ANNUAL REPORT 2019

LANKA HOSPITALS

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THE LANKA HOSPITALS CORPORATION PLC

CONTENT

FINANCIAL INFORMATION

VISION

To be the foremost and preferred Private Healthcare Facility in the Country, which will serve to build a healthier nation and to be a preferred destination for medical tourism in the region.

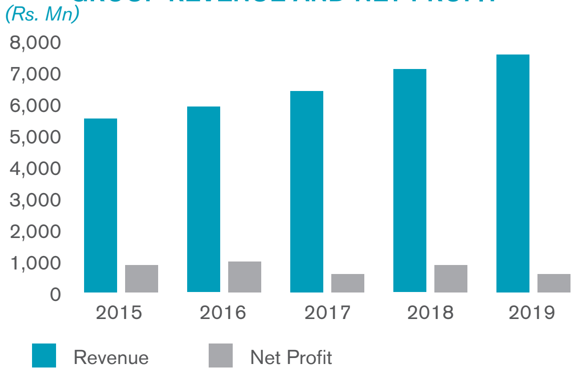
MISSION

To offer cost effective healthcare solutions of international standards while maintaining exceptional and compassionate quality.

PERFORMANCE HIGHLIGHTS

		2019	2018	Change %
Financial Performance				
Revenue	Rs. million	7,549	7,077	7
Results from operating activities	Rs. million	653	643	2
Profit before tax	Rs. million	841	1,122	(25)
Profit after tax	Rs. million	581	870	(33)
Profit attributable to owners of the parent	Rs. million	581	870	(33)
Dividends	Rs. million	392	447	(12)
Gross profit margin	%	43	44	(2)
Operating profit margin	%	9	9	-
Net profit margin	%	8	12	(33)
Earnings per share (basic)	Rs.	2.60	3.89	(33)
Return on Assets (ROA)	%	6	10	(40)
Return on Capital Employed (ROCE)	%	9	13	(31)
Financial Position and Ratios				
Total Assets	Rs. million	9,427	8,950	5
Shareholders' funds	Rs. million	6,630	6,455	3
Gearing ratio	Times	N/A	N/A	N/A
Asset turnover	Times	0.80	0.79	1
Net assets per share	Rs.	29.63	28.85	3
Current ratio	Times	3.77	3.19	18
Quick asset ratio	Times	3.41	2.90	18
Market / Shareholder Information				
Market value per share	Rs.	40.70	42.60	(4)
Dividend per share	Rs.	1.75	2.00	(13)
Company market capitalization	Rs. million	9,106	9,531	(4)
Price earnings ratio	Times	15.65	10.95	43
Dividend yield ratio	%	4.30	4.69	(8)
Dividend payout ratio	%	67.31	51.43	31
Dividend Cover	Times	1.49	1.94	(23)
Infrastructure and Technology				
Property, Plant and Equipment	Rs. million	4,375	4,489	(3)
CAPEX	Rs. million	300	363	(17)
No. of beds	No.	367	367	-
Company owned Laboratory collection network	No.	32	23	39
Pharmacy network	No.	23	21	10

GROUP REVENUE AND NET PROFIT



TOTAL ASSETS VS NET ASSETS

Rs. 1.75
DIVIDEND PER SHARE

Rs. 29.63
NET ASSET VALUE PER SHARE

4.30%
DIVIDEND YIELD RATIO

67.31%
DIVIDEND PAYOUT RATIO

9%
RETURN ON CAPITAL EMPLOYED

LANKA HOSPITALS AT A GLANCE

A LEADER IN SRI LANKAN HEALTHCARE

Offering an unmatched range of primary, secondary and tertiary healthcare services of international standards, Lanka Hospitals is one of the leading players in the private healthcare sector, with a state-of-the-art healthcare facility complemented by cutting edge technology, located in the heart of Colombo.

27,600+ INPATIENTS

347,800+ OUTPATIENTS

367 BEDS

920 CONSULTANTS

43 RESIDENT

877 VISITING

CENTRES OF EXCELLENCE

Through which highly-skilled teams offer our core specialty services, catering to Sri Lanka's changing demographic and disease patterns.

- Heart Center
- Orthopedic Center
- Neurology Center
- Gyn Obs Center
- Genito - Uriology Center

LANKA HOSPITALS DIAGNOSTICS (LHD)

The diagnostic arm of Lanka Hospitals accredited by the College of American Pathologists (CAP), the gold standard for laboratory accreditation, provides more than 1,200 routine and high-end laboratory tests, some introduced to the country for the first time.

7 REGIONAL LABS

32 COMPANY OWNED COLLECTION CENTRES

1,277 COLLECTION CENTRES

OUR SERVICE PHILOSOPHY

We remain committed to international clinical standards, a compassionate & caring approach and service excellence that transcends convention.

98% CUSTOMER SATISFACTION

INTERNATIONAL ACCREDITATION

We are the most accredited private healthcare provider in Sri Lanka and is testament to our commitment to clinical and service excellence.

JCI

Gold seal of approval for quality of healthcare and patient safety

MTQUA

Excellence in delivering treatment and care to medical travellers and health tourists

CAP

Attestation to quality laboratory practices

WHAT SETS US APART

Adopting international standards, best-in-class patient care and advanced technology has enabled Lanka Hospitals to sustain a unique competitive edge in an intensely competitive environment.

PHARMACY

Three dedicated pharmacies located within the hospital staffed by professional, qualified staff cater to our patients' pharmaceutical needs. This is complemented by a network of 20 outside pharmacies.

OWNERSHIP

As a 51.34% owned subsidiary of the state-owned Sri Lanka Insurance Corporation Ltd., we play a vital role in supporting the government's vision of providing increasing access to world-class healthcare at affordable prices.

CHAIRMAN'S REVIEW

We continue to expand our services and innovate to ensure that Sri Lankans have access to state-of-the-art and cost-effective healthcare solutions enhancing the quality of life. We are on our digital transformation journey to improve patient outcomes and experiences at a lower cost using digital platforms.

Dear Shareholders,
2019 was a challenging year for Sri Lanka due to the adverse impact of the Easter Sunday terror attacks. Nevertheless, Lanka Hospitals Corporation PLC recorded Profit After Tax of Rs.581 Mn for the financial year that ended on 31st December 2019. Global accreditations obtained and retained by the company and milestones set out in this report serve as testimony of our commitment in providing quality healthcare, in line with global standards setting benchmarks for the private sector healthcare industry in Sri Lanka. We continue to expand our services and innovate to ensure that Sri Lankans have access to state-of-the-art and cost-effective healthcare solutions, enhancing the quality of life.

HEALTH SECTOR REVIEW

Human health activities, residential care and social work activities sub sector accounted for 2.4% of the country's GDP in 2019, reflecting an increase of 16.9% over 2018, indicating the increasing demand for healthcare services. Health related inflation was 3.7% in 2019 compared to 12.2% in 2018, reflecting a moderation in the pricing pressure for patients compared to the previous year. This was as a result of the steps taken by the National Medicines Regulatory Authority to reduce the prices of selected essential drugs, tests and procedures. Health Services accounts for 2.8% of Private Consumption Expenditure, which is relatively low due to the dominance of the government sector health services. Despite this dominance, the private sector has maintained double-digit growth for the past two years.

Demand for private healthcare is expected to increase owing to Sri Lanka's ageing population and the increasing prevalence of Non-Communicable Diseases (NCD's). Both geriatric care and treatment of NCD's typically require long term care with hospitalization and palliative care from time to time which support demand factors. Wider acceptance of medical insurance in recent years supported by government-led insurance schemes and increasing personal income, is also expected to boost demand for private healthcare. Key players in the sector followed Lanka Hospitals in promoting medical tourism supported by international accreditations for various aspects, which also had some success enhancing the prospects of this sector. Challenges faced by Sri Lanka's private healthcare sector include shortages of fulltime doctors (both specialist and non-specialist), nurses and Para-medical staff, regulated pricing of drugs, laboratory tests and in-patient rooms.

Digital transformation is taking place in the Sri Lankan, private healthcare sector and we at Lanka Hospitals started the journey last year with the introduction of its mobile app, which is available on Google Play Store and the Apple Store, HIS, online lab report and online channelling continues to explore opportunities to expand its digital customer value proposition.

A CHALLENGING LANDSCAPE

The April terror attacks had a significant impact on medical tourism with patient numbers falling from an average of 350 per month to a mere 10, even after recovery. COVID-19 impacts have been even more severe with only urgent medical procedures being carried out due to relatively high risk to specialist consultants, many of whom work in government hospitals. Additionally, the fear of contracting the infection has kept patients away despite stringent preventive measures being implemented throughout the hospital to maintain a sanitary environment.

Price regulation and competitive pressures supported a moderation in healthcare related inflation. We continue to focus on driving cost efficiencies to maintain affordability of services, as this is a key concern for our patients and their families in the prevailing time of uncertainty.

Rapid advances in technology in diagnostics, therapies and equipment have historically required high levels of investment to maintain a competitive advantage, which is difficult to sustain given the size of the market and the number of competitors. This is a key area of concern as payback periods are generally long due to the capital outlay involved and the training of teams in handling the new equipment. Depreciation of the rupee and the decline of numbers of medical tourists exacerbated the issue, dampening our own appetite for investment. We will continue to review innovations and their financial viabilities in order to balance the need for progress with available resources and stakeholder needs.

While capacity constraints eased during the year under review, they remain a concern due to the mobility of the medical consultants. The doctor centric culture that prevailed necessitating long waiting times was detrimental to the development of a sustainable healthcare industry and will require change in a post COVID-19 era to win the confidence of patients, while minimising risks to all parties.

Paucity of talent in paramedical services also continues to be a key concern. This issue is partially addressed by the nursing school, which provides a steady pipeline of talent. We expect this concern to abate to a large extent due to the pandemic but it is possible that it could escalate in the near future as activities return to normalcy. Conversely, the high number of specialist skills required to meet global standards and normal levels of activity add to the fixed overhead of the Group during periods of minimal activity. Accordingly, charting a course to normalise activity levels with adequate safeguards and winning patient confidence are key priorities that we are addressing urgently.

A PATIENT-CENTRIC CULTURE

From its inception, Lanka Hospitals set the benchmark for patient care and continues to do so evinced by our customer satisfaction rate of 98%. We are committed to carry on this tradition to ensure that we enhance the quality of life of our patients. The centres of excellence established to support specialised needs and a portfolio of international accreditations serve as testimony to our commitment to high standards of patient care. It is also key to our aspirations in medical tourism, which we hope to revive as soon as it is safe to do so. In 2019 the services of a third party was acquired to carry out the customer satisfaction surveys, enhancing its objectivity in an effort to identify customer pain points in a more transparent manner.

We are using this time to formulate new procedures that will minimise risks to patients and healthcare professionals alike. Many of these processes will change the health care culture to favour the patient, as we seek to minimise the time spent in the hospital, their movement and contact with various people within the hospital during necessary visits. Digital platforms will be key for this reboot of the system connecting consultants to patients, digital health records and a host of other features. It opens up new dimensions in health care, which were considered impractical a few months ago as we have all adjusted to a 'new normal' in a post COVID-19 world.

CORPORATE GOVERNANCE

I welcome to the Board Dr. Prasad Ariyawansa, Ms. Roshini Cabraal, Dr. Ravindra Ruberu, Ms. Lakshmi Sangakkara, Mr. Mayura Fernando, Mr. Kushan D' Alwis PC, Mr. Nadun Fernando and Ms. Dayakanthi Abeyrathne who were appointed in February 2020 subsequent to my appointment in December 2019. Good corporate governance depends very much on the combination of skills, expertise and experience of the Board. The collective expertise of medical, financial, economic and legal expertise within the Board is a key strength, ensuring diverse perspectives in our deliberations. I look forward to steering this company to a new era of growth, while ensuring transparency and good governance.

Despite the recent appointment, we as the Board have come together quickly to chart a course for Lanka Hospitals to drive the recovery of this trendsetting healthcare institution. We are looking to drive a paradigm shift to adapt to the new demands and thrive despite constraints that are expected to remain in place for the duration of the contagion. These plans will be carried out during the remainder of the year taking into consideration the need to preserve cashflow to meet necessary future expenditure. Under the leadership of the acting Group Chief Executive Officer, Dr. Wimal Karandagoda, who has immense experience as a Senior Medical Administrator, the hospital has continued to function efficiently during the Covid pandemic with stringent preventive measures in place to minimise risk.

This annual report reflects the measures we have implemented to preserve cash as we tighten our belts to get through the pandemic, adopting a frugal mindset to preserve cash for needs rather than wants. Our goal is to provide information only on the most material matters in the leanest possible manner to discharge our duty of accountability to shareholders, supporting evaluation of their investment in Lanka Hospitals Corporation PLC. Savings from this leaner annual report have been used to augment the donation to the President's COVID fund. The donation of Rs.6.7 Mn comprised one day salary by all our staff, Board sitting fees by the Directors and the savings from the annual report together with a donation by the Company. We believe that this is the right thing to do at this time when community needs are paramount.

WAY FORWARD

Forecasts for 2020 are negative with global output expected to contract by 6.3% to -3% and Sri Lanka's growth expected to moderate to 1.5%. As we emerge from the lockdown, it is clear that the year ahead will require a constant recalibration of health, humanitarian and economic concerns which are or could be exacerbated by factors such as unemployment and loss of livelihoods, supply chain disruptions and food security. Depreciation of the rupee is likely to have a significant impact on our operations as a large proportion of medical supplies are imported, increasing costs. Availability of necessary medical supplies may also be limited until production and supply chains stabilise.

There are opportunities in every crisis and there is no doubt that this will test our resolve. However, I am confident that we will chart a course that will take Lanka Hospitals along a different path, which may not have been explored before as we strive to overcome the exigencies of the current operating environment.

APPRECIATIONS

The team at Lanka Hospitals has delivered a commendable performance despite the challenges faced during the year. I am sincerely appreciative of their hard work and commitment. I also wish to thank the officials of the National Medical Regulatory Authority and business partners for their support during the year. In conclusion, I thank our shareholders for their active participation and look to their continued support in the future.

Dr. Bandula Wijesiriwardena
Chairman

21st May 2020

GROUP CHIEF EXECUTIVE OFFICER'S REVIEW

As we provide an essential service that has the capacity to transform lives, customer satisfaction is a key motivation and a key measure of our performance. Sustained customer satisfaction rates and renewed accreditations bear testimony to our commitment to excellence in healthcare on par with global standards.

KEY ACHIEVEMENTS 2019

- Recorded birth of the 1,250th IVF baby, the highest number in Sri Lanka
- Established a fully fledged Orthopedic Centre for Shoulder surgeries
- Established a Urology Care Centre to cater to growing demand
- Recorded 50th Bariatric surgery

Dear Shareholders,

Lanka Hospitals Corporation PLC delivered a Group profit of Rs. 581 Mn and asset growth of 5% for the financial year ending 31st December 2019 reflecting our resilience in a challenging year. We continue to be at the forefront of the healthcare industry as we enhance our services with investments in new technology and continuous training of our team. Sustained customer satisfaction rates and renewed accreditations bear testimony to our commitment to excellence in healthcare on par with global standards.

LEADING IN HEALTHCARE

Investments in cutting edge technology and continuous enhancement of our services is necessary to maintain leadership of the healthcare sector in the country. Accordingly, we implemented several new initiatives during the year to cater to enhance the treatments available to patients. Establishing a state of the art orthopedic centre of excellence for Arthroscopic surgeries was a key initiative during the year with dedicated theatres, skilled surgeons supported by specially trained staff, an orthopedic ward and a specialized orthopedic theatre to provide comprehensive orthopedic care. The patient benefits include improved outcomes, shorter hospital stay, less post-operative pain and faster recovery time in line with our goals for improving patient outcomes. In May 2019 we opened our Urology Care Centre designed to treat problems related to genitourinary system including male and female sexuality related conditions adopting a one-stop-shop model for the convenience of patients with advanced diagnostics. We also enhanced the capability of the Fertility Centre with the introduction of genetic detection for IVF treatments, supporting prospective parents to conceive healthy babies. A Sports Medicine Unit was established to treat the growing number of sports related injuries supporting people to improve their physical fitness with active lifestyles and to support aspiring athletes.

Milestones achieved by existing centres of excellence continues to inspire our teams with the positive impact on the lives of many. The Fertility Centre recorded the 1,250th birth of a baby due to IVF treatments at Lanka Hospitals during the year which is the highest in Sri Lanka. The Neurology Centre with its world class facilities completed the 50th minimally invasive spinal fusion surgery in 2019 which is also a first for the country. We also recorded our 50th bariatric surgery transforming patients' lives as they overcame obesity and improved their health indicators. Our bed capacity was increased by the addition of 17 rooms as we moved our administration complex to an adjacent building to cater to growing demand for our services.

We also took the initiative to organize an Emergency Care Symposium, providing platform for all private sector hospitals to share their knowledge to drive continuous improvement of the private sector emergency response and care.

EXCELLENCE IN CUSTOMER SERVICE

As we provide an essential service that has the capacity to transform lives, customer satisfaction is a key motivation and a key measure of our performance. This is an area for continuous improvement as we strengthen corporate and clinical governance, invest in technology and training, automate and streamline processes to drive positive change. Improvements during the year included the establishment of an Admission and Discharge Facilitation Unit to ensure the efficiency of these administrative processes and implementation of a queueing system in addition to numerous process improvements accomplished during the year.

Increasing our footprint is key to driving growth as we facilitate access to our services through these vital customer touchpoints. Accordingly, we established an Information and Facilitation Centre in Jaffna to facilitate easier access to our services for the Northern Province. Opening of a Priority Health Service Centre at One Galle Face enhances access to our services by tourists supporting our medical tourism aspirations.

As channeling is one of the most important activities of the hospital, we continued to seek ways to improve patient experiences in this vital area. Sunday channelling services were introduced to encourage patients to take advantage of the relatively low level of activity on this day. We offered customers free parking or a free one way Uber ride with a safe play area for kids which saw numbers improve by 50% on Sundays, optimizing capacity utilization. We also extended the free wifi offered to in-house patients to all patients during the year, enhancing customer satisfaction levels.

PERFORMANCE

2019 was an extremely challenging year as the Easter Sunday Terror Attacks had a significant impact on our growing medical tourism operations and the inflow from tourism as foreign admissions reduced from over 350 admissions per month to less than 10. Competition in the private healthcare sector intensified during the year with the re-opening of Kings Hospital and the opening of Kandy Asiri Hospitals during the year. The government sector capacity was also expanded with the opening of the 1,500 bed Kothalawela Defence Academy Hospital. Innovation and technology were key differentiators and Lanka Hospitals maintained its position as a front runner, delivering more than 90% of the Corporate Plan agreed for 2019 despite economic headwinds. We continued to nurture our reputation and brand by adherence to world class standards and through regular communication of our advancements and successes.

Lanka Hospitals Group recorded a commendable topline growth of 7% to Rs.7.5 Bn supported by the initiatives described above and improved performance of Lanka Hospitals Diagnostics. Disappointingly, both inpatient and outpatient inflows decreased by 3% while occupancy rates declined from 82% to 77%. Gross profit margins decreased marginally from 44% to 43% due to the sharp decline in medical tourism and increasing competition in the sector. Administrative expenses and other operating expenses increased by 11% and 10% respectively as our team grew by 7% to 2,002 as we enhanced our footprint and services. The decline in finance income is attributable to a significant gain of Rs.287 Mn on foreign exchange stemming from the steep devaluation of the rupee in 2018 which was reversed to a loss of Rs.7 Mn in the current year. Additionally, the amount for 2019 includes Rs. 37 Mn as Interest Cost of Right to use assets due to the adoption of SLFRS 16 on leases this year. Accordingly, Profit before tax declined by 25% to Rs.841 Mn. Consequently, profit after tax amounted to Rs.581 Mn, decline of 33% from Rs.870 Mn.

Lanka Hospitals maintains a strong balance sheet with equity of Rs.6.6 Bn. Total assets amounted to Rs.9 Bn of which Rs.4.4 Bn is represented by property, plant and equipment.

INSPIRING OUR TEAM

I am pleased to report that Lanka Hospitals became the first hospital to be certified by Great Place to Work which is a significant achievement as our team now numbers 2002 people. Our philosophy that happy employees make happy customers has been at the core of our strategic talent management and we take significant efforts to maintain the equilibrium to motivate and inspire our staff to excel in their roles. Training continues to be a key focus to ensure that we provide the best care possible to patients while also facilitating our employees' progression in their chose career paths. We introduced 15 paramedic courses to train care givers and pharmacists while medical laboratory technicians benefitted from a customised Phlebotomy course. The HR Awards recognized the champions and inspired others to emulate their example.

Employee engagement through formal and informal channels are maintained at high levels and many come together for events organized to foster camaraderie across teams. Fitness is encouraged with the installation of a gym for our staff. Our cricket team now plays in the Mercantile "G" division and their enthusiasm has been infectious. Music is a common language that brings people together and it has been a pleasure to have our own musical group named "LH Beats"with representation across staff categories. We also cheered our colleagues as they lit up the stage at Stein Studios with song and dance making it difficult for our distinguished judges to determine the winners. I am indeed privileged to lead this diverse and talented team who add up to much more than the sum of their parts to make Lanka Hospitals truly a great place to work.

MINIMISING ENVIRONMENTAL IMPACTS

We are conscious of our impacts on the planet as we work to enhance the quality of life of all those who come to us. Our processes generate significant effluents, solid waste

GROUP CHIEF EXECUTIVE OFFICER'S REVIEW CONTD.

and emissions and we seek to go beyond the regulatory requirements for ensure safe disposal of the same. Accordingly, we have commenced a project with the Waste Management Department of the Moratuwa University to treat waste water to exceed specified parameters prior to pumping and plan to have this operational by end of 2020. We are also building our own incinerator to meet the highest standards with ITI to deal with solid waste which includes hazardous and infectious materials. Emissions are monitored and we have implemented several projects to reduce the same.

ROAD MAP

Our strategy is focused on five pillars as set out alongside. To accomplish this, we have commenced several initiatives. Construction has commenced of an international wing to assist with language barriers and other special needs of non-resident patients. As capacity utilization of theatres is above 60%, we also commenced construction of two new theatres and increased facilities for theatre complex. We will continue to leveraging expertise for medical training to drive excellence in healthcare which has played a key role is maintaining our leadership in the sector. We have also commenced importing of medical consumables to reduce costs. Considerable progress was made to deliver on the strategic goals for 2020 until the onset of the Covid 19 pandemic in the country in March 2020.

STRATEGY 2020

- Patient care and safety
- Shareholder value through Governance
- Technology for process efficiency
- Technology will be a key differentiator going forward.
- Increase footprint.

COVID 19 IMPACTS

By February, we had put in place measures to prevent the spread of the virus under the advisement of the COVID 19 Action Team comprising hospital administrators, infection control officers, selected consultants from different specialities, representatives from engineering/housekeeping meet at least twice a week to discuss action plan. We are compliant with guidelines issued by Ministry of Health and Indigenous Medicine and maintain regular communication with public health authorities and our staff. Measures implemented encompass alignment of our infrastructure and provision of personal protective equipment, patient screening, awareness and infection control and are described more fully on page

9. We have also facilitated telephone/virtual consultations with Consultants through our hotline and also established a payment gateway for online payments.

The impact on the healthcare sector is severe as revenues declined sharply due to the lockdown and only urgent procedures on non-infected patients were undertaken due to regulatory and safety measures in place to prevent spread. Other short-term priorities will be to maintain job security and remuneration for our staff while maintaining liquidity. Healthcare supply chains are also threatened as manufacture of consumables and medicines operate at a fraction of their previous capacity due to safety protocols put in place around the world. We are being cautious about managing our supply chains to maintain adequate stocks for our needs.

Establishing a new norm for providing high quality patient care with social distancing measures in place will be key to recovery and we are working to make our services available to those who need it while minimizing footfall.

ACKNOWLEDGEMENTS

I wish to thank the Board for their guidance and advice during these unprecedented times as we work to steer the Group to a new norm. I commend the performance of my team who continue to work to ensure the welfare of our patients, adapting quickly to new ways of working. I thank the regulators for their continued vigilance and cooperation in driving positive outcomes. I conclude by thanking the shareholders for their continued confidence in the Lanka Hospitals Group.

Dr. Wimal Karandagoda
Acting Group CEO

21st May 2020

IMPLICATIONS OF COVID-19

The outbreak of COVID-19 is expected to have unprecedented economic implications, both globally and domestically. The International Monetary Fund foresees an inevitable global recession in 2020, driven by the triple impacts of demand, supply, and financial shocks. On the domestic front, the Sri Lankan government has so far been successful in containing a rapid spread of the virus; however, stringent social distancing measures and disruptions to global supply chains have had a significant impact on economic activity and consumer demand. Given the fluidity of the current scenario the exact economic implications are yet to be ascertained although sharp declines in disposable incomes, import restrictions and significant fiscal pressure is expected to weigh down in economic activity- at least over the short-to-medium term.

ENSURING PATIENT AND EMPLOYEE SAFETY

As a healthcare operator, Lanka Hospitals' key priority in the current context is ensuring the safety of its employees and patients. Accordingly, immediate steps were taken to effectively identify patients at risk of COVID-19 and implement a mechanism to minimise the spread of the virus in the event that COVID-19 positive patients were identified. Key measures adopted included the following:

SAFETY MEASURES

Infrastructure and PPE

- Established a dedicated negative pressure unit to screen and manage COVID-19 patients awaiting transfer to government hospitals.
- Provision of appropriaite PPE including comprehensive training on the use, disinfectant and disposal.

Patient Screening

- Screening of all patients and visitors at entrance
- Patients presenting with fever/respiratory symptoms are screened for COVID-19.
- All employees screened for fever at entrance

Awareness

- Visual alerts with instructions on hygiene, cough etiquette and COVID-19
- Raising community awareness through social media platforms
- Ongoing awareness programs to employees conducted by the Infections Control Unit

Infection Control

- Regular surface disinfection of the emergency unit, common areas, railings, lifts etc
- Increased availability of hand sanitizers across the Hospital

GOVERNANCE AND POLICIES/PROTOCOLS

COVID-19 Action Committee comprising of hospital administrators, infection control officers, selected consultants from different specialities, representatives from engineering/housekeeping meet at least twice a week to discuss action plan.

Fully compliant with guidelines issued by Ministry of Health and Indigenous Medicine and regular distribution of internal memorandums to staff and ongoing communication with public health authorities.

Social distancing measures implemented by the Government in the months of March and April 2020 had a significant impact on patient volumes and occupancies, resulting in a sharp drop in revenues. Over the short-term our key priorities include ensuring patient and employee safety, while managing liquidity levels and minimising costs. The Group is also committed towards ensuring the job security and remuneration of all its employees.

We expect a gradual recovery over the medium to long-term, given the essential nature of the services we offer. While the short-term drop in disposable incomes will result in a certain segment of our customers opting for government healthcare, we expect conditions to normalise over the medium to long-term as economic activity gradually recovers.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Hospital Operations: The Hospital's revenue growth was moderate at 7% during the year, reflecting heightened security concerns that prevailed subsequent to the Easter Sunday attacks in April. Performance was affected by a decline in patient volumes, particularly foreign patients which contracted by almost 18%. Overall, total inpatients and outpatients to the Hospital recorded a decline of 1% and 3% compared to last year while the average occupancy rate amounted to 77%, compared to 82% the year before. Profitability was also impacted by a decline in interest income towards the 2nd half of the year, which resulted in the Hospital's profit after tax decreasing by 33% compared to the previous year.

