No. of pages: 20

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

COMMON PRE-SEEN

(SL1 – SL4)

JUNE 2023

Recovery and Vistas Beyond

1. Introduction

Southern Plantation (Pvt) Ltd (SPL), established in 1989, is situated in the south of Sri Lanka and owns 3,100 hectares of tea. The company owns one of the largest and most sophisticated tea factories with a production capacity of 300,000 kilograms of tea per month.

The owners of SPL ventured into the hospitality, travel and tourism sector in 2010 with the establishment of Crystal Sands Beach Hotel (Pvt) Ltd (CSL) and Paradise Travels (Pvt) Ltd (PTL). CSL is a tourist beach hotel in Unawatuna on the Southern coast of Sri Lanka. It commenced as a 20-room hotel in 2010 and then constructed another 20 rooms in 2017 to make the hotel a 40-room property. PTL commenced its business as an airline ticketing agent in 2011 and over the years the company has established itself as a professional destination management company (DMC), covering a wide spectrum of interests and activities.

2. Ownership

Ajith de Silva was born in 1950 as the eldest son to the wealthy de Silva family of Matara. The family was blessed with considerable wealth and Ajith had two brothers, Sajith de Silva and Ranjith de Silva. Ajith has a doctorate in Agriculture and has been the chairman of SPL since its inception. Sajith is a hotelier by profession and manages CSL in the capacity of the chairman. Ranjith is a chartered marketer and serves as the chairman of PTL. The authorised and issued share capital of the three companies and the shareholdings are stated below.

Description	SPL	CSL	PTL
Authorised share capital (No. of shares)	25,000,000	20,000,000	5,000,000
Issue price per share (Rs.)	10	10	10
Issued share capital (Rs.)	150,000,000	200,000,000	20,000,000
Shareholders:			
- Ajith de Silva	30%	30%	30%
- Mrs. Ajith de Silva	10%	-	-
- Sajith de Silva	30%	30%	30%
- Mrs. Sajith de Silva	-	10%	-
- Ranjith de Silva	30%	30%	30%
- Mrs. Ranjith de Silva	-	-	10%

Ravi Fernando, a chartered accountant, joined SPL as the chief financial officer (CFO) in 2014. He was appointed as the finance director of all three companies on 1 January 2016.

3. Southern Plantation (Pvt) Ltd (SPL)

3.1 Corporate Profile

As the leading regional plantations company in Sri Lanka, SPL produces the best high-quality, low-grown Ceylon Tea in three of the most enviable tea estates, located on the lush planes in the south of Sri Lanka. SPL's estates were home to 2,801 people in FY 2022/23 (2,456 in FY 2021/22) and the company supports the socio-economic growth of many people living in its estates.

SPL is renowned in the international and local markets for its superior product quality and uninterrupted supply. To produce quality tea, all the estates envisage a 'quality policy' based on consistency and attention to detail as well as ethical agricultural practices and standards. The company believes its employees are its greatest asset. SPL maintains best practices, and in particular follows the procedures set under ISO 22000:2015 on Food Safety Management Systems, ISO 9001:2015 on Quality Management Systems, and ISO 14001:2015 on Environment Management Systems.

3.2 Vision, Mission, and Values

SPL aspires to be the iconic plantation company that produces the finest quality tea in the country.

The company's mission is to manufacture high-quality, rich, low-grown tea that satisfies its customers, manage the plantations to enhance the quality of life of all the employees, support humanitarian and environment friendly initiatives, drive sustainable growth, and enhance shareholder value.

SPL values empowering human capital, motivating and training its people to reach their full potential, rewarding performance, manufacturing quality tea that brings premium prices, improving mutually beneficial long-term relationships with its customers and suppliers, and contributing positively to critical global issues such as climate change and private sector involvement in sustainability.

3.3 Highlights of SPL

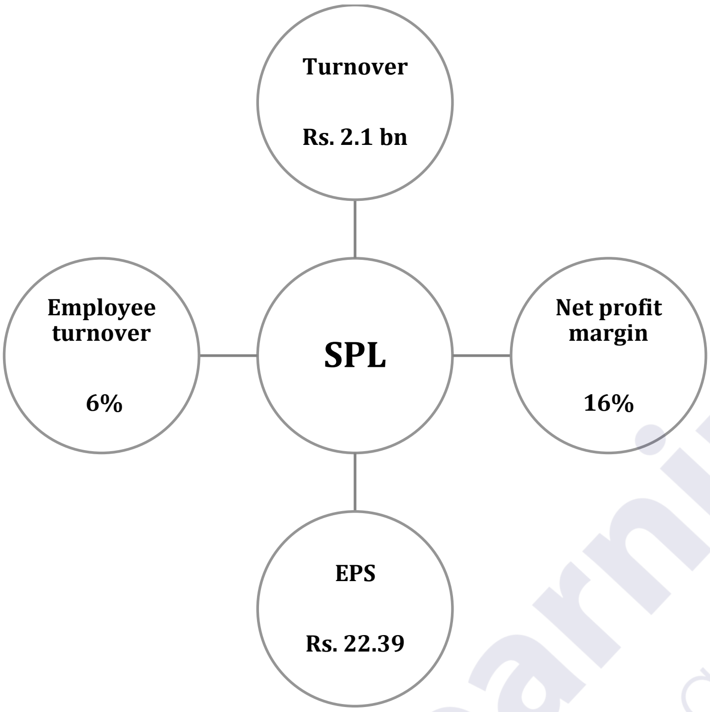

Figure 1: Key financial indicators for the year ended 31 March 2023

3.4 Financial performance

SPL delivered outstanding financial results for the year ended 31 March 2023. The company recorded the highest-ever profit of Rs. 336 million and the highest-ever turnover of Rs. 2.1 billion in FY 2022/23, notwithstanding a challenging period for the tea industry, the country, and the world. The COVID-19 pandemic negatively affected both people and businesses, not only in Sri Lanka but also around the world, resulting in disruptions to businesses due to lockdowns, as well as an economic recession.

