

A Tangible Trust

A Tangible Trust

Trust

noun

1. firm belief in the reliability, truth, or ability of someone or something.

A firm bond is always built on the foundation of trust and we at Lanka Hospitals have converted this imperative value into an art. Everything we do, is based on strengthening this solid footing and our compassion, understanding and commitment to always delivering the latest in medical care, has always been key in making this a reality. And if we follow the definition of this value, our reliability is legendary, our truth is transparent and our ability is profoundly unmatched.

We make trust tangible.

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Vision

To be the foremost and preferred Private Healthcare Facility in the Country, which will serve the Nation and her People to build a healthier community.

Mission

To maintain exceptional and compassionate quality while offering cost effective healthcare solutions of international standards.

Promise

We believe that every person has the right to be treated with utmost respect and consideration. Therefore at Lanka Hospitals, we care about our patients We care about their families who are anxious and concerned. We care about our colleagues and how we as a team, provide the best care to our patients. Because we care, we will be sincere, compassionate and sensitive to make a difference in the lives we touch.

About this Report



Read this report online...
www.lankahospitals.com

Welcome to our Integrated Annual Report

We are committed to the principles of Integrated Reporting, and hope to build on the foundation put in place last year by providing readers with a balanced and concise evaluation of how we create and deliver value to our stakeholders in a sustainable manner. In addition to the relevant financial reporting standards, statutory requirements and sustainability reporting guidelines, the Annual Report aims to fulfil the information requirements and expectations of our stakeholders, providing a transparent overview of our financial, social and environmental performance during the year.

Scope and Boundary

This Annual Report and Financial Statements of The Lanka Hospitals Corporation PLC ("Lanka Hospitals" or "Company") and its subsidiary Lanka Hospitals Diagnostics (Pvt) Ltd. (collectively referred to as "Group") present the performance for the financial year ending 31st December 2017. The financial and non-financial information presented in the narrative report represents both entities unless otherwise stated. There have been no significant changes to the

organisation or its supply chain compared to the previous year.

Standards and Principles

The Report has been prepared in line with the guidance prescribed by the <IR> Framework issued by the International Integrated Reporting Council. The Financial Statements have been prepared in accordance with the Sri Lanka Financial Reporting Standards and are in compliance with the requirements of the Companies Act No. 7 of 2007 and the Listing Requirements of the Colombo Stock Exchange. For sustainability reporting, we have transitioned to the recently published Global Reporting Initiative (GRI) Standards and this report has been prepared in accordance with the GRI Standards: Core Option.

Assurance

We adopt various assurance mechanisms and voluntary accreditations to ensure the transparency and reliability of our information. The Financial Statements were audited by Messrs. KPMG Chartered Accountants while assurance on the sustainability reporting was also provided by Messrs. KPMG.



Feedback

We remain committed to continuously enhancing the quality and readability of our Annual Report and welcome your suggestions and comments. Kindly address your feedback to,

Finance Manager,
 The Lanka Hospitals Corporation PLC
 Telephone: 011 5439037



How to read this Report

The first section, Our Business provides a concise overview of Lanka Hospitals' operations and how it creates value.

Our Leadership describes the governance culture and framework and the strategic direction provided by the Board in creating sustainable value.

The Strategy and Performance section outlines the Group's key strategic priorities during the year and discusses how we delivered on these ambitions in the context of emerging risks and opportunities in the operating environment.

The Capital Management Report describes how we utilised our six capital inputs during the year to generate stakeholder value.

The Group's strategic ambitions for the next financial year and performance outlook are briefly discussed in Way Forward.

Navigation icons


Financial Capital |
 Manufactured Capital |
 Human Capital
 Intellectual Capital |
 Social and Relationship Capital |
 Natural Capital

Board Responsibility: The Board is collectively responsible for overseeing the integrity and completeness of this Report. On 28th March, 2018, the Board approved the 2017 Integrated Report taking into consideration the relevance and completeness of the material matters and accuracy of data presented.

Dr. Sarath Paranavitane
Chairman

2017 Performance and 2018 Outlook

Financial Performance





Capital	Performance	Metric	2017	2016	Y-O-Y Change (%)
 Financial Capital	Revenue	Rs. Million	6,382	5,886	8
	Earnings before interest and tax	Rs. Million	729	899	(19)
	Pre-tax profit	Rs. Million	922	1,081	(15)
	Profit after tax	Rs. Million	581	972	(40)
	Net operating cash flow	Rs. Million	1,076	1,105	(3)
	Total assets	Rs. Million	8,150	7,352	11
	Shareholders' funds	Rs. Million	6,020	5,844	3
	Debt	Rs. Million	-	-	-
	Gearing ratio	%	N/A	N/A	N/A
	Return on equity	%	9.65	16.63	(42)
	Earnings per share	Rs.	2.60	4.34	(40)
	Market price per share	Rs.	62	65	(5)
	Net assets value per share	Rs.	26.91	26.12	3
	Market capitalisation	Rs. Million	13,871	14,543	(5)

In 2017 we,

- ① Successfully applied for the reaccreditation of JCI, making us the only local hospital to obtain the 6th edition of the JCI accreditation on the first attempt.
- ① Opened a regional laboratory in Kandy at an investment of Rs. 54 Mn, a mini laboratory in Colombo and 4 company-owned collection operations.
- ① Strengthened clinical governance with the introduction of an antibiotics stewardship policy and new medication management framework.
- ① Strengthened employee performance management systems.
- ① Invested in a 3 Tesla MRI scanner with 64-channel Neuro coil, lasic laser and digital radiology system.

Our Business

Non Financial Performance

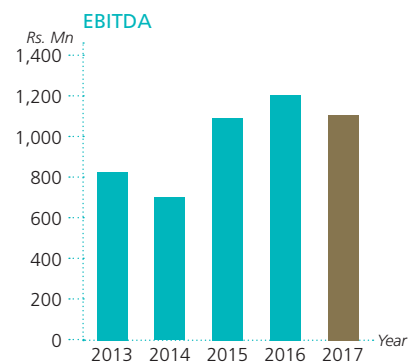
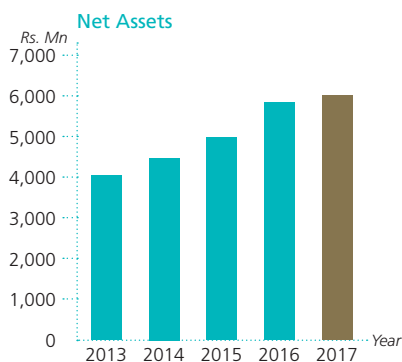
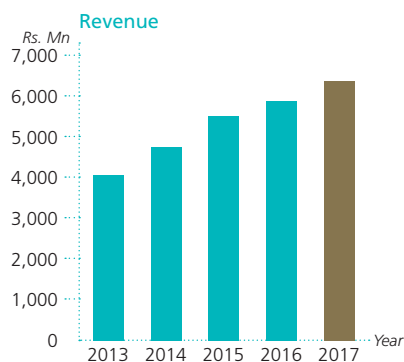
Capital	Performance	Metric	2017	2016	Y-O-Y Change (%)
 Manufactured Capital	Property, plant and equipment	Rs. Million	4,520	4,083	11
	Capital expenditure	Rs. Million	657	358	84
	No. of beds	No.	350	350	-
	No. of laboratories	No.	4	2	100
	No. of company owned collection centres	No.	19	15	27
	No. of pharmacy outlets	No.	16	18	(11)
 Human Capital	Total employees	No.	1,784	1,708	4
	Payments to employees	Rs. Million	1,843	1,652	12
	Retention rate	%	80	72	11
	Productivity (Net profit per employee)	Rs. Million	0.33	0.57	(42)
	Resident consultants	No.	43	43	-
	Investment in training	Rs. Million	11.35	8.28	37
	Training hours	Hours	28,972	36,356	(20)
	Female participation rate (Training)	%	72.88	79.25	(8)
	Employee injury rate	%	0.34	0.35	(3)
 Social and Relationship Capital	Inpatient volume	No.	27,116	27,245	(0.5)
	Outpatient volume	No.	348,362	363,427	(4)
	Customer satisfaction rate	%	95	91.2	4
	Number of suppliers	No.	552	814	(32)
	Investment in CSR	Rs. Million	2.17	2	9
 Natural Capital	Energy consumption	Mj	37,009	33,983	9
	Energy intensity ratio	J	1,365	1,247	9
	Water consumption	M³	126,998	121,495	5
	Carbon footprint	tCO2e	5,680	5,510	3
	Carbon intensity	Kg	209	202	3