Diagnostics: The laboratory arm continued to record strong performance, achieving revenue and profit growth of 8% and 18% respectively. Despite security concerns and subdued sentiments post-Easter Sunday attacks, performance was upheld by geographical expansion, targeted marketing to the corporate sector which allowed for customer acquisition and increased contributions from more advanced testing. Despite an increase in operating costs in line with our expansion, we successfully preserved profitability margins with the GP margin EBIT margin clocking in at a respective 59% and 19% during the year. The Diagnostics arm contributed Rs. 124 Mn in dividends to the parent company and is now a significant contributor to consolidated earnings.

Pharmacy: The Hospital's pharmacy operation recorded a revenue growth of 11% during the year, supported by the addition of 4 new outlets during the year. This comprised 3 outlets in partnership with the Keells Supermarket chain in the suburbs of Colombo and 1 of our own outlets in One Galleface Mall. The expansion also required an increase in the headcount, which resulted in a 15% increase in operating costs, thereby inserting some pressure on profitability.

HIGHLIGHTS OF 2019

HOSPITAL OPERATIONS

- Construction of a new international patient care wing with 17 premium rooms
- Launch of 2 new modular theatres, resulting in an 25% increase in surgical capacity
- Ongoing innovation including introduction of key-hole shoulder surgeries and pre-implantation genetic testing
- Establishment of one-stop-shop for urinary care
- Achieved major milestones in minimally invasive spinal surgery, bariatric surgery and IVF deliveries
- Commenced trading and training operations

DIAGNOSTICS

- Opened 2 new mini laboratories and 9 company owned collection centres
- Maintained the prestigious CAP Accreditation
- Strengthened mobile collection service
- Maintenance of digital health records

PHARMACY OPERATIONS

- Addition of 4 new outlets during the year
- Strengthening e-pharmacy services
- Introduction of several value added features through the pharmacy network

FINANCIAL REVIEW

Income: The Group's revenue grew by 7% to Rs.7.55 Bn during the year, supported by a 7% and 8% expansion in hospital and laboratory revenue respectively. The Company's revenue growth was supported by a change in the patient mix while performance of the laboratory arm was driven by its increasing geographical presence coupled with customer acquisition from the corporate sector. Meanwhile the Group's gross profit growth was stronger by Rs. 256 Mn, reflecting higher contributions from value-added services and the laboratory arm.

The Group's finance income declined to Rs.188.56 Mn in 2019 (2018: Rs.479.17 Mn) reflecting a normalisation of significant foreign currency translation gains recorded in the previous year in line with the sharp depreciation of the Rupee in 2018.

Cost management: The Group's administrative and other operating expenses increased by 11% and 10% respectively in 2019, reflecting an increase in staff costs and measures taken to strengthen security in the aftermath of the April attacks.

Profitability: At Operating Profit level, the Group recorded a growth of 2% to Rs.652.72 Mn; however, at pre-tax level profitability demonstrated a decline in comparison to 2018 due to the significant reduction in finance income. Accordingly, pre-tax profits declined by 25% to Rs.841.28 Mn while at profit for the year also fell by 33% to Rs.580.64 Mn.

Financial Position: Total assets increased by 5% to Rs.9.43 Bn mainly due to increased investments in working capital, a stronger liquidity position and the recognition of leased land and building as an asset in line with the adoption of SLFRS 16- Leases. Capital expenditure for the year amounted to Rs.300.19 Mn, primarily representing investments in medical equipment and capacity expansions. Property plant and equipment accounted for 46% of total assets while fixed deposits (classified as other financial assets) contributed 26% (or Rs.2.48 Bn) to the asset composition. Investment in inventories and trade and other receivables increased by a respective 12% and 26% during the year. The liquidity position continues to be healthy with cash and cash equivalents and investments in fixed deposits collectively accounting for 32% of total assets.

Funding position: The Group continues to maintain a strong funding profile, with shareholders' funds accounting for 70% of total assets. Exposure to borrowings comprise only of bank overdrafts and declined to Rs.262.12 Mn (from Rs.331.81 Mn) as at end-December 2019, funding just 3% of total assets.

Cashflow: The Group's cashflow position strengthened during the year mainly due to a reduction in investing cash outflows. Net cash flow from operating activities declined to Rs.596 Mn, from Rs.1,164 Mn the previous year reflecting the decline in operating activity as well as higher investments in working capital. Net Cash Flow from investing activities Rs.11.38 Mn (2018: outflow Rs.689.37 Mn) due to withdrawal of fixed deposits during the year. Resultantly, the net increase in Cash and Cash Equivalent amounted to Rs.215.90 Mn during the year, resulting in a cash balance of Rs.259.59 Mn as at end-December 2019.

WAY FORWARD

Given the prevalent conditions, the Group's immediate priority will be on maintaining its liquidity position, curtailing non-essential expenses, and minimising losses. Over the medium to long-term however, the Group's strategic priorities remain unchanged and are centred on the key objectives of;

1. Quality and Compassionate care
2. Sustainable value for shareholders
3. Better value healthcare
4. Excellence in tertiary care
5. A Leader in Innovative technology.

Key medium to long-term priorities include:

Quality and compassionate care	▪ Apply for reaccreditation of JCI ▪ Ongoing focus on employee and customer satisfaction ▪ Staff training focusing on customer service and clinical skills
Sustainable value for shareholders	▪ Expansion of trading arm as a profit centre ▪ Enhance contribution to healthcare industry skill base through providing training opportunities ▪ Investments in energy efficient chillers/cooling tower
Better value healthcare	▪ Introduce value-added services through the pharmacy network
Excellence in tertiary care through regional networks	▪ Pursue regional growth opportunities ▪ Continued expansion of pharmacy network ▪ Collaborations with industry counterparts
Leader in innovative technology	▪ Commencement of stem cell therapy ▪ Robotics and artificial intelligence technology ▪ Provision of personalised medicines

RISK MANAGEMENT

PRINCIPAL RISKS

The following is an overview of the principal risks the Group is exposed to. This may not include all risks that could ultimately affect the Group, as some risks may be unknown at this point.

We remain vigilant of changes in the regulatory, economic and industry landscapes, to ensure that we proactively identify risks which could impact our ability to create value.

Key Risks	Risk Exposure	Mitigation Measures
Impacts of COVID-19 ▪ Social distancing measures implemented by the Government will have a significant impact on short-to-medium term profitability due to the sharp drop in patient numbers and occupancies ▪ Potential impact on employee and patient safety ▪ Disruptions to supply chains		▪ Effective identification of COVID-19 infected patients ▪ Raise awareness among employees, visitors and patients
Retaining and attracting consultants of high repute		▪ Proactively identify the next generation of consultants and attract them prior to competitors ▪ Ensure consultant satisfaction through providing appropriate facilities, remuneration, staff quality etc.
Competition risk New entrants with reputed brand names & high investments and increasing competition from current market players can result in a decreased market share affecting revenue generation		▪ Increase brand loyalty with reputed in-house consultants, technology, price and specialty services ▪ Identify expansion areas relating to both services and location ▪ Evaluate existing and potential investors for expansions through capital/debt funding, joint ventures or acquisitions
Terrorism and heightened security concerns A tense political climate and possible acts of terrorism. The hospital was significantly impacted due to the Easter Sunday attacks due to a dramatic decrease in medical tourists and general tourists who seek our services due to international accreditations		▪ Maintain the additional security measures taken subsequent to the Easter Sunday attacks ▪ Monitor the sufficiency of controls regularly
Physical infrastructure Challenge of maintaining infrastructure, theatres and wards which includes sewerage and drainage systems, electrical infrastructure, fire safety, air flow/ventilation etc. Improper maintenance could lead to compromising patient & staff safety, noncompliance with external regulations and/or internal standards/audits and adverse media publicity		▪ Identify maintenance needs and prioritise according to time, cost and accreditation requirements etc.

Key Risks	Risk Exposure	Mitigation Measures
Shortage of skilled labour An acute shortage of technically skilled staff such as nurses, laboratory technicians and pharmacists in the country could negatively affect quality of care given by the Group		▪ Maintaining competitive remuneration packages ▪ Ongoing investments in nurses training school
Technological obsolescence Medical technology is evolving at a rapid pace and inability to acquire latest technology as well as technological obsolescence can lead to an erosion of our competitive position		▪ Ongoing investments in the latest technology for our specialties ▪ Keeping up with current developments in medical technology and evaluating the possibilities of adoption
IT Risks As we move to electronic medical records information and cyber security breaches pose a threat to compromising of confidential patient information. Possibilities of system failures and breakdowns and its negative impact on operations is also a contingency we face		▪ Comprehensive IT and information systems security policy ▪ Access and password controls ▪ Disaster recovery and business continuity plans

BOARD OF DIRECTORS

VIDYA JYOTHI DR. BANDULA CHANDRANATH WIJESIRIWARDENA

MBBS Colombo, MD Colombo, MRCP UK, FACP, FRACP (Hon), FCMSA (Hon)

Dr. Bandula Chandranath Wijesiriwardena has had a distinguished career as a consultant physician in internal medicine in the government and private sectors. During 33 years of government service (29 of which was as a consultant), he worked in many parts of Sri Lanka.

He balanced work as a consultant physician — both in the state and private sector — against an active academic career. He has been chief examiner for MD (Medicine) at the postgraduate institute of medicine (PGIM). In 2005, he was elected President of the Ceylon College of Physicians. Through the College, Dr. Wijesiriwardena pioneered the introduction of Clinical Practice Guidelines, which were subsequently used island wide with the approval of the Ministry of Health. He has taught and mentored many batches of undergraduates from the Faculties of Medicine Kelaniya, Sri Jayewardenepura and Colombo and trained postgraduates from the PGIM, Colombo. He has many publications in both national and international peer reviewed journals. Dr. Wijesiriwardena received a Presidential award in the year 2000 for his clinical research.

After retirement from government service, Dr. Wijesiriwardena has worked in the private sector. Currently, he is a consultant physician at Durdans Medical and Surgical Hospital, Colombo and served on the Board from 2017 to 2019. He was a Director, Board of Directors, Lanka Hospitals PLC from February 2012 to February 2015

In recognition of his contribution to the field of medicine, Dr. Wijesiriwardena was awarded honorary fellowships by the Royal Australasian College of Physicians and the Colleges of Medicine of South Africa. He is also a Fellow of the Ceylon collage of Physicians and the American College of Physicians.

Dr Wijesiriwardena was awarded the National Title Vidya Jyothi in 2019 for his pioneering work in introducing Clinical Practice guidelines.

MR. ASHISH BHATIA

Skills and experience: He has over 37 years of multi-disciplinary experience in healthcare management and marketing among others. Associated with the Fortis Group since its inception, he has held many leadership positions within the organisation, creating many successful businesses and powerful teams across the Fortis network. For instance, in 2007 during his tenure as Chief Operating Officer, Fortis Hospital Mohali obtained the prestigious JCI Accreditation, the first hospital in the network to do so. He is an alumnus of the Lawrence School, Sanawar.

Current appointments:

- COO (North and East) Fortis Healthcare, India

Previous appointments:

- Vice President - Marketing at Hero Motors
- Many leadership positions in the Fortis Healthcare Group

MS. RICHA S. DEBGPUTA

Skills and experience: A healthcare management professional with over 22 years of experience in some of India's leading healthcare brands, Ms. Debgupta's core competencies lie in enterprise-wide profit management in healthcare delivery structures, service line development and healthcare processes. She holds a Masters' Degree in Hospital Management from the Indian Institute of Healthcare Management Research, Jaipur and has undergone training at the Indian School of Business Hyderabad.

Current appointments:

- Group head – Strategy and Sr. Vice President Operations of Fortis Healthcare, India
- Board Member of Indian Institute of Healthcare Management Research, Jaipur

DR. PRASAD ARIYAWANSA

Skills and experience: A medical doctor by profession, Dr. Ariyawansa holds extensive medical and medical administrative experience in both the government and private sectors. He has undergone specialised local and foreign training in infection control, disaster management and forensic medicine, among others. He obtained his medical degree from the People's Friendship University of Russia and also holds a Diploma in Family Medicine from the University of Colombo. Dr Ariyawansa resigned from the Board of Directors of the Company on 17th July 2020

Previous appointments:

- Director of Accident Services National Hospital of Sri Lanka
- Medical Superintendent - Matale and Hambanthota hospitals
- Medical Officer - Parliament Medical Centre
- Medical consultant to Paramount Healthcare (Lanka) Ltd.

MR. KUSHAN D' ALWIS PC

Skills and experience: A President's Counsel with 34 years' experience as an attorney-at-law, he has wide ranging expertise in the fields of civil, corporate, commercial, and administrative law. Throughout his illustrious career he has been engaged by leading state and private sector organisations on matters of civil and commercial litigation, dispute resolution and legal due diligence, among others. He obtained his law degree from the Sri Lanka Law College and was elected to the post of President of the Law Student's Union in 1984.

Previous appointments:

- Member of the Law Commission of Sri Lanka
- Member of the Public Representations Committee on Constitutional Reforms
- Vice Chairman of Civil Aviation Authority
- Member of the National Council for Economic Development of the Ministry of Finance and Planning
- Member of the Executive Committee of the Bar Association of Sri Lanka

MS. LAKSHMI SANGAKKARA

Skills and experience: An Attorney-at-law by profession and an entrepreneur, Ms.Sangakkara has multi-faceted experience as a Director in the banking, apparels, and airline sectors.

Previous appointments:

- Director of People's Bank including Actg. Chairman for 2 weeks
- Director of Sri Lankan Airlines
- Director of People's Leasing Fleet Management
- Director of People's Merchant and Finance
- Director and Working Partner of Sellers Sportwear (Pvt) Ltd and Ronbro Garmets (Pvt) Ltd.

MR. NADUN FERNANDO

Skills and experience: A finance professional with over 25 years' experience, including 15 years at senior management and strategic level positions. He is a member of the Brandix Leadership Team and the CEO of Brandix Apparel Solutions Ltd- Casualwear Division which employs over 6000 associates and operates 5 integrated manufacturing facilities in Sri Lanka and Bangladesh. He is a Fellow Member of CA Sri Lanka and holds a Bachelor of Science in Business Administration from the University of Sri Jayawardenapura.

MR. MAYURA FERNANDO

Skills and experience: A finance professional, Mr.Fernando has held numerous Board and executive leadership positions in a range of financial institutions. He is a Fellow Member of CA Sri Lanka, a Fellow Member of the Chartered Institute of Management Accountants UK and holds a Bachelor of Science (Applied Science) Degree from the University of Sri Jayawardenapura.

Current appointments:

- Non-Executive Independant Director of DFCC Bank PLC, Laugfs Power PLC, Laugfs ECO Sri Ltd and Laugfs Leisure Ltd.

Previous appointments:

- Managing Director of Capital Reach Holdings Ltd.
- Director/CEO of Softlogic Finance PLC
- CEO of Orient Finance PLC
- Director/CEO of Laugfs Capital Ltd
- Senior Vice Prasident - Finance Vanik and Forbes Ceylon Group
- Group Finance Director of Confifi Group
- Director Finance- Asian Region of Virtusa
- Partner at KPMG Ford Rhodes Thornton & Company

DR. RAVINDRA RUBERU

Skills and experience: A Board-Certified, Consultant ENT surgeon, Dr.Ruberu has held numerous medical and medical administration positions in the Government and Private health sectors. He obtained his MBBS Degree from the Faculty of Medicine, University of Colombo and his postgraduate education from the Postgraduate Institute of Medicine, University of Colombo, Royal College of Surgeons of England (UK) and Sikkim Manipal University, Manipal, India.

Previous appointments:

- Secretary- Ministry of Civil Aviation and Ministry of Health
- Chairman – Board of study in Ortorhinolaryngology, Postgraduate Institute of Medicine, University of Colombo
- Vice president - SAARC Association of Otolaryngologists
- Member - Faculty Board, Faculty of Medicine, University of Ruhuna
- Consultant ENT Surgeon at National Hospital of Sri Lanka, Teaching Hospital Karapitiya and Teaching Hospital, Ragama

MS. ROSHINI CABRAAL

Qualifying as a Chartered Accountant in 1979, obtaining her fellowship in 1997, and obtaining fellowship in the Society of Certified Management Accountants of Sri Lanka in 2001, she has over 30 years' experience providing financial services in several sectors including Insurance, Travel, Finance and Education.

A significant part of her professional career was at James Finlay & Co (Colombo) Ltd, in the consultancy division of KPMG Ford Rhodes Thornton & Co, at International Education Systems (Pvt) Ltd where she was also on the Board of Management of the British School in Colombo and thereafter as Head of Consultancy at Capital Reach Holdings Ltd. She joined the Board of Lanka Hospitals Corporation PLC (LHC) in May 2010 and resigned in January 2015. At the time of her resignation she was Deputy Chairman of LHC and was also on the Board of Directors of Lanka Hospitals Diagnostics (Pvt) Ltd (LHD), a subsidiary of LHC. Whilst on the Board of LHC she was appointed Chairman of the Audit Committee and member of the Remuneration Committee which posts she held till the time of her resignation.

MS. DAYAKANTHI ABEYRATHNE

Skills and experience: A professional with substantial experience in public administration, she is the representative of the Ministry of Finance to the Board of Directors of Lanka Hospitals Corporation PLC. She is a Member of the Sri Lanka Administrative Service (Special Grade).

Current appointments:

- Secretary, State Ministry of Economic and Policy Development

DR. KANISHKA KARUNARATNE

Skills and experience: He holds MBBS, MS (Obs &Gynae), MRCOG,FRCS (Ed.), FRCOG (UK). Former Director at National Cancer Institute, Maharagama, Sri Lanka and a Consultant Gynecological Oncological Surgeon. He is a member of the South Asian Federation of Obstetrics and Gynecology (SAFOG), a member of the Asia Oceanic Federation of Obstetricians and Gynecologists (AOFCOG), a member of the International Gynecological Cancer Society (IGCS) USA, a Member of Asia-Oceania Research Organisation in Genital Infection and Neoplasia (AOGIN). He is also a Hon.Fellow of Sri Lanka College of Surgeons, Hon.Fellow of Sri Lanka College of Obstetricians and Gynecologists, president of the Sri Lanka College of obstetricians and Gynaecologists. Fellow of Sri Lanka College of Oncologists, Member of the Sri Lanka Medical Association, a Member of Menopause Society of Sri Lanka, Member of the National Cancer Control Programme in Sri Lanka, a Member of the Task force in National Pap smear programme and Colposcopy UNFPDA united Nations Family Planning Association, a Member of the British Society of Oncologists and a Member of the American Society of Gynecological Cancer. Currently he works as a senior Lecturer in obstetrics and Gynaecology in the faculty of University of Colombo.

Previous appointment:

- Director of The Lanka Hospitals Corporation PLC from November 2013 to 2014

COMMITMENT TO GOOD GOVERNANCE

APPROACH TO CORPORATE GOVERNANCE

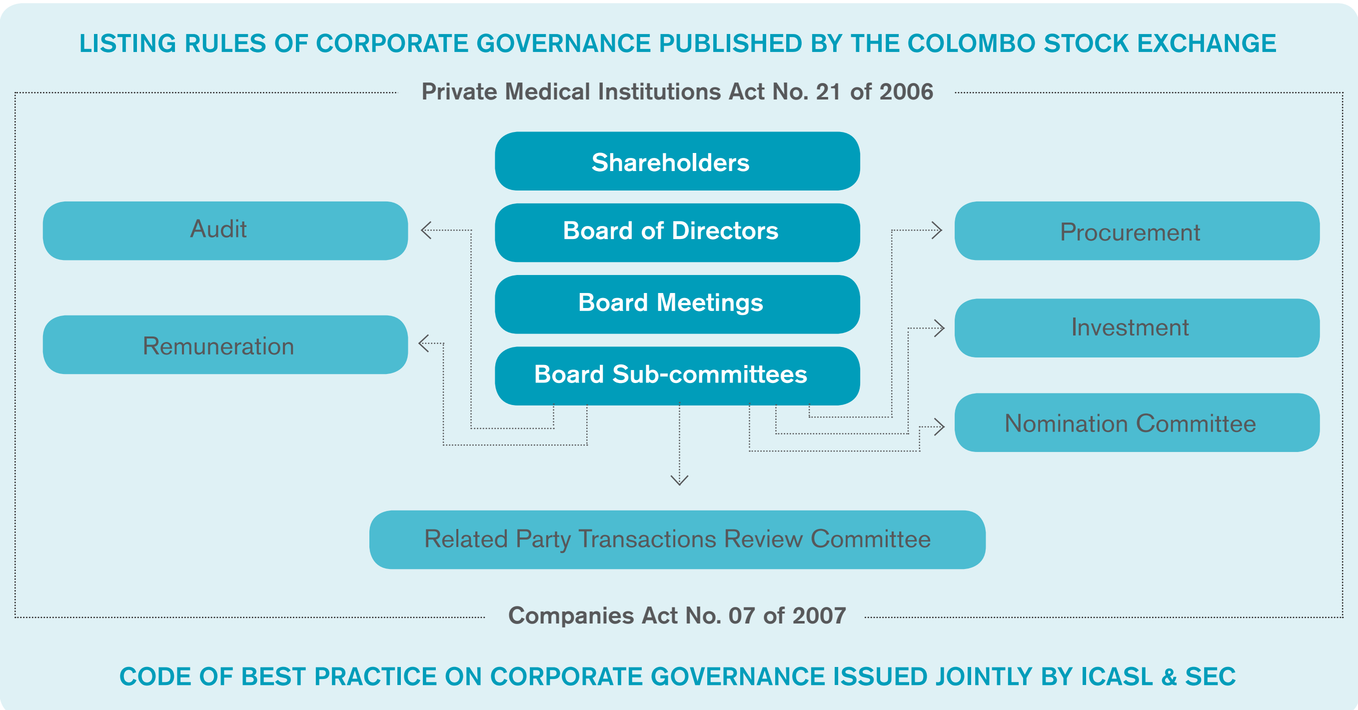
Lanka Hospitals is committed to upholding the highest standards of integrity, transparency, and accountability in every aspect of its operations. Our governance frameworks and structures are designed to achieve this objective and are aligned with all relevant statutory requirements while embracing industry and international best practices.

The Group's governance framework is based on several external and internal steering instruments as listed below:

External instruments	Internal standards and principles
Companies Act No. 7 of 2007	Articles of Association
Continuing listing requirements of the Colombo Stock Exchange	Board and Sub-Committees Charter
Code of Best Practice on Corporate Governance (2017) issued jointly by SEC and CA Sri Lanka	Code of Ethics
Private Medical Institutions Act No.21 of 2006	Comprehensive policy framework

GOVERNANCE STRUCTURE

The Group's governance structure is clearly defined and comprises multi-level governance bodies, specific roles and responsibilities and clear reporting lines which ensure accountability across the organisation. The Board is supported by several sub-committees in discharging its duties, as illustrated below.



BOARD OF DIRECTORS AND COMPOSITION

As of the date of this report there are eleven Non Executive Directors on the Board. Eight new Board members were appointed on 21st February 2020 and one more Board member was appointed on 18th June 2020. On 17th July 2020, one of the Board Members resigned from the Board. Of these Directors 08 are Independent. The Board combines a diverse mix of medical, administrative, corporate, and professional expertise, contributing to the depth of deliberations and enhancing the overall effectiveness of decision making. There is also a clear division of responsibilities between Board activities and the executive responsibility of running the business.

Name of Director/Capacity	Shareholding	Management/ Director[1]	Material Business Relationship[2]	Employee of Company[3]	Family Member of Director or CEO
Non-Executive Independent Directors - 2019					
Dr. Sarath Paranavitane	None	Director	None	None	None
Ven. Thiniyawala Palitha Thero	None	Director	None	None	None
Dr. Anil Abeywickrama	None	Director	None	None	None
Mr. Asendra Siriwardena	None	Director	None	None	None
Mr. Jayantha Munasinghe	None	Director	None	None	None
Mr. Saadi Wadood	None	Director	None	None	None
Mr. Keerthi Kotagama	None	Director	None	None	None
Mr. Siddi Mohamed Farook	None	Director	None	None	None
Dr. Anura Wijewardene	None	Director	None	None	None
Ms. Jayanthi Gunewardena	None	Director	None	None	None
Ms. Upulangani Malagamuwa	None	Director	None	None	None
Mr. Raju Chandiram	None	Director	None	None	None
Mr. Ajith Amarasekera	None	Director	None	None	None
Mr. Chandrasiri Kalupahana	None	Director	None	None	None
Ms. Umashanthiee Rajamantri	None	Director	None	None	None
Mr. Thanuja Weeratne	None	Director	None	None	None
Dr. Bandula Wijesiriwardena	None	Director	None	None	None
Non-Executive Non-Independent Directors - 2019					
Mr. Daljit Singh or his Alternate Mr. Ravi Sachdev	None	Director	Note 1	None	None
Mr. Rajiv Puri or his Alternate Mr. Meghraj Arvindrao Gore	None	Director	Note 1	None	None
Mr. Ashish Bhatia or his Alternate Mr. Anurag Kalra	None	Director	Note 1	None	None
Mr. Meghraj Arvindrao Gore or his Alternate Mr. Rajiv Puri	None	Director	Note 1	None	None
Ms. Richa Singh Debgupta or her Alternate Mr. Rajiv Puri	None	Director	Note 1	None	None

Note 1 - Appointed by Fortis Global Healthcare Holdings Pte Ltd, which has Shareholding of 28.66%.

[1]- Director of a listed Company in which they are employed, or having a significant shareholding with voting rights more than 10% of total or have a business connection where the transaction value is equivalent to or more than 10% of the turnover of the Company.

[2]- Income non cash benefits derived from Company equivalent to 20% of annual income.

[3]- Employed by Company two years immediately preceding appointment.

COMMITMENT TO GOOD GOVERNANCE CONTD.