The economic impact of COVID-19 was severely deepened by the government's decision to ban the import of chemical fertilizers and pesticides in April 2021, resulting in a significant hindrance to the agricultural sector. Despite an extremely challenging year for the tea industry, the turnover under review increased by 18% (as opposed to the 7% contraction in FY 2021/22), to reach an all-time high. The net profit after tax grew by 24% compared to FY 2021/22 brought about by disciplined cost management, despite the wage increase, and prevailing adverse weather conditions.

This satisfactory performance increased SPL's EPS to Rs. 22.39 in FY 2022/23 from Rs. 18.06 in the previous year. An interim dividend of Rs. 6 per share amounting to Rs. 90 million was paid to shareholders during the FY 2022/23. The board of directors has recommended a further payment of Rs. 4 per share as a final dividend subject to the approval of the shareholders at the upcoming annual general meeting (AGM).

Capital expenditure on factory development and replanting has been over Rs. 200 million for the past two years and a sum of Rs. 150 million was invested during FY 2022/23. Whilst SPL maintains a strong balance sheet structure, the return on capital employed (ROCE) improved to 23.6% from 17.9% in the previous year.

3.5 Business Model

Ajith de Silva, aged 73, is a very conventional, kind-hearted, and eminent businessman. He has been in plantation management for over three decades and his dedication has been the catalyst for SPL's success. He believes in people and does not pay much attention to internal controls and automation.

Saman, the accountant that Ajith hired in 1993, has been the head of finance of SPL since 1998 and has almost completed 30 years of service at the company. Although he is not a qualified accountant, he has managed the finance function during his tenure to the utmost satisfaction of the company's directors. Saman has continued to work on a contract basis after his retirement age, at the request of the chairman. Since SPL's inception, its financial records have been maintained in manual form until 2015 as Ajith and Saman were more comfortable with this.

Until 2014 SPL had only one tea estate, spread across 700 acres. The company bought two large tea estates on 1 January 2015 as part of its capital investment programme. Further in 2015, the company invested in non-current assets and moved on to a computerised accounting system in line with its enhanced capacity.

SPL produced 3 million kilograms of premium-quality tea during the last financial year. The company has been maintaining the industry leadership position in terms of premium tea prices amongst the regional plantation companies for many years. It is also one of the top companies to get premium tea prices at the Colombo Tea Auction.

SPL's business model is to secure the inputs required to transform, grow and compete effectively. The company's governance framework supports ethical and effective leadership, and sustainable organisational and social outcomes.

Amal de Silva, the elder son of Ajith, joined SPL after his higher studies as the chief executive officer (CEO) in 2010. The summarised organisational structure of the company is as follows.

