

**1.1 Opinion**

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The audit of the financial statements of the Property Development PLC (“Company”) and the consolidated financial statements of the company and its subsidiary (“Group”) for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 consider should be report to parliament appear in this report. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements of the company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2020 and of their financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**1.2 Basis for Opinion**

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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**

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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 intend 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

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Management Comment	Recommendation
CSE Listing Rule 7.13.1 (a) of the Colombo Stock Exchange (CSE)	The company was unable to comply with the minimum 20 per cent public holding requirement.	The company started its de-listing process in 21 March 2014 and due to the complexity of the delisting process and inability of securing the shareholders' approval for delisting the process get delayed. Now the Company has recommenced the delisting process by way of purchasing own shares by the Company.	Recommended to speed-up the delisting process.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.474 million and the corresponding profit in the preceding year amounted to Rs.696 million. Therefore, a deterioration amounting to Rs.222 million of the financial result was observed. Decrease of revenue, other operating income and finance income by 3.6 per cent, 38.5 per cent and 27.8 per cent respectively and the increase of impairment loss by 100 per cent were the main reasons for the deterioration 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	(30,410,356)	(3.6)	Revenue has decreased by 3.6 per cent mainly due to rent charge discount of Rs.96,944,202 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	(76,647,924)	(38.5)	Other operating income has decreased by 38.5 per cent mainly due to decrease of sundry income and dividend income from the subsidiary by 73 per cent and 30 per cent respectively.
Direct Expenses	(20,402,369)	(12.9)	Direct expenses have decreased by 12.9 per cent mainly due to decrease of maintenance expenses by 38.4 per cent.
Impairment loss on property, plant and equipment/goodwill/investment in subsidiary	71,160,503	100	Investment in subsidiary of Koladeniya Hydropower (Pvt) Ltd was tested for impairment and determined that the carrying amount of the investment was in excess of its recoverable amount and as a result the company has recognized an impairment charge of Rs.71,160,503.
Finance Income	(66,393,429)	(27.8)	Finance Income has decreased by 27.8 per cent mainly due to decrease of interest income on fixed deposits, interest income on debentures and dividend income from equity securities by 10 per cent, 100 per cent and 99.9 per cent respectively.

## 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	2020	2019
Net Profit Ratio (%)	84	105
Return on Total Assets (%)	14	20
Return on Equity (%)	17	24
Current Ratio (Number of Times)	14.5:1	21:1

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

## 3. Operational Review

### 3.1 Management 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 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 process of carrying out the statutory requirements in delisting the company by way of a share repurchase.	<ul style="list-style-type: none"><li>▪ Though the delisting process commenced in March 2014, it took time by the major shareholder i.e. Bank of Ceylon (BOC) to take a decision to comply with the above listing rule as they had to evaluate the options available to comply with the said listing rule and to obtain necessary approvals from the authorities.</li><li>▪ Finally, BOC advised the Company to proceed with the delisting process with an exit offer price in early 2018. By following the Delisting Rule 5 of the Securities and Exchange Commission of Sri Lanka (SEC), the Company convened an Extraordinary General Meeting on 04 April 2018 to obtain shareholders' approval for delisting. However, the Company was not successful in securing the shareholders' approval for delisting as required under Rule 5 of the SEC.</li><li>▪ Therefore, the major shareholder had re-evaluated all options available under the relevant written laws to comply with the above listing rule. You would appreciate the fact, that</li></ul>	Recommended to speed up the delisting process.

it is a very complicated process in determining the best option available to BOC prior to taking a decision.

- The major shareholder has now advised the Company to recommence the delisting process by way of purchasing own shares by the Company.
- The Company is now in the process of carrying out the statutory requirements in delisting the company by way of a share repurchase. The company needs to adhere to the Colombo Stock Exchange Listing Rule 7.11.1, Section 64 of the Companies Act, and Rule 5 of Security and Exchange Commission of Sri Lanka in the Process.
- It is appropriate to mention that there are 29 listed companies in the country who are not compliant with the above Listing Rule.