Outlook

The outlook for 2018 is promising, and the Group will continue to focus on expanding capacity, building new partnerships and extending its regional presence. On the other hand, persistently rising costs and the sharp increase in the applicable income tax rate is bound to affect profitability in the next financial year.

Our Business

Financial Highlights



Net Assets Per Share
Rs. 26.91



Revenue
Rs. 6.38 Bn



Total Assets
Rs. 8.15 Bn



Dividend Payout Ratio
38%



EBITDA
17%



Profit Before Tax
Rs. 922 Mn

Our Business

Highlights of 2017

Surgeries 2017

10,36380,860 Surgeries
since 2009

CABG 2017

5994,442 CABG's
since 2002

Avg. Occupancy

2017

85%

Deliveries 2017

3,28111,996 Deliveries
since 2013

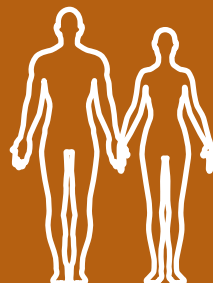
PTCA 2017

697

4,316 PTCA since 2002

Consultations
2017**348,362**3,241,308 Consultations
since 2007

Health Check-ups 2017

11,26295,798 Health
checkups since
2009

KT 2017

58

999 KT's since 2003



Foreign Patients 2017

2,20532,253 Foreign Patient admissions since
2002IVF Registrations
2017**672**2,771 IVF registrations
since 2014

Dialysis 2017

14,157107,876 Dialysis since
2007

Admissions 2017

27,116

316,678 Admissions since 2002



Awards and Accreditations

As the country's most accredited hospital, our strategic focus on obtaining international and national accreditations is testament to our commitment to achieve excellence in patient care and has enabled us to proactively seek ways to continuously improve our service standards.

Accreditations



Joint Commission International (JCI) Re-accreditation

The gold standard in global healthcare, JCI is widely accepted to be the author and evaluator of the most rigorous international standards in patient safety and quality



College of American Pathologists

Excellence in the practice laboratory medicine



Medical Travel Quality Alliance

International safety and quality standards in the treatment of medical tourists



ISO 15189-Medical Laboratory Accreditation

Quality and competence management system for medical laboratories



ISO 22000:2005- Food Safety Management

Demonstrates the organisation's ability to control food safety hazards in order to ensure that food is safe



Crowns for Food Hygiene

Best practices in food hygiene and awarded by the Chamber of Commerce and Municipal Council



ISO 14001: Environmental Management Systems

Design and implementation of a set of standards of effective environmental management

Our Business

Awards



Lanka Hospitals was the first private hospital in the country to receive the Golden Globe Tiger Award 2017 for Excellence and Leadership in Healthcare Management in 'Best Use of Social Media and Digital Marketing in Healthcare'



Best Employer Brand 2017 organised by the Employer Branding Institute of India and hosted by the World HRD Congress along with 'Stars of the Industry Group'.



Lanka Hospitals Annual Report was selected among the "Ten Best Integrated Reports in 2017" by Certified Management Accountants.



"Asia's Best Employer Brand Award" for HR practices, organised by the Employer Branding Institute of India and hosted by "World HRD Congress" along with "Stars of the Industry Group".



Gold Award for best quality circles at the International Convention on Quality Control Circles (ICQCC).



Two Gold Awards, One Silver and Three Bronze Awards at the National Convention on Quality and Productivity (NCQP).



Silver Award in the Healthcare Sector at the Annual Report Awards of the Institute of Chartered Accountants of Sri Lanka.



Our Business

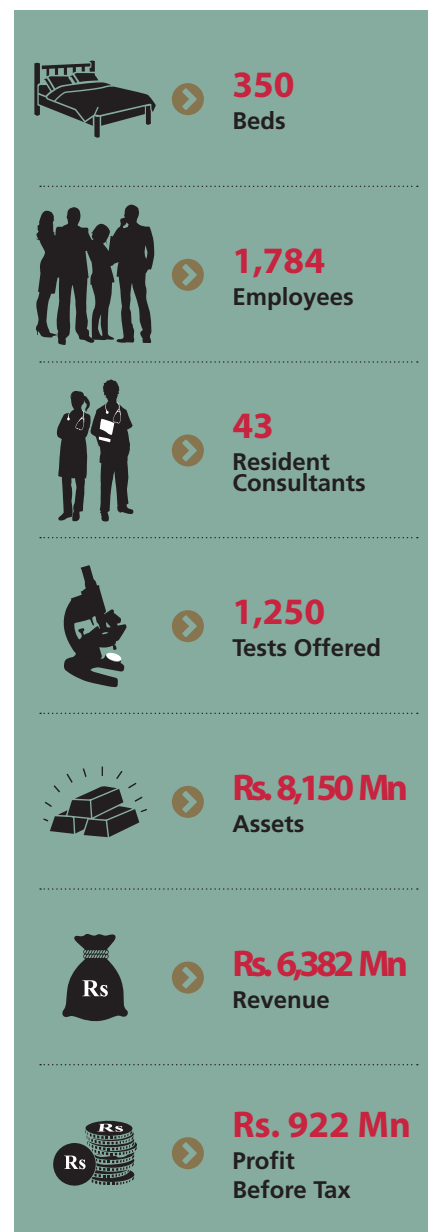
Lanka Hospitals at a Glance

Lanka Hospitals is a leader in Sri Lankan healthcare, offering international standards and an unmatched range of primary, secondary and tertiary health services. It is Sri Lanka's most accredited multi-speciality hospital, and is currently the only healthcare facility in the country to comply with the latest edition (6th) of the JCI Accreditation, the gold standard in healthcare. With a bed capacity of over 350 and 797 consultants which includes the largest resident consultant base in the country, we serve over 400,000 patients annually, amongst the largest patient volumes to be achieved by a single-location hospital.

Our differentiation strategy has centred on quality, patient care and technology, and today we are an industry leader in clinical and medical technology. Our diagnostics arm, Lanka Hospitals Diagnostics (Pvt.) Ltd. is the only laboratory in the country to obtain the prestigious CAP Accreditation and offers the country's largest test menu which includes over 100 tests which are provided only by us. We also operate a regional laboratory in Kandy, 2 mini laboratories and a network of 19 collection centres across the island, in addition to a 887 third party collection centers.