APPROACH TO CORPORATE GOVERNANCE

ATTENDANCE OF BOARD AND SUB COMMITTEE MEETINGS IN 2019

Director	Board Meeting	Audit Committee	Remuneration Committee	Related Party Transactions Committee
Dr. Sarath Paranavitane	2/2	N/A	N/A	N/A
Ven. Thiniyawala Palitha Thero	2/2	N/A	N/A	N/A
Mr. Daljit Singh or his Alternate Mr. Ravi Sachdev	0/3	N/A	N/A	N/A
Mr. Rajiv Puri or his Alternate Mr. Meghraj Arvindrao Gore	1/5	N/A	N/A	N/A
Dr. Anil Abeywickrama	0/2	N/A	N/A	N/A
Mr. Asendra Siriwardena	2/2	1/1	1/1	N/A
Mr. Jayantha Munasinghe	2/2	1/1	1/1	N/A
Mr. Saadi Wadood	2/2	N/A	N/A	N/A
Mr. Keerthi Kotagama	2/3	1/1	N/A	N/A
Mr. Siddi Mohamed Farook	12/12	N/A	N/A	N/A
Dr. Anura Wijewardene	8/11	N/A	N/A	N/A
Ms. Jayanthi Gunewardena	11/11	N/A	7/7	N/A
Ms. Upulangani Malagamuwa	11/11	6/6	N/A	3/3
Mr. Raju Chandiram	10/11	N/A	7/7	N/A
Mr. Ajith Amarasekera	5/10	N/A	N/A	N/A
Mr. Chandrasiri Kalupahana	8/8	6/6	N/A	3/3
Ms. Umashanthiee Rajamantri	14/14	6/6	N/A	3/3
Mr. Thanuja Weeratne	15/15	N/A	8/8	N/A
Mr. Ashish Bhatia or his Alternate Mr. Anurag Kalra	4/10	N/A	N/A	N/A
Mr. Meghraj Arvindrao Gore or his Alternate Mr. Rajiv Puri	0/3	N/A	N/A	N/A
Ms. Richa Singh Debgupta or her Alternate Mr. Rajiv Puri	2/7	N/A	N/A	N/A
Dr. Bandula Wijesiriwardena	N/A	N/A	N/A	N/A

COMPLIANCE WITH CORPORATE GOVERNANCE RULES AS PER SECTION 7.10 OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE

Rule No.	Subject	Requirement	Compliance Status	Details
7.10.1. (a)	Non- Executive Directors	Two or one third of the Directors, whichever is higher, should be Non- Executive Directors.	Complied with	There are 3 Directors as at 31 December 2019, and as of the date of the Annual Report. All these Directors in the board are Non- Executive Directors.
7.10.2. (a)	Independent Directors	Two or one third of Non- Executive Directors, whichever is higher, should be independent.	Non Complied with (as of 31st December 2019) Complied with (as of Annual report date)	The Board comprises of 1 Independent Non- Executive Director and 2 Non- Independent Non-Executive Directors as of 31st December 2019, and 8 Independent Non- Executive Directors and 3 Non- Independent Non- Executive Directors as of the date of the Annual Report.
7.10.2 (b)	Independent Directors	Each Non- Executive Director should submit a declaration of independence/ Non-Independence in the prescribed format.	Complied with	All the Directors have submitted declarations of Independence/ Non-Independence in the prescribed format.
7.10.3. (a)	Disclosure relating to the Directors	Names of independent Directors should be disclosed in the annual report.	Complied with	Please refer page 23 of this report.
7.10.3. (b)	Disclosure relating to the Directors	In the event a Director does not qualify as independent as per rules of corporate governance however the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the annual report.	Not applicable	All the Independent Directors satisfy the “criteria of independence” as per rules on corporate governance.
7.10.3. (c)	Disclosure relating to the Directors	A brief resume of each Director should be published in the annual report including the areas of expertise.	Complied with	Please refer to pages 14 to 15 of this report.
7.10.3. (d)	Disclosure relating to the Directors	A brief resume of any new Director appointed to the board should be provided to the CSE.	Complied with	Brief resumes of all newly appointed Directors have been provided to the Colombo Stock Exchange.

COMMITMENT TO GOOD GOVERNANCE CONTD.

APPROACH TO CORPORATE GOVERNANCE

Rule No.	Subject	Requirement	Compliance Status	Details
7.10.5	Remuneration Committee	A listed company shall have a Remuneration Committee.	Complied with	Please refer to page 30 of this report.
7.10.5 (a)	The composition of the Remuneration Committee	The Remuneration Committee shall comprise a minimum of two independent Non- Executive Directors or Non- Executive Directors, a majority of whom shall be Independent, whichever is higher.	Complied with	Up to 29th November 2019 the Remuneration Committee comprises three Independent Non-Executive Directors
			Non complied with (as of 31st December 2019)	There was no Remuneration committee since 30th November 2019 to 21st February 2020.
			Complied with (as of Annual report date)	As of Annual report date the Remuneration Committee comprises two Independent Non-Executive Directors.
	Chairman of the Remuneration Committee	One Non- Executive Director shall be appointed as Chairman of the committee by the Board.	Complied with	Please refer to page 30 of this report.
7.10.5 (b)	Functions of the Remuneration Committee	The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and the Executive Directors.	Complied with	Please refer to the Scope of the Remuneration Committee on page 30 of this report.
7.10.5 (c)	Disclosure of the Remuneration Committee	The annual report shall set out:		
		The names of the Directors that comprise the Remuneration Committee.	Complied with	Please refer to page 30.
		A statement of remuneration policy.	Complied with	Please refer to page 30.
		Aggregate remuneration paid to Executive and Non- Executive Directors.	Complied with	Please refer to page 30.
7.10.6	Audit Committee	A listed company shall have an Audit Committee.	Complied with	Please refer to page 32.
7.10.6 (a)	Composition of the Audit Committee	The Audit Committee shall comprise a minimum of two independent Non- Executive Directors, or Non- Executive Directors, a majority of whom shall be independent whichever is higher.	Complied with	Up to 4th December 2019 the Audit Committee comprises three Independent Non-Executive Directors
			Non complied with (as of 31st December 2019)	There was no Audit committee since 5th December 2019 to 21st February 2020.
			Complied with (as of Annual report date)	As of the date of the Annual Report, the Audit Committee comprised two Independent Non-Executive Directors.

Rule No.	Subject	Requirement	Compliance Status	Details
7.10.6 (a)		One Non- Executive Director shall be appointed as Chairman of the Audit Committee by the Board.	Complied with	The Chairman of the Audit Committee Mr. Mayura Fernando is a Non-Executive Director in the Board.
		The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings.	Complied with	Group Chief Executive Officer and Group Chief Financial Officer attend meetings by invitation.
		The Chairman or one member of the Committee should be a member of a recognised professional accounting body.	Complied with	The Chairman of the Audit Committee is a member of the Institute of Chartered Accountants of Sri Lanka and Chartered Institute of Management Accountants UK.
7.10.6 (b)	Functions of the Audit Committee	The Audit Committee shall have functions as set out in section 7.10 of the listing rules.	Complied with	Please refer to the Audit Committee Report on page 32.
7.10.6 (c)	Disclosure of the Audit Committee	The annual report shall set out:		
		The names of the Directors who comprises the Audit Committee.	Complied with	Please refer to the Audit Committee Report on pages 32 to 33.
		The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination.	Complied with	Please refer to the Audit Committee Report on pages 32 to 33.
		A report by the Audit Committee setting out the manner of compliance of the functions set out in section 7.10 of the listing rules.	Complied with	Please refer to the Audit Committee Report on pages 32 to 33.

COMMITMENT TO GOOD GOVERNANCE CONTD.

APPROACH TO CORPORATE GOVERNANCE

Rule No.	Corporate Governance Principles	Compliance Status	Details
9.2.1 & 9.2.3	Related Party Transaction Review Committee	Complied with	The functions of the committee are stated in related party transactions review committee report on page 31.
9.2.2	Composition of the Related Party Transaction Review Committee	Complied with	Up to 25th November 2019 the Related Party Transactions Committee comprised 3 Independent Non-Executive Directors.
		Non complied with (as at 31st December 2019)	There was no Related Party Transactions Committee since 26th November 2019 to 21st February 2020.
		Complied with (as at Annual Report date)	As at Annual Report date the Related Party Transactions Committee comprises 3 Independent Non-Executive Directors.
9.2.4	Related Party Transactions Review Committee Meetings	Non complied	The Committee met three times during the Financial Year 2019.
9.3.1	Immediate Disclosures	Complied with	Company did not have any non recurrent related party transactions which requires immediate disclosures to the Colombo Stock Exchange.
9.3.2 (a)	Disclosure – Non recurrent Related Party Transactions	Complied with	Company did not have any non recurrent related party transactions with aggregate value which exceeds 10% of the equity or 5% of the total assets whichever is lower. Hence no disclosure is required.
9.3.2 (b)	Disclosure – recurrent Related Party Transactions	Complied with	Please refer to pages 88 to 89.
9.3.2 (c)	Report by the Related Party Transaction Review Committee	Complied with	Refer the Related Party Transactions Review Committee report on page 31.
9.3.2 (d)	A declaration by the Board of Directors	Complied with	Please refer to page 31.

Rule No.	Requirement	Compliance Status	Details
168(1)(a)	The nature of the business together with any change thereof	Complied with	Please refer pages 24 to 28 of this report.
168(1)(b)	Signed financial statements of the Group and the company	Complied with	Please refer pages 40 to 99 of this report.
168(1)(c)	Auditors' Report on financial statements	Complied with	Please refer pages 36 to 39 of this report.
168(1)(d)	Accounting policies and any changes therein	Complied with	Please refer pages 48 to 99 of this report.
168(1)(e)	Particulars of the entries made in the interests register	Complied with	All directors have made declarations as required by the Section 192(1) and (2) of the Companies Act aforesaid and all related entries were made in the Interest register during the year under review. The Interest Register is available for inspection by shareholders or their authorised representatives as required by Section 119(1) (d) of the Companies Act No.07 of 2007.

Rule No.	Requirement	Compliance Status	Details
168(1)(f)	Remuneration and other benefits paid to Directors of the company	Complied with	Refer note 29.2 to the Financial Statements on page 88.
168(1)(g)	Corporate donations made by the company	Complied with	Refer page no 24 of this report.
168(1)(h)	Information on Directorate of the company at the end of accounting period	Complied with	Please refer pages 23 & 101 of this report.
168(1)(i)	Amounts paid/payable to the External auditor as audit fees and fees for other services rendered	Complied with	Refer note 8 to the Financial Statements on page 67.

COMPOSITION AS AT 31ST DEC 2019

Name of the Director	Directorship Status
Dr. Bandula Wijesiriwardena	Independent Non Executive
Mr. Ashish Bhatia	Non-Independent Non Executive
Ms. Richa Singh Debgupta	Non-Independent Non Executive

COMPOSITION AS AT 20TH JULY 2020

Name of the Director	Directorship Status
Dr. Bandula Wijesiriwardena	Independent Non Executive
Ms. Roshini Cabraal	Independent Non Executive
Ms. Richa Singh Debgupta	Non-Independent Non Executive
Mr. Ashish Bhatia	Non-Independent Non Executive
Dr. Ravindra Ruberu	Non-Independent Non Executive
Ms. Lakshmi Sangakkara	Independent Non Executive
Mr. Mayura Fernando	Independent Non Executive
Mr. Kushan D' Alwis PC	Independent Non Executive
Mr. Nadun Fernando	Independent Non Executive
Ms. Dayakanthi Abeyrathne	Independent Non Executive
Dr. Kanishka Karunaratne	Independent Non Executive

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

1. GENERAL

The Directors of The Lanka Hospitals Corporation PLC (Company) have pleasure in presenting to the Shareholders this Report together with the Consolidated Financial Statements for the year ended December 31, 2019 of the Company and the Group and the Auditors' Report on those Financial Statements, conforming to the requirements of the Companies Act No. 07 of 2007.

The Lanka Hospitals Corporation PLC (LHC) was incorporated as a private limited liability company on 06th October 1997 and converted to a public limited liability company in Sri Lanka on 09th November 2001. It was re-registered as per the requirements of the Companies Act No. 07 of 2007 on 28th July 2008 and bears the Company Registration No. PQ 180.

The ordinary shares of LHC are quoted on the main board of the Colombo Stock Exchange since 10th January 2003. The registered office of the Company is at No. 578, Elvitigala Mawatha, Narahenpita, Colombo 5.

This Report provides the information as required by the Companies Act No. 07 of 2007, Listing Rules of the Colombo Stock Exchange and the Corporate Governance Code issued by the Institute of Chartered Accountants of Sri Lanka and was reviewed and approved by the Board of Directors of the Company.

2. REVIEW OF BUSINESS

2.1 Vision, Mission and Corporate Conduct

LHC's Vision and Mission are given on page 1. The business activities of LHC and its subsidiary are conducted maintaining the highest level of ethical standards in achieving its Vision and Mission as set out in the Company's Code of Ethics, which reflects our commitment to the high standards of business conduct and ethics.

2.2 Review on Operations of LHC and its Subsidiary

The CEO's Review and the 'Management Discussion and Analysis' on pages 6 to 8 and 10 to 11 provide an overall assessment on the operational performance and financial position of LHC and its subsidiary, and the status of affairs together with important events that took place during the year in detail, as required by the Section 168 of the Companies Act No. 07 of 2007.

2.2.1 Principal Activities of The Lanka Hospitals Corporation PLC

The company provides world class healthcare services at a reasonable cost. It is also a JCI Accredited Hospital in Sri Lanka.

2.2.2 Principal Activities of Lanka Hospitals Diagnostics (Private) Limited

Lanka Hospitals Diagnostics (Private) Limited - a fully owned subsidiary of The Lanka Hospitals Corporation PLC incorporated on 06th February 2013 and gained Section 17 BOI approval. The commercial operation of the company commenced in July 2014. The principal activity of the company is providing of state of-the-art laboratory services. It is the first referral lab in Sri Lanka. Lanka Hospitals Diagnostics (Private) Limited has over 720 collection centres in the main cities.

2.3 Financial Statements of LHC and its Subsidiary

The Audited Financial Statements of the company together with the consolidated financial statements of the Group are given on pages 40 to 97.

2.4 Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the LHC and its subsidiary and Group Financial statements as noted in page 29.

2.5 Auditors' Report

The Auditor General as the Auditors of the Company performed the audit on the Consolidated Financial Statements for the year ended December 31, 2019 and the Auditors' Report issued thereon is given on pages 36 to 39 as required by Section 168 (1) (c) of the Companies Act No. 07 of 2007.

2.6 Accounting Policies and Changes during the Year

LHC and its Group prepared their Financial Statements, in accordance with Sri Lanka Accounting Standards which were in effect up to the reporting date.

2.7 Entries in the Interests Register of the Company

An Interests Register is maintained by the Company, as required by the Companies Act No. 07 of 2007. All related entries were made in the Interests Register during the year.

The share ownership of Directors is disclosed on page101. The Interests Register is available for inspection by the Shareholders or their authorized representatives as required by Section 119 (1) (d) of the Companies Act No. 07 of 2007.

2.8 Directors' Remuneration and Other Benefits

Directors' remuneration and other benefits, in respect of the Company and its subsidiary for the financial year ended December 31, 2019, are given in Note 29.2 to the Financial Statements on page 88.

2.9 Corporate Donations by the Company

During the year, the Company made donations amounting to Rs. 970,000/-.

3. REVENUE AND PROFITABILITY

The revenue of the Group for 2019 was Rs. 7,549 Mn (Rs. 7,077 Mn in 2018), while LHC's revenue was Rs. 6,127 Mn (Rs. 5,763 Mn in 2018). The profit after tax of the Group stood at Rs. 581 Mn (Rs. 870 Mn in 2018), while LHC's profit after tax was Rs. 420 Mn (Rs. 826 Mn in 2018).

4. DIVIDENDS AND RESERVES

4.1 Dividends on Ordinary Shares

The final dividend of Rs.1/= per share for the year ended 31st December 2018 was paid on 16th May 2019. This dividend was paid out of the profits of the Company. The total amount distributed by way of dividend out of the profits earned during the year 2018 was Rs 223,732,169/-.

Interim Dividend of Rs.0.75 per share for the year ending 31st December 2019 was paid on 19th November 2019. This dividend was paid out of the profits of the Company. The total amount distributed by way of dividend out of the profits earned during the year 2019 was Rs 167,799,126.75/- .

The Board of Directors fulfilled the requirement of the Solvency Test in terms of provisions of the Companies Act No. 07 of 2007 immediately after the payment of interim & final dividend. The Statement of Solvency of the Auditors was obtained in respect of the said dividend payments conforming to the statutory provision.

4.2 Reserves

Information on the movement of reserves is given in the Statement of Changes in Equity on pages 44 to 45 in Notes to the Financial Statements.

5. PROPERTY, PLANT & EQUIPMENT, LEASEHOLD PROPERTY AND INTANGIBLE ASSETS

Capital expenditure incurred on Property, Plant & Equipment (including Capital Work-in-Progress), Intangible Assets and Leasehold Property of the Group, details of which are given in Notes 12 to 15 on pages 70 to 78 to the Financial Statements respectively. Capital expenditure approved and contracted for, are given in Note 31 to the Financial Statements on page 90.

6. MARKET VALUE OF FREEHOLD PROPERTIES

The land of the Company were revalued by professionally qualified independent valuers as at December 31, 2018, and brought into the Financial Statements. The Directors are of the opinion that the revalued amounts are not in excess of the current market values of such properties. The details of freehold properties owned by the Company are given in Note 12.2.4 to the Financial Statements on pages 74 to 75.

7. STATED CAPITAL

The Stated Capital as at 31st December 2019 was Rs. 2,671,543,090/- comprising of 223,732,169 ordinary voting shares (Rs. 2,671,543,090/- as at 31st December 2018 comprising of 223,732,169 ordinary voting shares).

8. SHARE INFORMATION

Information relating to earnings, dividend, net assets and market value per share is given in the 'Financial Highlights' on pages 2 and 101.

9. MAJOR SHAREHOLDINGS

Details of the top twenty Shareholders, percentages of their respective holdings and percentage holding of the public are given in the Section on 'Investor Relations' on pages 100 to 101.

10 DISTRIBUTION SCHEDULE FOR SHAREHOLDINGS

Information on the distribution of Shareholdings and the respective percentages are given in the Section on 'Investor Relations' on page 101.

11. DIRECTORS

11.1 Information on Directors of the LHC and its Subsidiary , LHD

11.1.1 List of Directors

The Board of Directors of the Company as at December 31, 2019 consisted of Three (Eleven Directors as at December 31, 2018) The current Board consists of eleven members with wide financial, medical and commercial knowledge and experience. The qualifications and experience of the Directors are given in the 'Board of Directors - Profiles' on pages 14 to 15.

Names of the Directors of the Company as at 31st December 2019, as required by the Section 168 (1) (h) of the Companies Act No. 07 of 2007, are given below:

Name of the Director	Directorship Status
Dr. Bandula Wijesiriwardena	Independent Non-Executive Director
Mr. Ashish Bhatia	Non Independent Non-Executive Director
Mr. Anurag Kalra (Alternate Director to Mr. Ashish Bhatia)	Non Independent Non-Executive Director
Ms. Richa Singh Debgupta	Non Independent Non-Executive Director
Mr. Rajiv Puri (Alternate Director to Ms. Richa Singh Debgupta)	Non Independent Non-Executive Director

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY CONTD.

11.1.2 Directors Holding Office in Lanka Hospitals Diagnostics (Private) Limited as at 31st December 2019

Name of the Directors

Dr. Bandula Wijesiriwardena
Mr. Thanuja Weeratne

The current Board consist of following

Dr. Bandula Wijesiriwardena
Ms. Roshini Cabraal
Mr. Mayura Fernando
Dr. Ravindra Ruberu
Mr. Nadun Fernando
Ms. Dayakanthi Abeyrathne

11.1.3 New Appointments and Resignations

The information on new appointments and resignations to and from the Board of Directors of the Company subsequent to the last Annual General Meeting is given below.

NAME OF DIRECTORS	APPOINTMENTS	RESIGNATIONS
Dr. Sarath Paranavitane	-	27.03.2019
Ven.Thiniyawala Palitha Thero	-	28.03.2019
Dr. Anil Abeywickrama	-	29.03.2019
Mr. Asendra Siriwardena	-	28.03.2019
Mr. Jayantha Munasinghe	-	28.03.2019
Mr. Saadi Wadood	-	13.03.2019
Mr. Keerthi Kotagama	-	30.03.2019
Mr. Daljit Singh	-	02.04.2019
Mr. Anurag Kalra (Alternate Director to Mr. Daljit Singh)	-	02.04.2019
Mr. Siddi Mohamed Farook	29.03.2019	27.12.2019
Dr. Anura Wijewardene	29.03.2019	29.11.2019
Ms. Jayanthi Gunewardena	29.03.2019	29.11.2019
Ms. Upulangani Malagamuwa	29.03.2019	05.12.2019
Mr. Raju Chandiram	29.03.2019	03.12.2019
Mr. Ajith Amarasekera	29.03.2019	20.11.2019
Mr. Rajiv Puri	-	25.04.2019
Mr. Meghraj Arvindrao Gore (Alternate Director to Mr. Rajiv Puri)	-	25.04.2019
Mr. Ashish Bhatia	25.04.2019	-
Mr. Meghraj Arvindrao Gore	25.04.2019	26.07.2019
Mr. Rajiv Puri (Alternate Director to Mr. Meghraj Arvindrao Gore)	25.04.2019	26.07.2019
Mr. Anurag Kalra (Alternate Director to Mr.Ashish Bhatia)	25.04.2019	-
Mr. Chandrasiri Kalupahana	24.05.2019	05.12.2019
Ms. Richa Singh Debgupta	08.08.2019	-
Mr. Rajiv Puri (Alternate Director to Ms. Richa Singh Debgupta)	08.08.2019	-
Ms. Umashanthiee Rajamantri	-	05.12.2019
Mr. Thanuja Weeratne	-	31.12.2019
Dr. Bandula Wijesiriwardena	27.12.2019	-
Dr. Prasad Ariyawansa	21.02.2020	17.07.2020
Ms. Roshini Cabraal	21.02.2020	-
Dr. Ravindra Ruberu	21.02.2020	-
Ms. Lakshmi Sangakkara	21.02.2020	-
Mr. Mayura Fernando	21.02.2020	-
Mr. Kushan D'Alwis PC	21.02.2020	-
Mr. Nadun Fernando	21.02.2020	-
Ms. Dayakanthi Abeyrathne	21.02.2020	-
Dr. Kanishka Karunaratne	18.06.2020	-

11.1.4 Recommendations for Re-election

1. Directors who were appointed to fill casual vacancies

All the Directors appointed to the Board to fill casual vacancies are permitted to hold office only until the following AGM, hence, they are required to offer themselves for re-election at this Annual General Meeting. Accordingly, the following Directors who were appointed in terms of Article 92 of Articles of Association offer themselves for re-election as Directors of the Company at this Annual General Meeting.

NAME OF DIRECTORS	APPOINTMENTS
Ms. Richa Singh Debgupta	08.08.2019
Mr. Ashish Bhatia	24.04.2019
Dr. Bandula Wijesiriwardena	27.12.2019
Ms. Roshini Cabraal	21.02.2020
Dr. Ravindra Ruberu	21.02.2020
Ms. Lakshmi Sangakkara	21.02.2020
Mr. Mayura Fernando	21.02.2020
Mr. Kushan D'Alwis PC	21.02.2020
Mr. Nadun Fernando	21.02.2020
Ms. Dayakanthi Abeyrathne	21.02.2020
Dr. Kanishka Karunaratne	18.06.2020

2. Directors to retire by rotation

In terms of Article 85 of the Articles of Association, 1/3 of the Directors are required to retire by rotation at each Annual General Meeting. Article 86 of the Articles of Association provides that the Directors to retire by rotation at an AGM shall be those who, (being subject to retirement by rotation), have been longest in office, since their last election or appointment.

Accordingly, considering that the entire Board offer themselves for re-election under Article 92 of the Articles of Association, there are no Directors for retirement by rotation.

11.1.5 Details of Directors attendance at Directors' meetings are presented on page 18 under Corporate Governance

11.1.6 Board Sub-Committees

The Board Sub Committees in keeping with the rules of the Listing Rules of the Colombo Stock Exchange, Audit Committee, Remuneration Committee and Related Party Transaction Review Committee are active and fully functional. The composition of these Sub-Committees and its functions presented under Corporate Governance.

11.2 Disclosure of Directors' Dealing in Shares as at 31st December 2019

Name of Directors	No. of Shares
Dr. Bandula Wijesiriwardena	Nil
Mr. Ashish Bhatia	Nil
Ms. Richa Singh Debgupta	Nil
Mr. Rajiv Puri (Alternate Director to Ms. Richa Singh Debgupta)	Nil
Mr. Anurag Kalra (Alternate Director to Mr. Ashish Bhatia)	Nil

11.3 Directors' Interests in Contracts or Proposed Contracts

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed on pages 88 to 89. These interests have been declared at Directors' meetings. Directors have no direct or indirect interest in any other contract or proposed contract with the Company. Directors' remuneration and other benefits, in respect of the Group and the Company for the financial year ended 31st December 2019 are given in Note 8 to the Financial Statements on page 67.

12. RISK MANAGEMENT AND INTERNAL CONTROLS

The Directors are responsible for the Company's and the Group's system of internal controls covering financial operations and risk management activities and reviews its effectiveness in accordance with the provisions of the corporate governance framework.

The Directors consider that the system is appropriately designed to manage the risk and to provide reasonable assurance against material misstatement or loss. The Directors further confirm that there is an on-going process to identify, evaluate and manage significant business risks.

13. ENVIRONMENTAL PROTECTION

The Company and the Group make every endeavor to ensure compliance with the relevant environmental laws, regulations and best practices applicable in the country. After making adequate inquiries from the management, the Directors are satisfied that the Company and the Group operate in a manner that minimizes the detrimental effects on the environment within which the Company and the Group operate.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY CONTD.

14. STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief are satisfied, that all statutory payments due to the Government, other regulatory institutions and related to the employees have been made on time.

15. EVENTS AFTER DATE OF THE STATEMENT OF FINANCIAL POSITION

No event of material significance that require adjustments to the Financial Statements has occurred subsequent to the date of the Statement of Financial Position, other than those disclosed in Note 32 to the Financial Statements on page 90.

16. APPOINTMENT OF AUDITORS

In terms of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka, The Auditor General serves as the External Auditors for the company and its subsidiary Lanka Hospitals Diagnostics (Private) Limited. Fees paid to the Auditors are given on page 67 to the Annual Report.

17. DIRECTORS' DECLARATIONS

The Directors declare that-

1. The Company complies with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provisions in various laws and regulations, confirm compliance each quarter, to the Audit Committee at the Audit Committee Meetings.
2. All material interests in contracts involving the Company and, refrained from voting on matters in which they were materially interested have been disclosed and declared .
3. All endeavours have been made to ensure that Shareholders in each category have been treated equitably in accordance with the original Terms of Issue.

18. GOING CONCERN

The Directors are confident that the company has adequate resources to continue business operations. Accordingly, the Directors consider that it is appropriate to adopt the going concern basis in preparing the Financial Statements.

19. CONTINGENT LIABILITIES

Details with regard to the contingent liabilities are given in note 30 to the financial statement.

20. ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on 21st August 2020 at 3.00 pm at the Dr. Prathap C Reddy Auditorium of The Lanka Hospitals Corporation PLC, No.578, Elvitigala Mawatha, Colombo 5.

For and on behalf of the Board,

Dr. Bandula Wijesiriwardena
Chairman

Mayura Fernando
Director

By Order of the Board of Directors of The Lanka Hospitals Corporation PLC,

Accounting Systems Secretarial Services (Private) Limited,
Secretaries to the Company,

20th July 2020

STATEMENT OF DIRECTORS' RESPONSIBILITY

The responsibility of the Directors, in relation to the Financial Statements of The Lanka Hospitals Corporation PLC (LHC) and the Consolidated Financial Statements of the LHC and its Subsidiary (Group), is set out in this Statement.

In terms of Sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No. 07 of 2007, the Directors of the LHC are responsible for ensuring that the Group and the LHC keep proper books of accounts of all transactions and prepare Financial Statements that give a true and fair view of the financial position of the LHC and the Group as at end of each financial year and place them before the General Meeting. The Financial Statements comprise of the Statement of Financial Position as at December 31, 2019, the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended and Notes thereto.

Accordingly, the Directors confirm that the Financial Statements of the LHC and the Group give a true and fair view of:

(a) the financial position of the LHC and the Group as at Reporting date;

and

(b) the financial performance of the LHC and the Group for the financial year ended on the Reporting date.

In terms of Section 150(1)(b) and Section 152(1)(b) of the Companies Act, these Financial Statements of the LHC and the Group have been certified by the LHC's Group Chief Financial Officer, the Officer responsible for the preparation. In addition, the Financial Statements of the LHC and the Group have been signed by two Directors of the LHC on 27th February 2020 as required by Sections 150 (1) (c) and 152 (1) (c) of the Companies Act and other regulatory requirements. In terms of Section 148 (1) of the Companies Act, the Directors are also responsible for ensuring that proper accounting records which correctly record and explain the LHC's transactions are maintained to facilitate proper audit of the Financial Statements. Accordingly, the Directors have taken reasonable steps to ensure that the LHC and the Group maintain proper books of account and review the financial reporting system through the Board Audit Committee. The Board of Directors also approves the Interim Financial Statements prior to their release to the Colombo Stock Exchange, upon a review and recommendation by the Board Audit Committee.