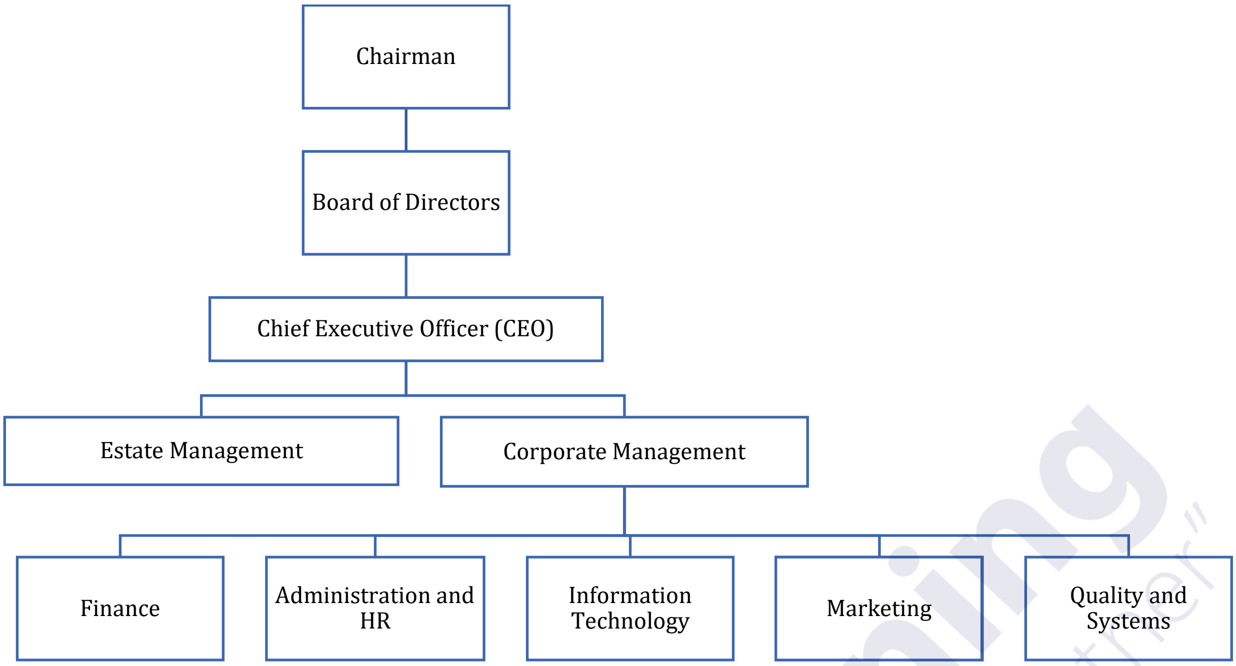

Figure 2: Organisational structure of SPL

3.6 Future Developments

Against the backdrop of Sri Lanka's current economic crisis, SPL has predicted a rise in inflation and thereby a reduction in profit margins. Higher costs of fuel, electricity and all other inputs would impact the company's cost of production at every point in its value chain. Therefore, the implementation of effective cost management strategies would be an immediate priority in the short run. In the long run, the company plans to invest in technology as it will be a key to enhancing value creation and sustaining SPL's competitiveness in the global marketplace.

Further, SPL plans to invest in farmland as it has been an effective hedge against high inflation. This includes acquiring land to cultivate vegetables and fruits in the Northern Province of the country. The company has identified the potential markets for fresh vegetables and fruits through its long-term established relations with well-known customers in the Middle East countries. SPL has already carried out a capital budget appraisal to assess the financial viability of this project. The project evaluation reveals a positive net present value and an internal rate of return that is above the company's current weighted average cost of capital.

Sri Lanka has been enjoying a national advantage in international markets for its agricultural crops for many centuries. SPL has been in plantation agriculture for more than three decades and as such the company has a competitive advantage in product quality, innovation, reliability, and cost-effectiveness. On the other hand, SPL has an efficient, expert workforce and maintains a low senior staff employee turnover rate. All senior estate management staff have good academic qualifications too. Therefore, SPL expects to use all these resources to make the new project successful.

3.7 Capital Structure

SPL has been maintaining a very conservative dividend policy throughout the last decade and thereby the company has been able to transfer a large share of profits to reserves. Ajith is a risk-averse investor and does not encourage raising of debt capital. At present, the company has only one long-term loan, which was obtained in 2015 for expansions and repayable within 10 years. The bank loan was obtained on the recommendation of Ravi who had to work hard to convince the chairman.

SPL requires approximately Rs. 500 million for the planned capital investments in the forthcoming year. The chairman has proposed to finance the investments partly by retained earnings and the balance by new share capital. The company has an unissued share capital of Rs. 100 million and a proposal has been made to issue new shares to the next generation of the de Silva family. However, the final decision on this is yet to be taken by the board of directors.

Ravi has submitted a board paper illustrating the distinct advantages of having debt finance in the company's capital structure as against 100% equity financing. He is fully aware of the level of existing debt capital of the company and its repayment plan and wants to maintain the company's weighted average cost of capital at a lower level. SPL's current cost of debt is 20%.

4. Crystal Sands Beach Hotel (Pvt) Ltd (CSL)

4.1 Corporate Profile

CSL, located in Unawatuna (6km from the history-laden Galle Fort), is blessed with a scenic beach frontage. The location is one of the most sought-after swimming beaches in Sri Lanka and it was duly recognised as one of the 10 best beaches in Sri Lanka by Lonely Planet, a travel guidebook publisher. The hotel is registered with the Sri Lanka Tourism Development Authority (SLTDA) and is a member of The Hotels Association of Sri Lanka (THASL). It was initially rated as a 2-star property and then upgraded to a 3-star one in 2017.

CSL grew firmly since its commencement until the Easter Sunday attack in 2019. The entire tourism industry witnessed cancellations within a few days of the incident, particularly due to the adverse travel advisories of key source markets.

4.2 Vision, Mission, and Values

CSL wishes to achieve excellence in all its activities, establish high-growth businesses in Sri Lanka, and become a competitive market leader in the region. The company stands ready to extend its promise of warm hospitality experience to every guest that walks through its hotel doors.

CSL ensures the well-being of all its stakeholders in line with the company's prudent commitment to preserving and creating sustainable value. The company continues to foster and maintain its value system that embraces reliability, honesty/transparency, cordiality, sincerity and inspires confidence amongst its stakeholders.

4.3 Highlights of CSL

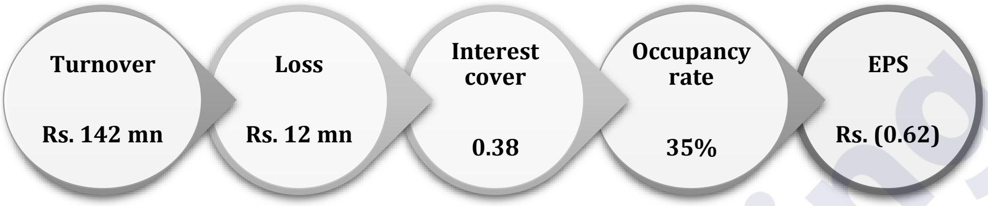

Figure 3: Key financial indicators for the year ended 31 March 2023

4.4 Financial Performance

The consecutive effects of the Easter Sunday attack in April 2019, which was then followed by the devastating impacts of the COVID-19 pandemic, drastically affected the tourism industry in 2020, 2021, and 2022.

The resultant outbreak of the socio-economic crisis in Sri Lanka witnessed a sharp decline in tourist arrivals in 2021, 2022 and 2023. Whilst the country's energy crisis with extensive power cuts across the island brought about a debilitating effect on the tourism sector. The travel advisories issued by many countries due to the political instability and socio-economic unrest resulted in significant booking cancellations. All of this negatively impacted the travel and tourism sector in 2022 and 2023.