As a 54.61%-owned subsidiary of the state-owned Sri Lanka Insurance Corporation, we also play a vital role in supporting the government's vision of providing world-class healthcare at affordable prices and increasing access to healthcare.


Lanka Hospital's unique strengths - international standards of healthcare, excellence in patient care, strategic location and its ability to attract the country's top healthcare personnel has positioned it to capture emerging growth opportunities in the country's expanding private healthcare market.



Investment Case


➤ Sustainable shareholder returns and strong balance sheet

The Group's Return on Equity (ROE) has averaged 13% in the past 5 years. Profit before interest, tax, depreciation and amortisation (EBITDA) has expanded at a compound annual growth rate (CAGR) of over 6% supported by the Group's capacity increases, expansion of the laboratory networks and the introduction of speciality services. During the year under review, the share price decreased from Rs. 65 to Rs. 62. The Group's balance sheet is also strong, with zero debt as at end-December 2017.

 (See page 48 for more information on our performance and financial position)


➤ Strong market position in a defensive, high-growth industry

The demand for private healthcare has been on the rise, driven by higher disposable incomes, increasing affluence as well as the higher prevalence of non-communicable diseases. The Group's strategic location, international standards of care and the range of services it provides affords a strong market position in this defensive and high-growth industry, aptly positioning it for future earnings growth. The Group's diagnostics arm is also among the top 3 laboratory chains in the country.

 (See page 29 for more information on industry outlook)


➤ Track record in quality and operational excellence

The Hospital is Sri Lanka's most accredited private hospital. It is currently the only hospital in the country to have successfully obtained the 6th edition of the JCI Accreditation in the first attempt. The diagnostics arm is the only Sri Lankan laboratory to obtain the prestigious CAP accreditation. An array of certifications and accreditations are testament to the Hospital's commitment to providing international standard of care and is reflected in its consistently higher customer satisfaction rates.

 (See page 97 for more information on our quality focus)


➤ Best in class doctors and other healthcare professionals

The Hospital's strategic location, availability of state of the art technology and good reputation allows it to attract the country's top consultants. Its resident consultant base of 43 is the largest in the country. The Hospital also operates a dedicated nursing school which produces over 30 nursing staff per annum. The various accreditations we subscribe to also necessitates the recruitment of qualified healthcare professionals in multiple areas of operations, thereby ensuring that our customers receive the highest standard of care.

 (See page 57 for more information on our Human Capital)


➤ Robust governance and risk management frameworks

The Board of Directors provide strategic leadership to the Group and combine diverse skills, experience and industry insights. The Hospital is listed on the Main Board of the Colombo Stock Exchange and its' corporate governance practices comply with the relevant Listing Rules, Companies Act and the Code of Best Practices on Corporate Governance published jointly by the SEC and CA Sri Lanka.

 (See page 90 for more information on Lanka Hospital's corporate governance practices)

➤ Responsible corporate citizen

As a responsible corporate citizen, the Group is cognisant of the responsibility it has towards its diverse stakeholders and strives to generate shared value through its capital transformation process. The Group also has a comprehensive environmental management framework in place and has placed ongoing focus on reducing its overall environmental footprint. We also engage in numerous community development initiatives on an ongoing basis.

 (See page 64 on our environmental and social initiatives)

Our Leadership



Enhancing Patient Experience

Chairman's Review

"We remain the country's single largest globally accredited tertiary care facility with the most extensive panel of specialists, largest menu of services, strong alliances and unmatched capability to cater to the demand for an increasing range of health services."

Dear Shareholders,
The Lanka Hospitals Corporation PLC delivered a commendable performance, recording a profit of Rs. 581 Mn for the financial year ended 31st December 2017 and balance sheet growth of 11% in a year marked by significant challenges including capacity constraints. While it is disappointing that profit for the year decreased by 40%, this was largely due to factors beyond our control as we responded to epidemics as a responsible tertiary care facility, maintaining our promise of customer care which resulted in a less profitable product mix and escalation of costs which resulted in lower margins. Despite this, we have laid strong foundations for growth and the Board is closely monitoring performance to deliver sustainable growth in profits in 2018.

Market capitalisation of Rs. 13.9 Bn exceeds the Rs. 8.1 Bn net worth of the company with the net worth accounting for 58% of market capitalisation. We remain the country's single largest globally accredited tertiary care facility with the most extensive panel of specialists, largest menu of services, strong alliances and unmatched capability to cater to the demand for an increasing range of health services.

Health Sector Review

Human health activities, residential care and social work activities sub sector accounted for 2.3% of the country's GDP as per 3rd quarter estimates for 2017, reflecting an increase of 10% over 3Q in 2016. The government hospitals had 76,829 beds as at end of December 2016 while the private sector had a further 6,330 beds in

255 private care facilities in the country. Additionally, there were 110 registered medical and channelling centres, 292 registered medical laboratories, 190 full time and part time medical clinics operating around the country by end July 2017 as the demand for healthcare services increased outside the Western Province.

The rising prevalence of Non-Communicable Diseases as per the Sri Lanka Demographic & Health Survey 2016 points to opportunities for growth in both preventive and curative care as levels of awareness regarding the importance of prevention, early detection and treatment has advanced due to increased messaging on social media. Lanka Hospitals is well positioned to support the government agenda to reduce heart disease, diabetes and cholesterol

Our Leadership

Chairman's Review contd.

through comprehensive health check menus catering to diverse lifestyles.

Dengue proved to be the main health issue in 2017 as cases recorded rose to 696 per 100,000 population between January to August 2017 compared to 186 per 100,000 for the corresponding period in 2016. A total of 149,126 cases were reported during this period with 40% reported from the Western Province. The fatality rate increased from 0.17% to 0.26% and the government has taken significant steps to curtail the epidemic, establishing High Dependency Units in 10 government hospitals and escalating prevention activities through recruitment of field assistants and other activities. Lanka Hospitals treated 1,342 dengue patients and special training was given to our staff to alert them on guidance issued by the WHO in managing the patients. Financially, treatment of dengue is a low margin activity and the epidemic contributed to the decrease in margins during the year.

Commitment to Quality

Lanka Hospitals was the first hospital in Sri Lanka to be re-accredited by the Joint Commission International, the gold standard for quality healthcare globally. Commitment to quality and excellence in our service standards has been a key pillar in our strategy and the accreditations received for the hospital and diagnostics are testimony to the high standards maintained. It also provides a sound platform for our expansion plans and is a strong competitive advantage.

"Lanka Hospitals was the first hospital in Sri Lanka to be re-accredited by the Joint Commission International, the gold standard for quality healthcare globally. Commitment to quality and excellence in our service standards has been a key pillar in our strategy and the accreditations received for the hospital and diagnostics are testimony to the high standards maintained."

Venturing Overseas

We continued to explore opportunities in medical tourism following accreditation of Lanka Hospitals by MTQA as mentioned in my previous message. Attracting tourists from Maldives, Bangladesh, India, Seychelles, China and the Middle East, we continue to offer superior care in the region in line with the government agenda to promote medical tourism.

