

## **Sinolanka Hotel & Spa (Pvt) Ltd - 2022**

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### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the Sinolanka Hotel & Spa (Pvt) Ltd (“Company”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 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 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 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **Emphasis of Matter**

Without qualifying my opinion, I draw attention to Note 2.7 in the Financial Statements on going concern basis in the preparation of the financial statements. As stated in the above note, the Company’s management has made an assessment on the Company’s ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company’s ability to continue as a going concern. The cabinet Ministers had granted their approval by cabinet paper 20/1042/204/050 – I dated 10 July 2020, to recommence the construction activities. However, the Board of Directors of the Company resolved to proceed with scaling down the Grand Hyatt Colombo Project for period of 09 months effective from 30<sup>th</sup> May 2022 and Construction activities had not recommenced even to the reporting date. Further, as per the cabinet decision No. 23/0431/604/046 dated 14 March 2023, the Cabinet of Minister has granted approval to transfer the shares held by Sri Lanka Insurance Corporation Ltd and shares held by Litro Gas Lanka Limited in Canwill Holdings (Pvt) (Parent Company) Ltd to the General Treasury with immediate effect.

#### **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 Standard, 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 skepticism 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.

## **2. Financial Review**

### **2.1 Financial Result**

The operating result of the year under review amounted to a loss of Rs. 2,446,366,057 and the corresponding profit in the preceding year amounted to Rs. 760,645,501. Therefore, a deterioration amounting to Rs. 3,207,011,558 of the financial result was observed. The reasons for the deterioration is foreign currency translation loss.

## 2.2 Trend Analysis of major Income and Expenditure items

Year	2022	2021	2020	2019	2018
Finance Income	11,221,595	28,749,233	10,464,970	11,041,814	10,339,498
Percentage of Increase / (Decrease) in Finance Income	(61)%	175%	(5)%	7%	(87)%
Administration Expenses	166,923,295	81,210,002	131,209,337	178,337,425	81,228,313
Percentage of Increase / (Decrease) in Administration Expenses	106%	(38)%	(26)%	120%	(18)%
Net Profit / (Loss) after tax	(2,446,366,057)	760,645,501	(193,289,884)	(5,133,182,782)	(202,725,525)
Percentage of Increase / (Decrease) in Net Profit / (Loss) after tax	(422)%	494%	(96)%	2,432%	581%

## 3. Operational Review

### 3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
The Short-term loan received from Helanco Hotels & Spa (Pvt) Ltd amounting Rs. 400 Mn and Interest payable on the loan amounting Rs. 126.07 Mn had been remained unsettled from January 2018.	All liabilities to be settled using the post divestment proceeds.	The management of the Company should have proper policy for intercompany transactions.

### 3.2 Delays in Projects or Capital Work

Audit Issue	Management Comment	Recommendation
Under Extraordinary Gazette No. 1771/18 of 15 August 2012, the Company has started a project to construct and operate a 475 roomed city hotel with 90 serviced apartments at No. 116, Galle Road, Colombo 03 with total investment of USD 158,890,000 (Rs. 18.5 Bn). According to the above gazette, the commencement date of the	Project commenced in September 2012 with the original completion was to be in July 2014. However, this time line was not achieved due to several reasons including government policy changes. Further there was a change of scope since the Hotels Management Company wanted to upgrade the Brand status from Hyatt Regency to Grand Hyatt which had	The management should complete the project within the time frame given for enabling investors to get expected return from their investments and avoid increase of project cost.

project was 19 July 2012 and the implementation and commencement of commercial operations scheduled within 24 months from the commencement of the project.

However, the project has not completed as yet. According to the cabinet decision No. 20/1042/204/050 -I dated 10 July 2020, estimated total cost of the project approximately Rs. 60 billion. The cabinet has decided, a partial completion of 16 levels together with level 31 to operate as a fully- fledged hotel with 236 rooms out of the 458 rooms. Phase 2 would include completing balance 222 rooms and 100 service apartments. The target completion date of the first phase was august 2021. However, the delay of about 09 years had been observed for the year under review from the original project completion date of 19 July 2014.

several changes in the overall structure and number of stories etc.

In 2015 once again, the construction recommenced and in and around 2017 as per the government policy, government decided to go for divestment and the divestment process proceeded. During this period the divestment program was not successful and the project was once again suspended.

On 14<sup>th</sup> March 2023, by cabinet decision, 23/0431/604/046 dated 14<sup>th</sup> March 2023 the cabinet of Ministers has granted its approval in principle for the divestment of Canwill Holding (Pvt) Ltd along with its two subsidiaries. In view of the above circumstances the current situation of Grand Hyatt Project is under the purview of SOE Restructuring Unit (SOERU), steps have been taken by SOERU with regard to formalizing and proceeding with the planned divestment of Grand Hyatt Project.

**4. Accountability and Good Governance**

**4.1 Corporate Plan**

**Audit Issue**

Corporate Plan had not been prepared for the year 2022.

**Management Comment**

The project is still under construction stage and not yet completed to prepare corporate plan and an action plan.

**Recommendation**

The corporate plan should be prepared and implement to achieve its strategic objectives.

**4.2 Annual Action Plan**

**Audit Issue**

Annual Action Plan had not been prepared for the year 2022.

**Management Comment**

The project is still under construction stage and not yet completed to prepare corporate plan and an action plan.

**Recommendation**

The Company should prepare and obtain approval for the action plan at the beginning of the year and implement to achieve its annual targets.