-19 Pandemic, the Management of Bank of Ceylon has decided to suspend the construction / renovation work awarded to outside Contractors in the BOC HQ Building as indicated below; i. First Wave – From 20/03/2020 to 07/09/2020 ii. Second Wave – From 25/10/2020 to 06/04/2021 iii. Third Wave – From 28/04/2021 to 02/08/2021 Due to the above suspension of work and due to shortage of construction materials such as wall tiles, the completion of the project got delayed.
Upgrading/ Modernization of Centre Core Toilets in Basements 2 & 3 and Outer Core	4.5	15 January 2021	14 July 2021	31 March 2023	1. Yet to Commence. 2. Contractor has placed the order for required tiles	Project was delayed up to the date of audit on 06 October 2022.	Due to Covid-19 Pandemic, the Management of Bank of Ceylon has decided to suspend the construction / renovation work awarded to outside Contractors in the BOC HQ Building as indicated below;

estimated date of work completion. Building as indicated below;

Only Rs.20.982 million has been utilized out of the total budget.

i. First Wave – From 20/03/2020 to 07/09/2020

ii. Second Wave – From 25/10/2020 to 06/04/2021

iii. Third Wave – From 28/04/2021 to 02/08/2021

Due to the above suspension of work and due to access issues to office areas in the building during the night, the completion of the project got delayed.