



**C G CORPORATE
CONSULTANTS
(PVT.) LTD
PV 60879**

October 2, 2023

Mr. Renuke Wijayawardhane
Chief Regulatory Officer
Colombo Stock Exchange
04-01 West Block
Echelon Square
World Trade Center
Colombo 1

Dear Sir,

AUDITOR'S REPORT CONTAINING DISCLAIMER OF OPINION – NAWALOKA HOSPITALS PLC

We write in accordance with Rule 7.5 (d)(i)(A)(6) of the Listing Rules of the Colombo Stock Exchange.

- a) The Shares of the Company were transferred to the Watch List of the CSE with effect from 15th December 2022 as the Audited Financial Statements for the year ended 31st March 2022 contain a disclaimer of opinion, as per Rule 7.5 (d)(i)(A)(4) and subsequently a trading suspension has been imposed from 16th June 2023 as per Rule 7.5 (d)(i)(A)(10)(a).
- b) The remedial action proposed to be taken by the Company to resolve the matters giving rise to the disclaimer of opinion notified in our subsequent announcement dated 27th December 2022 is as follows. As per Listing Rule 7.5 (d)(i)(A)(6), the Company repeated the announcement made on 27th December 2022 with updates, if any, on 2nd January 2023, 1st February 2023, 1st March 2023, 3rd April 2023, 2nd May 2023, 1st June 2023, 4th August 2023 and 6th September 2023.
- c) The Company is hereby repeating the announcement made on 6th September 2023 with updates, if any, as per Listing Rule 7.5 (d) (i) (A) (6).

Basis for Disclaimer of Opinion and Remedial Action

1. Following matters had come to the Independent Auditors' attention, "which collectively affect or have the potential to affect the existence, accuracy, completeness and valuation of individual elements of the financial statements.

(a) Hospital revenue of the Company for the year ended 31st March 2022 includes Rs. 3,433,349,596/- related to the share of revenue from laboratory services and Rs. 1,027,565,152/- related to revenue from Outward Patients Department services. We were not provided with the detailed schedules nor supporting documents related to these balances for the year ended 31st March 2022 to verify revenue and related impact, if any, to trade receivables as at 31st March 2022.

(b) We could not obtain sufficient appropriate documentation for revenue recorded in the Group amounting to Rs.3,172,624,221/- relating to the subsidiary, Nawaloka Green Cross Laboratories (Private) Limited."

To resolve the above Basis for Disclaimer of Opinion 1 (a) & (b), the management has taken necessary arrangements in preparing schedules / reconciliations required in support of the revenue related to the Group over matters described in the basis for Disclaimer Opinion for the year ended 31st March 2022.

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**Director
CHARUNI GUNAWARDANA
ATTORNEY – AT – LAW
LLB (Hons.), LL.M, FCIS, MBA**

All the relevant schedules/reconciliations have been prepared by an independent Audit Firm who have been retained to carry out an agreed upon procedure relating to the issues mentioned in the disclaimer of opinion. The Management will be submitting all the schedules/reconciliations to the Company's auditors for their verification. A draft report has been received. KPMG has commenced the field work of the audit for the year ended 31st March 2023 in April 2023, consequent to the request made by the company based on the interim financial statements as of the 31st of December 2022. The company is in the process of compiling and submitting information and supporting documents including additional information required to review the adjustments made by the company management on the balances related to the qualifications reported in the audit opinion for the year ended 31st March 2022.

In the event where any adjustments are required to these balances, the adjustments are expected to be incorporated in the financial statements as required by LKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" by restating the amounts recorded for the year ended 31st March 2022, where applicable. Removal of this qualification will be subject to the Auditors' verification of the same.

Basis for Disclaimer of Opinion 1:

"(c) We were not provided with any supporting evidence or sufficient documentation related to the physical verification of inventories carried out during the year. Additionally, we were not provided with supporting documents to ensure that reconciliation between stock count balances and the inventory sub ledger was performed.

(d) The Group has not provided us with supporting documents and calculations to verify the valuation of inventories as at 31st March 2022."

To resolve the above Basis for Disclaimer of Opinion 1 (c) & (d), the management has completed the verification of total inventories as at 31st December 2022 and 31st March 2023 in the presence of auditors, preparing related count sheets and reconciling the physical quantity with the inventory valuation report, sub ledgers and supporting documents related to these purchases. As a result, the management does not expect this point to be repeated in 2023.

Basis for Disclaimer of Opinion 1:

"(e)As disclosed in Note 25 to the financial statements, the Group has recorded a trade receivable balance of Rs. 2,345,387,614/-. Further, the Group has recorded an impairment provision of Rs. 891,871,931/- on this balance as at 31st March 2022. We were not provided with external confirmations or other satisfactory audit evidence to perform alternative audit procedures on these balances to evaluate whether any adjustment is necessary to these balances and corresponding revenue for the year ended 31st March 2022.

(f) Other receivables include a balance related to prepayments and import control amounting to Rs. 138,447,184/- as at 31st March 2022, for which, we were not provided with appropriate evidence nor were we able to perform alternative procedures to evaluate the existence of this balance.

(g) As disclosed in note 35 to financial statements, the Group has recorded trade payables amounting to Rs. 961,218,678/- for which we were not able to obtain external confirmations or reconciliation for the identified differences between confirmation received and trade payable subledger to evaluate whether any adjustment is necessary for trade payables, cost of sales or operating expense for the year ended 31st March 2022. Further, trade payable balance as at 31st March 2022 includes balances for which settlements have already been made during the year.