In 2017, Seychelles President Danny Faure visited Lanka Hospitals during his visit to Sri Lanka to further consolidate the strong mutual respect and cooperation between Seychelles and Sri Lanka's leading healthcare facilities for highly specialised medical procedures and services. This was followed by the signing of an agreement between Lanka Hospitals and the Seychelles Health Care Agency for bilateral cooperation in healthcare including providing a host of services to Seychelles medical and nursing students including laboratory services, internship and familiarisation as well as post graduate training for medical and nursing disciplines. Proposals for setting up a facility in Seychelles have been evaluated and we plan to commence work in 2018. This will be a pilot project for Lanka Hospitals and progress will be monitored carefully

to refine it further for replication in other locations.

Domestic Expansion

Expansion in Sri Lanka is a key priority to enhance the services offered to cater to perceived opportunities. An ageing demographic, high incidence of non-communicable diseases, declining fertility rates and increasing levels of awareness of the benefits of good health and wellbeing provide significant opportunities for growth and shaping the role of the hospital. Accordingly, we have invested Rs. 600 Mn in upgrading technology and plan to invest a further Rs. 200 Mn in expansion of our facilities in the country in 2018. Lanka Hospitals has been a catalyst in driving change and introducing the latest technology in health care to Sri Lankans and we will continue to do the same.

We also perceive opportunities to expand our services outside the Western Province as there is a significant disparity in service indicators between the Western Province and others. Lanka Hospitals has an inclusive approach to healthcare and we believe that our strong brand equity will support our growth outside the Western Province. Consequently, plans have been

Our Leadership

➤ Prevalence of Lifestyle Diseases

- Heart diseases 2.2 %
- High blood pressure 8.2 % (highest in Colombo 12%)
- Wheezing/Asthma 5 %
- Diabetics 5.7 %
- High blood cholesterol 5.4 %

Source: Sri Lanka Demographic & Health Survey 2016

formulated to expand our presence in to key towns using a satellite model and will be implemented in the coming year.

Corporate Governance

We welcome on to the Board 4 new Directors Mr. Nandana Jayantha Munasinghe, Mr. Ranajan Mohan Wijesinghe, Mr. Keerthi Kotagama and Mr. Saadi Wadood who bring considerable skills and experience to the Board, enriching deliberations. Their appointments follow the resignations of Mr. Keith Bernard, Dr. Rohan Lalit Wijesundere, Prof. Dilani Lokuhetty and Mr. Aruna Siriwardhana whom we wish to thank for their valuable contributions. The Company Secretaries & Registrars also changed during the year to Business Intelligence (Pvt) Ltd., who have served since March 2017.

In view of the spotlight on director training, the Board engaged external consultants to conduct a customised workshop on corporate governance for all Board members over an entire day. This exercise ensured that the entire Board had a sound grasp of the principles of corporate governance and enhanced the deliberations of the Board, setting the tone at the top. Board members also attended the corporate governance workshops conducted by the

Ministry of Public Enterprises for all state owned business enterprises, strengthening our commitment to director training and sound corporate governance.

Way forward

Expansion is a priority and we have commenced implementation of the same in 2018. They include investment in a new 12 storeyed building, establishing a minimum of 10 satellite offices around the country and establishing a medical branch in Seychelles. We will continue to optimise utilisation of our current facilities as well to drive revenue growth and expand our service menu. Private Health sector expenditure is expected to maintain an upward trend due to growth in non-communicable diseases and high levels of awareness of the benefits of good health and well-being. We will continue to raise the bar, shaping the way Sri Lankans perceive a hospital with careful attention to specialised needs of an increasingly discerning clientele.



Dr. Sarath Paranavitane
Chairman

28th March 2018

Our Leadership



The Quality of Our Service

Group Chief Executive Officer's Review

"We conducted the highest number of cardiac surgeries done by any private sector hospital in 2017 which is also the highest recorded for the hospital setting another milestone."

The Lanka Hospitals Corporation PLC delivered a profit of Rs. 581 Mn for the year 2017 in what proved to be a challenging year following two consecutive years of record growth and profitability. Asset growth was 11% as we invested in enhancing our diagnostic and treatment capabilities, continuously raising the bar for excellence in healthcare in the country. It has been a year of consolidation as we built strong foundations and forged alliances for future growth. A strong balance sheet and cashflows combine with brand equity to support our growth aspirations as we pursue our goal to deliver world class healthcare in Sri Lanka.

Delivering growth

Early in the year, Lanka Hospitals delivered its 1000th IVF baby becoming the first

hospital in Sri Lanka to achieve this milestone as an inspired team worked with diligence and due care to deliver above average success rates, bringing joy to many families. We also conducted the highest number of cardiac surgeries done by any private sector hospital in 2017 which is also the highest recorded for the hospital setting another milestone.

Installation of the 3 Tesla MRI Scanner in 2017 was a quantum leap forward in technology and is the most advanced MRI scanner in the country supporting a variety of medical specialties. Similarly, the Laser Eye Surgery unit is the most advanced benefitting individuals affected by short-sightedness, far-sightedness and astigmatism, who do not like the hassle of wearing glasses and contact lenses.

Opening of the highly specialised Centre for Blood Disorders with a dedicated team of oncologists, haematologists, transfusion physicians and micro-biologists led by an internationally experienced haemato-oncologist enables patients to have bone marrow transplants in Sri Lanka without having to travel overseas.

We also forged alliances that will support our growth in the future, building on existing relationships. Signing of the agreement with the National Insurance Trust Fund Agrahara Beneficiaries in January 2018 helps public sector employees to obtain superior quality eye care treatments such as Cataract surgery and the LASIK Laser eye treatment for conveniently affordable rates at the Lanka Hospitals. The visit from Seychelles President Danny Faure

Our Leadership

Group Chief Executive Officer's Review contd.

also led to the signing of an agreement with the Health Care Agency of Seychelles to provide specialised services in Cardiology, Neurology, Urology, Oncology, Gynaecology and Obstetrics at Lanka Hospitals. We treated 178 patients from Seychelles in 2017 and believe that this number will grow as patients from peripheral hospitals in Seychelles to receive health care facilities at Lanka Hospitals under this agreement. We will also train medical and nursing students from Seychelles, supporting growth of their healthcare industry.

Commitment to Quality

Since inception, Lanka Hospitals has been the trendsetter for quality healthcare in the country and in 2017 we became the first hospital in Sri Lanka to receive re-accreditation by the Joint Commission International, extending our legacy. Our laboratories secured accreditation by the College of American Pathologists becoming the first laboratory to receive this accreditation in Sri Lanka. These add to our existing accreditations by the Medical Travel Quality Alliance and ISO standards certifications for medical laboratory services (ISO 15189), food safety management (ISO 22000:2005) and environmental management systems (ISO 14001) and crowns for food hygiene certification. These accreditations underpin our customer value proposition which is to offer quality healthcare.

A plethora of awards set out on page 11 reflect our commitment to excellence in operational aspects and achievement thereof in relation to peer benchmarks. We are conscious of the need to reach higher, maintaining our role of trendsetter within the healthcare industry.

Performance

Revenue growth was a mere 8% stymied by the epidemic of dengue which resulted in high levels of occupancy and human resources but lower utilisation of our diagnostic and treatment infrastructure. This also impacted margins together with costs associated with JCI re-accreditation and obtaining accreditation from the College of American Pathologists. Despite these challenges, gross profit increased by a modest 2.7%. Administrative expenses and Other operating expenses increased by 12% and 13% respectively due to inflation and increased level of administrative activity, reducing operating margins. Consequently, operating profit decreased by 19% to Rs. 729 Mn.

