

**BY COURIER**

14<sup>th</sup> August 2007

Mr. Lalith Weeratunga  
Secretary to His Excellency the President  
Presidential Secretariat  
Colombo 1.

Dear Sir,

**Hotel Developers (Lanka) Ltd. (HDL)**

I thank you for the prompt acknowledgement of my Letter dated 31.7.2007 addressed to H.E. the President / Minister of Finance, with copy, amongst others, to you.

Further to my Letter, I clarify as follows:

1. As per CANC Report, Balance Sheet of HDL as at 30.6.2005 was as follows:

	Rs Mn.		Rs. Mn.
Share Capital	452.2	Fixed Assets	2,139.2
Reserves	860.7		
Accumulated Loss	<u>(6,351.5)</u>	Current Assets	744.6
	<u>(5,038.6)</u>	Current Liabilities	<u>271.6</u>
Long Term Liabilities	<u>7,650.8 *</u>		<u>473.0</u>
Sources of Funds	<u>2,612.2</u>	Net Assets	<u>2,612.2</u>

\* Note:

	Rs.Mn.
Loans to Government	4,940.5
Balance Loans to Mitsui & Taisei (Jap. Yen. 2,611,392,610)	2,386.6
Bank Loan	271.6
Gratuity Provision	<u>52.1</u>
	<u>7,650.8</u>

**It would be noted that HDL's Share Capital of Rs. 452.2 Mn. has got completely eroded with the Accumulated Loss of Rs. 6351.5 Mn. as at 30.6.2005.**

2. As per CANC Report, HDL Share Structure is as follows:

	No of Rs 10/- <u>Shares</u>	<u>Rs.</u>	<u>%</u>
Government	29,388,463	293,884,630	64.98
Mitsui & Taisei	12,445,325	124,453,250	27.52
Public Shareholders	<u>3,392,353</u>	<u>33,923,530</u>	<u>7.50</u>
Total	<u>45,226,141</u>	<u>452,261,410</u>	<u>100.00</u>

65% Shareholding by the Government has been confirmed in para 19 (i) of the Affidavit dated 9.5.2007 of Dr. P.B. Jayasundera and in the Cabinet Memorandum of 21.1.2007.

3. Share Capital held by the Government of Rs. 293,884,630/- comprised of Rs. 250,897,500/- as Shares Allotted in 1984 for an Under-lease to HDL of Land by Cornel & Co. Ltd., which had originally Leased the Land from the UDA; and this Share Capital, together with a Share Capital of Rs. 2,987,130/- paid for by Cornel & Co. Ltd., had been transferred to the Government, **as consideration for the Government Guarantees given for re-payment of Loans of HDL to Mitsui & Taisei.**

Since Cornel & Co. Ltd., had completely defaulted payment of Lease Instalments to the UDA on the original Lease, **in July 1999 on the advice of the Hon. Attorney General, the Land was re-vested in the Government, as per Surrender of Special Grant Instruments Nos. 673 and 674.**

As a consequence, the consideration for the said Shareholding of Rs. 250,897,500/- stood and stands frustrated, as 'not paid for'. The balance Rs. 40,000,000/- of HDL Shares had been paid for in cash by the Government in March 1990, that too, to pay Mitsui & Taisei.

Government's right to ownership of 65% Shareholding of HDL is disputed by Cornel & Co. Ltd., which claims a right thereto, which is baseless, in the context of HDL's huge indebtedness to the Government on Loans advanced under the Government Guarantees, even after the write-off on the Claims made on the Government Guarantees by Mitsui & Taisei of Rs. 10,200 Mn. (Jap. Yen 17,586 Mn. US \$ 207 Mn.) achieved by me in June 1995, **the benefit of which I insisted had to be to the Government, and none other,** as the main condition of my settlement with the Government.

4. With the protracted vexatious litigations by Cornel & Co. Ltd., the Government Loans to HDL, **even at old Treasury Bill Rates,** were defaulted by HDL and no payments, whatsoever, had been made since the Loans were given by the Government **from as far back as 1997.**

**Also due to such litigations, HDL Accounts are not made public since 1990, even though HDL is a listed public company.**

The outstanding position of the defaulted Loans given upto **30.6.2005** by the Government were disclosed by my Letter of 31.7.2007 to be as follows. **This material fact had been suppressed by Dr. P.B. Jayasundera in the Cabinet Memorandum of 21.1.2007:**

Date of Loan	Capital Rs.	Rate of Interest % p.a.	Interest Rs.
02.7.1997	288,567,633	12.50	648,504,108
12.7.1999	469,742,070	12.50	735,514,859
03.7.2000	464,427,826	12.50	594,791,483
29.6.2001	360,618,876	18.56	640,942,571
01.7.2002	446,803,874	12.50	358,351,215
04.7.2003	340,024,378	9.40	147,032,120
30.6.2004	395,658,959	8.59	110,970,575
30.6.2005	<u>225,639,338</u>	10.28	<u>48,775,967</u>
Total	<u>2,991,482,954</u>		<u>3,284,882,898</u>

Interest on these Treasury Loans was to be paid annually, **but had not been paid.** Capital on each Loan was to be paid after 5 years, **but had not been paid. Therefore, all Loans are in default.**

Dr. P.B. Jayasundera in his Affidavit dated 9.5.2007 has stated that the Government had given an undertaking to HDL not to recover immediately Loans given to HDL, even concealing the fact that such Loans were defaulted since **1998. Cabinet Approval of 24.1.2007 had not approved the giving of any such undertaking to HDL.**

**In addition**, to the above defaults on Government Loans given to HDL upto 30.6.2005 amounting to **Rs. 6,276,365,852/-**, **that too at old Treasury Bill rates**, further Loans would have been given on **1.7.2006** and **1.7.2007**, with which, the defaulted Loans by HDL to the Government would be around **Rs. 7,000,000,000/-** as at **1.7.2007**.