CSL reported the lowest-ever revenue of Rs. 74 million since its inception in FY 2020/21. Despite the challenges faced by the entire industry, CSL managed to increase its revenue to Rs. 101 million in FY 2021/22 and to Rs. 142 million in FY 2022/23. The occupancy rates stood at an average of 35% during the year under review compared to a low average of 25% in FY 2021/22.

These unprecedented disruptions led to significant drop in performance recording the lowest level of profitability for CSL since it began operations. FY 2021/22 ended with a loss after tax of Rs. 32 million, whilst a loss after tax of Rs. 12 million was recorded in FY 2022/23. Earnings per share (EPS) too recorded a low of Rs. (1.60) in FY 2021/22 and Rs. (0.62) during the year under review.

CSL's key profitability ratios had moved in the right direction since FY 2011/12. The company's net profit increased significantly in FY 2017/18 and FY 2018/19 and it was able to declare its highest dividends during this period. In FY 2018/19, the EPS and dividend payout ratio were Rs. 2.85 and 70% respectively.

4.5 Business Model

Sajith de Silva, aged 68, has over 30 years of experience in the hospitality industry in senior management positions both in Sri Lanka and overseas. He graduated from the Ceylon Hotel School and before the commencement of CSL's operations in 2010 and has served several other companies.

The UK and Germany have been the major source markets in terms of guest bookings for CSL since 2014. Most of the beach stay guests of the inbound tours unit of Paradise Travels (Pvt) Ltd (PTL) were directed to CSL and that paid well for both companies. However, during the pandemic, guest bookings from the major source markets such as the UK and Germany declined drastically. Due to the stringent travel restrictions imposed by major traditional markets, a shift in source markets was reported globally. As such, Russia, Ukraine, and Kazakhstan became key source markets of CSL in the short-term.

Another notable feature of the year under review was the change in the composition of guest room income. CSL carried out extensive social media campaigns and promotions to attract local guests. The local room rates were also reduced to face the current market reality. As a result, local guest bookings increased sharply in FY 2022/23, which accounted for approximately 75% of the total room nights. The import restrictions imposed by the government on certain non-essential food items caused a shortage of imported food and beverages. As a result, more than 75% of the products used in CSL today are local products sourced from local suppliers. This move contributed towards the community's well-being and the development of the rural economy.

Many industry players closed operations during the first and second waves of the spread of COVID-19. However, CSL continued to employ the company's permanent employees/ cadre despite the great difficulties faced and loss of business. High levels of health and safety standards were maintained by CSL during the pandemic period and thereafter, in order to ensure the safety of guests and employees from COVID-19.

The summarised organisational structure of CSL is as follows.

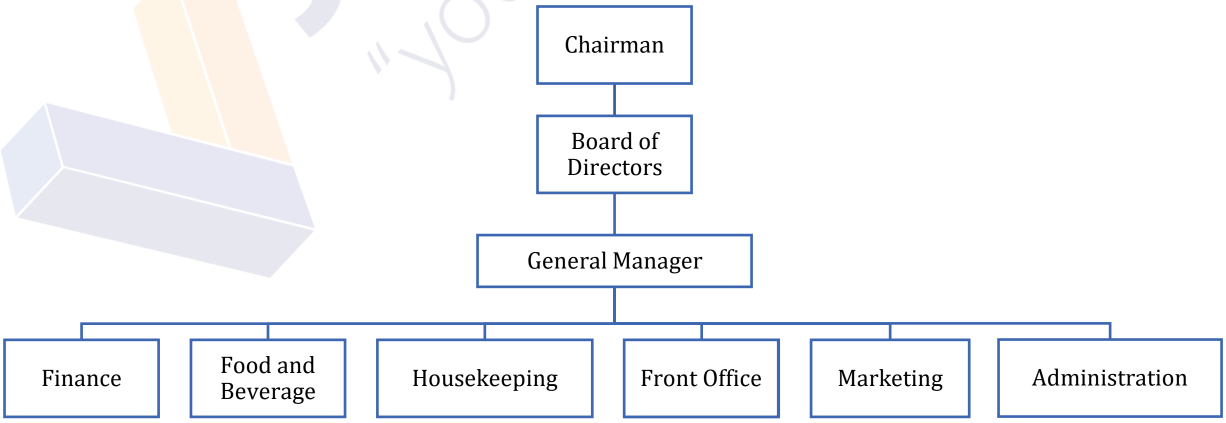

Figure 4: Organisational structure of CSL

4.6 Future outlook

Since the post-pandemic tourism market dynamics have fundamentally changed, CSL too has customised its business strategies to cater to different markets and segments. The company has proactively identified that guests will become more conscious about health and safety, sustainability, and value for money. Accordingly, a business proposal has been tabled to promote Ayurvedic tourism at CSL. The proposal contains recruiting qualified staff such as well-experienced ayurvedic practitioners and therapists, construction of an Ayurveda treatment center, and a greenhouse for organic agriculture. The company's long-term plan is to use organic vegetables and fruits as much as possible for the guests who will be visiting the hotel, particularly for Ayurveda treatments.

Further, plans are underway to promote sustainable tourism as many tour operators have urged to accelerate climate friendly action in tourism globally. CSL has identified environmental initiatives and sustainable tourism practices as measures of utmost importance for the resilience of the sector. Implementing on-site green practices such as reducing disposables, recycling, segregation and efficient disposal of garbage, water conservation and minimising paper usage by CSL staff have already been implemented. A solar energy system will also be installed in FY 2023/24 for water heating and this is expected to reduce the amount of electricity consumption considerably.