The charge for taxation increased from Rs.109 Mn in 2016 to Rs. 341 Mn due to the change in the rate of tax which increased from 12% to 28%. Accordingly, the charge for the year increased from Rs. 109 Mn to Rs. 341 Mn while the impact of the rate increase on deferred tax amounted to Rs. 252 Mn for the current year. This resulted in a dramatic decline of 40% in profit for the year which amounted to Rs. 581 Mn for 2017 in comparison to Rs. 972 Mn for 2016.

Other Comprehensive Income was also a negative Rs. 181 Mn compared to a positive Rs. 330 Mn in the previous year. The revaluation surplus of Rs. 145 Mn was offset by a charge of Rs. 269 Mn which was the impact of rate change in respect of previous years which comprised the major movements during the year. Consequently, Total Comprehensive Income attributable to shareholders declined from Rs.1,302 Mn in 2016 to Rs. 399 Mn in 2017.

Total Asset growth was encouraging at 11% as we invested Rs. 645 Mn in PPE which included investments in the 3 Tesla MRI scanner and the Lasik machine enhancing our capabilities. Investments also increased by Rs.197 Mn during the year, strengthening the balance sheet. Liability growth was mainly attributable to increased deferred tax liability arising from the rate changes as discussed above. Equity remains the main source of funding accounting for 74% of total liabilities and equity providing a strong foundation for our growth.

Inspiring Our Team

Lanka Hospitals celebrated its 15th year of operations in 2017 and a special ceremony was held to felicitate the 112 employees who have been with the hospital since inception. Building the largest team of in-house specialists and support staff has been the cornerstone of our success and positioning as a premier healthcare institution in the country attracting a local and international clientele. Training and development activities support the continuing evolution of the hospital as we grow the number of specialties within the hospital, ensuring that our staff has the requisite skills and experience to deliver on our promise of care with strict adherence to requirements of accrediting organisations. We invested in providing foreign training for medical staff to support our growing needs bringing fresh perspective in addition to the elevation of skills. Additionally, we introduced Key Performance Indicators to all staff to clearly communicate objectives and targets, driving performance towards a unified vision.

Our Leadership

➤ Milestones In 2017

- Re-accreditation by Joint Commission International
- Accreditation of Laboratory by the College of American Pathologists
- 1000th IVF baby
- Installation of 3 Tesla MRI Scanner
- Installation of Lasik Eye Surgery Unit
- Opening a dedicated Centre for Blood Disorders
- Visit of His Excellency, President of Seychelles, Danny Fuaire
- 15th year anniversary and felicitation of employees who have been with us since inception
- Maintained a Customer satisfaction rate of 95%

As a service organisation, our staff interactions with our patients are key determinants of success. A robust talent management strategy that is able to attract, retain and develop talent is a pre-requisite to successful positioning in the sector. Our accreditations and awards are testimony to the skills, experience and professionalism of our staff and the processes and initiatives in place to support their growth.

Way Forward

Our growth in the past 15 years has been remarkable and now there is an urgent need to increase capacity within the hospital and also increase our footprint within the country and outside the country to deliver sustainable value to stakeholders. We have

maximised utilisation of available space within the current facility and have now commenced work on a new 12 storeyed building to further expand our services, catering to demand. Plans have also been finalised to set up a minimum of 10 satellite units to support patients requiring care outside the Western Province. We will also set up a branch office in Seychelles, strengthening medical tourism in Sri Lanka while delivering primary care and screening in Seychelles. These initiatives support our aspirations of providing affordable access to quality healthcare services to an international and domestic clientele.

Acknowledgements

Progress made during the year is the result of smart strategy and hard work by a visionary Board and an inspired team. I thank the Chairman and the Board of Directors for providing strategic guidance and oversight of performance delivery. To my team I extend my sincere appreciation of their hard work and professionalism which has ensured that we maintain a customer satisfaction rating above 95% in a challenging year. Inspired leadership in clinical matters provided by our eminent panel of Consultants and doctors drives our success and I wish to thank them for their dedication. We also wish to express our appreciation of the assistance provided by officials of the Ministry of Health to ensure compliance.

I wish to thank all our patients for continuing to trust Lanka Hospitals with their health and well-being as we commit to enhancing our facilities and capabilities to deliver innovative health care solutions. Lanka Hospitals has changed perceptions of health care offerings in the country, setting new trends. We look to enhance our

legacy in the coming year as we re-imagine healthcare to be even more customer centric while maintaining safeguards and discipline instilled in our systems.



Dr. Prasad Medawatte
Group Chief Executive Officer

28th March 2018

Trust in...

World Class Healthcare at Lanka Hospitals

At Lanka Hospitals, the brand of care we give is the same as what we bring from home. And to you, we afford that care with a combination of skill, technology and service that is award winning and world class.

We house the best doctors and state-of -the-art technology with unparalleled attentive care. That's why we are Sri Lanka's first and only hospital to be re-accredited with the internationally acclaimed 6th Edition of the JCI standard. Come, experience world class healthcare at Lanka Hospitals.