With further Loans that would be required to be given to HDL on **1.7.2008**, **1.7.2009** and **1.7.2010** to pay Mitsui & Taisei, the Total Loan defaults to the Government by HDL is reckoned to be in the region of **Rs. 10,000,000,000/-** by that date.

5. Upon Order for Winding-up, the Hotel Building & Equipment will revert to the Government, which owns the Land.

Since the Government owns the Land, **for which no payments have been made by HDL since July 1999 and even before**, the Hotel Building standing on this Government Land, will go with this Government Land.

The Hotel Building & Equipment valued at Rs. 4,590 Mn. by the Chief Valuer in September 2005 would be set-off against the owings by HDL to the Government, reckoned to be in the region of Rs. 8,500 Mn. today.

This is not a '**lengthy and time consuming process**', as misleadingly stated in the Cabinet Memorandum of 21.1.2007 by Dr. P.B.Jayasundera.

6. The Government could immediately form a New Company to take over the Hilton Hotel, structured as follows:

	Rs.Mn.
Shares for the Government in the New Company -	
Land - 7 Acres, as per Chief Valuer's Valuation of September 2005	4018
Hotel Building & Equipment, as per Chief Valuer's Valuation of September 2005	4590
Balance payment to Mitsui & Taisei on 1.7.2008, 1.7.2009 and 1.7.2010 at today's value	1500
<i>(The above Chief Valuer's Valuations could be updated to today)</i>	<u>10,108</u>

'Net Current Assets' of HDL are reckoned to be around Rs. 400 Mn., which will pass on to the New Company, and would be set-off against owings by HDL to the Government.

Upon Winding-up today, HDL will have a deficit payable to the Government of around Rs.3,500 Mn.

7. **The New Company will be a 100% Government owned Company, with no disputes, whatsoever, of Government's 100% Shareholding, and all Operational Profits of the Hilton Hotel will accrue to the benefit of Government.**

If the Government so wishes, it could give compensatory Shareholdings to the present 7.5% Public Shareholders of HDL, whose Shares are actually worthless today.

The Government could enter into a new Management Agreement with Hilton International on terms mutually acceptable, or if not, have the option of offering another Hotel Chain of international repute.

At an appropriate time, the Government could consider to sell a minority or majority Shareholdings, of the New Company, to recover part of its investment, and continue to benefit from the profits.

8. As per the Companies Act No.7 of 2007, which came into operation on 3.5.2007, vide Sections 219 and 220 thereof, when a company is Bankrupt and is continuing to carry on business, parties opposing a Winding-up, would be personally liable to pay the Debts to the Creditors, **in this instance, the Creditor is the Government.**

Approval of Cabinet had been obtained by Dr. P.B.Jayasundera on 24.1.2007, as per Cabinet Memorandum of 21.1.2007, to oppose the Winding-up of HDL, by suppressing and misrepresenting material facts, as disclosed by my Letter of 31.7.2007, on the basis of a 'contemplated suggestion' made by the Hon. Attorney General in December 2006 quote: "*It may be advisable to oppose the liquidation*".

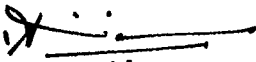
The above by no means is a conclusive Opinion by the Hon. Attorney General considering the totality of the facts, but a mere suggestion on some unknown representations made to him, *inasmuch as the Cabinet Memorandum of 21.1.2007 had suppressed and misrepresented facts.*

9. The above was before the new Companies Act No. 7 of 2007 came into operation on 3.5.2007. I verily believe that the Hon. Attorney General, if apprised of the relevant facts, will no doubt re-consider his suggestion, in terms of the facts and the prevalent law, to act to protect the interests of the Government.

**I am sure you will agree that the Government cannot violate and/or contravene law enacted by Parliament.**

10. It is beyond comprehension, as to how anyone in proper senses, could oppose the Government (*unless with an 'ulterior motive' or some 'hidden agenda', which will cause enormous loss to the Government*) obtaining a 100% owned Company to own the Hilton Hotel and have the benefit of the entirety of the Operational Profits of Hilton Hotel, as opposed to a present 65% Shareholding, in a bankrupt company, which Shareholding too is disputed in vexatious and baseless litigations, by parties, who had in fact endeavoured to perpetrate a fraud on the Government, **which was prevented by me.** In this context, I reiterate the penultimate paragraph of my Letter dated 31.7.2007.

Yours truly,



Nihal Sri Ameresekere

cc: H.E. the President / Minister of Finance

Hon. Attorney General

Hon. Sarath Amunugama, Former Minister of Finance & Planning  
and Minister of Enterprise Development & Investment Promotion

Mr. Dhammika Perera, Chairman, BOI

Mr. Gotabaya Rajapakse, Secretary, Ministry of Defence, Public Security, Law & Order

Mr. Victor Perera, IGP

Mr. D.W. Prathapasinghe, DIG-CID

- *Vis-à-vis, the on going Investigations*

Mr. Ameer Ismail, Chairman, Commission to Investigate Allegations of Bribery or Corruption

Ven. Elle Gunawansa, Member Police Commission / Chairman, Committee to Combat Fraud,  
Bribery & Corruption