On 31 March 2023, CSL received an offer from a leading Sri Lankan hospitality enterprise to acquire the entire issued share capital of the company. The directors have mixed feelings about this offer. Ajith and Ranjith are keen on this proposal and requested Ravi to evaluate the offer. However, Sajith believes that the profitability of CSL can be improved considerably in the future, and therefore that the company should be retained with the family. He further assured the board that CSL can bring a 28% return on investment (approximately) in FY 2023/24 and probably more in the forthcoming years. Ravi informed the board that the initial offer was at a very significant discount and recommended the parties to work together to reach a workable solution. He has estimated a beta of 1.1 as the expected returns of CSL are more volatile than the average market return. The risk-free rate of return of a relatively safe investment currently stands at 27%.

5. Paradise Travels (Pvt) Ltd (PTL)

5.1 Corporate Profile

PTL ventured into the airline ticketing business in 2011 and commenced inbound tours in 2012 initially serving individual travelers. The company became a fully-fledged travel outfit within three years of commencement, recognised by all the airlines operating in Sri Lanka, and won a cross-section of awards from many airlines for its extraordinary performance.

The inbound tours unit of PTL has grown steadily since its inception, enjoying good returns and stability. The company's track record in excellent services and performance were duly recognised by the Sri Lanka Tourism Development Authority (SLTDA) at the National Tourism Awards Ceremony in 2016 and 2018.

Apart from inbound tours, PTL caters to the diverse interests of its outbound leisure and corporate travelers. The company's outbound holidays unit was appointed as the Preferred Service Agent (PSA) of three globally recognised cruise lines in 2015.

PTL is a member of the International Air Transport Association (IATA), Pacific Asia Travel Association (PATA), Sri Lanka Association of Inbound Tour Operators (SLAITO), and Travel Agents Association of Sri Lanka (TAASL).

5.2 Vision, Mission, and Values

The vision of PTL is excellence in service delivery through innovation and to be the most sought after travel house in the country. The company's mission is to provide leadership for best practices in the industry and build capacity enhancement in the business.

Ethical practices and good governance are core values of the company. It believes in the importance of providing honest and true information to its customers. Respect, human dignity, and a friendly working environment are the other main values of PTL.

5.3 Highlights

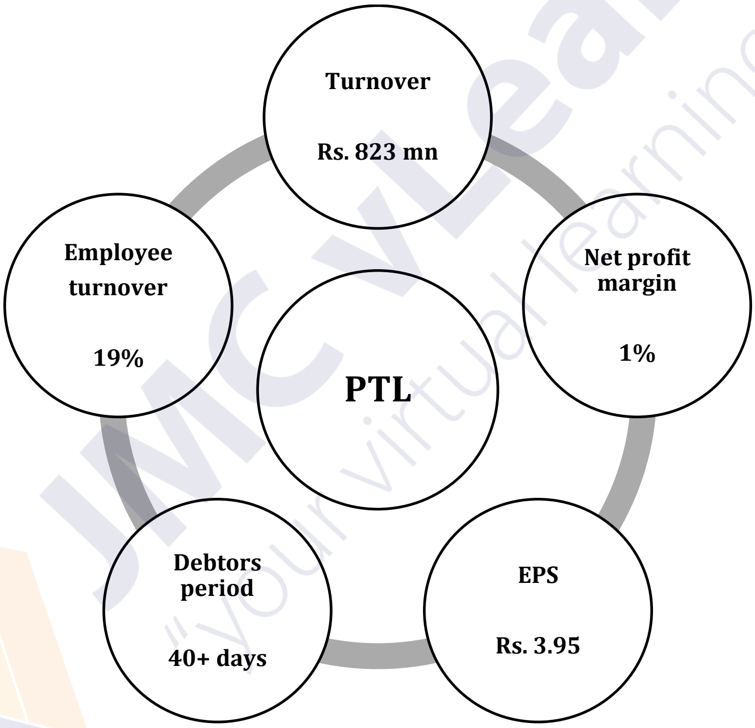

Figure 5: Key financial indicators for the year ended 31 March 2023

5.4 Financial Performance

PTL has three strategic business units, namely, airline ticketing, outbound holidays, and inbound tours. The airline ticketing unit issues air tickets mainly for corporate travelers and it represents approximately 30% of the company's turnover. The outbound holidays unit manages the holiday packages of individuals and group travelers visiting places outside the country. The outbound holidays unit accounts for 20% of PTL's turnover.

The inbound tours unit provides destination management services to overseas clients. This includes itinerary planning, product/location selection, reservation, and travel arrangements on behalf of foreign tour operators. Most of the resources of PTL have been invested in the inbound tours unit and it accounts for approximately 50% of PTL's turnover. The change in the composition of the company's turnover since its inception is as follows.