LANKA HOSPITALS
ACCREDITED
BY JOINT COMMISSION INTERNATIONAL
GOLD SEAL OF APPROVAL SINCE SEPTEMBER 2014



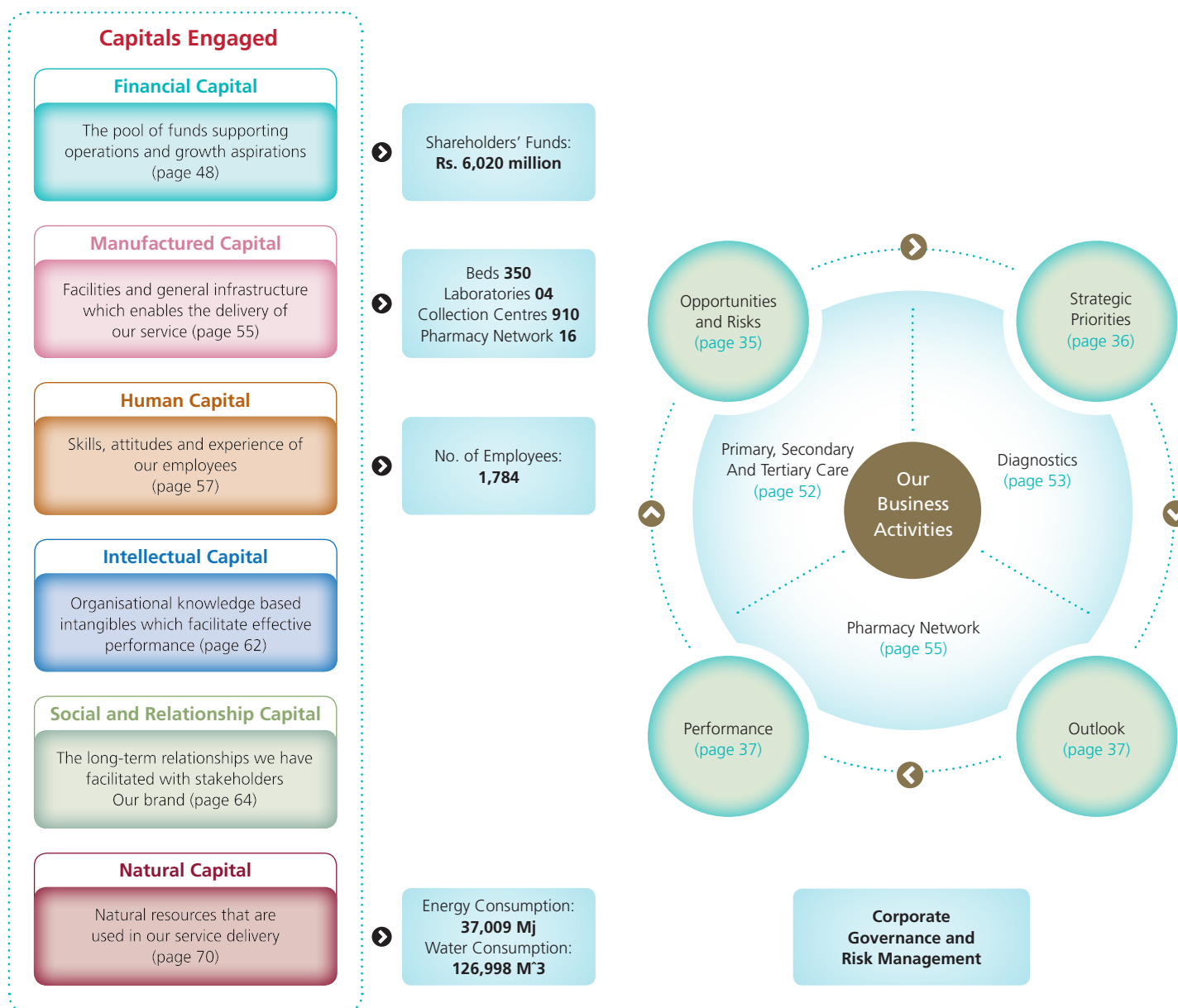
MTQUA
CERTIFIED
International Medical Tourism Certification
1st Hospital In Sri Lanka To Be Accredited



Value Creation Model

Mission

Our value creation model defines our strategic priorities, the activities we engage in, the relationships we depend on and the outputs and outcomes we aim for in order to create value for our stakeholders



Operating Context and Strategy

Vision ➤

To be the foremost and preferred private healthcare facility in the country, which will serve the nation and her people to build a healthier community

Outputs and Outcomes

Shareholders

Net Profit **Rs. 581 million**
EPS **Rs. 2.60**
Dividends **Rs. 224 million**



Sustainable returns through dividend and share price growth

Employees

Salaries & Benefits
Rs. 1,843 million
Training Investment
Rs. 11.35 million



Attractive remuneration and opportunities for skill and career development

Customers

Customer Satisfaction Rate
95%



Access to international healthcare at affordable pricing

Suppliers

Total Number of Suppliers
552



Mutually beneficial relationships with diverse suppliers

Regulators/Government

Tax Payments
Rs. 86 million



Contributions to government revenue and enhancing access to healthcare

Community

Investment in CSR
Rs. 2.17 million



Sustainable relationships with the communities we operate in

Stakeholder Engagement

We maintain a high level of engagement with stakeholders who directly impact our business and are directly affected by our actions to ensure that our business model recognises the need to deliver value to them. We have clearly established lines of communication between our various stakeholders and continuously work at nurturing meaningful and sustainable relationships.

Stakeholder	Importance of engagement	Engagement mechanism and frequency	Key topics and concerns raised	Response Strategies
Shareholders	Shareholders provide capital to fund future growth plans	Annual General Meeting Interim financial statements (Quarterly) Annual Report Corporate website (Ongoing) Announcements made to the Colombo Stock Exchange (As and when required)	Return on Investment Sustainable growth Corporate Governance and ethics Risk Management Growth opportunities and future outlook Reputation	Clear communication and interaction with shareholders focusing on the short and medium-term strategies; which include concentrating as a one stop centre for selected specialties, expanding the Group's regional presence capacity expansions and achieving differentiation through IT based personalised patient services.
Employees	Employees play a vital role in driving our strategic ambitions and facilitating the patient experience	Performance appraisals (Annual) Email communications/ notices (Ongoing) Department meetings/ team meetings, one to one meetings with direct line manager (As and when required) Employee intranet Work-life balance Employee satisfaction surveys such as Great Place to Work (GPTW)	Competitive levels of remuneration and benefits Training and development Prospects for career progression Job security A conducive and ethical work environment Employee safety and well being	<ul style="list-style-type: none"> ④ Provide a challenging work environment which rewards employees ④ Employees are sent for various in-house as well as external training programmes ④ The Lanka Hospitals Nurses Training School ④ Opportunities for career and personal growth

Operating Context and Strategy

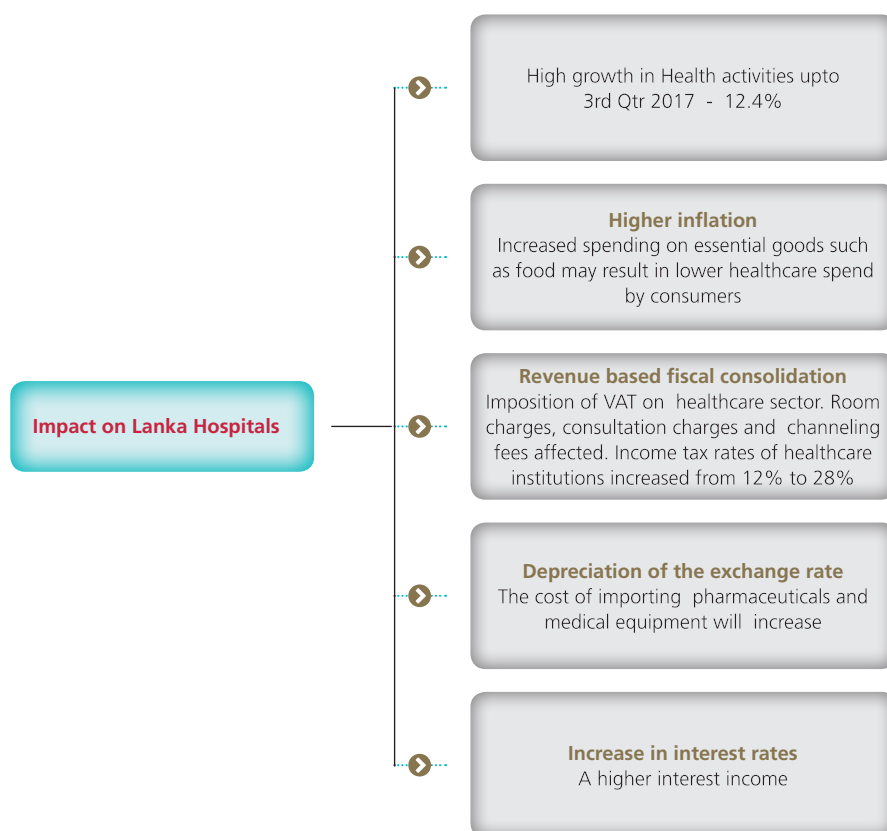
Stakeholder	Importance of engagement	Engagement mechanism and frequency	Key topics and concerns raised	Response Strategies
Consultants (Specialists across all clinical disciplines)	Given the doctor-centric nature of the Sri Lankan healthcare industry, Consultants are able to refer as well as attract patients to Lanka Hospitals	One-on-one engagement Conduct and sponsoring for CME programmes	Availability of the latest technology and equipment Quality of nursing and support staff Optimal infrastructure facilities Customer base	<ul style="list-style-type: none"> ① Focus as one stop shops in selected specialities and ensure that the facilities, equipment and support required are available ② Marketing and promotional campaigns targeting appropriate markets to increase patient base which includes medical tourism
Customers (Local in/out patients and medical tourists)	Patient experience will have an impact on the Hospital's customer base	Patient feedback surveys (In patients - On discharge, Out patients – As and when required) Corporate website (Ongoing) One-on-one engagement Social media	Quality of service and care given Responding to patient concerns and focussing on the quality of their experience Attracting and retaining the best consultants/ doctors Access to affordable private healthcare either through self-pay or health insurance Ability to facilitate the most up to date medical procedures Low infection rates and medical errors	<ul style="list-style-type: none"> ① Quality accreditations ② Responding and taking action on information received from feedback surveys ③ Continue to attract the best consultants and doctors to Lanka Hospitals which will add to the existing pool of renowned consultants and doctors ④ Introducing IT based integrated personalised services to improve patient care
Suppliers (Medical suppliers, medical device manufacturers, pharmaceutical suppliers and other general suppliers)	To ensure that products to provide optimal service are available as required	Regular meetings with and review of suppliers (Ongoing) Contract negotiations (As and when required)	Fair and transparent tender processes Negotiations with suppliers built on mutual respect and with a reasonable pricing structure	<ul style="list-style-type: none"> ① Build and maintain relationships with suppliers