The Directors confirm that these Financial Statements for the year 2019, prepared and presented in this Annual Report are in agreement with

a) appropriate accounting policies selected and applied in a consistent manner and material departures if any have been disclosed and explained.

b) all applicable accounting standards that are relevant, have been followed.

c) judgments and estimates made which are reasonable and prudent.

The Directors also confirm that the underlying books of accounts are in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, and The National Audit Act No. 19 of 2018, the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC).

The Directors also have taken reasonable measures to safeguard the assets of the LHC and the Group and to prevent and detect frauds and other irregularities. In this regard, the Directors have instituted an effective and comprehensive system of internal controls comprising of internal audit function directly reporting to the Board.

The Directors are also of the view that the Company has adequate resources to continue in operation and have applied the going concern basis in preparing these financial statements.

The Directors confirm that, to the best of their knowledge, all contributions, taxes, duties and levies payable by LHC and its Subsidiary all contributions, levies and taxes payable on behalf of and in respect of the employees of LHC and its Subsidiary, and all other known statutory dues as were due and payable by LHC and its Subsidiary as at the Reporting date have been paid or, where relevant, provided for.

By Order of the Board of Directors of The Lanka Hospitals Corporation PLC,

Accounting Systems Secretarial Services (Private) Limited,
Secretaries to the Company,

20th July 2020

THE BOARD HR AND REMUNERATION COMMITTEE REPORT

COMMITTEE COMPOSITION

- Dr. Bandula Wijesiriwardena (NED/IND) Chairman
- Dr. Ravindra Ruberu (NED/Non-IND)
- Mr. Nadun Fernando (NED/IND)

(NED-Non-Executive Director, IND - Independent Director)

New Appointment	Appointed Date
Dr. Bandula Wijesiriwardena	21/02/2020
Dr. Ravindra Ruberu	21/02/2020
Mr. Nadun Fernando	21/02/2020

Committee Composition - 2019	Appointed Date	Resigned Date	Attendance
Mr. Asendra Siriwardena	10/11/2015	28/03/2019	1/1
Mr. Jayantha Munasinghe	20/03/2017	28/03/2019	1/1
Mr. Thanuja Weeratne	24/06/2016	31/12/2019	8/8
Mr. Raju Chandiram	29/03/2019	3/12/2019	7/7
Ms. Jayanthi Gunewardena	29/03/2019	29/11/2019	7/7

MANDATE AND RESPONSIBILITIES

The Committee is mandated to formulate the Remuneration policy of the Company and recommend to the Board of Directors any matter related to the following;

- Determining the compensation of the Chairman and Directors and ensuring that no Director is involved in setting his or her own remuneration
- Determining the compensation and benefits of the Key Management Personnel and establishing performance parameters in setting individual goals and targets
- Review information related to executive compensation to ensure that it is in par with market/industry rates
- Review and revise the Company's recruitment, promotions, remuneration packages, annual increments, bonuses and incentive plans

ACTIVITIES DURING THE YEAR

The Remuneration Committee met 08 times during the year and the proceedings of the meetings have been handed over the Board of Directors in adequate detail. Attendance at Committee meetings is given on page 18 of this Annual Report. During the year, the Committee reviewed and approved the Rewards and benefits policy of the Company, which covers all aspects related to employee remuneration as described above.

PERFORMANCE

The committee reviewed Human Resources related policies, the staff structure, the training programmes and disciplinary procedures and made revisions as appropriate. Employees' performance appraisals were completed after reviewing the targets set out in the Hospital's Action plan. The committee also reviewed the effectiveness of staff training programmes and monitored the outcome of such programmes to ensure that the programmes were relevant and of value. With the support of the Committee the management conducted Staff Best Performance Awards on a quarterly basis. The Hospital was also certified as a Great Place to Work by GPTW in 2019.

REMUNERATION POLICY

The Remuneration policy has been formulated with the objective of creating a conducive and positive work ethos that encourages and rewards enhanced performance. Incentive packages, which are in consonance with existing industry practices, are provided based on regular reviews of achievements. The remuneration policy also ensures that the risk in remuneration strategy, policy and arrangements are adequately considered, and that processes are in place to mitigate risk exposures.

RESIGNATIONS AND NEW APPOINTMENTS TO THE COMMITTEE

Mr. Asendra Siriwardena, Mr. Jayantha Munasinghe, Mr. Thanuja Weeratne, Mr. Raju Chandiram, and Ms. Jayanthi Gunewardena have resigned from the Board of Directors and consequently from the Remuneration Committee during the year. The vacancies created by the resignations of the directors above were filled in by the appointment of Dr. Bandula Wijesiriwardena as the Chairman, Dr. Ravindra Ruberu and Mr. Nadun Fernando.

On behalf of the Committee;

Dr. Bandula Wijesiriwardena
Chairman-Board HR and Remuneration Committee

21st May 2020

THE BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

COMMITTEE COMPOSITION

- Ms. Lakshmi Sangakkara (NED/IND) Chairperson
- Mr. Mayura Fernando (NED/IND)
- Mr. Kushan D' Alwis PC (NED/IND)

(NED-Non-Executive Director, IND - Independent Director)

New Appointment	Appointed Date
Ms. Lakshmi Sangakkara	21/02/2020
Mr. Mayura Fernando	21/02/2020
Mr. Kushan D Alwis PC	21/02/2020

Committee Composition - 2019	Appointed Date	Resigned Date	Attendance
Mr. Chandrasiri Kalupahana	24/05/2019	05/12/2019	3/3
Ms. Umashanthiee Rajamantri	24/10/2017	05/12/2019	3/3
Ms. Upulangani Malagamuwa	29/03/2019	05/12/2019	3/3

The skill composition of the independent non-executive Directors who represent the Board Related Party Transactions Review Committee are in line with the recommendations of the Code of Best Practice on Related Party Transactions issued by the CSE and ICASL 2017. The Directors who represented the Committee are set out along-side; their profiles are given on pages 14 to 15 of this Report.

MANDATE AND RESPONSIBILITIES

The Committee is responsible for assisting the Board in reviewing all Related Party Transactions carried by the Group. Accordingly, the mandate of the Committee includes the following;

- Formulating and recommending for adoption by the Board of Directors, a RPT policy consistent with what is proposed by the CSE & ICASL Code of Best Practice on Corporate Governance 2017
- Reviewing and updating the Board on the related party transactions of the Group
- Ensuring adequate disclosures in the Annual Report as required by the Continuing Listing Requirements of the CSE
- Ensuring market disclosures are made as required by the Continuing Listing Requirements of the CSE

RELATED PARTY TRANSACTIONS DURING THE YEAR

During 2019, the RPT Committee met 3 times. Attendance at Committee meetings is given on page 18 of this Annual Report.

The following types of related party transactions are brought to the attention of the Board;

- Insurance services obtained from the Parent Company and payments made thereof
- Services provided and payments made to related parties
- Review of such transactions and determining whether to permit or prohibit the transaction
- laboratory services obtained from the subsidiary Company and payments made thereof

During the financial year 2019, relevant disclosures have been made to the Colombo Stock Exchange complying with the regulations. Details of Related Party Transactions entered into by the Group during the above period are disclosed in Note 29 to the financial statements.

RESIGNATIONS AND NEW APPOINTMENTS TO THE COMMITTEE

Mr. Chandrasiri Kalupahana, Ms. Umashanthiee Rajamantri, Ms. Upulangani Malagamuwa have resigned from the Board of Directors and consequently from the RPT Committee during the year. The vacancies created by the resignations of the directors above were filled in by the appointment of Ms. Lakshmi Sangakkara as the Chairperson, Mr. Mayura Fernando and Mr. Kushan D Alwis PC.

On behalf of the Committee;

Lakshmi Sangakkara
Chairperson - Related Party Transactions Review Committee

21st May 2020

THE BOARD AUDIT COMMITTEE REPORT

COMMITTEE COMPOSITION

- Mr. Mayura Fernando (NED/IND) Chairman
- Dr. Prasad Ariyawansa (NED/IND)
- Ms. Roshini Cabraal (NED/IND)

(NED-Non-Executive Director, IND - Independent Director)

New Appointment	Appointed Date
Mr. Mayura Fernando	21/02/2020
Dr. Prasad Ariyawansa	21/02/2020
Ms. Roshini Cabraal	21/02/2020

Committee Composition - 2019	Appointed Date	Resigned Date	Attendance
Mr. Jayantha Munasinghe	20/03/2017	28/03/2019	1/1
Mr. Asendra Siriwardena	10/11/2015	28/03/2019	1/1
Mr. Keerthi Kotagama	24/10/2017	30/03/2019	1/1
Mr. Chandrasiri Kalupahana	24/05/2019	05/12/2019	6/6
Ms. Umashanthiee Rajamantri	24/10/2017	05/12/2019	6/6
Ms. Upulangani Malagamuwa	29/03/2019	05/12/2019	6/6

The Group Chief Executive Officer, Group Head of Internal Audit and the Group Chief Financial Officer attend Audit Committee meetings by invitation and the Company Secretary functions as the Secretary to the Committee.

MANDATE AND RESPONSIBILITIES

Committee responsibilities as set out in the Audit Committee Charter are as follows;

- Ensure the integrity of the financial Statements by reviewing the financial reporting systems in place, the appropriateness of the accounting policies and adherence to statutory and regulatory compliance requirements
- Review and ensure the adequacy of Internal Control Systems and Risk Management
- Ensure adherence to all policies and procedures set out by the Board of Directors
- Monitor the independence and performance of Internal and External Audit functions and follow up with the management on their findings and recommendations

ACTIVITIES DURING THE YEAR

The Committee convened 07 times during the financial year ending 31st December 2019 and the proceedings of these meetings were regularly reported to the Board of Directors in adequate detail. Attendance at the Committee meetings is set out alongside. Key areas of focus included the following;

▪ Reporting of financial performance and position

The Committee assists the Board of Directors to discharge their responsibility for the preparation of the quarterly and annual Financial Statements that portray a true and fair view of the affairs of the Company. This process is based on the Company's accounting records, the stipulations of the Sri Lanka Accounting Standards, Companies Act and rules and regulations of CSE and SEC.

▪ Internal Controls and Risk Management

During its meetings the Committee reviewed the adequacy and effectiveness of the internal control systems in place in order to ensure that the financial reporting system can be relied upon in the preparation and presentation of financial statements, the processes are in place to safeguard the assets of the company and orderly and efficient conduct of business including adherence to the internal policies and statutory requirements. The Committee reviewed the Company's exposure to the business, financial and operational risks and the adequacy of the ongoing risk management system established by the management.

▪ Internal Audit

The Committee ensures that the Internal Audit function is independent of the activities it audits and carries out its activities with efficiency, impartiality and due professional care. The Internal Audit Plan was reviewed by the Committee to ensure that it covers the significant financial and operational aspects of the Company. The Group Head of Internal Audit was invited to be present at all Audit Committee deliberations. Observations made in the internal audit reports were reviewed and where necessary corrective actions were recommended, and the implementation was monitored. Major findings of internal investigations with recommendations of the Management, were considered and appropriate instructions issued.

- **External Audit**

The Committee is responsible for monitoring and evaluating the independence and objectivity of the External Auditors. The Committee also reviewed and approved the external audit plan presented by the External Auditors and monitored the progress of the external audit. Issues arising from the audit and the required corrective action were discussed with the external auditors and the Management Letter and responses thereto were also reviewed by the Committee. The Auditor General was appointed as the Auditor for the ensuing financial year in compliance with Article 154 of the 19th Amendment to the Constitution being the Auditors for Company and Subsidiary company Lanka Hospitals Diagnostics (Private) Limited.

- **Ethics and good governance**

The highest standards of corporate governance, ethics and transparency were ensured at all times. Appropriate procedures are in place to conduct independent investigations into incidents reported through whistle blowing or identified through other means. The Committee placed continuous emphasis on upholding the ethical values of employees regarding good governance and ethics.

RESIGNATIONS AND NEW APPOINTMENTS TO THE COMMITTEE

Mr. Jayantha Munasinghe, Mr. Asendra Siriwardena, Mr. Keerthi Kotagama, Mr. Chandrasiri Kalupahana, Ms. Umashanthiee Rajamantri and Ms. Upulangani Malagamuwa have resigned from the Board of Directors and consequently from the Audit Committee during the year. The vacancies created by the resignations of the directors above were filled in by the appointment of Mr. Mayura Fernando as the Chairman, Dr. Prasad Ariyawansa and Ms. Roshini Cabraal.

On behalf of the Committee;

Mayura Fernando,
Chairman, Audit Committee

21st May 2020

FINANCIAL INFORMATION

INDEPENDENT AUDITORS' REPORT

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No. COM/LHC/FA/2019/01 | ඔබේ අංකය / உமது இல. / Your No. | දිනය / திகதி / Date 21 May 2020

The Chairman,
The Lanka Hospitals Corporation PLC

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of The Lanka Hospital Corporation PLC for the year ended 31 December 2019 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. FINANCIAL STATEMENTS

1.1 Opinion

The audit of the financial statements of The Lanka Hospital Corporation PLC,(" the Company"), and the consolidated financial statements of the Company and its subsidiary (" Group"), which comprise the statement of financial position as at 31 December 2019 and the income statement, statement of profit or loss and other 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 and other explanatory 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 report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

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 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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 opinion.

1.3 Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the Company Financial Statements and the Consolidated Financial Statements of the current year. These matters were addressed in the context of my audit of the Company Financial Statements and the Consolidated Financial Statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

- **Revenue recognition** – Refer to Note 4.15 – accounting policy and Note 5 to the Financial Statements.

The Revenue of the Group for the year ended 31st December 2019 was Rs. 7,549 Mn.

Risk Description	My Response
The Group's revenue generated from its healthcare services is disclosed in Note 5 together with the related accounting policy in 4.15. I considered revenue as a focus area due to the complexity of the pricing structure, its high volume, determination of appropriateness of gross or net basis of revenue recognition in certain arrangements, and reliance on IT controls.	My audit procedures included the following, among others; ▪ I carried out audit procedures over revenue measurement by testing on a sample basis, transactional level pricing and applicable documentary evidence. ▪ I discussed with management regarding the contractual arrangements where consultant medical personnel are involved, and tested on a sample basis the appropriateness of the recognition of revenue on a gross or net basis. ▪ I obtained an understanding about the key IT and manual controls over the occurrence of revenue and tested the same on a sample basis. ▪ I performed specific audit procedures over cash collection related to revenue covering a sample of locations where the Group's business is carried out. ▪ I assessed the adequacy of the disclosures made in Note 5 in the financial statement.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.
+94 11 2 88 70 28 - 34 +94 11 2 88 72 23 ag@auditorgeneral.gov.lk www.naosl.gov.lk

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- **Carrying value of inventories** – Refer to Note 4.8– accounting policy and Note 17 to the Financial Statements

The Group carried inventories of Rs. 413 Mn as at December 31, 2019, at the lower of cost or net realisable value.

Risk Description	My Response
Valuation of inventory involves judgement and estimates due to the nature of products and stringent quality requirements. Due to allocation and sale of inventories within Group operations based on the business model, both existence and valuation of inventories are key areas of focus.	My audit procedures included; assessing adequacy and consistency of provisioning for inventories at the reporting date with the Group's inventory provision policy. ▪ On a sample basis, comparing the carrying amounts of the Group's inventories with net realisation value of those inventories. ▪ Testing the existence of inventories through physical verification as at year end and validating the cost allocation within Group entities.

- **Recoverability of Trade Receivables** – Refer to Note 4.3.1 – accounting policy and Note 18 to the Financial Statements.

The Group's trade receivables as at 31 December 2019 was Rs.915 Mn

Risk Description	My Response
Assessment of recoverability of the Group's trade receivables involves based on management judgement. The historical payment patterns and other information relating to the creditworthiness of customers. Inherent subjectivity is involved in making judgements in relation to credit risk exposures to determine the recoverability of trade receivables.	My audit procedures included ▪ Testing the Group's credit control procedures, including the controls around credit terms, and reviewing the payment history and financial information pertaining to the customers. ▪ Testing the receipt of cash after the year end relating to 31 December 2019 balances; and ▪ Testing the adequacy of the Group's impairment provisions against trade receivables by assessing the judgements made and the historical trading experience with the relevant customers. ▪ Assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the impairment provision.

INDEPENDENT AUDITORS' REPORT CONTD.

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1.4 Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the Financial Statements and my auditor's report thereon. My opinion on the Financial Statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial Statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is material misstatement of other information; I am required to report that fact. I have nothing to report in this regard.

1.5 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 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.

1.6 Auditor's Responsibilities for the Audit of the Financial Statements

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 Group'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 Group's ability to continue as

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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.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

According to the National Audit Act, No. 19 of 2018 and Companies Act, No. 7 of 2007 include specific provisions for following requirements.

- I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company as per the requirement of the section 163 (1) (d) of the Companies Act, No. 7 of 2007 and the section 12 (a) of National Audit Act, No. 19 of 2018.
- The financial statements of the Company comply with the requirement of the section 151 of the Companies Act, No. 07 of 2007.
- The financial statements presented is consistent with the preceding year as per the requirement of the section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of the section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

Based on the procedures performed and evidence obtained which were limited to matters that are material, nothing has come to my attention;

- to state that any member of the governing body of the Company has any direct or indirect interest in any contract into by the Company which are out of the normal course of business as per the requirement of the section 12 (d) of the National Audit Act, No. 19 of 2018;
- to state that the Company has not complies with any applicable written law, general and special directions issued by the governing body of the Company as per the requirement of the section 12 (f) of the National Audit Act, No. 19 of 2018;
- to state that the Company has not performed according to its powers, functions and duties as per the requirement of the section 12 (g) of the National Audit Act, No. 19 of 2018;
- to state that the resources of the Company had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of the section 12 (h) of the National Audit Act, No. 19 of 2018.

W.P.C. Wickramarathne
Auditor General

INCOME STATEMENT

		Group		Company	
For the year ended 31st December,		2019	2018	2019	2018
	Note	Rs.	Rs.	Rs.	Rs.
Revenue from contracts with customers	5	7,548,711,186	7,076,596,016	6,127,446,608	5,763,022,537
Cost of services		(4,329,019,307)	(4,112,882,327)	(3,744,364,624)	(3,487,966,057)
Gross profit		3,219,691,879	2,963,713,689	2,383,081,984	2,275,056,480
Other income	6	68,018,543	59,006,927	198,721,345	272,250,671
Administrative expenses		(1,914,043,331)	(1,726,589,569)	(1,435,722,234)	(1,340,707,963)
Other operating expenses		(720,947,044)	(653,191,686)	(628,572,595)	(573,514,395)
Change in fair value of investment property	14	-	-	11,500,000	(500,000)
Profit from the operations		652,720,047	642,939,361	529,008,500	632,584,793
Finance income	7.1	226,320,769	479,172,877	167,379,669	423,476,847
Finance cost	7.2	(37,765,208)	-	(28,734,482)	-
Net finance income		188,555,561	479,172,877	138,645,187	423,476,847
Profit before taxation	8	841,275,608	1,122,112,238	667,653,687	1,056,061,640
Income tax expense	9	(260,639,580)	(252,052,954)	(247,456,886)	(229,594,180)
Profit for the year		580,636,028	870,059,284	420,196,801	826,467,460
Attributable to:					
Equity holders of the company		580,636,028	870,059,284	420,196,801	826,467,460
Earnings per share (Rs.)	10	2.60	3.89	1.88	3.69

Notes from pages 48 to 97 form an integral part of these Financial Statements. Figures in brackets indicated deductions.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December,	Note	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
Profit for the year		580,636,028	870,059,284	420,196,801	826,467,460
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Surplus on revaluation of land and leasehold buildings	23	-	9,000,000	-	9,000,000
Actuarial gains / (losses) on defined benefit obligations	24	(19,875,056)	4,365,086	(17,216,251)	3,958,221
Tax on other comprehensive income	25	5,565,016	(1,222,224)	4,820,550	(1,108,302)
Other comprehensive income for the year, (net of tax)		(14,310,040)	12,142,862	(12,395,701)	11,849,919
Total comprehensive income for the year		566,325,988	882,202,146	407,801,100	838,317,379
Attributable to:					
Equity holders of the parent		566,325,988	882,202,146	407,801,100	838,317,379

Notes from pages 48 to 97 form an integral part of these Financial Statements. Figures in brackets indicated deductions.

STATEMENT OF FINANCIAL POSITION

As at 31st December,	Note	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
ASSETS					
Non-current assets					
Property, plant and equipment	12	4,374,999,568	4,489,065,687	3,975,951,582	4,089,284,845
Right of use assets	28	638,680,845	-	529,133,161	-
Intangible assets	13	75,837,895	93,890,734	55,021,077	66,992,808
Investment property	14	-	-	135,000,000	123,500,000
Advance lease premium	15	-	217,032,083	-	217,032,083
Investment in subsidiary	16	-	-	414,000,020	414,000,020
		5,089,518,308	4,799,988,504	5,109,105,840	4,910,809,756
Current assets					
Inventories	17	412,871,966	369,185,426	321,847,911	285,751,630
Trade and other receivables	18	914,910,555	725,848,269	809,976,006	631,336,828
Amounts due from related companies	19	5,989,336	5,022,039	119,664,683	47,753,546
Economic service charge recoverable		-	256,632	-	-
Other financial assets	20	2,482,398,553	2,673,761,224	2,222,398,553	2,328,761,223
Cash and cash equivalents	21	521,701,786	375,496,168	318,424,161	363,730,682
		4,337,872,196	4,149,569,758	3,792,311,314	3,657,333,909
Total assets		9,427,390,504	8,949,558,262	8,901,417,154	8,568,143,665
EQUITY AND LIABILITIES					
Equity					
Stated capital	22	2,671,543,090	2,671,543,090	2,671,543,090	2,671,543,090
Revaluation reserve	23	982,213,369	1,028,709,128	918,291,662	962,019,491
Retained earnings		2,975,801,877	2,754,511,426	2,464,218,824	2,404,221,191
Total equity		6,629,558,336	6,454,763,644	6,054,053,576	6,037,783,772
Non-current liabilities					
Employee benefit obligations	24	245,319,808	188,595,352	218,983,833	168,761,834
Deferred tax liabilities	25	1,101,754,228	1,004,320,030	1,048,068,491	946,651,460
Lease liability	28	300,363,987	-	212,319,907	-
		1,647,438,023	1,192,915,382	1,479,372,231	1,115,413,294

As at 31st December,	Note	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
Current liabilities					
Amounts due to related companies	26	6,360,674	6,360,773	4,769,075	4,769,075
Trade and other payables	27	748,060,109	797,186,652	1,010,989,544	930,390,463
Lease liability	28	76,947,758	-	57,202,253	-
Income tax payable		56,909,372	166,523,415	54,344,840	164,032,545
Bank overdraft	21	262,116,232	331,808,396	240,685,635	315,754,516
		1,150,394,145	1,301,879,236	1,367,991,347	1,414,946,599
Total liabilities		2,797,832,168	2,494,794,618	2,847,363,578	2,530,359,893
Total equity and liabilities		9,427,390,504	8,949,558,262	8,901,417,154	8,568,143,665

Notes from pages 48 to 97 form an integral part of these Financial Statements. Figures in brackets indicated deductions.

It is certified that the Financial Statements have been prepared in compliance with the requirements of the Companies Act No 7 of 2007.

Badrajith Siriwardana
Group Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Signed for and on behalf of the Board;

Bandula Wijesiriwardena
Chairman

Mayura Fernando
Director

27th February 2020
Colombo

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Group	Stated capital Rs.	Revaluation reserve Rs.	Retained earnings Rs.	Total equity Rs.
Balance as at 1st January, 2018	2,671,543,090	1,066,204,888	2,282,277,858	6,020,025,836
Total comprehensive income for the year				
Profit for the year	-	-	870,059,284	870,059,284
Other comprehensive income	-	-	3,142,862	3,142,862
Surplus on revaluation of land	-	9,000,000	-	9,000,000
Depreciation transfer on surplus on revaluation of buildings	-	(46,495,759)	46,495,759	-
Transactions with owners recorded directly in equity				
Dividend	-	-	(447,464,338)	(447,464,338)
Balance as at 31st December, 2018	2,671,543,090	1,028,709,128	2,754,511,426	6,454,763,644
Total comprehensive income for the year				
Profit for the year	-	-	580,636,028	580,636,028
Other comprehensive income	-	-	(14,310,040)	(14,310,040)
Depreciation transfer on surplus on revaluation of buildings	-	(46,495,759)	46,495,759	-
Transactions with owners recorded directly in equity				
Dividend	-	-	(391,531,296)	(391,531,296)
Balance as at 31st December, 2019	2,671,543,090	982,213,369	2,975,801,877	6,629,558,336

Notes from pages 48 to 97 form an integral part of these Financial Statements. Figures in brackets indicated deductions.

STATEMENT OF CHANGES IN EQUITY

Company	Stated capital Rs.	Revaluation reserve Rs.	Retained earnings Rs.	Total equity Rs.
Balance as at 1st January, 2018	2,671,543,090	996,747,320	1,978,640,321	5,646,930,731
Total comprehensive inome for the year				
Profit for the year	-	-	826,467,460	826,467,460
Other comprehensive income	-	-	2,849,919	2,849,919
Surplus on revaluation of land	-	9,000,000	-	9,000,000
Depreciation transfer on surplus on revaluation of buildings	-	(43,727,829)	43,727,829	-
Transactions with owners recorded directly in equity				
Dividend	-	-	(447,464,338)	(447,464,338)
Balance as at 31st December, 2018	2,671,543,090	962,019,491	2,404,221,191	6,037,783,772
Total comprehensive income for the year				
Profit for the year	-	-	420,196,801	420,196,801
Other comprehensive income (net of tax)	-	-	(12,395,701)	(12,395,701)
Depreciation transfer on surplus on revaluation of building	-	(43,727,829)	43,727,829	-
Transactions with owners recorded directly in equity				
Dividend	-	-	(391,531,296)	(391,531,296)
Balance as at 31st December, 2019	2,671,543,090	918,291,662	2,464,218,824	6,054,053,576
Dividend per share - 2019 (Note - 11)				1.75
Dividend per share - 2018 (Note - 11)				2.00

Notes from pages 48 to 97 form an integral part of these Financial Statements. Figures in brackets indicated deductions.