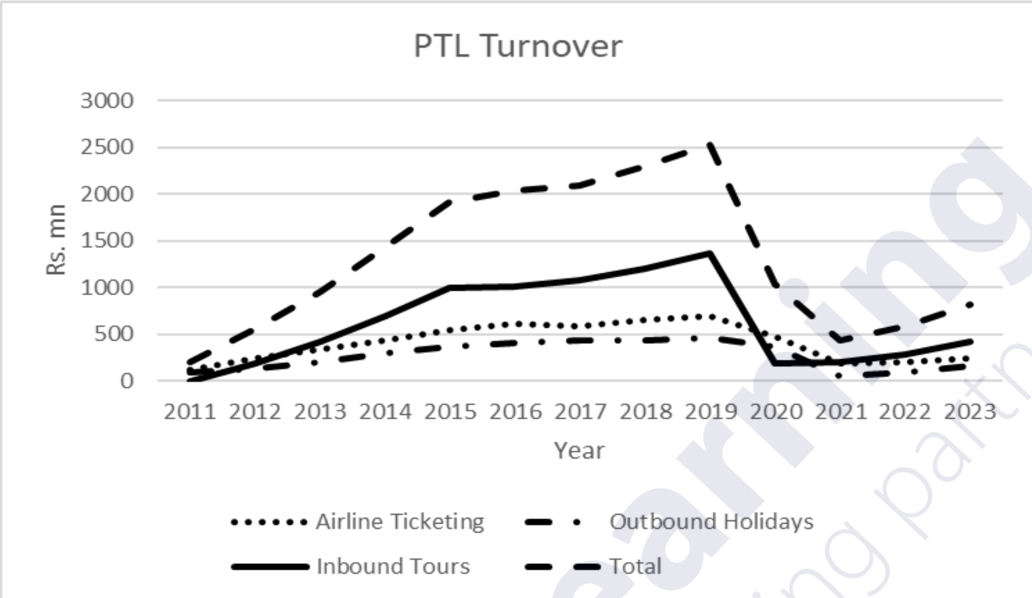

Figure 6: Change in composition of PTL's turnover

The profit margin of the airline ticketing unit has been in the range of 4% to 7% of the airfare. The margin has declined below this now due to stiff competition in the industry. The profit margin of the outbound holidays unit is comparatively higher due to the inbuilt value-added services.

PTL recorded its highest turnover of Rs. 2,523 million in FY 2018/19 with a remarkable net profit of Rs. 251 million. The tourism industry has a history of being highly sensitive to short-term local and international incidents. Sri Lanka was one of the top destinations in the world for foreign tourists in 2018. However, the Easter Sunday attack in April 2019 devastated Sri Lanka's tourism industry as other countries imposed travel restrictions on their citizens.

The airline ticketing and outbound holidays units continued to perform well in FY 2019/20 despite the heavy challenges faced by the inbound tours unit and the company as a whole. On top of the negative impacts of the Easter Sunday attack, Sri Lanka went into a lockdown in March 2020, including the closure of the airport in order to control the spread of COVID-19. The arrival of international tourists to the country fell sharply for the first time in the history and came to a complete halt for an approximate period of 10 months in FY 2020/21. As such PTL's profit margin fell drastically in FY 2019/20 and the company reported heavy losses in FY 2020/21.

Despite all these obstacles, PTL was able to report reasonable growth in FY 2022/23 as against FY 2021/22, and industry experts have anticipated a protracted course of recovery.

5.5 Business Model

Ranjith de Silva is a dynamic and hardworking personality with over 25 years of experience in the travel, tourism, and airline industries. He is 63 years old and has worked for Sri Lankan Airlines and Emirates Air senior management before his appointment as the chairman of PTL. Ranjith has been the driving force behind PTL's outstanding performance since its inception.

Cutting edge technology has become crucial part to the travel and tourism industry in modernizing day to day operations for better customer experience. PTL invested in a travel booking engine in 2014 that enables customers to make ticketing and hotel bookings via the Internet. As such, PTL customers have control over their reservations and are able to quickly attend to the changes needed without the support of PTL travel/tour coordinators.

Since the smartphone has become an integral part of many people's lives, businesses have made mobile technology a part of their business plans. Mobile apps and contactless payments are some of the recent technologies trending in the industry. PTL's travel mobile app is expected to be available to its customers within a few months.

PTL is always open to change and believes that change is an opportunity. The inbound tours unit believes that today's discerning travelers seek superior customer experience over the conventional and boring service offerings they have been used to right along. As a very proactive move the company introduced 'experience economy', a unique travel offering, as modern travelers are willing to pay a premium price for vacations that are once-in-a-lifetime opportunities.

The summarised organisational structure of PTL is as follows.

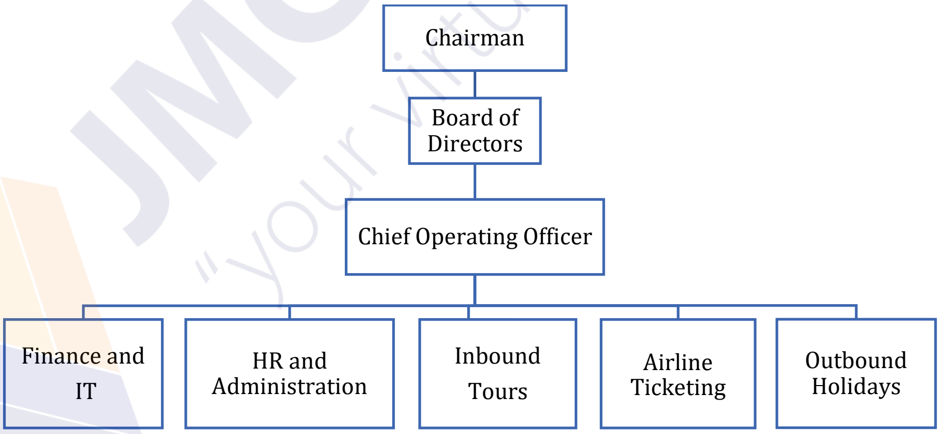

Figure 7: Organisational structure of PTL

5.6 Business Plans

The travel and tourism industry is an industry that was hit the hardest by COVID-19. After almost three years of COVID-19 restrictions, people are now excited to travel and make up for the lost time. Industry experts have predicted that travel will return to pre-pandemic levels in 2023/24.

