

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Helanco Hotels & Spa (Pvt) Ltd (“Company”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 2023, 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 2.5 to the financial statements on going concern assumption in the preparation of the financial statements. The Company has not resolved to liquidate the Company in the foreseeable future. Therefore, the Financial Statements of the Company continue to be prepared on the Going Concern basis. However, The Board of Directors of the Company have resolved to discontinue the project to construct the Hotel in Hambanthota in the year 2015. As a consequence, the hotel construction activities of the project have come to an end. Further, The Cabinet of Ministers, at their meeting held on 13 March 2023, has granted approval for the Cabinet Memorandum No: MF/018/2023/055, to start the process of Divestiture of the Canwill Holdings among the other SOEs. The said divestiture program has been initiated and the process of calling Expression of Interest (EOI) has already been completed. Helanco Hotels & Spa (Pvt) Ltd will be considered for the proposed divestiture as the subsidiary Company under Canwill Holdings (Pvt) Ltd.

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 qualified 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.

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 Principal activity of the Company was to engage in business of hospitality trade, by owing Hyatt Regency Hambanthota Hotel. The board of Directors of the Company has resolved to discontinue the project to construct the Hotel in Hambanthota in the year 2015. As a Consequence, the hotel construction activities of the project have come to an end and therefore main income of the company is the fixed deposit interest.

The operating result of the year under review amounted to a loss of Rs.2,731,176 and the corresponding profit in the preceding year amounted to Rs.12,131,676. Therefore, a deterioration amounting to Rs.14,862,852 of the financial result was observed. The reasons for the decrease in the income from investment.

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.

Year	2023	2022	2021	2020	2019
Total Income Rs.	1,545,793	20,638,644	20,044,189	21,624,281	39,142,280
Income Growth/ (Reduction) (%)	(92.5)	3	(7)	(45)	(21)
Administration Expenses	4,276,969	4,354,515	4,418,012	3,918,547	4,003,549

Administration Expenses Growth/ (Reduction) (%)	(1.8)	1	13	(2)	(38)
Net Profit/ (Loss) after tax	(2,731,176)	12,131,676	11,875,894	13,456,358	25,299,887
Increase/(Decrease) of Net Profit (%)	(122.5)	2	(12)	(47)	(21)

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.

Ratios	2023	2022	2021	2020	2019
Increase/ (Decrease) in Net Assets (%)	(18.42)	1.11	1.75	2.02	3.95
Increase/ (Decrease) in Net Finance Income (%)	(92.5)	2.97	(7.27)	(44.77)	0.01
EPS Rs.	(0.05)	0.24	0.24	0.27	0.51

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
On 13 February 2024, the board had decided to do a capital reduction of Rs.400 million which is equivalent to the loan granted to Sinolanka Hotels & Spa (Pvt) Ltd for a consideration of Rs.10 per share. Further the board has approved to suspend the interest for the year 2023 and to write off the interest receivable of Rs.126,075,753. The Company had already paid tax, based on unrealized interest income from the aforesaid transactions since year 2018 though the interest had been written off during the year under review.	Interest income has been identified on accrual basis of accounting practices and tax payments have been made identifying the tax liability to the tax authority accordingly.	Decisions should be taken after proper evaluation of the situation.

3.2. Identified Losses

Audit Issue	Management Comment	Recommendation
Since the board has decided to discontinue the construction of the hotel, the capital work in progress balance amount of Rs.111,103,548 had been written off in the year 2015. Therefore, aforesaid total amount spend on the construction became a sunk cost.	The said amount initially recognized as capital expenditure under capital works in progress and subsequently impairment has been charged to the profit or loss statement in the year 2015 since the Board of Directors of the Company has taken a decision to discontinue with the construction of the hotel project in Hambanthota.	Proper evaluation should be done prior to the investment is made.

3.3 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The Board of Directors of the Company have resolved to discontinue the project to construct the Hotel in Hambanthota in the year 2015. As a consequence, the hotel construction activities of the project have come to an end. Further, the Ministry of Public Enterprise Development has given their instructions to transfer the Company's stake in portion of shareholding in Canwill Holdings (Pvt) Ltd (Parent Company), in accordance with the Cabinet Decision No. 17/1613/733/029 dated 01 August 2017. Further, as per the cabinet decision No. 23/0431/604/046 dated 14 March 2023, the Cabinet of Minister had 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) Ltd to the General Treasury with immediate effect. This program has not been completed as of reporting date.	Currently, this Company has also proposed divesture among the other companies on a priority basis through the program initiated by the State-Owned Enterprises Restructuring unit.	Decisions of Cabinet of Ministers should be implemented.
(b) As per paragraph 3.10 of the Lease Agreement signed between Helanco Hotel & Spa (Pvt)Ltd and Urban Development Authority on 28 August 2014, the lease will be automatically cancelled and 10 percent of the land value initially deposited will be forfeited without recourse subject to violation of the condition of failure to fully develop the	The management of the Company is of the view that the lessee, UDA will not cancel the agreement subject to 10% penalty considering as violation of the conditions mentioned thereto.	Actions should be taken to monitor the compliance with terms and conditions of the Lease agreement and take corrective and preventive actions.

land within 36 months from the commencement of construction. Therefore, there is a possibility of imposing the 10% penalty which will further weakening the financial position of the Company.

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| (c) | The agreement which was entered with contactor for supplying security services with effect from 01 September 2017 had not been renewed after 2017 and had not been mentioned a period for the end of the agreement. Even though, providing security service was not accordance with the agreement, company had paid Rs.1,394,125 during the year under review. | We noted the importance of having proper agreement with an expiry date and we shall review the existing agreement and make required corrections accordingly and the Company should issue necessary instructions to the security firm to overcome these issues. | Actions should be taken to monitor the compliance with terms and conditions of the agreement and take corrective and preventive actions. |
| (d) | Even though the carry forward tax losses were Rs.2,731,176 for the year of assessment 2023/2024, the Company had paid tax amounting Rs.1,221,311 as first installment of the year of assessment 2023/2024. | As the options available, the Company has to make a refund application for this amount or retain it with the view of setting off against future tax liabilities. | Correct estimation should be done before make payment and actions should be done to get refund the overpayment. |

3.4 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
Though the Company has acquired a land of 3.8 hectare by investing Rs.177.97 million from Urban Development Authority on lease basis, the land had not been used for any useful purpose.	The efforts made by the management of the company during the past periods to explore workable opportunities to use this property in a useful manner was not successful. However, currently this Company has also proposed to divestiture.	Necessary actions should be taken to make use of this property for the intended purpose or any other useful purpose.