STATEMENT OF CASH FLOWS

For the year ended 31st December,	Note	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
Cash flow from operating activities					
Profit before taxation		841,275,608	1,122,112,238	667,653,687	1,056,061,640
Adjustments for:					
Interest income	7.1	(233,522,494)	(192,025,904)	(174,586,776)	(136,237,886)
Dividend income	6	-	-	(124,200,006)	(207,000,010)
Depreciation on property, plant and equipment	12	413,608,409	393,125,625	369,914,266	352,096,485
Amortisation of right of use assets	28.4	70,255,114	-	48,654,667	-
Interest cost on lease liability	28.4	37,765,208	-	28,734,482	-
Amortisation of intangible assets	13	23,114,098	21,129,810	14,769,981	13,379,857
Exchange gain on right of use assets	28	(518,311)	-	(518,311)	-
Amortisation of advance lease premium	15	-	4,683,472	-	4,683,472
Net change in fair value of investment property	14	-	-	(11,500,000)	500,000
Provision for retiring gratuity	24.2	52,938,800	42,986,238	46,857,776	38,196,050
Impairment loss/ (reversal) of provision on inventory	17.1	328,713	(1,797,526)	328,713	(1,024,404)
Impairment loss / (reversal) of provision on trade receivables	18.2	13,136,003	(1,271,788)	13,136,003	(1,271,788)
Loss on disposal of property, plant and equipment	6	650,103	4,554,083	650,103	4,554,083
Operating cash flows before working capital changes		1,219,031,251	1,393,496,249	879,894,585	1,123,937,499
(Increase)/decrease in inventories		(44,015,253)	(72,653,655)	(36,424,994)	(54,736,334)
(Increase)/decrease in trade and other receivables		(207,767,739)	(132,692,998)	(219,346,299)	(97,327,834)
Increase/(decrease) in amounts due from related companies		(967,297)	1,740,960	(71,911,137)	95,472,796
Increase/(decrease) in trade and other payables		(49,126,544)	127,362,755	80,599,081	132,974,479
Increase/(decrease) in amounts due to related companies		(99)	(17,120,401)	-	-
		917,154,320	1,300,132,910	632,811,236	1,200,320,606
Cash generated from operations					
Retiring gratuity paid	24.2	(16,089,400)	(16,577,095)	(13,852,028)	(16,090,825)
Interest paid	28.4	(37,765,208)	-	(28,734,482)	
Income tax paid		(267,254,408)	(119,080,751)	(250,907,010)	(102,284,152)
Net cash inflow from operating activities		596,045,304	1,164,475,064	339,317,716	1,081,945,629

For the year ended 31st December,	Note	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
Cash flows from investing activities					
Acquisition of property, plant and equipment	12	(299,804,243)	(332,470,483)	(256,842,957)	(285,207,542)
Expenditure incurred on capital work in progress	12	(388,149)	(30,979,206)	(388,149)	(30,979,206)
Purchase of intangible assets	13	(5,061,259)	(19,500,363)	(2,798,250)	(15,453,197)
Proceeds from disposal of property, plant and equipment		-	5,897,104	-	5,897,104
Lease paid		(84,247,525)	-	(60,888,977)	-
Advance lease premium paid		-	(18,546,548)	-	(18,546,548)
Interest income received		209,522,278	154,133,599	172,331,597	97,373,599
Dividend income received	6	-	-	124,200,006	207,000,010
(Investment)/withdrawal in other financial assets		191,362,671	(447,905,047)	106,362,670	(560,947,638)
Net cash generated from (used in) investing activities		11,383,773	(689,370,944)	81,975,940	(600,863,417)
Cash flows from financing activities					
Dividend paid		(391,531,296)	(447,464,338)	(391,531,296)	(447,464,338)
Net cash outflow from (used in) financing activities		(391,531,296)	(447,464,338)	(391,531,296)	(447,464,338)
Net increase/(decrease) in cash and cash equivalents		215,897,782	27,639,782	29,762,360	33,617,875
Cash and cash equivalent at the beginning of the year		43,687,772	16,047,990	47,976,166	14,358,291
Cash and cash equivalent at the end of the period (Note A)		259,585,554	43,687,772	77,738,526	47,976,166
Note A- Analysis of cash and cash equivalents					
Favourable balances					
Cash in hand and at bank		97,954,380	169,487,954	94,676,755	167,722,468
Short term investments		423,747,406	206,008,214	223,747,406	196,008,214
		521,701,786	375,496,168	318,424,161	363,730,682
Unfavourable balances					
Bank overdrafts		(262,116,232)	(331,808,396)	(240,685,635)	(315,754,516)
Cash and cash equivalents		259,585,554	43,687,772	77,738,526	47,976,166

Notes from pages 48 to 97 form an integral part of these Financial Statements. Figures in brackets indicated deductions.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

1.1 Reporting Entity

The Lanka Hospitals Corporation PLC ("the Company") is a public limited liability Company incorporated and domiciled in Sri Lanka. The Company was incorporated under the Companies Act No. 17 of 1982 on 6 October 1997 and re-registered on 28 July 2008 under the Companies Act, No. 07 of 2007, which came into effect on 3 May 2007. The registered office of the Company and principal place of business is located at No.578, Elvitigala Mawatha, Narahenpita, Colombo 05, Sri Lanka. The ordinary shares of the Company have a primary listing on the Colombo Stock Exchange.

The fully owned subsidiary Company, Lanka Hospitals Diagnostics (Private) Limited is a private Company with limited liability incorporated in Sri Lanka under the provisions of the Companies Act No. 07 of 2007. The Company was incorporated on 06 February 2013. The immediate parent of the Company is The Lanka Hospitals Corporation PLC.

The staff strength of the Group as at 31st December 2019 was 2002 (1868 as at 31st December 2018)

1.2 Principal Activities and Nature of Operations

The principle activities of the Company and the Group are to provide healthcare and laboratory services. There were no significant changes in the nature of principal activities of the Company and the Group during the financial year.

1.3 Consolidated Financial Statements

The Consolidated financial statements of the Company as at, and for the year ended 31st December 2019 comprise the financial statements of Company and its subsidiary (together referred to as the "Group")

1.4 Parent Enterprise and Ultimate Parent Enterprise

The Company's immediate and ultimate parent is Sri Lanka Insurance Corporation Limited, which is incorporated in Sri Lanka.

2 BASIS OF PREPARATION

2.1 Statement of Compliance

The Consolidated financial statements of the Group and the separate financial statements of the Company have been prepared and presented in accordance with the Sri Lanka Accounting Standards (herein referred to as SLFRSs/LKASs) effective from 1st January 2012, laid down by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the requirements of the Companies Act No. 07 of 2007.

The Group did not adopt any inappropriate accounting treatments, which are not in compliance with the requirement of the SLFRSs and LKASs.

Details of the Group's significant accounting policies followed during the year are given in Notes 3 to 4.24.

2.2 Responsibility for Financial Statements

The Board of Directors of the Company is responsible for the preparation and fair presentation of the financial statements of the Group and the Company as per the provision of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards.

These financial statements include the following components:

- An Income Statement and a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Group and the Company for the year under review. Refer pages 40 to 41;
- A Statement of Financial Position providing the information on the financial position of the Group and the Company as at the year end. Refer pages 42 to 43;
- A Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and the Company. Refer pages 44 to 45;
- A Statement of Cash Flows providing the information to the users, on the ability of the Group and the Company to generate cash and cash equivalents and utilisation of those cash flows. Refer pages 46 to 47;
- Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information. Refer pages 48 to 97.

2.3 Approval of the Financial Statement by the Board of Directors

The financial statements of the Group and the Company for the year ended 31 December 2019 were authorised for issue by the Company's Board of Directors on 27th February 2020.

2.4 Basis of Measurement

The Consolidated and separate financial statements have been prepared on the historical cost basis, except that land and buildings, investment property are measured at fair value, and the retirement benefit obligations are measured at the present value of the defined benefit obligation as explained in the respective notes to the financial statements.

2.5 Going Concern Basis of Accounting

The Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future.

Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements of the Group continue to be prepared on a going concern basis.

2.6 Functional and Presentation Currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates (the Functional Currency).

The financial statements are presented in Sri Lankan Rupees, which is the Group's functional and presentation currency.

2.7 Presentation of Financial Statements

The assets and liabilities of the Group presented in the Statement of financial position are Grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

No adjustments have been made for inflationary factors affecting the Financial Statements.

2.8 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 1 on "Presentation of Financial Statements" (LKAS 1).

2.9 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the Consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Income and expenses are not offset in the Income Statements, unless required by an Accounting Standards and as specifically disclosed in the Significant Accounting Policies of the company.

2.10 Materiality And Aggregation

Each material class of similar items is presented separately in the Consolidated financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the LKAS 1 and amendments to LKAS 1 on "Disclosure Initiative".

2.11 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability.

The comparative information has been reclassified where necessary to conform to the current year's presentation. The Group and the Company have not restated the comparative information for 2018 for Lease within the scope of Sri Lankan Accounting Standard- SLFRS 16 on Lease. Therefore, the comparative information for 2018 is reported under Sri Lankan Accounting Standard – LKAS 17 on "Lease" and is not comparable to the information presented for 2019. Transition adjustments are denoted in the Note 28.

2.12 Use of Estimates, Judgments and Assumptions

The preparation of financial statements of the Group in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and reported values of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making a judgment about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements, is stated below:

2.12.1 Fair Value of Non-Financial Assets

The fair value used by the Group in the measurement of non-financial assets is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market in the most advantageous market that is accessible by the Group for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would act in their market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.12.2 Useful Lives of Property Plant and Equipment

Management reviews its residual values, useful lives and methods of depreciation of Property, Plant and Equipment at each reporting date based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the useful life of certain property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

2.12.3 Business Combinations

Management applies its judgment to determine whether the control indicators set out in the SLFRS 3 "Business Combination".

Management uses valuation techniques in determining the fair values of the various elements of a business combination. The fair value of contingent consideration is dependent on the outcome of many variables that affect future profitability.

2.12.4 Defined Benefit Obligation

The cost of the defined benefit plans is determined using an actuarial valuation. Management's estimate of the defined benefit obligation is based on a number of critical underlying assumptions such as mortality rates, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the defined benefit obligation amount and the annual defined benefit expense.

2.12.5 Fair Value of Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

2.12.6 Recognition of Deferred Tax Assets

Management applies significant judgment to the extent the deferred tax assets can be recognised based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised. In addition, significant judgment is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

2.12.7 Measurement of Fair Values

A number of the Group's accounting policies and disclosures require measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer.

Significant valuation issues are reported to the Group's Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1 - quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Further information about assumptions made in measuring fair values is included in the respective notes to the Consolidated financial statements.

2.12.8 Provisions for Liabilities, Commitments and Contingencies

The Group receives legal claims in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due processes in respective legal jurisdictions.

3. CHANGES IN ACCOUNTING POLICIES

3.1 New and Amended Standards and Interpretations

In these financial statements, the Group and the Company have applied SLFRS 16 which is effective for the annual reporting periods beginning on or after 1 January 2019 for the first time.

The Group and the Company have not early adopted any other standard, interpretation or amendment that has been issued but not effective.

3.1.1 SLFRS 16- Leases

The Group applied SLFRS 16 using the modified retrospective approach, under which an amount equal to the lease liability is accounted for as the right of use asset as at 1st January 2019. Accordingly, the comparative information presented for 2018 is not restated. The details of the changes in the accounting policies are disclosed below. Additionally, the disclosure requirements in SLFRS 16 have not generally been applied to comparative information.

3.1.1.1 Definition of a Lease

Previously, The Group determined at contract inception whether an arrangement is or contains a lease under LKAS 17 Leases. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 28.

On transition to SLFRS 16, The Group elected to apply the practical expedient to the assessment of which transaction are leases. It applied SLFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under LKAS 17 were not reassessed for whether there is a lease under SLFRS 16.

3.1.1.2 As a Leasee

The Group previously classified these leases as operating leases under LKAS 17 based on its assessment of whether the lease transferred substantially the entire risks and rewards incidental to ownership of the underlying asset to The Group and the Company. Under SLFRS 16, the Group recognises right-of-use assets and lease liabilities for leases of branch and office premises - i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019.

Right-of-use assets at the date of initial application for leases previously classified as an operating lease applying LKAS 17 are measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

The Group used a number of practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17. In particular, the Group:

- relied on its assessment of whether leases are onerous under LKAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. Staff quarters);
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

3.1.1.3 As a Lessor

The Group is not required to make any adjustments on transition to SLFRS 16 for leases in which it acts as a lessor.

The Group has applied SLFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

3.1.1.4 Impact on Financial Statements

On transition to SLFRS 16, the Group recognised equal additional right-of-use assets and lease liabilities. The impact on transition is summarised below.

	1st January 2019 LKR Mn.
Right-of-use assets presented in Note 28	620
Deferred tax asset	53
Lease liabilities	366
Retained earnings	-

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate as at 1 January 2019. The weighted average rate applied is 11.5%.

	1st January 2019
Operating lease commitments as at 31 December 2018 as disclosed under LKAS 17 in the Group's Consolidated financial statements	217 Mn
Discounted using the incremental borrowing rate as at 1 January 2019	11.5%
Recognition exemption for leases with less than 12 months of lease term at transition	1.4 Mn
Lease liabilities recognised as at 1 January 2019	366 Mn

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently for all periods presented in the financial statements by the Group and the Company unless otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

4.1 Basis of Consolidation

The Group's financial statements comprise, Consolidated financial statement of the Company and its Subsidiary in terms of the Sri Lanka Accounting Standard- SLFRS 10 on "Consolidated Financial Statements".

4.1.1 Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group as per SLFRS 3 "Business Combinations".

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships.

4.1.2 Subsidiary

A Subsidiary is an entity controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

The Group considers all relevant facts and circumstances in assessing whether it has power over an investee which includes; The contractual arrangement with the other vote holders of the investee, Rights arising from other contractual arrangements and the Group's voting rights and potential voting rights over the investee.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of a subsidiary is included in the Consolidated financial statements from the date of acquisition, being the date on which the Group obtains control, and continues to be Consolidated until the date when such control ceases.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

4.1.3 Non-Controlling Interest

For each business combination, the Group elect to measure any noncontrolling interest in the acquiree either,

- At fair value
- At their proportionate share of the acquiree's identifiable assets, which are generated at fair value.

Change in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners.

Adjustment to non-controlling interests are based on a proportionate amount or the net amount of the subsidiary.

Group does not have any non-controlling interest as at the reporting date.

4.1.4 Loss of Control

On the loss of control, the Group immediately derecognises the assets (including goodwill) and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit and loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Any investment retained is recognised at fair value.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

4.1.5 Reporting Date

Group's subsidiary has the same reporting period as the parent Company.

4.1.6 Intra-Group Transactions

Transfer prices between Group entities are set on an arms-length basis in a manner similar to transactions with third parties.

4.1.7 Transactions Eliminated on Consolidation

All intra-Group assets and liabilities, equity, income, expenses, unrealised gain or loss and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

4.1.8 Material Gains or Loss, Provisional Values or Error Corrections

There were no material gains or losses, provisional values or error corrections recognised during the year in respect of business combinations that took place in previous periods.

4.2 Foreign Currencies

4.2.1 Foreign Currency Transactions

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency, which is Sri Lankan Rupees, using exchange rates prevailing at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies as at the reporting date are translated into the functional currency at the prevailing exchange rate of the functional currency ruling as at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognised in OCI.

Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value in a foreign currency are translated using the prevailing exchange rates at the date when the fair value is determined.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

4.3 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

4.3.1 Financial Assets

4.3.1.1 Initial Recognition and Measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the Income Statement. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under SLFRS 15. Refer to the accounting policies in section 4.15, Revenue from contracts with customers.

In order for a financial asset (excluding equity instruments) to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

NOTES TO THE FINANCIAL STATEMENTS CONTD.

4.3.1.1.1 Financial Assets at Amortised Cost (Debt Instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows And

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables, amounts due from related companies and fixed deposits.

4.3.1.1.2 Financial Assets at Fair Value Through OCI (Debt Instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

1. The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling And
2. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the income statement and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI.

Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group currently does not own any financial asset that is classified under this category.

4.3.1.1.3 Financial Assets Designated at Fair Value Through OCI (Equity Instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under LKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the income statement the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group currently does not own any financial asset that is classified under this category.

4.3.1.1.4 Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement.

Dividends on listed equity investments are also recognised as other income in the income statement when the right of payment has been established.

The Group currently does not own any financial asset that is classified under this category.

4.3.1.2 Business Model Assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;

- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL. Assessment whether contractual cash flows are solely payments of principal and interest.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable-rate features;
- Prepayment and extension features; and
- Terms that limits the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

4.3.1.3 Impairment of Financial Assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

4.3.1.4 Derecognition of Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a Group of similar financial assets) is primarily derecognised (i.e., removed from the Group's Consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired Or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'passthrough' arrangement; and either

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(a) the Group has transferred substantially all the risks and rewards of the asset, or

(b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of;

(i) The consideration received (including any new asset obtained less any new liability assumed) and,

(ii) Any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss

4.3.2 Financial Liabilities

4.3.2.1 Recognition and Measurement

Financial liabilities are classified as measured at amortised cost or fair value through profit or loss (FVTPL). A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

4.3.2.2 Derecognition of Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

4.3.3 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

4.3.4 Amortised Cost Measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

4.3.5 Fair Value Measurement

Fair value measurement of financial instruments including the fair value hierarchy is explained in Note No.2.12.7.

4.3.6 Stated Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

Holders of these shares are entitled to dividends as declared from time and are entitled to one vote per share at general meeting of the Company.

4.4. Property, Plant and Equipment

4.4.1 Recognition and Measurement

The Group applies the requirements of the Sri Lanka Accounting Standard -LKAS 16 on 'Property, Plant & Equipment' in accounting for its owned assets which are held for and use in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

4.4.2 Basis of Recognition

Property, plant and equipment is recognised as an asset if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be reliably measured.

4.4.3. Basis of Measurement

All items of property, plant and equipment are recognised initially at cost.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use.

The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to the working condition for its intended use and borrowing costs if the recognition criteria are met.

This also includes cost of dismantling and removing the items and restoring them in the site on which they are located.

4.4.3.1 Cost Model

The Group applies the Cost Model to all Property, Plant & Equipment except for freehold land and buildings, and records at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

4.4.3.2 Revaluation Model

The Group applies Revaluation Model for the entire class of land and buildings in the statement of financial position. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of each reporting period. If the fair values of land and buildings does not change other than by an insignificant amount at each reporting period the Group will revalue such land and buildings every 3 years.

Any revaluation increase arising on the revaluation of such land and buildings are recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the income statement, in which case the increase is credited to the income statement to the extent of the decrease previously expensed. A decrease in the carrying amount arising on a revaluation of land and buildings are recognised in the income statement to the extent that it exceeds the balance, if any, held in the property's revaluation reserve relating to a previous revaluation of the same land and buildings.

Upon disposal, any related revaluation reserve is transferred from the revaluation reserve to retained earnings and is not taken into account in arriving at the gain or loss on disposal. The details of revaluation of land and buildings are disclosed in note 12 to the financial statements.

4.4.4 Significant Components of Property Plant and Equipment

When parts of an item of property, plant and equipment have different useful lives than the underlying asset, they are identified and accounted separately as major components of property, plant and equipment and depreciated separately based on their useful life.

4.4.5 Subsequent Cost

The Group recognises in the carrying amount of property, plant and equipment the cost of replacing a part of an item, when it is probable that the future economic benefits embodied in the item will flow to the Group and the cost of the item can be measured reliably. The carrying amounts of the parts that are replaced are derecognised from the cost of the asset. The cost of day-to-day servicing of property, plant and equipment are recognised in the income statement as and when incurred.

4.4.6 Depreciation

Depreciation is based on the cost of an asset less its residual value.

Depreciation is recognised in the income statement on a straight line basis over the estimated useful lives of each component of an item of property, plant and equipment. Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale or on the date that the asset is disposed. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives of property plant and equipment are as follows:

Improvements to Leasehold Buildings	40 years
Motor vehicles	4 years
Furniture and fittings	10 years
Office equipment	10 years
Computers	6 2/3 years
Other equipment	10 years
Medical equipment	10 years
Medical vehicles	4 years
Kitchen equipment	3 Years

The cost of replacement of components of assets recognised in the carrying amount of property, plant and equipment is depreciated over the balance useful life of the asset.

Depreciation methods, useful lives and the residual values are reviewed at each reporting date and adjusted accordingly.

4.4.7 De-Recognition

The carrying amount of an item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of

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property, plant and equipment is included in profit or loss when item is de-recognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised as required by Sri Lanka Accounting Standard – LKAS 16 on "Property, plant and equipment".

4.4.8 Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are the expenses of a capital nature directly incurred in the construction of buildings, awaiting capitalisation.

4.5 Investment Properties

4.5.1 Recognition and Measurement

A property that is held to earn rentals or for capital appreciation or both rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business, by the Group are accounted for as investment properties.

An investment property is recognised as an asset when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably.

4.5.2 Basic of Measurement

An investment property is measured initially at its cost. Transaction costs is included in the initial measurement. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The cost of a self-constructed investment property is its cost at the date when the construction or development is complete.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on a valuation performed by an accredited external independent valuer.

4.5.3 Subsequent Expenditure

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

4.5.4 Changes in Purpose

If an item of revalued owner occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of the item at the date of transfer is treated in the same way as a revaluation under LKAS 16; Property, plant and equipment. Accordingly, the surplus on revaluation is recognised in the statement of comprehensive income to the extent that it reverses a previous impairment loss. Further, any resulting decrease in the carrying amount of the property is initially charged in the statement of comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to profit or loss. The effect of depreciation on revalued property is also reversed within the statement of comprehensive income.

In the Consolidated financial statements, properties which are occupied by companies within the Group for the production or supply of goods and services or for administrative purposes is treated as property, plant and equipment, while these properties are treated as investment property in the financial statements of the Company owning the asset.

4.5.5 De-Recognition

An investment properties are derecognised when they have been disposed or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in SLFRS 15.

4.6 Lease

The Group has applied SLFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under LKAS 17. The details of accounting policies under LKAS 17 are disclosed separately.

Policy Applicable from 1st January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in SLFRS 16.

4.6.1 Group Acting as a Lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative standalone price.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

4.6.1.1 Short-Term Leases and Leases of Low-Value Assets
The Company / Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

4.6.2 Group Acting as a Lessor
When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially the entire risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

Policy Applicable Before 1 January 2019
For contracts entered into before 1 January 2019 the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- The arrangement had conveyed a right to use the asset.

4.6.3 As a Lessee
4.6.3.1 Finance Leases
Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased assets under property, plant and equipment, is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments under finance leases are apportioned between the finance expense and the reduction of the

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outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate interest on the remaining balance of the liability.

The Group did not have any finance leases under LKAS 17.

4.6.3.2 Operating Leases
Where the lessor effectively retains substantially all the risks and rewards of ownership over the assets are classified as operating leases. Payments under operating leases are recognised as an expense in the income statement on a straight-line basis over the term of the lease or any other basis more representative of the time pattern of the benefits derived from the lease.

The initial cost of acquiring a leasehold property treated as an operating lease is recognised as a non-current asset and is amortised over the period of the lease in accordance with the pattern of benefits expected to be derived from the lease. The carrying amount of leasehold property is tested for impairment annually.

4.6.4 As a Lessor
When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially the entire risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

4.7 Intangible Assets

4.7.1 Initial Recognition and Measurement
The Group recognises intangible assets if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

Separately acquired intangible assets are measured on initial recognition at cost. The cost of such separately acquired intangible assets include the purchase price, import duties, non-refundable purchase taxes and any directly attributable cost of preparing the asset for its intended use.

The cost of intangible assets acquired in a business combination is the fair value of the asset at the date of acquisition.

The cost of an internally generated intangible asset arising from the development phase of an internal project which is capitalised includes all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by the Management. Other development expenditure and expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding is expensed in the income statement as and when incurred.

4.7.2 Subsequent Costs
Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All the expenditure is expensed as incurred.

4.7.3 Subsequent Measurement
After initial recognition an intangible asset is stated at its costs less any accumulated amortisation and any accumulated impairment losses.

The useful economic life of an intangible asset is assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life of the asset. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

4.7.4 Intangible Assets Recognised by the Group
4.7.4.1 Computer Software
All computer software cost incurred and licensed for use by the Group, which does not form an integral part of related hardware, which can be clearly identified and reliably measured with the probability of leading to future economic benefits, are capitalised under intangible assets .

Expenditure on internally developed software is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

The Group amortises computer software over period of 6 2/3 years.

4.8 Inventories

Inventories are measured at the lower of cost and net realisable value after making due allowance for obsolete items. The cost of inventories is based on a first –in-first-out. The cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.'

4.9 Impairment – Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amounts of such assets are estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset Group that generates cash flows that are largely independent from other assets.

Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units on acquisition of subsidiaries are allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to reduce the carrying amount of the other assets in the unit (or Group of units) on a pro rata basis.

4.9.1 Calculation of Recoverable Amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

4.9.2 Reversal of Impairment

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss (excluding goodwill impaired previously) is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Reversals of impairment losses are recognised in the income statement.

4.10 Liabilities and Provisions

Liabilities classified as current liabilities in the statement of financial position are those which fall due for payment on demand of the creditor or within one year of the reporting date.

Non-current liabilities are those balances that become repayable after one year from the reporting date. All known liabilities have been accounted for in preparing the financial statements.

4.11 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the income statement net of any reimbursement.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

4.12 Employee Benefits

4.12.1 Short-Term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid in cash as exgratia in the short term, if the Group has a present legal or constructive obligation to pay this amount as a result of past service rendered by the employee, and the obligation can be measured reliably.

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4.12.2 Defined Contribution Plan

A defined contribution plan is a post-employment benefit plan under which an entity pays a fixed employee benefit contribution into a separate entity and will have no further legal or constructive obligations to pay any additional amounts. Obligations for contributions to a defined contribution plan are recognised as an employee benefit expense in the income statement in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

4.12.2.1 Employee Provident Fund and Employee Trust Fund

The Group and employees contribute a sum not less than 12% and 8% respectively, of the gross emoluments of employees employed in Sri Lanka as provident fund benefits managed by Central Bank of Sri Lanka (CBSL). Group contribute at the rate of 3% of the salaries of each employee to the Employees' Trust Fund managed by the CBSL.

4.12.3 Defined Benefit Plan – Retiring Gratuity

A defined benefit plan is a post- employment benefit plan other than a defined contribution plan as define by Sri Lankan Accounting Standard – LKAS 19 on "Employment Benefits". The liability recognised in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated annually using the projected unit credit method by qualified actuary as recommended by LKAS - 19. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the liability.

Provision has been made in the financial statements for retiring gratuities from the first year of service for all employees. However, according to the Payment of Gratuity Act No. 12 of 1983, the liability for payment to an employee arises only after the completion of 5 years continued service.

The liability is not externally funded.

Group recognises all actuarial gains and losses arising from defined benefit plans immediately in the statement of other comprehensive income as they occur.

4. 13 Restructuring

Provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses arising on such restructuring are not provided for.

The Group does not have any provision for restructuring as at the reporting date.

4.14 Onerous Contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

The Group does not have any onerous contracts as at the reporting date.

4.15 Revenue from Contracts with Customers

The Group is in the business of providing healthcare and laboratory services. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, except for the agency services explained below in 4.15.1.b, because it typically controls the goods or services before transferring them to the customer.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided below.

4.15.1 Hospital Revenue

a) The Group recognises revenue from hospital services over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group.

b) Consultancy fees collected on behalf of the in house and visiting consultants by the Group do not form part of revenue are excluded from the revenue.

The Company acts as the agent for rendering healthcare consultancy services to its customers due to following reasons:

Prime responsibility to provide consultation services to the customer or fulfilling the order rests with the respective consultant.

Establishing the consultancy charges and other terms of the service transaction rests with the respective consultant.

4.15.2 Pharmacy Revenue

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration and the existence of significant financing components.

(i) Variable consideration If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of goods provide customers with a right of return.

    The right of return gives rise to variable consideration. Rights of return Certain contracts provide a customer with a right to return the goods within a specified period. The Group uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in SLFRS 15 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Group recognises a refund liability.

(ii) Significant financing component Generally, the Group receives short-term advances from its customers. Using the practical expedient in SLFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

4.15.3 Rental Income from Investment Property

Rental income arising from renting of investment property is recognised as other income on a straight-line basis over the term of agreement.

4.15.4 Interest Income

Interest income is recognised as it accrues in the income statement. For all financial instruments measured at amortised cost interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating effective interest rate, the Group estimates the future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the EIR includes all transaction costs and fees and points paid or received that are an integral part of effective interest rate.

Interest income is included under finance income in the income statement.

4.16 Expenditure

Expenses are recognized in the statement of comprehensive income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the statement of comprehensive income.