PTL's short-term focus is primarily on inbound tours and bringing the company back to the pre-pandemic level. The inbound tours unit intends to open a fully-fledged travel office in Male, the Republic of Maldives. This was one of the business proposals approved by the board of directors in 2020 and the company was planning to implement the project in August 2021. However, the implementation of the project was postponed due to the COVID-19 pandemic.

Ranjith and the chief operating officer (COO) of PTL visited Male several times for its incorporation process in early 2023. The office is expected to be up and running in December 2023. The initial investment would be approximately USD 100,000. The office will be located in a prime location in Male city, and the office space will be obtained for a minimum period of 5 years. It will be incorporated as a private limited company in the Maldives, fully owned by PTL.

The main objective of this investment is to provide inbound tour facilities in the Maldives to PTL's customers. A few regular European tour operators have been sending a considerable number of tourist groups to PTL and their itineraries include a visit to the Maldives at the end of the Sri Lankan round tour. PTL has a few business partners in Male to handle the Maldivian inbound operation. However, the clients and European tour operators have not been happy with the services provided by PTL's business partners in the Maldives. PTL has spent a considerable amount of foreign currency to obtain these services. With the commencement of PTL's Maldives office (PTL MDV), the entire tour coordination including the transport and hotel accommodation in the Maldives will be handled by PTL MDV.

Another notable objective of this investment is to promote Sri Lankan holiday tours amongst Maldivians. PTL has identified a potential market for Ayurvedic tourism and it will be promoted in collaboration with CSL. Wealthy Maldivians visiting Sri Lanka for high-quality western medical treatments and regular check-ups are another segment that PTL MDV is currently looking at.

The third objective of this investment is to provide support services to Sri Lankan holiday travelers who book Maldives tour packages via PTL's outbound holidays unit.

5.7 Sources of Finance

The profitability and retained earnings of PTL have dried up since 2020 due to many unprecedented events. Therefore, Ravi has requested the board of directors to postpone PTL's capital investment plans by two more years. Further, he has highlighted the importance of maintaining the current level of retained earnings for precautionary motives. However, the chairman and the COO of PTL have different views and want to deploy a very aggressive strategy. They have expressed their concerns about losing the Maldivian business opportunity to a very strong local competitor. Given the current level of gearing and low profitability, PTL has limited opportunity to obtain further bank loans.

As such, Ranjith has proposed to issue new shares worth Rs. 30 million to SPL so that it becomes the major shareholder of PTL. The proposal is yet to be approved by the board of directors. If it is approved and the shares are issued, SPL will be the main shareholder of PTL holding 60% of PTL's stake.

5.8 Personal Investment Disclosure to the Board by Ranjith

Ranjith and his family were optimistic about the business opportunities in tourism, particularly in inbound and outbound touring, post the pandemic period. Accordingly, they incorporated a new company called Riverdale Tours (Pvt) Ltd, (RTL) in the Maldives in June 2022. Ranjith made this disclosure at the recent board meeting.

5.9 Risk Assessment

The travel industry is highly exposed to international currency fluctuations. The entire distribution chain of tourism products, from local suppliers to travel agencies, tour operators, and tourist hotels, are frequently affected by fluctuations in the exchange rate. Ravi was asked to table proposals to mitigate foreign currency risk, as PTL is expected to face a higher currency risk in the future upon commencement of the Maldivian operation.

PTL had a very strict credit policy at its inception. The finance department was initially empowered to decide the creditworthiness of PTL's clients. However, in 2013, PTL allowed greater flexibility in credit management to face the stiff market competition. The operations manager and sales manager of the airline ticketing unit were given the responsibility of credit management. Following the policy change, the average receivable period of airline ticketing increased gradually to 30 days from 15 days. Credit facilities were granted to many corporate clients without a proper credit evaluation. As a result of this liberalised credit policy, PTL recorded its highest airline ticketing revenue of Rs. 696 million in FY 2018/19.

The risk of default in the travel industry has increased mainly due to the current cancellation and credit policies. The airline ticketing unit has also faced a tough period since March 2020 as they could not collect the outstanding debt balances from its clients on time to settle the airlines and other service providers. After realising the adverse consequences, the senior management decided to hand over the debtors' management function back to the finance department.

In the meantime, the finance department detected that certain debtor balances that appeared in the books were not actually outstanding. It was subsequently revealed that the cash receipts were misused by two long-serving employees. The debtors' management function was handled by a senior executive of the airline ticketing unit since 2013 and his work was supervised by the assistant operations manager who has been with the company since its inception. After an in-depth investigation, it was estimated that approximately

Rs. 10 million was mishandled by these two employees, and legal action has been taken to recover this sum.

One of the well experienced and talented senior business development managers of inbound tours unit resigned in FY 2019/20 which has been a great loss to the inbound tours unit as the unit has not been able to source suitable replacement to match his expertise.

6. Governance

At the recent board meeting, the chairman of PTL highlighted the importance of having an audit committee to oversee the financial positions of all the three companies this year. The importance of providing independent assurance on each company's risk management, governance, and operational efficiency of internal control has been highlighted to the board of directors by the finance director a few times.