- (h) Included in other payables in note 35 to the financial statements for the year ended 31st March 2022 is an amount of Rs. 76,784,490/- related to the Nawaloka Green Cross Laboratories (Private) Limited, subsidiary of the Group for which we have not been provided with appropriate and sufficient supporting documentations.”

To resolve the above Basis for Disclaimer of Opinion 1 (e), (f), (g) and (h), the Management has prepared reconciliations between general ledger vs. sub ledgers and collated all appropriate and relevant supporting documents to verify the existence, completeness and accuracy of Trade Receivables, Prepayments, Import Control, Trade Payables and Other Payables recorded as at 31st March 2022.

The Management has called for confirmation for receivable and payable balances and there are a few more confirmations to be received. The Management will be submitting all the schedules/reconciliations together with supporting documents relating to the trade receivables, prepayments, import control, trade payables and other payables as at 31st March 2022 as soon as the finalized report from the independent Audit firm is received.

Further, the Management is in the process of recalculating the impairment provision in line with SLFRS 9 relevant to the financial assets as at 31st March 2022. In an event where any adjustments are required to these balances, the adjustments are expected to be incorporated in the financial statements as required by LKAS 8 – “Accounting Policies, Changes in Accounting Estimates and Errors”. Removal of this point will be subjected to the Auditor’s verification of the same.

Basis for Disclaimer of Opinion 2:

2. “The limitation discussed in paragraphs (a) to (h) above has the potential to affect the accuracy of the reported profit, total assets and total liabilities as at and for the year ended 31st March 2022 and consequently this has potential to affect the accuracy of the income tax and deferred tax balances. Accordingly, we are unable to assess the accuracy, existence and completeness of tax expenses and related balances as disclosed in the notes to the financial statements. Furthermore, we are unable to quantify the impact or potential impact on the profit or total liabilities as at and for the year ended 31st March 2022.”

To resolve the above Basis for Disclaimer Opinion (2), as explained in the Auditor’s opinion, this qualification has resulted due to the inability of auditors to express an opinion on the financial statements as a result of the matters explained in paragraphs (a) to (h) in the auditor’s opinion. The Management is now taking necessary steps to resolve these qualifications as explained above. Therefore, the management does not expect that these qualifications would be repeated in 2023.

Basis for Disclaimer of Opinion 3:

3. “The financial statements, indicate that the Group has incurred a loss of Rs.96,588,317/- for the year ended 31st March 2022 and reported a net current liability of Rs. 1,095,120,800/- as at the 31st March 2022. Further, we are unable to assess the financial position of the Group as at 31st March 2022 due to the significant matters described in paragraphs (a) to (h) above. Consequently, we are unable to determine whether the Group will continue as a going concern.”

To resolve the above Basis for Disclaimer Opinion (3), as explained in the auditor’s opinion, this qualification has resulted due to the inability of auditors to express an opinion on the financial statements as a result of the matters explained in paragraphs (a) to (h) in the Auditor’s opinion. Further, the independent Audit firm is in the process of preparing a detailed assessment report of the appropriateness of using the going concern assumption in the preparation of financial statements by the Group. This will be assessed by the Company’s Independent Auditors. As a result, the Management does not expect that this qualification would be repeated in the year 2023. This would be resolved along with the matters explained in paragraphs (a) to (h) in the Auditor’s opinion.

Accordingly, the Board of Directors is pleased to inform all stakeholders that they will make their fullest effort as practicable as possible to resolve the issues in the Disclaimer of Opinion.

- d) The time period within which such remedial action was expected to be taken by the Company was within 6 months from the date of transfer to the Watch List. However, an appeal dated 31st May 2023 along with a comfort letter from the Auditors was submitted to the Securities and Exchange Commission of Sri Lanka (SEC) for an extension of this time period until the 31st of August 2023 and was rejected.
- e) In terms of Rule 7.5(d)(i)(A)(5)(d) of the Listing Rules of the CSE, the Company further announces that,
- (i) In the event of any deviation from the proposed remedial action, the extent of the deviation shall be communicated to the investors by way of a subsequent announcement to the Market via the Exchange within one (01) Market Day from the date of obtaining the approval of the Board of Directors of the company for such deviation;
- (ii) As the matters giving rise to the disclaimer of opinion were not resolved within a period of six (06) months from the date of transferring the Securities of the company to the Watch List and the requested extension was not granted by SEC, the trading of Securities of the company have been suspended. In the event the trading suspension continues for a period in excess of twelve (12) months, the securities of the company shall be delisted by the Board of Directors of the CSE in terms of Rule 11.3 (a) of the Listing Rules.
- (iii) In the event the matters giving rise to the disclaimer of opinion are resolved, such fact shall be announced to the Market via the CSE in the form of a declaration by the Board of Directors of the company which shall be accompanied with a confirmation issued by the Audit Committee of the company stating that the matters giving rise to the disclaimer of opinion have been resolved.

Yours faithfully,
By Order of the Board of Nawaloka Hospitals PLC



Charuni Gunawardana
Director
C G Corporate Consultants (Private) Limited
Secretaries for NAWALOKA HOSPITALS PLC