4.17 Income Tax Expense

Income tax expense comprises of current tax and deferred tax. The income tax expense is recognised in the income statement except to the extent that it relates to the items recognised directly in the statement of other comprehensive income or statement of changes in equity, in which case it is recognised directly in the respective statements.

4.17.1 Current Tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

Taxation for the current and previous periods to the extent unpaid is recognised as a liability in the financial statements. When the amount of taxation already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset in the financial statements.

Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No 24 of 2017 commencing 1 April 2018.

Additional taxes that arise from the distribution of dividends by the Group, are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss as they generally relate to income arising from transactions that were originally recognised in profit or loss.

4.17.2 Deferred Tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- Temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

4.17.3 Withholding Tax on Dividends Distributed by the Company and Subsidiary

Withholding tax that arises from the distribution of dividends by the Company is recognised at the time the liability to pay the related dividend is recognised.

Dividends received by the Company from its subsidiary has attracted a 14% deduction at source after 1 April 2018.

4.17.4 Economic Service Charge

As per the provisions of the Economic Service Charge Act No 13 of 2006, economic service charge is payable on the liable turnover at specified rates. Economic service charge is deductible from the income tax liability. Any unclaimed liability is carried forward and set off against the income tax payable as per the relevant provisions in the Act.

4.18 Segment Reporting

An operating segment is a component of the Group or the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group or the Company's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment is a distinguishable component of an enterprise that is engaged in either providing products or services (Business segment) or in providing products or services within a particular economic environment (Geographical segment), which is subject to risk and rewards that are different from those of other segments.

However, there are no distinguishable components to be identified as segments for the Group and the Company.

4.19 Statements of Cash Flows

The statement of cash flows has been prepared using the "indirect method" in accordance with LKAS 7 - " Statement of cash flows".

Interest paid is classified as operating cash flows, interest received are classified as investing cash flows, while dividends paid are classified as financing cash flows for the purpose of presenting the cash flow statement.

Cash and cash equivalents:

Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

4.20 Contingencies and Capital Commitments

Contingencies are possible assets or obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on "Provisions, Contingent Liabilities and Contingent Assets".

Commitments and liabilities are disclosed in Notes 30 and 31 to the financial statements.

4.21 Related Party Transactions

Disclosure has been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies and decisions of the other, irrespective of whether a price is being charged.

4.22 Earnings Per Share

The Group presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group and the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders of the Group and the Company and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

4.23 Events Occurring after the Reporting Date

Events after the reporting period are those events, favourable and unfavourable, that occur between the Reporting date and the date when the financial statements are authorized for issue.

All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

4.24 New and Amended Standards Issued but Not Effective as at the Reporting Date

The Institute of Chartered Accountants of Sri Lanka has issued the following standard which becomes effective for annual periods beginning after the current financial year. Accordingly this standard has not been applied in preparing these financial statements. The Group has not early adopted new standards in preparing Consolidated financial statements.

The following standard is not expected to be have a significant impact on Group's Consolidated financial statements.

- SLFRS 17 Insurance Contracts

NOTES TO THE FINANCIAL STATEMENTS CONTD.

	For the year ended 31st December,	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
5	**REVENUE FROM CONTRACTS WITH CUSTOMERS**				
	Hospital revenue	6,127,446,608	5,763,022,537	6,127,446,608	5,763,022,537
	Laboratory revenue	1,421,264,578	1,313,573,479	-	-
		7,548,711,186	7,076,596,016	6,127,446,608	5,763,022,537
6	**OTHER INCOME**				
	Rent income	18,713,678	15,128,791	25,356,578	21,662,791
	Car park income	44,642,160	43,582,055	44,642,160	43,582,055
	Sundry income	5,312,808	4,850,164	5,172,704	4,559,898
	Loss on disposal of property, plant and equipment	(650,103)	(4,554,083)	(650,103)	(4,554,083)
	Dividend Income	-	-	124,200,006	207,000,010
		68,018,543	59,006,927	198,721,345	272,250,671
7	**NET FINANCE INCOME**				
7.1	**Finance income**				
	Interest income earned from;				
	- Call deposit	4,399,883	5,984,315	4,090,799	4,275,082
	- Fixed deposits - Sri Lankan Rupees	131,048,926	117,431,892	72,422,292	63,353,108
	- Fixed deposits - Foreign Exchange Earners Account (FEEA)	91,609,449	62,193,544	91,609,449	62,193,544
	- Short term deposits	6,464,236	6,416,153	6,464,236	6,416,152
	Gain /(Loss) on translation of foreign currency	(7,201,725)	287,146,973	(7,207,108)	287,238,961
		226,320,769	479,172,877	167,379,669	423,476,847
7.2	**Finance cost**				
	Interest expenses on lease liabilities	(37,765,208)	-	(28,734,482)	-
		(37,765,208)	-	(28,734,482)	-
	Net Finance Income	188,555,561	479,172,877	138,645,187	423,476,847

8 PROFIT BEFORE TAX

Profit before taxation is stated after charging all expenses including the following;

For the year ended 31st December,	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
Directors' remuneration and fees	23,089,000	21,535,250	16,289,000	14,612,000
Auditors' remuneration				
- Statutory audit	1,686,000	1,580,000	1,200,000	1,100,000
- Non audit services	-	-	-	-
Technical Service Fee	23,831,000	84,216,386	-	-
Amortisation of intangible assets	23,114,098	21,129,810	14,769,981	13,379,857
Impairment loss (reversal of provision) of trade receivables	13,136,003	(1,271,788)	13,136,003	(1,271,788)
Provision made / (reversal) on inventories	328,713	(1,797,526)	328,713	(1,024,404)
Amortisation of advanced lease premium	-	4,683,472	-	4,683,472
Amortisation of Right of use assets	70,255,114	-	48,654,667	-
Legal expenses	4,046,199	1,910,281	4,046,199	1,771,908
Staff cost (note 8.1)	2,300,138,974	2,057,196,328	1,958,627,573	1,754,874,652
Loss on disposal of property, plant and equipment	(650,103)	(4,554,083)	(650,103)	(4,554,083)
Depreciation of property, plant and equipment - Cost of services	198,227,717	186,804,797	179,684,053	171,093,691
Depreciation of property, plant and equipment - Administrative cost	215,380,692	206,320,828	190,230,213	181,002,794

8.1 Staff cost

	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
Staff cost Under Cost of Services				
Salaries and other related costs	1,032,601,633	913,501,864	1,020,669,634	898,602,739
Defined contribution plan cost - EPF and ETF	55,848,793	67,728,121	54,058,993	49,514,770
Defined benefit plan cost - Retiring gratuity	18,274,534	18,573,104	18,274,533	15,773,482
	1,106,724,960	999,803,090	1,093,003,160	963,890,991
Staff cost Under Administrative Cost				
Salaries and other related costs	1,065,605,791	949,819,759	765,627,039	703,614,098
Defined contribution plan cost - EPF and ETF	93,143,957	83,160,345	71,414,131	64,946,994
Defined benefit plan cost - Retiring gratuity	34,664,266	24,413,134	28,583,243	22,422,569
	1,193,414,014	1,057,393,238	865,624,413	790,983,661
	2,300,138,974	2,057,196,328	1,958,627,573	1,754,874,652
No of employees	2,002	1,868	1,650	1,546

NOTES TO THE FINANCIAL STATEMENTS CONTD.

For the year ended 31st December,	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
9 INCOME TAX EXPENSE				
Recognised in Income statement				
Current tax expense				
Taxation on the profit for the year (Note 9.1)	208,639,676	246,429,609	192,137,313	230,727,689
Under/(over) provision in respect of previous year	(50,999,310)	715,751	(50,918,009)	2,020,693
	157,640,366	247,145,360	141,219,304	232,748,382
Deferred tax expense				
Deferred tax liability orginated during the year	112,960,944	10,737,180	115,123,090	1,470,287
Deferred tax assets originated during the year	(9,961,730)	(5,829,587)	(8,885,508)	(4,624,490)
	260,639,580	252,052,954	247,456,886	229,594,180
Recognised in Statement of other comprehensive income				
Deferred tax on acturial gain or loss	(5,565,016)	1,222,224	(4,820,550)	1,108,302
	(5,565,016)	1,222,224	(4,820,550)	1,108,302
9.1 Tax reconciliation statement				
Profit before taxation	841,275,608	1,122,112,238	667,653,687	1,056,061,640
Consolidation adjustments	79,884,997	211,206,572	-	-
Profit after adjustments	921,160,605	1,333,318,810	667,653,687	1,056,061,640
Less : Income not liable for income tax	(325,673,047)	(262,286,536)	(131,103,141)	(41,107,649)
Less : Allowable expenses	(445,611,029)	(552,070,702)	(445,611,029)	(552,070,702)
Less : Income from other sources	(308,119,391)	(678,044,634)	(249,182,380)	(621,966,351)
Add : Disallowable expense	533,165,170	524,858,254	533,165,170	524,858,254
Business income	374,922,307	365,775,193	374,922,307	365,775,193
Add : Income from other sources	308,119,391	390,805,673	249,182,380	334,727,390
	683,041,698	756,580,866	624,104,687	700,502,582
Less : Qualifying payments	-	-	-	-
Taxable income	683,041,698	756,580,866	624,104,687	700,502,582
Tax on final withholding payment	17,388,001	28,980,001	17,388,001	28,980,001
Income tax at 12%	-	12,644,956	-	12,644,956
Tax on taxable Income at 28%	191,251,675	204,804,652	174,749,312	189,102,732
Taxation on profits for the year	208,639,676	246,429,609	192,137,313	230,727,689

9.2 The Lanka Hospitals Corporation PLC is liable to income tax at 28% for the year ended 31st December 2019.

9.3 With the implementation of the new Inland Revenue Act No.24 of 2017, effective from 1st April 2018, the corporate tax applicable to The Lanka Hospitals Corporation PLC is 28%.

In accordance with and subject to the power conferred on the Board of Investments of Sri Lanka, under section 17 of the BOI Law No 4 of 1978, the operating profits and income accruing to Lanka Hospitals Diagnostics (Pvt) Ltd is exempt from tax for a period of 6 years commencing from the year in which the enterprise commences to make profits or any year of assessment not later than two years reckoned from the date of commencement of commercial operations whichever comes first. The Company commenced its commercial operations in July 2014 and the tax exemption period expires in 2020.

Deferred tax assets and liabilities have been measured at the tax rate that is expected to apply to the period when the asset is realised or liability is settled.

10 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit for the year attributable to the equity holders of the company, by the weighted average number of ordinary shares outstanding during the year.

For the year ended 31st December,	Group		Company	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Profit attributable to the shareholders (Rs.)	580,636,028	870,059,284	420,196,801	826,467,460
Weighted average number of ordinary shares in issue	223,732,169	223,732,169	223,732,169	223,732,169
Earnings per ordinary share (Rs.)	2.60	3.89	1.88	3.69

11 DIVIDEND PER SHARE

The following dividends were declared and paid by the Company for the year.

For the year ended 31st December,	Group		Company	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Dividend (Rs.)	391,531,296	447,464,338	391,531,296	447,464,338
Number of ordinary shares in issue	223,732,169	223,732,169	223,732,169	223,732,169
Dividend per share (Rs.)	1.75	2.00	1.75	2.00

NOTES TO THE FINANCIAL STATEMENTS CONTD.

12 PROPERTY, PLANT AND EQUIPMENT

12.1 Group

	Freehold land Rs.	Buildings on leasehold land Rs.	Medical equipment Rs.	Furniture and fittings Rs.	Office equipment Rs.
Cost or valuation					
Balance as at 1st January 2018	55,000,002	2,615,742,935	2,601,187,666	295,486,822	80,067,519
Additions during the year	-	24,992,516	208,742,840	29,693,672	9,267,286
Revaluation surplus	9,000,000	-	-	-	-
Transfer from capital work in progress	-	2,335,171	-	-	-
Disposals during the year	-	-	(17,667,723)	(116,960)	(368,510)
Balance as at 31st December 2018	64,000,002	2,643,070,622	2,792,262,783	325,063,534	88,966,295
Accumulated depreciation					
Balance as at 1st January 2018	-	5,768,035	1,197,930,036	181,729,848	52,841,352
Charge for the year	-	116,684,807	185,997,878	20,152,555	6,031,077
Disposals during the year	-	-	(7,868,120)	(76,556)	(178,164)
Balance as at 31st December 2018	-	122,452,842	1,376,059,794	201,805,847	58,694,265
Carring Amounts					
As at 31st December 2018	64,000,002	2,520,617,780	1,416,202,989	123,257,689	30,272,030
Cost or valuation					
Balance as at 1st January 2019	64,000,002	2,643,070,622	2,792,262,783	325,063,534	88,966,295
Additions during the year	-	24,768,441	147,434,896	43,951,789	12,840,901
Transfers among categories	-	5,326,537	1,189,935	2,910,517	(18,011,331)
Disposals during the year	-	-	(260,700)	(31,012)	(955,809)
Balance as at 31st December 2019	64,000,002	2,673,165,600	2,940,626,914	371,894,828	82,840,056
Accumulated depreciation					
Balance as at 1st January 2019	-	122,452,842	1,376,059,794	201,805,847	58,694,265
Charge for the year	-	117,105,800	198,525,468	23,287,385	8,083,813
Transfers among categories	-	(130,610)	(297,751)	(10,856)	(10,523,116)
Disposals during the year	-	-	(174,420)	(18,262)	(474,922)
Balance as at 31st December 2019	-	239,428,032	1,574,113,091	225,064,114	55,780,040
Carring Amounts					
As at 31st December 2019	64,000,002	2,433,737,568	1,366,513,823	146,830,714	27,060,016

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year 2019 (2018 – Nil).

12.1.1 Title restriction on property, plant and equipment

There were no restrictions existed on the title of the property, plant and equipment of the Group as at the reporting date.

12.1.2 Property, plant and equipment pledged as security for liabilities

There were no items of property, plant and equipment pledged as securities for liabilities as at the reporting date.

12.1.3 Fully-depreciated property, plant and equipment

Property plant and equipment as at 31st December 2019 includes fully depreciated assets having a gross carrying amount (cost) of Rs.1.55 Bn (2018 - 1.46 Bn).

Computer equipment Rs.	Other equipment Rs.	Kitchen equipment Rs.	Medical vehicles Rs.	Motor vehicles-Others Rs.	Capital work in progress Rs.	Total Rs.
223,986,162	677,714,430	34,652,724	24,117,956	38,014,961	9,642,929	6,655,614,106
15,728,000	42,872,794	1,173,375	-	-	30,979,206	363,449,689
-	-	-	-	-	-	9,000,000
-	-	-	-	-	(2,335,171)	-
(95,750)	(704,358)	-	-	(5,250,000)	-	(24,203,301)
239,618,412	719,882,866	35,826,099	24,117,956	32,764,961	38,286,964	7,003,860,494
161,200,204	450,835,542	32,884,908	23,311,037	28,920,335	-	2,135,421,297
22,418,259	35,802,873	1,232,566	806,919	3,998,690	-	393,125,625
(94,488)	(284,784)	-	-	(5,250,000)	-	(13,752,114)
183,523,975	486,353,631	34,117,474	24,117,956	27,669,025	-	2,514,794,807
56,094,437	233,529,235	1,708,625	-	5,095,936	38,286,964	4,489,065,687
239,618,412	719,882,866	35,826,099	24,117,956	32,764,961	38,286,964	7,003,860,494
22,719,515	38,584,705	1,365,906	-	8,810,000	388,149	300,864,303
7,470,025	442,406	-	-	-	-	(671,911)
(92,100)	(1,318,605)	-	-	-	-	(2,658,226)
269,715,852	757,591,373	37,192,005	24,117,956	41,574,961	38,675,113	7,301,394,660
183,523,975	486,353,631	34,117,474	24,117,956	27,669,025	-	2,514,794,807
31,290,477	39,305,279	1,162,727	-	5,963,681	-	424,724,629
(35,770)	(118,117)	-		-	-	(11,116,220)
(87,503)	(1,253,017)	-	-	-	-	(2,008,123)
214,691,179	524,287,776	35,280,201	24,117,956	33,632,706	-	2,926,395,092
55,024,673	233,303,596	1,911,804	-	7,942,255	38,675,113	4,374,999,568

NOTES TO THE FINANCIAL STATEMENTS CONTD.

12 PROPERTY, PLANT AND EQUIPMENT CONTD.

12.2 Company

	Freehold land Rs.	Buildings on leasehold land Rs.	Medical equipment Rs.	Furniture and fittings Rs.	Office equipment Rs.
Cost or Valuation					
Balance as at 1st January 2018	55,000,002	2,420,000,000	2,456,471,044	249,292,956	52,887,266
Additions during the year	-	18,741,152	187,191,808	25,504,088	5,445,170
Revaluation surplus	9,000,000	-	-	-	-
Transfer from capital work in progress	-	2,335,171	-	-	-
Disposals during the year	-	-	(17,667,723)	(116,960)	(368,510)
Balance as at 31st December 2018	64,000,002	2,441,076,322	2,625,995,129	274,680,085	57,963,926
Accumulated depreciation					
Balance as at 1st January 2018	-	-	1,155,940,665	168,662,672	45,392,362
Charge for the year	-	109,937,366	170,286,772	15,338,220	3,118,834
Disposals during the year	-	-	(7,868,120)	(76,556)	(178,164)
Balance as at 31st December 2018	-	109,937,366	1,318,359,317	183,924,336	48,333,032
Carring Amounts					
As at 31st December 2018	64,000,002	2,331,138,956	1,307,635,812	90,755,750	9,630,895
Cost or valuation					
Balance as at 1st January 2019	64,000,002	2,441,076,322	2,625,995,129	274,680,085	57,963,926
Additions during the year	-	24,768,441	136,954,844	28,508,296	5,252,594
Disposals during the year	-	-	(260,700)	(31,012)	(955,809)
Balance as at 31st December 2019	64,000,002	2,465,844,763	2,762,689,273	303,157,369	62,260,711
Accumulated depreciation					
Balance as at 1st January 2019	-	109,937,366	1,318,359,317	183,924,336	48,333,032
Charge for the year	-	110,283,828	179,684,053	17,523,709	3,503,675
Disposals during the year	-	-	(174,420)	(18,262)	(474,922)
Balance as at 31st December 2019	-	220,221,194	1,497,868,950	201,429,783	51,361,785
Carring Amounts					
As at 31st December 2019	64,000,002	2,245,623,569	1,264,820,323	101,727,586	10,898,927

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year 2019 (2018 – Nil).

12.2.1 Title restriction on property, plant and equipment

There were no restrictions existed on the title of the property, plant and equipment of the Company as at the reporting date.

12.2.2 Property, plant and equipment pledged as security for liabilities

There were no items of property, plant and equipment pledged as securities for liabilities as at the reporting date.

12.2.3 Fully-depreciated property, plant and equipment

Property plant and equipment as at 31st December 2019 includes fully depreciated assets having a gross carrying amount (cost) of Rs.1.55 Bn (2018 - 1.46 Bn).

The building constructed on leasehold land of the Company was revalued by Mr A.A.M. Fathihu (FIV), Chartered Valuer with appropriate experience valuation of properties in relevant location in December 2017 on current replacement cost basis.

Freehold land of the Company was revalued by Mr A.A.M. Fathihu (FIV), Chartered Valuer in December 2018 on current market value basis.

	Computer equipment Rs.	Other equipment Rs.	Kitchen equipment Rs.	Medical vehicles Rs.	Motor vehicles- Others Rs.	Capital work in progress Rs.	Total Rs.
	165,833,638	660,691,490	34,652,724	24,117,956	38,014,961	9,642,929	6,166,604,968
	11,650,370	35,501,579	1,173,375	-	-	30,979,206	316,186,748
	-	-	-	-	-	-	9,000,000
	-	-	-	-	-	(2,335,171)	-
	(95,750)	(704,358)	-	-	(5,250,000)	-	(24,203,301)
	177,388,258	695,488,711	35,826,098	24,117,956	32,764,961	38,286,964	6,467,588,415
	137,974,237	446,872,983	32,884,908	23,311,037	28,920,335	-	2,039,959,198
	13,480,852	33,896,266	1,232,566	806,919	3,998,690	-	352,096,485
	(94,489)	(284,784)	-	-	(5,250,000)	-	(13,752,114)
	151,360,600	480,484,465	34,117,474	24,117,956	27,669,025	-	2,378,303,570
	26,027,658	215,004,247	1,708,625	-	5,095,936	38,286,964	4,089,284,845
	177,388,258	695,488,711	35,826,098	24,117,956	32,764,961	38,286,964	6,467,588,415
	15,856,493	35,326,383	1,365,906	-	8,810,000	388,149	257,231,106
	(92,100)	(1,318,605)	-	-	-	-	(2,658,226)
	193,152,651	729,496,488	37,192,004	24,117,956	41,574,961	38,675,113	6,722,161,295
	151,360,600	480,484,465	34,117,474	24,117,956	27,669,025	-	2,378,303,570
	15,165,307	36,627,286	1,162,727	-	5,963,681	-	369,914,266
	(87,503)	(1,253,017)	-	-	-	-	(2,008,123)
	166,438,404	515,858,734	35,280,201	24,117,956	33,632,706	-	2,746,209,713
	26,714,247	213,637,755	1,911,803	-	7,942,255	38,675,113	3,975,951,582

NOTES TO THE FINANCIAL STATEMENTS CONTD.

12 PROPERTY, PLANT AND EQUIPMENT CONTD.

12.2 Company Contd.

12.2.4 Freehold land carried at revalued amount

Fair value maesurement of Freehold land has been clasiffied as a level 3 in fair value hierarchy

Location	Type of Property	Method of valuation	Effective date of revaluation
Land held by Company			
Hathbodiya, Kirula Road, Narahenpita, Colombo 05	Land	Open market value method	31st December 2018
Hathbodiya, Kirula Road, Narahenpita, Colombo 05	Land	Open market value method	31st December 2018

12.2.5 Carring amount if buildings on leasehold mesured using cost model

Location	Type of Property	Method of valuation	Effective date of revaluation
Buildings on leasehold land by the Group / Company			
No 578, Etiviligala Mawatha, Colombo 05	Building	Open market value method	31st December 2017

Property valuer	Extent	Significant unobservable input	Carrying amount as at 31.12.2019 Rs.	Revaluation surplus Rs.	Carrying amount at cost Rs.
Mr. A A M Fathihu (FIV), Chartered Valuer	10.35 Perches	Estimated price per perch Rs.3,144,963	32,550,370	26,081,923	6,468,447
Mr. A A M Fathihu (FIV), Chartered Valuer	10 Perches	Estimated price per perch Rs.3,144,963	31,449,632	25,199,926	6,249,706
	20.35 perches		64,000,002	51,281,849	12,718,153

Property valuer	Significant unobservabl input	Cost as at 31.12.2019 Rs.	Cumulative depreciation if assets were carried at cost Rs.	Net carrying value Rs.
Mr. A A M Fathihu (FIV), Chartered Valuer	Estimated value per square foot Rs. 5,000 - 12,500	1,676,652,091	316,487,964	1,360,164,127

NOTES TO THE FINANCIAL STATEMENTS CONTD.

12 PROPERTY, PLANT AND EQUIPMENT CONTD.

12.2 Company Contd.

12.2.6 Capital work in progress

As at 31st December,	Balance as at 1.1.2019 Rs	Additions during the year Rs	Transfers during the year Rs	Balance as at 31.12.2019 Rs
Building on leasehold land	38,286,964	388,149	-	38,675,113
	38,286,964	388,149	-	38,675,113

As at 31st December,	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
13 INTANGIBLE ASSETS				
Cost				
Balance at the beginning of the year	151,093,642	131,593,279	98,236,398	82,783,201
Additions during the year	5,061,259	19,500,363	2,798,250	15,453,197
Balance as at the end of the year	156,154,901	151,093,642	101,034,648	98,236,398
Accumulated amortisation				
Balance at the beginning of the year	57,202,908	36,073,098	31,243,590	17,863,733
Amortisation charge for the year	23,114,098	21,129,810	14,769,981	13,379,857
Balance as at the end of the year	80,317,006	57,202,908	46,013,571	31,243,590
Carrying amount	75,837,895	93,890,734	55,021,077	66,992,808

Intangible assets inclued software used by the Group and the Company.

There were no restrictions on the title of the intangible assets of the Group and the Company as at the reporting date. Further, there were no items pledged as securities for liabilities. There were no capitalised borrowing costs related to the acquisition of intangible assets during the year 2019 (2018 – Nil).

As at 31st December,	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
14 INVESTMENT PROPERTY				
Balance at the beginning of the year	-	-	123,500,000	124,000,000
Change in fair value	-	-	11,500,000	(500,000)
Balance as at the end of the year	-	-	135,000,000	123,500,000

Land and buildings which are occupied by the companies within the Group for the production or supply of goods and services or for administration purposes are treated as property, plant and equipment in the consolidated financial statements at revalued amounts. These properties are treated as investment property in the relevant company's statement of financial position at revalued amount, if such company has rented out the property to other Group company.

14.1 Income earned from investment property

Investment property consists of value attributable to 7th floor of the building constructed on leasehold land,at 578, Elvitigala Mawatha, Colombo 5 which is given on rental to Lanka Hospitals Diagnostics (Private) Limited which is a subsidiary, for a monthly rental of Rs 544,500/- until October 2019 and Rs.598,950 November 2019 onwards

14.2 Details of land and buildings classified as investment property

Location	Building Extent	Carrying amount at cost Rs.	Fair value Rs.	Last Revaluation Date
No 578, Etiviligala Mawatha, Colombo 05	11,500 square feet	82,110,000	135,000,000	31/12/2019

14.3 As at 31st December 2019,the fair value of the investment property is based on valuation performed by Mr. A.A.M. Fathihu (FIV), Chartered Valuer, an accredited independent valuer who has appropriate experience in valuation of properties. The valuation is based on current replacement cost method.

There has been no impairment on investment property which requires a provision as at the reporting date.

The fair value measurement of the investment property has been classified as a Level 3 in fair value hierarchy.

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique	Significant observable and unobservable inputs	Interrelationship between key inputs and fair value measurement
Replacement cost method	Value per square feet determined based on similar properties value and depreciated for period used	The estimated fair value would increase (decrease) if: ▪ Depreciation rate was lesser / (higher) ▪ Square feet value was higher / (lesser)

There were no restrictions on the realisability of any investment property or on the remittance of income or proceeds of disposal.

For the year ended 31st December,	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
14.4 Included in Income statement				
Rental income	-	-	6,642,900	6,534,000
Changes in fair value	-	-	11,500,000	(500,000)

NOTES TO THE FINANCIAL STATEMENTS CONTD.

As at 31st December,	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
15 ADVANCE LEASE PREMIUM				
Balance at the beginning of the year	217,032,083	203,169,008	217,032,083	203,169,008
Premium paid during the year	-	18,546,548	-	18,546,548
Amortisation during the year	-	(4,683,472)	-	(4,683,472)
Transfer to Right of use assets	(217,032,083)	-	(217,032,083)	-
Balance as at the end of the year	-	217,032,083	-	217,032,083

The Company has entered into a 99 years lease agreement with the Urban Development Authority in 1999. In terms of this agreement a sum of Rs 18,546,522 per annum should be paid by the Company till 2025, and the final premium payment of Rs 9,273,274 should be paid in 2026. As at 31 December 2019 a sum of Rs 122 Mn is payable by 2026. (31 December 2018 - Rs 140 Mn).

Lease rent paid on each installment is carried forward and amortised over the 99 years period, in accordance with the said agreement.

During the year, the respective advance lease premium balance has transferred to Right of use assets and future lease rentals to be paid has consider in calculating ROU which is required by SLFRS 16 - 'Lease'.