All the companies use full SLFRSs for financial reporting.

7. Financial Statements

The statements of financial position (unaudited) of SPL, CSL, and PTL as at 31 March 2023 are as follows.

As at 31 March 2023	**SPL**	**CSL**	**PTL**
		Rs. '000	
Assets			
Non-current assets			
Property, plant, and equipment	401,071	403,787	92,665
Immature/Mature plantations	568,697	-	-
Consumable biological assets	76,955	-	-
Right-of-use assets	-	58,500	28,000
Non-current financial assets	65,600	10,100	25,900
Total non-current assets	**1,112,323**	**472,387**	**146,565**
Current assets			
Inventory	139,852	14,657	211
Trade and other receivables	201,257	22,566	98,988
Cash and cash equivalents	212,101	3,200	21,752
Total current assets	**553,210**	**40,423**	**120,951**
Total assets	**1,665,533**	**512,810**	**267,516**
Equity			
Stated capital	150,000	200,000	20,000
Revaluation reserve	200,000	-	-
General reserves	400,000	-	-
Retained earnings	470,550	29,564	120,570
Total equity	**1,220,550**	**229,564**	**140,570**
Liabilities			
Non-current liabilities			
Interest-bearing borrowings	90,000	129,000	38,000
Deferred tax liabilities	101,128	21,695	9,105
Defined benefit obligations	99,556	19,156	10,501
Total non-current liabilities	**290,684**	**169,851**	**57,606**
Current liabilities			
Trade and other payables	78,901	69,605	55,166
Interest-bearing borrowings	30,000	20,000	5,500
Income tax liabilities	35,746	2,223	2,109
Bank overdrafts	9,652	21,567	6,565
Total current liabilities	**154,299**	**113,395**	**69,340**
Total liabilities	**444,983**	**283,246**	**126,946**
Total equity and liabilities	**1,665,533**	**512,810**	**267,516**

The unaudited statement of profit or loss and other comprehensive income of SPL for the year ended 31 March 2023 is as follows.

	Rs. '000
Revenue	**2,099,125**
Cost of sales	(1,569,858)
Gross profit	**529,267**
Change in fair value of biological assets	9,624
Other income and gains	15,700
Administrative expenses	(197,145)
Results from operating activities	**357,446**
Finance income	26,565
Finance expenses	(18,567)
Net finance income	7,998
Profit/(loss) before tax	**365,444**
Income tax expense	(29,654)
Profit/(loss) for the year	**335,790**
Other comprehensive income	
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:	
- Actuarial gain/(loss) on retirement benefit obligations	8,165
Income tax effect	(1,143)
Other comprehensive income for the year, net of tax	7,022
Total comprehensive income for the year, net of tax	342,812
Attributable to:	
- Equity holders of SPL	342,812
Earnings per share (EPS) (Rs.)	**22.39**

The unaudited statement of profit or loss and other comprehensive income of CSL for the year ended 31 March 2023 is as follows.

	Rs. '000
Revenue	**142,310**
Cost of sales	(40,569)
Gross profit	**101,741**
Other income and gains	2,157
Administrative expenses	(75,670)
Advertising and marketing expenses	(11,565)
Other operating expenses	(7,700)
Results from operating activities	**8,963**
Finance income	2,566
Finance cost	(23,512)
Net finance cost	(20,946)
Profit/(loss) before tax	**(11,983)**
Income tax expense	(427)
Profit/(loss) for the year	**(12,410)**
Other comprehensive income	
Items that will never be reclassified to profit or loss:	
- Actuarial gain/(loss) on retirement benefit obligations	1,021
Income tax effect	-
Other comprehensive income for the year, net of tax	1,021
Total comprehensive income for the year, net of tax	(11,389)
Attributable to:	
- Equity holders of CSL	(11,389)
Earnings per share (EPS) (Rs.)	**(0.62)**

The unaudited statement of profit or loss and other comprehensive income of PTL for the year ended 31 March 2023 is as follows.

	Rs. '000
Income from services	822,842
Other income	1,057
Total income	**823,899**
Direct expenses	(687,185)
Gross profit	**136,714**
Employee benefits expense	(69,156)
Other operating expenses *	(46,447)
Depreciation and amortisation	(8,101)
Results from operating activities	**13,010**
Finance income	6,555
Finance cost	(9,102)
Net finance cost	(2,547)
Profit/(loss) before tax	**10,463**
Income tax expense	(2,566)
Profit/(loss) for the year	**7,897**
Other comprehensive income	
Items that will never be reclassified to profit or loss:	
- Actuarial gain/(loss) on retirement benefit obligations	570
Income tax effect	-
Other comprehensive income for the year, net of tax	570
Total comprehensive income for the year, net of tax	8,467
Attributable to:	
- Equity holders of PTL	8,467
Earnings per share (EPS) (Rs.)	**3.95**

* Other operating expenses include the debtors' written-off amount of Rs. 9,990,000

8. Other information

8.1 Peer Company Details

The key financial information of companies that are in the same industry is given below.

Description	**Plantation**	**Hotels**	**Travel and Tourism**
	Rs. '000	**Rs. '000**	**Rs. '000**
For the year ended 31 March 2023			
Income	3,834,115	145,045	1,100,525
Net profit	202,975	(52,918)	12,555
Operating cash flow	546,351	(10,369)	18,560
As at 31 March 2023			
Total assets	4,872,626	550,990	310,030
Total liabilities	2,046,630	263,872	150,250