(ii) The Board of Directors of the company has approved to reduce the rental charge of BOC headquarter building from Rs.124 to Rs.97 per square feet for the period of April 2020 to September 2020 as per the request received from Bank of Ceylon. Due to this decision the company has lost a rent income of Rs.96, 944,202 for the period of 01/04/2020 to 30/09/2020 and it was the main reason for the decrease of the company's revenue by 3.6 per cent during the year under review.

No Comment.

It is recommended to perform a deep evaluation and impact analysis on the financials of both sides, Bank of Ceylon and the Company when taking a decision.

### 3.2 Delays in Projects or Capital Work

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Considerable deviations were observed between the Board approved Major Work plans, targets and the actual work performed by the company for the year 2020. See annexure I for the details.

### 3.3 Human Resources Management

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Audit Issue	Management Comment	Recommendation																												
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<p>Following differences were observed between the carder approved by the Board of the Company and the actual staff as at 31 December 2020. Actions have not been taken by the company to recruit relevant persons for the existing vacancies.</p> <table border="1"> <thead> <tr> <th style="text-align: left;">Department</th> <th style="text-align: center;">Appro ved Carde r</th> <th style="text-align: center;">Actual Carder as at 31.12.2020</th> <th style="text-align: center;">Differe nce</th> </tr> </thead> <tbody> <tr> <td>Executive Staff</td> <td style="text-align: center;">15</td> <td style="text-align: center;">12</td> <td style="text-align: center;">03</td> </tr> <tr> <td>Maintenance Department</td> <td style="text-align: center;">61</td> <td style="text-align: center;">57</td> <td style="text-align: center;">04</td> </tr> <tr> <td>Finance Department</td> <td style="text-align: center;">18</td> <td style="text-align: center;">16</td> <td style="text-align: center;">02</td> </tr> <tr> <td>HR &amp; Administration Department</td> <td style="text-align: center;">16</td> <td style="text-align: center;">14</td> <td style="text-align: center;">02</td> </tr> <tr> <td>Procurement Department</td> <td style="text-align: center;">03</td> <td style="text-align: center;">-</td> <td style="text-align: center;">03</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: center;"><b>113</b></td> <td style="text-align: center;"><b>99</b></td> <td style="text-align: center;"><b>14</b></td> </tr> </tbody> </table>	Department	Appro ved Carde r	Actual Carder as at 31.12.2020	Differe nce	Executive Staff	15	12	03	Maintenance Department	61	57	04	Finance Department	18	16	02	HR & Administration Department	16	14	02	Procurement Department	03	-	03	<b>Total</b>	<b>113</b>	<b>99</b>	<b>14</b>	<p><b><u>Executive Staff</u></b></p> <p>Following vacancy was filled on the given dates;</p> <p>Deputy Maintenance Manager and Engineering Assistant were recruited on 15 February 2021.</p> <p>Hence one cadre vacancies exists to date. Namely Accountant.</p> <p>The Management intends to fill the vacancy of Accountant through an internal promotion.</p> <p><b><u>Non-Executive Staff</u></b></p> <p><u>Maintenance Department</u></p> <p>Attempts made to fill the vacancies in October 2020 and were unsuccessful due to non-availability of suitable candidates.</p> <p>The management attempted to recruit the same in April 2021 but could not find suitable candidates.</p> <p>Further, we could not take action to fill the vacancies due to outbreak of COVID 19 Pandemic.</p> <p>Action has now been</p>	<p>It recommended to fill the existing vacancies.</p>
Department	Appro ved Carde r	Actual Carder as at 31.12.2020	Differe nce																											
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taken to fill the vacancies.

Finance Department

Action will be initiated to fill the vacancies as and when required.

HR & Admin Department

Action will be initiated to fill the vacancies as and when required.