Stakeholder Engagement contd.

Stakeholder	Importance of engagement	Engagement mechanism and frequency	Key topics and concerns raised	Response Strategies
Government/Regulators	Lanka Hospitals is required to adhere to all laws and regulations imposed by the government and regulatory bodies	Membership in industry associations and participation in their forums (Ongoing) Direct engagement with government officials and regulators at various levels (Ongoing)	Compliance with laws and regulations Contribute to the development of healthcare regulation	<ul style="list-style-type: none"> ④ To be updated on all laws and regulations and ensure compliance ④ Be actively involved in industry forums
Third Party Payers (Health Insurance providers)	Provides funding for Lanka Hospitals as part of health insurance payments on behalf of patients	Interaction on issues pertaining to quality, patient experience and doctor utilisation trends (Ongoing) Contract negotiations (As and when required) Day to day interventions on patient case management	Efficiencies in case management and billing Cost reductions Access to quality statistics Meeting expectations regarding patient experience Billed services relate to actual and necessary services provided	<ul style="list-style-type: none"> ④ Being part of preferred provider networks ④ Patient satisfaction ④ Implementing efficiency programmes to reduce costs
Communities	To give back to the community in which the hospital operates	Conducting various medical awareness programmes and medical discussions (Ongoing)	Ethical practices A caring hospital	<ul style="list-style-type: none"> ④ Various medical awareness and discussion programmes conducted for the general public ④ Go green initiatives

Economic and Industry Environment

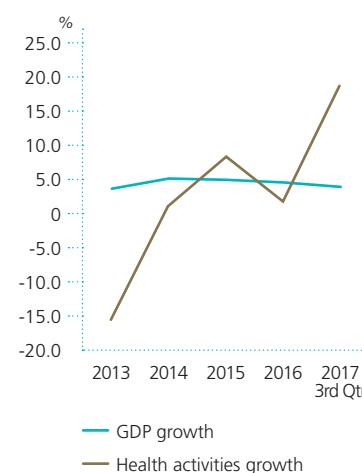
Sri Lanka's economic growth moderated during the year, with GDP expanding by 3.7% up to the 3rd quarter of 2017 (3Qtr 2016 – 4%). Weather conditions continued to be unpredictable in 2017, adversely affecting the country's agricultural sector. The Central Bank and the government adopted tight monetary and fiscal policy measures to regain macroeconomic stability. However, this also affected public and private investment spending resulting in lower economic growth. Inflation was at the higher single digits during most of 2017 due to consumer price increases resulting from high food prices associated with weather related domestic supply disruptions, revisions to indirect taxes and increased prices of imported commodities. Although there were signs of a firm recovery of exports the trade account continued to be affected by largely weather induced increase in import expenditure and a decline in workers' remittances. In the fiscal sector, revenue collection showed improvement. Nevertheless, some deviation from the budget deficit was expected in 2017, mainly as a result of adverse weather related fiscal costs and higher interest payments.



Amidst this, the services sector, the highest contributor to GDP, grew by 4.0% during the first nine months of the year (3Qtr 2016 – 4.0%). Human health activities, residential care

and social work activities, under which the healthcare sector is categorised, and which constituted 2.0% (3Qtr 2016 – 1.7%) of that sector, grew by a remarkable 12.4% during this period (3Qtr 2016 – -3.6%).

GDP and Health Activities Growth



Source: Department of Census and Statistics

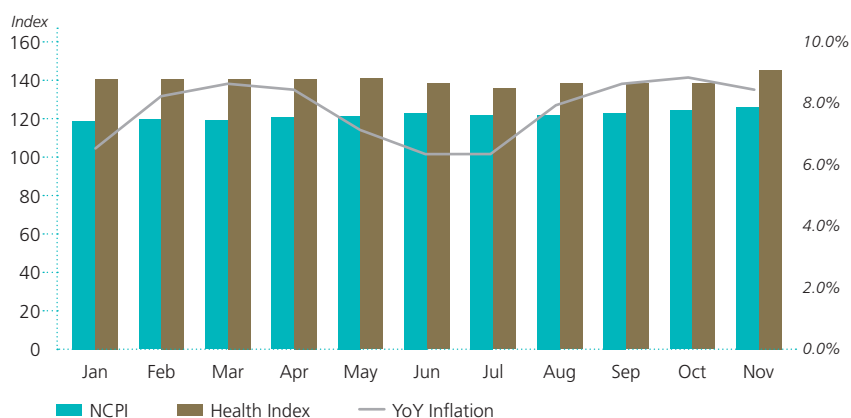
Despite these challenges, several policy measures taken by the Central Bank together with the government in 2017 resulted in significant progress being made on several fronts. In order to maintain economic, price and financial system stability, the Central Bank put in place several frameworks to improve the country's overall macroeconomic stability, implemented a more flexible exchange rate policy to promote export competitiveness and is working towards implementing a Flexible Inflation Targeting (FIT) framework by 2020 to conduct monetary policy in a proactive and forward-looking manner. The government was also committed to a revenue based fiscal consolidation programme, with the intention of reducing budget deficits and debt levels progressively.

Economic and Industry Environment contd.