As at 31st December,	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
16 INVESTMENT IN SUBSIDIARY				
Lanka Hospitals Diagnostics (Pvt) Ltd				
Balance at the beginning of the year (41,400,002 shares)	-	-	414,000,020	414,000,020
Balance as at the end of the year (41,400,002 shares)	-	-	414,000,020	414,000,020

As at 31st December,	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
17 INVENTORIES				
Medical items	396,088,479	351,058,259	305,064,424	267,624,463
Non medical items	8,884,107	9,445,250	8,884,107	9,445,250
Engineering stocks	4,300,942	4,127,336	4,300,942	4,127,336
Food and beverages	4,576,899	5,204,329	4,576,899	5,204,329
	413,850,427	369,835,174	322,826,372	286,401,378
Less; provision on inventories (Note 17.1)	(978,461)	(649,748)	(978,461)	(649,748)
	412,871,966	369,185,426	321,847,911	285,751,630

As at 31st December,	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
17.1 Provision on inventories				
Balance at the beginning of the year	649,748	2,447,274	649,748	1,674,152
Provision recognized / (reversed) during the year	328,713	(1,797,526)	328,713	(1,024,404)
Balance as at the end of the year	978,461	649,748	978,461	649,748

There were no items of inventories pledged as a securities for liabilities by the Group and the Company as at reporting date.

As at 31st December,	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
18 TRADE AND OTHER RECEIVABLES				
Trade receivables (Note 18.1)	481,001,598	457,810,519	427,344,475	394,176,371
Impairment loss on trade receivables (Note 18.2)	(41,223,962)	(28,087,959)	(41,223,962)	(28,087,959)
	439,777,636	429,722,560	386,120,513	366,088,412
Deposits and prepayments	81,577,462	120,590,714	60,899,144	101,206,278
Advances and other receivables	295,111,423	101,091,177	291,791,931	95,132,900
Interest income receivable	98,444,034	74,443,818	71,164,418	68,909,238
	914,910,555	725,848,269	809,976,006	631,336,828
18.1 Trade receivables			-	
Sri Lanka Insurance Corporation Limited	30,291,954	25,695,062	26,679,713	22,436,233
Other debtors	407,064,671	368,893,394	357,019,789	308,518,075
Patients not yet discharged	43,644,973	63,222,063	43,644,973	63,222,063
	481,001,598	457,810,519	427,344,475	394,176,371
18.2 Impairment loss on trade receivables				
Balance at the beginning of the year	28,087,959	29,359,747	28,087,959	29,359,747
Impairment recognized during the year	13,136,003	(1,271,788)	13,136,003	(1,271,788)
Balance as at the end of the year	41,223,962	28,087,959	41,223,962	28,087,959

NOTES TO THE FINANCIAL STATEMENTS CONTD.

As at 31st December,	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
19 AMOUNTS DUE FROM RELATED COMPANIES				
Sri Lanka Insurance Corporation Limited	5,989,336	5,022,039	5,989,336	5,022,039
Lanka Hospitals Diagnostics (Pvt) Ltd	-	-	113,675,347	42,731,507
	5,989,336	5,022,039	119,664,683	47,753,546
20 OTHER FINANCIAL ASSETS				
Fixed deposits- Foreign Exchange Earners Account (FEEA)	1,657,398,554	1,728,588,712	1,657,398,554	1,728,588,712
Fixed deposits- Sri Lankan Rupees	824,999,999	945,172,512	564,999,999	600,172,511
	2,482,398,553	2,673,761,224	2,222,398,553	2,328,761,223

There were no financial assets pledged as a securities for liabilities by the Group and the Company as at reporting date.

As at 31st December,	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
21 CASH AND CASH EQUIVALENTS				
Favourable balances				
Repo Investment	423,747,406	206,008,214	223,747,406	196,008,214
Cash in hand and at bank	97,954,380	169,487,954	94,676,755	167,722,468
	521,701,786	375,496,168	318,424,161	363,730,682
Unfavourable balances				
Bank overdraft	(262,116,232)	(331,808,396)	(240,685,635)	(315,754,516)
Cash and cash equivalents for the purpose of statement of cash flows	259,585,554	43,687,772	77,738,526	47,976,166
22 STATED CAPITAL				
Issued and fully paid				
223,732,169 Ordinary shares	2,671,543,090	2,671,543,090	2,671,543,090	2,671,543,090

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

As at 31st December,	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
23 REVALUATION RESERVE				
Balance at the beginning of the year	1,028,709,128	1,066,204,888	962,019,491	996,747,320
Surplus on revlautaion of land and leasehold buildings	-	9,000,000	-	9,000,000
Depreciation transfer on revaluation of buildings	(46,495,759)	(46,495,759)	(43,727,829)	(43,727,829)
Balance as at the end of the year	982,213,369	1,028,709,128	918,291,662	962,019,491

The revaluation reserve relate to the revaluation of Building on leasehold land and Freehold land.

24 RETIREMENT BENEFIT OBLIGATIONS

24.1 Description of the post employment defined benefit plan

A defined benefit plan is a postemployment benefit plan other than a defined contribution plan. The liability recognised in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the reporting date.

As at 31st December,	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
24.2 Movement in defined benefit obligations				
Balance as at 1st January	188,595,352	166,551,295	168,761,834	150,614,830
Included in Income statement				
Current service cost	31,250,334	24,665,596	27,450,165	21,628,419
Interest cost	21,688,466	18,320,642	19,407,611	16,567,631
	52,938,800	42,986,238	46,857,776	38,196,050
Included in other comprehensive income				
Actuarial (gain)/ loss recognised	19,875,056	(4,365,086)	17,216,251	(3,958,221)
	19,875,056	(4,365,086)	17,216,251	(3,958,221)
Other				
Contributions paid by the employer	(16,089,400)	(16,577,095)	(13,852,028)	(16,090,825)
	(16,089,400)	(16,577,095)	(13,852,028)	(16,090,825)
Balance at 31st December	245,319,808	188,595,352	218,983,833	168,761,834

Description of the valuation method used and the information about the valuer

LKAS 19 “Employee Benefits” requires the use of actuarial techniques to make a reliable estimate of the amount of retirement benefit that employees have earned in return for their service in the current and prior periods and discount that benefit using the Projected Unit Credit Method in order to determine the present value of the retirement benefit obligations and the current service cost. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates about demographic and financial variables that will influence the cost of the benefit.

The provision for retirement benefits obligations for the year is based on the actuarial valuation carried out by professionally qualified actuaries, Acturial And Management Consultants (Pvt) Ltd, as at 31st December 2019. The liability is not externally funded.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

24 RETIREMENT BENEFIT OBLIGATIONS CONTD.

24.3 Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date.

For the year ended 31st December,	Group 2019	Group 2018	Company 2019	Company 2018
Financial				
- Discount rate	10.50%	11.50%	10.50%	11.50%
- Salary escalation rate	10%	10%	10%	10%
Demographic				
- Retirement age	60 Years	60 Years	60 Years	60 Years

According to the payment of Gratuity Act No. 12 of 1983, the liability for the gratuity to an employee arises only on completion of five years of continuous service.

24.4 Sensitivity analysis

Reasonable possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

For the year ended 31st December,	Group 2019	Group 2018	Company 2019	Company 2018
Change in:	+1%	+1%	+1%	+1%
	Rs	Rs	Rs	Rs
Discount rate	(18,150,074)	(12,175,299)	(15,978,200)	(10,859,675)
Future salary growth	21,923,313	14,817,651	19,288,025	13,216,293

For the year ended 31st December,	Group 2019	Group 2018	Company 2019	Company 2018
Change in:	-1%	-1%	-1%	-1%
	Rs	Rs	Rs	Rs
Discount rate	20,884,343	13,868,557	18,364,134	12,368,629
Future salary growth	(19,362,712)	(13,211,252)	(17,055,691)	(11,784,992)

24.5 Maturity Analysis of the payments

The below tabular summarises the maturity profile of the Group's and the Company's define benefit obligation.

As at 31st December,	2019 Group Rs.	2019 Company Rs.
As at 31st December,		
Within the next 12 months	25,258,284	22,907,253
Between 1 - 2 years	39,328,688	35,428,871
Between 2 - 5 years	57,443,297	52,244,211
Beyond 5 years	579,892,946	505,987,297
	701,923,215	616,567,632

As at 31st December,	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
25 DEFERRED TAX LIABILITIES				
25.1 Deferred taxation				
Net deferred tax liability				
Deferred tax liability (Note 25.1.1)	1,170,747,495	1,057,786,551	1,109,383,963	994,260,873
Deferred tax asset (Note 25.1.2)	(68,993,267)	(53,466,521)	(61,315,472)	(47,609,413)
	1,101,754,228	1,004,320,030	1,048,068,491	946,651,460

The movements on the deferred tax account is as follows:

As at 31st December,	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
25.1.1 Deferred tax liability				
Balance at the beginning of the year	1,057,786,551	1,047,049,371	994,260,873	992,790,586
Originated during the year	112,960,944	10,737,180	115,123,090	1,470,287
Balance at the end of the year	1,170,747,495	1,057,786,551	1,109,383,963	994,260,873
25.1.2 Deferred tax asset				
Balance at the beginning of the year	(53,466,521)	(48,859,158)	(47,609,413)	(44,093,225)
Originated during the year - recognised in profit or loss	(9,961,730)	(5,829,587)	(8,885,508)	(4,624,490)
(Originated) / reversal during the year - recognised in other comprehensive income	(5,565,016)	1,222,224	(4,820,550)	1,108,302
Balance at the end of the year	(68,993,267)	(53,466,521)	(61,315,472)	(47,609,413)

NOTES TO THE FINANCIAL STATEMENTS CONTD.

25 DEFERRED TAX LIABILITIES CONTD.

25.2 Recognised deferred tax assets and liabilities

25.2.1 Group

	Net Balance as at 1st January 2019 Rs	Recognised in profit or loss Rs	Recognised in OCI Rs	Net balance at 31st December 2019 Rs	Deferred tax liability Rs	Deferred tax asset Rs
Property, plant and equipment	1,048,040,203	36,304,111	-	1,084,344,314	1,084,344,314	-
Employee benefits	(53,110,420)	(10,317,831)	(5,565,016)	(68,993,267)	-	(68,993,267)
Intangible assets	9,459,515	39,934	-	9,499,449	9,499,449	-
Impairment loss on inventory	286,833	(194,794)	-	92,039	92,039	-
Impairment loss on trade receivables	(356,101)	4,034,181	-	3,678,080	3,678,080	-
Right of use assets	-	73,133,612	-	73,133,612	73,133,612	-
	1,004,320,030	102,999,214	(5,565,016)	1,101,754,228	1,170,747,495	(68,993,267)

	Net Balance as at 1st January 2018 Rs	Recognised in profit or loss Rs	Recognised in OCI Rs	Net balance at 31st December 2018 Rs	Deferred tax liability Rs	Deferred tax asset Rs
Property, plant and equipment	1,038,541,025	9,499,178	-	1,048,040,203	1,048,040,203	-
Employee benefits	(46,938,085)	(7,394,559)	1,222,224	(53,110,420)	-	(53,110,420)
Intangible assets	7,257,023	2,202,492	-	9,459,515	9,459,515	-
Impairment loss on inventory	1,251,323	(964,490)	-	286,833	286,833	-
Impairment loss on trade receivables	(1,921,073)	1,564,972	-	(356,101)	-	(356,101)
	998,190,212	4,907,594	1,222,224	1,004,320,030	1,057,786,551	(53,466,521)

25.2.2 Company

	Net Balance as at 1st January 2019 Rs	Recognised in profit or loss Rs	Recognised in OCI Rs	Net balance at 31st December 2019 Rs	Deferred tax liability Rs	Deferred tax asset Rs
Property, plant and equipment	972,925,325	35,688,789	-	1,008,614,115	1,008,614,115	-
Investment property	11,589,200	3,220,000	-	14,809,200	14,809,200	-
Employee benefits	(47,253,313)	(9,241,609)	(4,820,550)	(61,315,472)	-	(61,315,472)
Intangible assets	9,459,515	39,934	-	9,499,449	9,499,449	-
Impairment loss on inventory	286,833	(194,794)	-	92,039	92,039	
Impairment loss on trade receivables	(356,101)	4,034,181	-	3,678,080	3,678,080	-
Right of use assets	-	72,691,080	-	72,691,080	72,691,080	-
	946,651,460	106,237,582	(4,820,550)	1,048,068,491	1,109,383,963	(61,315,472)

	Net Balance as at 1st January 2018 Rs	Recognised in profit or loss Rs	Recognised in OCI Rs	Net balance at 31st December 2018 Rs	Deferred tax liability Rs	Deferred tax asset Rs
Property, plant and equipment	972,553,040	372,285	-	972,925,325	972,925,325	-
Investment property	11,729,200	(140,000)	-	11,589,200	11,589,200	-
Employee benefits	(42,172,152)	(6,189,463)	1,108,302	(47,253,313)	-	(47,253,313)
Intangible assets	7,257,023	2,202,492	-	9,459,515	9,459,515	-
Impairment loss on inventory	1,251,323	(964,490)	-	286,833	286,833	-
Impairment loss on trade receivables	(1,921,073)	1,564,973	-	(356,100)	-	(356,100)
	948,697,360	(3,154,202)	1,108,302	946,651,460	994,260,873	(47,609,413)

NOTES TO THE FINANCIAL STATEMENTS CONTD.

As at 31st December,	Group 2019 Rs.	Group 2018 Rs.	Company 2019 Rs.	Company 2018 Rs.
26 AMOUNTS DUE TO RELATED COMPANIES				
Sri Lanka Insurance Corporation Limited	4,769,075	4,769,075	4,769,075	4,769,075
Super Religare Laboratories Limited - SRL	1,591,599	1,591,698	-	-
	6,360,674	6,360,773	4,769,075	4,769,075
27 TRADE AND OTHER PAYABLES				
Trade payables (Note 27.1)	167,387,490	280,476,574	469,765,604	482,587,447
Other payables				
- Accrued expenses	195,895,810	167,148,832	193,854,902	161,530,647
- Advance received	60,344,488	46,901,188	60,344,488	46,901,188
- Economic Service Charge payable	3,787,322	3,596,693	-	-
- Withholding tax payable	9,696,444	41,576,384	9,197,194	12,389,327
- Other payables	310,948,555	257,486,981	277,827,357	226,981,854
	748,060,109	797,186,652	1,010,989,544	930,390,463
27.1 Trade payables				
Trade payables - Lanka Hopsitals Diagnostics (Pvt) Ltd	-	-	350,859,904	303,312,467
Trade payables - Other creditors	167,387,490	280,476,574	118,905,699	179,274,980
	167,387,490	280,476,574	469,765,604	482,587,447

28 LEASES

The Group / Company leases building premises for office premisses, pharmacies and Laboratory services. Lease payments are made based on pre-agreed rate which are specified in the respective lease contracts.

The value of the Right-of-use assets is presented as a separate line item in the Statement of Financial Position and the correspondent lease liability has presented under 'Current liabilities and Non current liabilities' in the Statement of Financial Position as at 31st December 2019.

Further, the amortisation charge on Right-of-use asset is presented as a separate line item under 'Amortization' and the interest cost on lease liability is presented as a component of the finance cost of the Company in the Statement of Profit or Loss for the year ended 31st December 2019.

The relevant disclosures to be made under "Notes to the Financial Statements" in the Annual Financial Statements for the year ended 31st December 2019 are illustrated below.

28.1 The carrying amounts of right-of-use assets recognised and its movements during the year:

	2019 Group Rs	2019 Company Rs
Cost		
Balance as at 01 January 2019	-	-
Recognition on transition date as at 01 January 2019	620,810,026	542,266,353
Additions during the year	88,125,933	35,521,475
Disposals / write-offs during the year	-	-
Cost as at 31 December 2019	708,935,959	577,787,828
Accumulated amortisation		
Balance as at 1 January 2019	-	-
Charge for the year	(70,255,114)	(48,654,667)
Accumulated amortisation as at 31 December 2019	(70,255,114)	(48,654,667)
Net book value as at 31 December 2019	638,680,845	529,133,161

28.2 The carrying amounts of lease liability (included under current and non current liabilities) and its movements during the year:

	2019 Group Rs	2019 Company Rs
Balance as at 01 January 2019	-	-
Recognition on transition date as at 01 January 2019	366,541,511	295,720,669
Additions during the year	95,536,070	35,208,779
Accretion of interest	37,765,208	28,734,482
Payments	(122,012,733)	(89,623,459)
Exchange gain	(518,311)	(518,311)
Balance as at 31 December 2019	377,311,745	269,522,160
Current	76,947,758	57,202,253
Non- current	300,363,987	212,319,907

28.3 Maturity analysis of the lease liability:

	2019 Group Rs	2019 Company Rs
Less than one year	76,947,758	57,202,253
One to five years	215,147,139	135,309,696
More than five years	85,216,848	77,010,211
Total lease liabilities as at 31 December 2019	377,311,745	269,522,160

NOTES TO THE FINANCIAL STATEMENTS CONTD.

28 LEASES CONTD.

28.4 The amounts recognised in the Statement of Profit or Loss for the year ended 31st December 2019:

Net amount charged to statement of profit or loss	2019 Group Rs	2019 Company Rs
For the year ended 31 December 2019		
Amortisation expenses on right-of-use assets	70,255,114	48,654,667
Interest expenses on lease liabilities	37,765,208	28,734,482
Net amount charged to statement of profit or loss	108,020,322	77,389,149

29 RELATED PARTY TRANSACTIONS

The Company carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related Parties as per the Sri Lanka Accounting Standard – LKAS 24 – "Related Party Disclosures", other than, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates.

29.1 Identification of related parties

An entity is related to a reporting entity if it meets LKAS 24 - "Related Party Disclosures". The Company has a related party relationship with Sri Lanka Insurance Corporation Limited (the parent entity) , Lanka Hospitals Diagnostics (Private) Limited (the Subsidiary) and Super Religare Laboratories Limited (Which is controlled by ,who has significant influence over the reporting entity).

29.2 Transactions with the Key Management Personnel

Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activates of the entity directly or indirectly. The members of the Board of Directors has authority and responsibility for planning, directing and controlling the activates of the entity directly or indirectly. The Board of Directors of the company (Executive and Non- executive Directors) are Key Management Personnel of the Group. The compensation of Key Management Personnel for the year ended 31st December 2019 amounted to Rs 16,289,000/- (2018 - Rs.14,612,000/-). While the compensation for Key Management Personnel of the group for the year ended 31st December 2019 amounted to Rs.23,089,000/- (2018 - Rs. 21,535,250/-).

29.3 Terms and Conditions of Transactions with the Companies

Transactions with related parties are carried out in the ordinary course of business. Outstanding current account balances at year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivable or payables for the year ended 31st December 2019.

29.4 Recurrent Related Party Transactions

Other than the transactions disclosed in Note 29.6.1,there were no any recurrent related party transactions which aggregate value exceeds10% of the gross revenue of the Company as per December 2018 Audited Financial Statements, which required additional disclosures in the 2019 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Security Exchange Commission Directive issued under Section 13 (c) of the Security Exchange Commission Act.

29.5 Non-Recurrent Related Party Transactions

There were no non-recurrent related party transactions which aggregate value exceeded 10% of the equity or 5% of the total assets which ever is lower of the Company as per 31st December 2018 audited financial statements, which required additional disclosures in the 2019 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Securities and Exchange Commission Directive issued under Section 13 (c) of the Securities and Exchange Commission Act.

29.6 Transactions with Related Entities

The Company has carried out transactions with Group entities in the ordinary course of business. The Group has not recorded any impairment for receivables relating to amount owed by Group entities.

Company	Relationship	Details of Transactions	Transactions during the year Rs.	Balance as at 31st December 2019 (Payable)/ Receivable (Rs.)	Balance as at 31st December 2018 (Payable)/ Receivable (Rs.)
Sri Lanka Insurance Corporation Limited	Parent Company	Services provided	132,635,246	26,679,713	22,436,233
		Amounts Received	(128,391,766)		
		Premiums paid for the insurance policy on fire, vehicle,professional indeminity, staff insurance, general insurance and vehicle hiring charges.	28,407,845	(4,769,075)	(4,769,075)
		Amounts Paid	(28,407,845)		
		Other medical services provided by the company	18,507,308	5,989,336	5,022,039
		Amounts Received	(17,540,011)		
Lanka Hospitals Diagnostics (Private) Limited	Subsidiary Company	Reimbursement of expenses and the rent income received/ receivable by the Company	70,943,840	113,675,347	42,731,507
		Amounts Received	-		
		Services provided	(747,547,437)	(350,859,904)	(303,312,467)
		Amounts Paid	700,000,000		-
Super Religare Laboratories Limited	Subsidiary Company of Fortis Global Healthcare Holdings Pte Limited who owns 28.66% of The Lanka Hospitals Corporation PLC shares	Technical services provided to Lanka Hospitals Diagnostics (Private) Limited	(6,866,693)	(1,591,599)	(1,591,698)
		Amounts Paid	6,866,792		

29.6.1

Year	Name of Related Party	Relationship	Nature of the Transaction	Aggregate value of Related Party Transactions entered during the year	Aggregate value of Related Party Transactions as a % of Net Revenue / Income	Terms and Conditions
2019	Lanka Hospitals Diagnostics (Private) Ltd	Subsidiary Company	Laboratory Services provided	(747,547,437)	10.56%	Arms Length Transactions
2018	Lanka Hospitals Diagnostics (Private) Ltd	Subsidiary Company	Laboratory Services provided	(695,421,257)	10.90%	Arms Length Transactions

NOTES TO THE FINANCIAL STATEMENTS CONTD.

30 CONTINGENT LIABILITIES

Pending litigations against The Lanka Hospitals Corporation PLC with a maximum liability of Rs. 146.25 Mn exist as at the reporting date. Based on the information currently available company has been adviced by its legal council that it is not probable the ultimate resolution of such legal procedures would not likely have a material adverse effect on the result of the operations, financial position or liquidity of the company. Accordingly, no provision for any liability has been made in these financial statements in this respect.

There were no material contingent liabilities as at the reporting date which require adjustments to or disclosure in the financial statements, other than mentioned above.

31 CAPITAL COMMITMENTS

Capital commitments of Group and Company in respect of the on going projects but not incurred as at the financial year end amounted to Rs.91 Mn.

32 EVENTS OCCURRING AFTER THE REPORTING DATE

There were no other material events that occurred after the reporting date that require adjustment to or disclosure in the Financial Statement.

33 RECLASSIFICATION OF COMPARATIVE FIGURES FOR INCOME STATEMENT, PROFIT AND OTHER COMPREHENSIVE INCOME

For the better presentation, the management has decided to reclassify the medical technicians staff cost under cost of sales which was previously classified in staff costs. The amounts reclassified for 2019 Rs.156,849,119 and for 2018 was Rs.147,023,371.

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

34.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's / Company's financial performance.

Risk management is carried out by a Risk Management Committee under policies and procedures approved by the Audit Committee. The Committee identifies and evaluates financial risks in close co-operation with the Group's treasury function. Treasury function is governed by the Treasury Committee, headed by the Group Chief Financial Officer and within the requirements of an approved treasury policy. The Risk Management Committee provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

34.2 Market risk management

The market risk occurs due to the actual cash flow originating from a financial instrument being different to the expected cash flow. This anomaly could occur due to the impact of external factors such as fluctuations in market interest rates and exchange rates. Market risk could possibly result in the revenues and expenses of the Group being adversely affected thereby impacting the profit attributable to the shareholders. In order to identify, manage and minimise the market risk the Group has put into practice a number of policies and procedures.

Currency risk

The company is exposed to currency risk on foreign currency fixed deposits amounting to Rs. 1,657,398,554/- (USD 9,225,195) . Group and the Company's transactions (Hospital revenue, pharmacy revenue, cost of services and cost of purchasing of pharmacy items and other medical equipment) are mainly denominated in Sri Lankan Rupees.

The following significant exchange rates were applied during the year:

As at 31st December,	Average Rate 2019	Average Rate 2018	Reporting Date Spot Rate 2019	Reporting Date Spot Rate 2018
USD	178.78	162.54	179.66	180.72

Foreign currency sensitivity

An estimation of the impact of the currency risk with respect of financial instruments with a 5% change in US Dollar exchange rate is given below. In calculation of risk it is assumed that all other variable factors are held constant. The calculation of sensitivity has been performed only on the assets and liabilities denominated in foreign currency of the Company as at 31st December 2019.

Group

As at 31st December,	2019		2018	
	Effect on profit or loss Rs.	Effect on equity Rs.	Effect on profit or loss Rs.	Effect on equity Rs.
LKR depreciated against USD by 5%	82,869,926	-	86,429,340	-
LKR appreciated against USD by 5%	(82,869,926)	-	(86,429,340)	-

Company

As at 31st December,	2019		2018	
	Effect on profit or loss Rs.	Effect on equity Rs.	Effect on profit or loss Rs.	Effect on equity Rs.
LKR depreciated against USD by 5%	82,869,926	-	86,429,340	-
LKR appreciated against USD by 5%	(82,869,926)	-	(86,429,340)	-

Interest rate risk

Changes in market interest rates result in the fluctuation of present values of future cash flows derived from financial instruments thereby giving rise to interest rate risk. Values of financial instruments could rise or decline depending on the variations in interest rates resulting in mark to market gains or losses in investment portfolios. Mark to market values could have an impact on the reported financial results of the Group.Interest rate risk arises on interest bearing financial assets recognisied in the statement of financial position.

The interest rate risk of the Company arises from financial instruments which are exposed to variable or fixed rate interest rates. Financial instruments with fixed interest rates are subject to variations in fair values due to market interest rate movements.The Group manages its interest rate risk by monitoring and managing cash flows, negotiating favourable rates on deposits.

Equity price risk

Equity price risk represents the risk that the fair value of future cash flows of a financial statement will fluctuate because of a change in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group / Company is not exposed to equity price risk since there are no investments in equity securities. The Company is also not directly exposed to commodity price risk.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTD.

34.3 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations.

The operational risk management framework of the Company has been defined under the Board-approved operational risk management policy. Operational risk is managed by establishing an appropriate internal control system that requires a mechanism for segregation of related responsibilities within the Company, and a detailed testing and verification of the Company's overall operational systems, and achieving a full harmony between internal and external systems and establishing a fully independent backup facility for business continuity planning.

34.4 Liquidity risk management

Liquidity refers to the availability of cash or assets which can be converted to cash in a short period of time in order to meet future liabilities of a business. An entity would require sufficient funds for a number of purposes such as operational requirements, debt servicing and investments. Additionally, a shortage of liquidity would have a negative impact on stakeholder confidence in a business entity. The Group has ensured that it maintains sufficient liquidity reserves to meet all its funding requirements by closely monitoring and forecasting future funding needs and securing funding sources for both regular and emergency requirements.

Management of working capital by shortening the working capital cycle is given a high priority by the Group. The Group has implemented procurement and vendor evaluation policies to prevent payment of excessive prices to suppliers and to obtain maximum credit in order to ensure a strong working capital position. Special attention has been given to cash inflows and outflows. The maturity profile of the Group's investments is monitored and adjusted to meet expected future cash outflows in the short, medium and long terms.

The table below summarises net financial assets / liabilities of the group.