## Annexure I

Project Name	Total Budget as at 31 December 2020 (Rs. Mn)	Initial Date of Commencement of Work	Time Targets		Actual Date of Commencement	Deviations	Management Comment
			Initial Expected Date of Completion of Work	Substantial Estimated Date of Completion of Work			
Supply & Installation of Motorized vales of AHUs, Control Systems, Central Monitoring and Control system.	15	22 October 2020	20 May 2021	30 June2022	12 January 2021	Delay of 406 days was observed between the initial expected date and substantial estimated date of work completion. Only Rs.5.286 million has been utilized and works are still in progress.	The contractors were not allowed to enter into the premises of BOC head quarter building during following periods due to prevailed COVID 19 situation in the country. 25 November 2020 22 December 2020 10 February 2021 25 March 2021 28 April 2021 19 July 2021
Supply and Installation of Air Extract/ Exhaust Fan at Floor 04	6	28 December 2020	27 May 2021	12 July 2021	12 February 2021	Delay of 46 days was observed between the initial expected date and substantial estimated date of work completion. Only Rs.2.977 million has been utilized for full work completion and Rs.3.023 million has been underutilized out of the total budget.	The contractors were not allowed to enter into the premises of BOC head quarter building during following periods due to prevailed COVID 19 situation in the country. 10 February 2021 25 March 2021 28 April 2021 19 July 2021

Supply and Installation of duct-mounted fresh Air Blower in Basement 2	4.6	03 January 2020	03 May 2020	30 September 2020	10 January 2020	Delay of 150 days was observed between the initial expected date and substantial estimated date of work completion. Only Rs.2.278 million has been utilized during the year 2020 and Rs.2.322 million has been underutilized out of the total budget.	The contractors were not allowed to enter into the premises of BOC head quarter building during following periods due to prevailed COVID 19 situation in the country. 20 March 2020 29 June 2020	02 June 2020 01 September 2020
Replacement of Timber Ceiling on Floors 1 & 3 with Aluminium composite Panel ceiling	12	13 October 2020	10 February 2021	31 December 2021	20 April 2021	Delay of 324 days was observed between the initial expected date and substantial estimated date of work completion.	The contractors were not allowed to enter into the premises of BOC head quarter building during following periods due to prevailed COVID 19 situation in the country. 25 October 2020 28 April 2021	25 March 2021 19 July 2021
Renovations to Lift Lobbies at Floors 1 & 2	11	20 March 2020	16 September 2020	30 June 2021	07 September 2020 06 April 2021 02 September 2021	Delay of 287 days was observed between the initial expected date and substantial estimated date of work completion. Only Rs.1.896 million utilized in the year 2020.	The contractors were not allowed to enter into the premises of BOC head quarter building during following periods due to prevailed COVID 19 situation in the country. 20 March 2020 25 October 2020 28 April 2021	26 August 2020 25 March 2021 19 July 2021

Waterproofing of Rain water drains at the Rooftop	04	20 March 2020	19 May 2020	-	-	Not yet started due to rainy condition.	Delay of 590 days was observed up to 30 October 2021 since the initial commencement date of 20 March 2020. However work has not been started yet.	-
Replacement of 11 KV power cable from basement 2 to Floor 17	10	-	-	-	-	-	Work has not been started.	-
Supply, Installation, Testing, Commissioning and Maintenance during defect liability period of Analog Addressable Fire Detection and Alarm System and Two-way Firemen Telephone Communication System for the Bank of Ceylon Headquarter Building.	60	17 August 2020	12 July 2021	31 May 2021	14 September 2020	Only Rs.13.706 million has been utilized and work is still in progress.	The contractors were not allowed to enter into the premises of BOC head quarter building during following periods due to prevailed COVID 19 situation in the country. 22 October 2020      23 November 2020 26 November 2020    22 December 2020 28 April 2021        7 July 2021	