	Group		Company	
As at 31st December,	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Cash in hand and at bank	521,701,786	375,496,168	318,424,161	363,730,682
Trade and other receivables within 30 days	185,660,348	239,840,891	163,007,947	138,166,164
Short term deposits	2,482,398,553	2,673,761,224	2,222,398,553	2,328,761,223
Total liquid assets	3,189,760,687	3,289,098,283	2,703,830,661	2,830,658,069
Less;				
Bank overdraft	262,116,232	331,808,396	240,685,635	315,754,516
Trade payables on demand	167,387,490	280,476,574	469,765,604	482,587,447
Other payables on demand	580,672,619	516,710,078	541,223,940	447,803,016
Total demand liabilities	1,010,176,341	1,128,995,048	1,251,675,179	1,246,144,979
Excess/short liquidity through operating cycle	2,179,584,346	2,160,103,235	1,452,155,482	1,584,513,090

34.5 Credit risk management

Credit risk refers to the risk borne by the Group owing to the risk of a counter party defaulting on its contractual obligations in relation to a financial instrument or customer contract. The Group is exposed to credit risk from its operating activities and from its financing activities, including deposits with banks, foreign exchange transactions and other financial instruments. The maximum credit risk of the Group and the Company is limited to the carrying value of these financial assets as at the reporting date.

The group applies the SLFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The group has identified a more relevant macroeconomic forward looking element of Sri Lanka, the country in which it sells its services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

	Group				Company			
As at 31st December,	Exposure 2019 Rs.	%	Exposure 2018 Rs.	%	Exposure 2019 Rs.	%	Exposure 2018 Rs.	%
Trade and other receivables	914,910,555	23%	725,848,269	19%	809,976,006	24%	631,336,828	19%
Other financial assets	2,482,398,553	64%	2,673,761,224	71%	2,222,398,553	66%	2,328,761,223	70%
Cash and cash equivalents	521,701,786	13%	375,496,168	10%	318,424,161	10%	363,730,682	11%
Total	3,919,010,894	100%	3,775,105,661	100%	3,350,798,720	100%	3,323,828,733	100%

The Group treasury manages the risk arising from investments made in financial institutions in accordance with the policy direction provided by the Board. The transactions are carried out only with a limited number of institutions all of which have stable credit ratings from internationally recognised rating providers. The Group's exposures and credit ratings of counterparties are continuously monitored and the investment portfolio is diversified amongst several institutions to minimize the unsystematic risk.

35 CAPITAL MANAGEMENT

The capital management strategy of the Group has the twin key objectives of ensuring the availability of a sufficient amount of capital for long term investments and growth while maintaining an adequate liquidity buffer for business operations. Sustaining the financial health to withstand economic cycles while maintaining stakeholder confidence in the Group is another vital requirement that it has integrated into the capital management strategy.

Capital not being available in sufficient quantities or at a reasonable cost is a factor which can retard the performance of the Group. The management, being conscious of these factors, has implemented the capital management policy to ensure the long term sustainability and competitiveness of the Group. In this regard another important factor that the Group is aware of is to make certain that there is no idle capital which will act as a drag on the returns generated. Too much capital invested in a business will have a dampening impact on the performance while too little capital will prevent an organization from achieving its long term objectives.

35.1 Capital management policy

The capital management policy of the Group is aimed at maximising the return on scarce capital whilst safeguarding the already invested capital. Ensuring that there is adequate capital for the Group to invest and grow while continuing with its regular business operations requires decision makers to look at many facets of the business and consider a number of variables, both internal and external. The rapid pace of change in the operating environment has a profound impact on many factors affecting the use of capital, and a deep understanding derived from years of experience in a business sector is vital to ensure successful management of capital.

36 SEGMENT REPORTING

There is no distinguishable components to be identified as segments for the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

37 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities are measured on an ongoing basis at either fair value or amortised cost. The following table sets out the carrying amount/fair value of financial assets and liabilities by category as defined in SLFRS 9- Financial Instruments under headings reported in the Statement of Financial Position and related fair value hierarchy.

Group

As at 31st December 2019	Financial assets - amortised cost Rs.	Other financial liabilities Rs.	Non financial asset Rs.	Total carrying amount Rs.
Non-financial assets				
Property,plant and equipment				
Freehold land	-	-	64,000,002	64,000,002
Leasehold building	-	-	2,433,737,568	2,433,737,568
Total non-financial assets	-	-	2,497,737,570	2,497,737,570
Financial assets				
Trade and other receivables	914,910,555	-	-	914,910,555
Other financial assets	2,482,398,553	-	-	2,482,398,553
Cash and cash equivalents	521,701,786	-	-	521,701,786
Total financial assets	3,919,010,894	-	-	3,919,010,894
Financial liabilities				
Trade and other payables	-	748,060,109	-	748,060,109
Bank overdraft	-	262,116,232	-	262,116,232
Total financial liabilities	-	1,010,176,341	-	1,010,176,341
As at 31st December 2018				
Non-financial assets				
Property,plant and equipment				
Freehold land	-	-	64,000,002	64,000,002
Leasehold building	-	-	2,520,617,780	2,520,617,780
Total non-financial assets	-	-	2,584,617,782	2,584,617,782
Financial assets				
Trade and other receivables	725,848,269	-	-	725,848,269
Other financial assets	2,673,761,224	-	-	2,673,761,224
Cash and cash equivalents	375,496,168	-	-	375,496,168
Total financial assets	3,775,105,661	-	-	3,775,105,661
Financial liabilities				
Trade and other payables	-	797,186,652	-	797,186,652
Bank overdraft	-	331,808,396	-	331,808,396
Total financial liabilities	-	1,128,995,048	-	1,128,995,048

Fair Value	Fair Value			
	Level 1	Level 2	Level 3	Total
Rs.	Rs.	Rs.	Rs.	Rs.
64,000,002	-	-	64,000,002	64,000,002
2,433,737,568	-	-	2,433,737,568	2,433,737,568
2,497,737,570	-	-	2,497,737,570	2,497,737,570
914,910,555	-	-	-	914,910,555
2,482,398,553	-	-	-	2,482,398,553
521,701,786	-	-	-	521,701,786
3,919,010,894	-	-	-	3,919,010,894
748,060,109	-	-	-	748,060,109
262,116,232	-	-	-	262,116,232
1,010,176,341	-	-	-	1,010,176,341
64,000,002	-	-	64,000,002	64,000,002
2,520,617,780	-	-	2,520,617,780	2,520,617,780
2,584,617,782	-	-	2,584,617,782	2,584,617,782
725,848,269	-	-	-	725,848,269
2,673,761,224	-	-	-	2,673,761,224
375,496,168	-	-	-	375,496,168
3,775,105,661	-	-	-	3,775,105,661
797,186,652	-	-	-	797,186,652
331,808,396	-	-	-	331,808,396
1,128,995,048	-	-	-	1,128,995,048

NOTES TO THE FINANCIAL STATEMENTS CONTD.

37 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTD.

Financial assets and financial liabilities are measured on an ongoing basis at either fair value or amortised cost. The following table sets out the carrying amount/fair value of financial assets and liabilities by category as defined in SLFRS 9- Financial Instruments under headings reported in the Statement of Financial Position and related fair value hierarchy.

Company

As at 31st December 2019	Financial assets - amortised cost Rs.	Other financial liabilities Rs.	Non financial asset Rs.	Total carrying amount Rs.
Non-financial assets				
Property,plant and equipment				
Freehold land	-	-	64,000,002	64,000,002
Leasehold building	-	-	2,245,623,569	2,245,623,569
Investment property	-	-	135,000,000	135,000,000
Total non-financial assets	-	-	2,444,623,571	2,444,623,571
Financial assets				
Trade and other receivables	809,976,006	-	-	809,976,006
Other financial assets	2,222,398,553	-	-	2,222,398,553
Cash and cash equivalents	318,424,161	-	-	318,424,161
Total financial assets	3,350,798,720	-	-	3,350,798,720
Financial liabilities				
Trade and other payables	-	1,010,989,544	-	1,010,989,544
Bank overdraft	-	240,685,635	-	240,685,635
Total financial liabilities	-	1,251,675,179	-	1,251,675,179
As at 31st December 2018				
Non-financial assets				
Property,plant and equipment				
Freehold land	-	-	64,000,002	64,000,002
Leasehold building	-	-	2,331,138,956	2,331,138,956
Investment property	-	-	123,500,000	123,500,000
Total non-financial assets	-	-	2,518,638,958	2,518,638,958
Financial assets				
Trade and other receivables	631,336,828	-	-	631,336,828
Other financial assets	2,328,761,223	-	-	2,328,761,223
Cash and cash equivalents	363,730,682	-	-	363,730,682
Total financial assets	3,323,828,733	-	-	3,323,828,733
Financial liabilities				
Trade and other payables	-	930,390,463	-	930,390,463
Bank overdraft	-	315,754,516	-	315,754,516
Total financial liabilities	-	1,246,144,979	-	1,246,144,979

Fair Value	Fair Value			
	Level 1	Level 2	Level 3	Total
Rs.	Rs.	Rs.	Rs.	Rs.
64,000,002	-	-	64,000,002	64,000,002
2,245,623,569	-	-	2,245,623,569	2,245,623,569
135,000,000	-	-	135,000,000	135,000,000
2,444,623,571	-	-	2,444,623,571	2,444,623,571
809,976,006	-	-	-	809,976,006
2,222,398,553	-	-	-	2,222,398,553
318,424,161	-	-	-	318,424,161
3,350,798,720	-	-	-	3,350,798,720
1,010,989,544	-	-	-	1,010,989,544
240,685,635	-	-	-	240,685,635
1,251,675,179	-	-	-	1,251,675,179
64,000,002	-	-	64,000,002	64,000,002
2,331,138,956	-	-	2,331,138,956	2,331,138,956
123,500,000	-	-	123,500,000	123,500,000
2,518,638,958	-	-	2,518,638,958	2,518,638,958
631,336,828	-	-	-	631,336,828
2,328,761,223	-	-	-	2,328,761,223
363,730,682	-	-	-	363,730,682
3,323,828,733	-	-	-	3,323,828,733
930,390,463	-	-	-	930,390,463
315,754,516	-	-	-	315,754,516
1,246,144,979	-	-	-	1,246,144,979

TEN YEAR FINANCIAL SUMMARY

In Rs. Mn -	Group Year ended 31 December Audited					
	2019	2018	2017	2016	2015	2014
Revenue from contracts with customers	7,549	7,077	6,382	5,886	5,514	4,754
Cost of Services	(4,329)	(4,113)	(3,519)	(3,099)	(2,973)	(2,647)
Gross Profit	3,220	2,964	2,863	2,787	2,541	2,107
Other operating income	68	59	52	52	36	39
Administrative & Other operating Expenses	(2,635)	(2,380)	(2,186)	(1,941)	(1,766)	(1,694)
Finance income	226	479	193	183	156	70
Finance cost	(38)	-	-	-	-	-
Profit before tax	841	1,122	922	1,081	967	522
Income tax (expense) / release	(260)	(252)	(341)	(109)	(107)	(8)
Profit for the year	581	870	581	972	860	514
ASSETS						
Non current assets						
Property, plant and equipment	4,375	4,489	4,520	4,083	3,650	3,660
Right of use assets	638	-	-	-	-	-
Intangible asset	76	94	96	60	61	32
Investment in subsidiary	-	-	-	-	-	-
Advance lease premium	-	217	203	189	175	162
	5,089	4,800	4,819	4,332	3,886	3,854
Current assets						
Inventories	413	369	295	319	272	307
Trade and other receivables	915	726	554	503	434	472
Amounts due from related parties	6	5	7	4	6	6
Income tax Receivable	-	-	-	-	-	34
Cash and cash equivalents & Other Financial Assets	3004	3050	2475	2,194	1,746	1,000
	4,338	4,150	3,331	3,020	2,458	1,819
Total assets	9,427	8,950	8,150	7,352	6,344	5,673
EQUITY AND LIABILITIES						
Equity						
Stated capital	2,672	2,672	2,672	2,672	2,672	2,672
Revaluation reserve	982	1,029	1,066	1,284	994	1,028
Retained earning / (loss)	2,975	2,754	2,282	1,888	1,324	783
Total equity	6,629	6,455	6,020	5,844	4,990	4,483
Non current liabilities						
Employee benefit obligations	245	189	167	134	119	106
Deferred tax liabilities	1,102	1,004	998	426	347	314
Lease Liability	301	-	-	-	-	-
	1,648	1,193	1,165	560	466	420
Current liabilities						
Borrowings / Bank Overdraft	262	332	233	234	179	198
Amounts due to related parties	6	6	23	24	28	13
Lease Liability	77	-	-	-	-	-
Income tax payable	57	167	39	36	21	-
Trade and other payables	748	797	670	654	660	559
	1,150	1,302	965	948	888	770
Total liabilities	2,798	2,495	2,130	1,508	1,354	1,190
Total equity and liabilities	9,427	8,950	8,150	7,352	6,344	5,673

Company			
Year ended 31 December			
Audited			
2013	2012	2011	2010
4,072	3,406	2,918	2,518
(2,142)	(1,881)	(1,555)	(1,348)
1,930	1,525	1,363	1,170
30	25	23	1
(1,352)	(1,212)	(1,047)	(894)
148	102	42	20
-	-	(3)	(8)
756	439	378	289
(67)	(53)	59	-
689	386	437	289
3,199	2,817	2,825	2,779
-	-	-	-
6	1	-	-
50	-	-	-
148	134	120	106
3,403	2,952	2,945	2,885
176	149	145	86
471	261	245	216
32	4	2	1
-	-	-	-
1,017	1,002	672	468
1,696	1,416	1,064	771
5,099	4,368	4,009	3,656
2,672	2,672	2,672	2,672
1,020	858	883	740
367	99	(200)	(682)
4,059	3,629	3,355	2,730
67	52	43	33
278	231	214	458
-	-	-	-
345	283	257	491
135	111	82	152
4	5	4	5
-	-	-	-
14	-	-	-
542	340	311	278
695	456	397	435
1,040	739	654	926
5,099	4,368	4,009	3,656

SHAREHOLDER AND INVESTOR INFORMATION

TOP 20 SHAREHOLDING AS AT 31ST DECEMBER 2019

	Shareholder	2019 No of shares	2019 Holding	2018 No of shares	2018 Holding
1	Fortis Global Healthcare International Pte Ltd	64,120,915	28.66%	64,120,915	28.66%
2	Sri Lanka Insurance Corporation Ltd - Life Fund	58,781,308	26.27%	66,097,350	29.54%
3	Sri Lanka Insurance Corporation Ltd - General Fund	56,080,643	25.07%	56,080,643	25.07%
4	Property Development PLC A/C No. 1	21,329,000	9.53%	21,329,000	9.53%
5	Peoples Bank	7,316,042	3.27%	-	0.00%
6	Bank of Ceylon A/c Ceybank Unit Trust	3,004,806	1.34%	2,967,644	1.33%
7	Dr.Mohommed Rafeed Mubarak	1,376,511	0.62%	274,281	0.12%
8	Bank of Ceylon A/c Ceybank Century Growth Fund	847,768	0.38%	845,380	0.38%
9	Ceylon Investment PLC A/c # 01	398,000	0.18%	448,000	0.20%
10	Bank of Ceylon No.1 Account	309,949	0.14%	309,949	0.14%
11	Mr.Abeysiri Hemapala Munasinghe	279,471	0.12%	179,471	0.08%
12	Deutsche Bank AG as Trustee for Guardian Acuity Equity Fund	249,337	0.11%	249,337	0.11%
13	Sandwave Limited	227,977	0.10%	227,977	0.10%
14	Mrs.Conceicao Aparecida Dos Santos Woodward	220,300	0.10%	220,300	0.10%
15	Ceylon Guardian Investment Trust PLC A/C # 01	218,169	0.10%	295,000	0.13%
16	Sezeka Limited	166,640	0.07%	166,640	0.07%
17	Mr.Surendran Subramaniam	156,104	0.07%	156,104	0.07%
18	Pinacle Trust (Pvt) Ltd	112,922	0.05%	112,922	0.05%
19	Mr.Mohamed Naizer Cader	112,024	0.05%	-	0.00%
20	Deutsche Bank AG as Trustee Toarpico Atraxia S.P - SL 20 Index	100,000	0.05%	-	0.00%
		215,407,886	96.28%	214,080,913	95.69%

INDIVIDUAL / INSTITUTION AS AT 31 DECEMBER 2019

	No of Shareholders	As %	No of Shares	As %
Individual	7,327	98.13	9,302,840	4.16
Institution	140	1.87	214,429,329	95.84
	7,467	100.00	223,732,169	100.00

RESIDENT / NON-RESIDENT AS AT 31 DECEMBER 2019

	No of Shareholders	As %	No of Shares	As %
Resident	7,439	99.63	158,753,146	70.96
Non-Resident	28	0.37	64,979,023	29.04
	7,467	100.00	223,732,169	100.00

DIRECTORS'/SENIOR MANAGEMENT SHAREHOLDINGS AS AT 31ST DECEMBER

	Position	2019 No of shares	2019 Holding %	2018 No of shares	2018 Holding %
Board of Directors					
Dr. Bandula WIJESIRIWARDENA	Chairman	-	-	-	-
Mr. Ashish BHATIA	Director	-	-	-	-
Ms. Richa Singh DEBGUPTA	Director	-	-	-	-
Mr. Anurag KALRA (Alternate Director to Mr. Asish Bhatia)	Director	-	-	-	-
Mr. Rajiv PURI (Alternate Director to Ms. Richa Singh Debgupta)	Director	-	-	-	-
Senior Management					
Dr. Prasad Medawatte	Group Chief Executive Officer	-	-	-	-

		Group 2019	Group 2018	Company 2019	Company 2018
Earnings Per Share	Rs.	2.60	3.89	1.88	3.69
Dividend Per Share	Rs.	1.75	2.00	1.75	2.00
Net Assets Value Per Share	Rs.	29.63	28.85	27.06	26.99
Market Value per Ordinary Share					
Highest price	Rs.	-	-	53.90	64.00
Lowest price	Rs.	-	-	39.10	39.00
Closing Price	Rs.	-	-	40.70	42.60
Gearing Ratio	%	N/A	N/A	N/A	N/A
Interest Cover	Times	N/A	N/A	N/A	N/A
Quick Asset Ratio	Times	3.41	2.90	2.54	2.38

Summary of share ranges as at 31st December

	Share Range	2019 No of shareholders	2019 No of shares	2019 Holding %	2018 No of shareholders	2018 No of shares	2018 Holding %
1	1 -1,000	6,053	2,088,070	0.93	5,991	2,082,147	0.93
2	1001 - 10,000	1,288	3,613,669	1.62	1,245	3,406,863	1.52
3	10,001 - 100,000	107	2,722,544	1.22	91	2,450,222	1.10
4	100,001 - 1,000,000	12	3,298,661	1.47	16	5,197,385	2.32
5	1,000,001 & above	7	212,009,225	94.76	5	210,595,552	94.13
		7,467	223,732,169	100.00	7,348	223,732,169	100.00

PUBLIC SHAREHOLDING

- Public Shareholding as at 31st December 2019 - 20.00% (2018 - 16.73%)
- Number of shares as at 31st December 2019 - 44,749,303 (2018 - 37,433,261)
- Number of Shareholders as at 31st December 2019 - 7,464 (2018 - 7,345)
- Adjusted Floated Market Capitalisation as at 31st December 2019 Rs. 1,821,296,632 (2018 - Rs. 1,594,656,919)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 21st Annual General Meeting of The Lanka Hospitals Corporation PLC (LHC) will be held on August 21, 2020 at 3.00 pm. at the Dr. Prathap C Reddy Auditorium of The Lanka Hospitals Corporation PLC, No.578, Elvitigala Mawatha, Colombo 5 via Audio/ Video Technology for the purpose of conducting the following businesses:

1. To receive and consider the Annual Report and the Audited Financial Statements of the Company for the year ended 31st December 2019 together with the Report of the Auditors' thereon.
2. Election of Directors appointed to the Board in terms of Article 92 of the Articles of Association.
    a) Mr. Ashish Bhatia who was appointed to the Board and being eligible offers himself for re-election
    b) Ms. Richa Singh Debgupta who was appointed to the Board and being eligible offers herself for re-election
    c) Dr. N N A P Bandula Chandranath Wijesiriwardena who was appointed to the Board and being eligible offers himself for re-election.
    d) Ms. Roshini Sunethra Cabraal who was appointed to the Board and being eligible offers herself for re-election
    e) Dr. Tantirige Ravindra Chintaraj Ruberu who was appointed to the Board and being eligible offers himself for re-election
    f) Ms. Sangakkara Mudiyanselage Lakshmi Kumari Sangakkara who was appointed to the Board and being eligible offers herself for re-election
    g) Mr. Pattage Mayurasiri Bandula Fernando who was appointed to the Board and being eligible offers himself for re-election
    h) Mr. Kushan D'Alwis PC who was appointed to the Board and being eligible offers himself for re-election
    i) Mr. Magage Nadun Kumara Fernando who was appointed to the Board and being eligible offers himself for re-election
    j) Ms. S H A Nanadanie Dayakanthi Abeyrathne who was appointed to the Board and being eligible offers herself for re-election
    k) Dr. Kanishka Karunaratne who was appointed to the Board and being eligible offers himself for re-election
3. To re-appoint the Auditor General as the Auditors of the company for the ensuing financial year in compliance with Article 154 of the 19th amendment to the constitution.
4. To authorize the Directors to determine donations for the year 2020 and up to the date of the next Annual General Meeting.
5. To pass the following Special Resolution to amend the Articles of Association with the inclusion of Article No. 48 (a) immediately after the existing Article 48 of the Articles of Association as follows:

    48. (a) "Notwithstanding any provision in this articles suggesting the contrary, a meeting of Shareholders may be held by means of Audio, or Audio and Visual communication by which all shareholders participating and constituting quorum can simultaneously hear each other throughout the meeting , or by any means of Virtual meeting whereby Shareholders regardless of their location could connect or linkup online through Video/Audio/Text."
6. Any other business of which due notice has been given.

By order of the Board of Directors of
THE LANKA HOSPITALS CORPORATION PLC

Accounting Systems Secretarial Services (Private) Limited
Company Secreraties

Colombo, this 20th July 2020

NOTE:

a. Only persons who are shareholders of the Company and whose names appear on the share Register as at the AGM date will be entitled to attend the above meeting.

b. A member entitled to attend and vote at the above meeting is required to complete and submit a pre-registration form in order to ensure participation at the AGM of the Company. Only members of LHC are entitled to take part at the AGM of LHC.

c. A Pre-registration form is enclosed for this purpose to be completed by LHC Shareholders only.

d. A member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote in his/ her behalf. A proxy need not be a member of the Company.

e. A form of proxy is enclosed for this purpose.

f. The instruments for registration and appointing a proxy must be completed and deposited at the Accounting Systems Secretarial Services (Private) Limited, Level 03, No:11, Castle Lane, Colombo 4, 48 hours before the meeting.

g. For more information on how to participate by virtual means in the above meeting, please refer the supplementary notice to shareholders.

FORM OF PROXY

THE LANKA HOSPITALS CORPORATION PLC

(Company Registration No PQ180.)
No.578, Elvitigala Mawatha, Narahenpita, Colombo 5

Folio Number*:

I/We ....

bearer of NIC) .... of

....

being a shareholder/shareholders of The Lanka Hospitals Corporation PLC, hereby appoint:

- Full name of proxy : ....
- NIC of Proxy : ....
- Address of Proxy : ....
- Contact Numbers : Land - .... Mobile - ....
  Email address - ....

failing him/her

Dr. Bandula Wijesiriwardena	or failing him
Ms. Roshini Cabraal	or failing her
Dr. Ravindra Ruberu	or failing him
Ms. Lakshmi Sangakkara	or failing her
Mr. Mayura Fernando	or failing him
Mr. Kushan D'Alwis PC	or failing him
Mr. Nadun Fernando	or failing him
Ms. Dayakanthi Abeyrathne	or failing her
Dr. Kanishka Karunaratne	or failing him
Mr. Ashish Bhatia	or failing him
Ms. Richa Singh Debgupta	

as my/our Proxy to represent me/us** to vote for me/us on my/our behalf at the 21st Annual General Meeting of the Company to be held on August 21, 2020 at 3.00p.m and at any adjournment thereof and at every poll which may be taken in consequence thereon.

I/We** the undersigned, hereby direct my/our* proxy to speak and vote for me/us and on my/our behalf on the resolution set out in the Notice convening the meeting, as follows:

	FOR	AGAINST
1. To receive and consider the Annual Report and the Audited Financial Statements of the Company for the year ended 31st December 2019 together with the Report of the Auditors' thereon.		
2. Election of Directors appointed to the Board in term of Articles 92 of the Articles of the Association.		
a) Mr. Ashish Bhatia		
b) Ms. Richa Singh Debgupta		
c) Dr. N N A P Bandula Chandranath Wijesiriwardena		
d) Ms. Roshini Sunethra Cabraal		
e) Dr. Tantirige Ravindra Chintaraj Ruberu		
f) Ms. S M L K Sangakkara		
g) Mr. P M B Fernando		
h) Mr. Kushan D'Alwis PC		
i) Mr. Magage Nadun Fernando		
j) Ms. S H A Nanadanie Dayakanthi Abeyrathne		
k) Dr. Kanishka Karunaratne		
3. To re-appoint the Auditor General as the Auditors of the company for the ensuing financial year		
4. To authorize the Directors to determine donations for the year 2020 and up to the date of the next Annual General Meeting.		
5 Special Resolution - Amendment to the Articles of Association of the company		

In witness my/our** hands this .... day of .... Two Thousand and Twenty.

....

Signature of Shareholder

Notes: * Please indicate your folio number given in the address sticker carrying this annual report pack, ** Instructions as to completion appear overleaf, ***Please indicate with an "x" in the space provided, how your Proxy is to vote on the Resolutions.
If no indication is given, the Proxy in his discretion will vote as he thinks fit.

INSTRUCTIONS FOR COMPLETION

1. Kindly perfect the Form of Proxy by filling in legibly your full name, address and the National Identity Card number and by signing in the space provided and filling in the date of signature.

2. A proxy need not be a shareholder of the Company. However the proxy must be above 18 years of age.

3. The completed form of proxy must be deposited at the Accounting Systems Secretarial Services (Private) Limited, Level 03, No:11, Castle Lane, Colombo 4, not less than forty-eight hours before the time fixed for the meeting

4. If you wish to appoint a person other than the Chairman or a Director of the Company, please insert the relevant details at the space provided (above the names of the Board of Directors) on the Proxy Form.

5. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should accompany the Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.

6. If the appointor is a company/ Incorporated body, this form must be executed in accordance with the Articles of Association/ Statute.

CORPORATE INFORMATION

NAME OF THE COMPANY
The Lanka Hospitals Corporation PLC

COMPANY REGISTRATION NO.
PQ 180

REGISTERED OFFICE
No.578, Elvitigala Mawatha,
Narahenpita, Colombo 05, Sri Lanka
Tel: +94 11 5430000
Fax: +94 11 4511199
E-mail: info@lankahospitals.com

BOARD OF DIRECTORS
Dr. Bandula Wijesiriwardena
Ms. Roshini Cabraal
Ms. Richa Singh Debgupta
Mr. Ashish Bhatia
Dr. Ravindra Ruberu
Ms. Lakshmi Sangakkara
Mr. Mayura Fernando
Mr. Kushan D' Alwis PC
Mr. Nadun Fernando
Ms. Dayakanthi Abeyrathne
Dr. Kanishka Karunaratne

SECRETARIES & REGISTRARS TO SHARES
Accounting Systems Secretarial
Services (Private) Limited,
Level 03, No:11, Castle Lane, Colombo 4
Tel: +94 11 544 4400

AUDITORS
The Auditor General,
National Audit Office
306/72, Polduwa Road
Battaramulla
Sri Lanka

BANKERS
Bank of Ceylon
Hatton National Bank PLC

LANKA
HOSPITALS

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