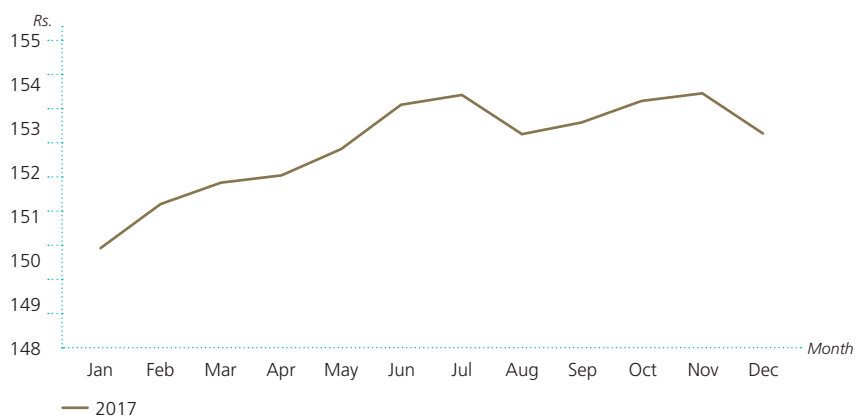
Going forward, the introduction of an effective FIT framework is expected improve price stability which will provide a more favourable environment for growth and employment generation. Under the proposed FIT framework, the Central Bank will aim to preserve price stability of the economy by targeting an inflation range of 4-6%. Foreign exchange intervention policies that will be adopted would be consistent with a flexible exchange rate regime and supportive of improving foreign exchange market functionality. With a view to maintaining a competitive exchange rate the Central Bank will continue to focus more on non-debt creating financial flows in building up reserves. This will be supported by ongoing policy reforms of the government focused on boosting exports as well as attracting FDI. The government's commitment to fiscal consolidation by enacting the new Inland Revenue Act, VAT reforms and the improvements in tax administration are noteworthy. The government is also committed to reform state owned enterprises (SOEs) which will go a long way towards reducing the future financial losses of key SOEs and avoid large ad hoc adjustments in retail prices.

On the global front, interest rate hikes in advance economies such as the US and the UK as well as in emerging economies could have some spill-over effects on the Sri Lankan economy through capital reallocation. Economic and political developments in major export destinations, as well as trends in key commodity prices, will also have a significant impact on the domestic economy.

Inflation - 2017



USD Exchange Rates - 2017



Source: Central Bank of Sri Lanka

Global healthcare industry

Globally, the challenges of providing and funding health care have remained largely unchanged over the last few years and have remained so in 2017. A few of the key issues and trends impacting the global health care sector are rising demand and associated spending fueled by an aging population; the growing prevalence of chronic diseases and comorbidities; development of costly clinical innovations; increasing patient awareness, knowledge, and expectations; and continued economic uncertainty despite regional pockets of recovery.

Operating Context and Strategy

Sri Lankan healthcare industry

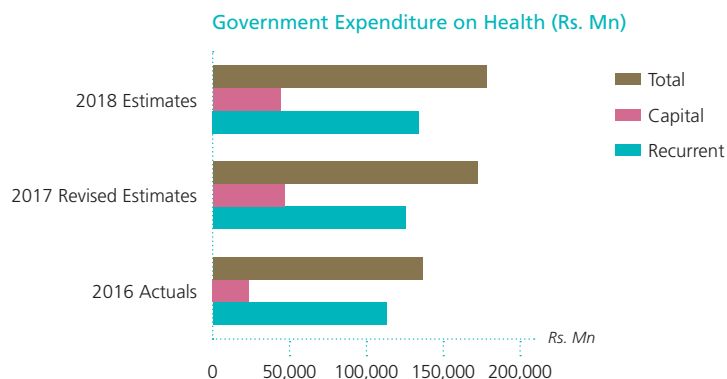
The risks and challenges facing the global healthcare industry is mirrored in the Sri Lankan healthcare sector and therefore Lanka Hospitals. In addition, rising competition among the larger private healthcare providers and a country wide shortage of skilled human resources are challenges the Group encounters.

Government healthcare sector

The Sri Lankan government is committed to providing universal healthcare to all its citizens. As a result, Sri Lanka, being a lower middle-income country with low expenditure on health, has healthcare indicators which are impressive compared to its regional peers and some even comparable to those of upper middle income countries such as Thailand and Malaysia (countries with higher income levels and spend more on healthcare per capita).

Changes in Sri Lanka's demography and epidemiology, that is, an aging population and an increase in non-communicable diseases (NCDs), requires the government to prioritise geriatric medical care and focus on NCDs, which requires lifetime expensive treatments. This remains a constant challenge to the government as it has not been able to increase funding sufficiently to keep pace with new technology, costly medication and rising expectations of patients.

The Public healthcare sector accounted for 73% of the hospitals and 92% of the available bed capacity in Sri Lanka. It also provided approximately 95% of inpatient care and provides an almost equal share of outpatient care with the Private sector. Although the public sector has been successful in providing efficient and good quality health services, it has been unable to meet the curative services demand of the total population due to insufficient resources.

**Key Public Sector and Private Sector Statistics – December 2016**

	Government	Private	Private Sector Share (%)
No. of Hospitals	598	225	27.3%
No. of Beds	76,829	6,330	7.6%

Source: Central Bank of Sri Lanka

Private healthcare sector

The private healthcare sector continued to be a key player in the healthcare industry in 2017. Although the Sri Lankan government is committed to providing universal healthcare to its citizens, limitations in the public healthcare services is one of the main reasons for the increase in demand for private healthcare services. Additionally, the private sector frequently provides products and services which might not otherwise be available, such as advanced medical equipment and procedures and perhaps even higher-quality services.

Private healthcare services are limited to mainly urban areas in and around Colombo, where household disposable incomes are higher and the ability to afford such services are greater. Expansion of this sector to other regions by the larger players have been limited. However, rising per capita income of the population ensuing in a higher disposable income will result in increasing the demand for private sector services.

GDP per capita projected to grow 7% by 2020

Monthly Household Income Statistics	2016	2012/13	% Inc
Average household income	Rs. 62,237	Rs. 45,878	35.7
Average household per capita income	Rs. 16,377	Rs. 11,819	39
Household expenditure on health & personal care	Rs. 2,529	Rs. 2,181	16

Source: The Household Income and Expenditure Survey conducted by the Department of Census and Statistics in 2016

During the last few years private health expenditure has increased considerably with capital investments being made on medical equipment, expanding capacity and on IT. This has resulted in the availability of medical procedures with the latest technology, although

Operating Context and Strategy

Economic and Industry Environment contd.

at a price. Capacity constraints and poor maintenance of equipment and infrastructure has led to public hospitals referring serious patients to private hospitals. The more affluent of the society bypassing the public healthcare system will directly avail the services with cutting edge technology available at private healthcare facilities.

A shortage of skilled professionals is a challenge that the private healthcare sector continuously contends with. As major private hospitals have dedicated centres in super specialty core disciplines, it is necessary to have a full time competent and dedicated team for 24-hour coverage. However, the majority of local consultants do not join a private hospital on a full-time basis. Therefore, the availability of resident consultants and medical officers is key to marketing services provided in a private hospital. A country wide shortage of nurses and medical technicians further exacerbates the situation.

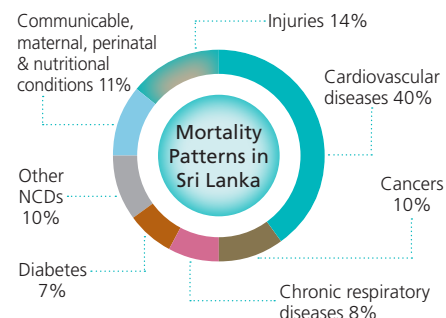
In a country where universal healthcare is aspired to by the government, private consumption expenditure on healthcare is more than half the total healthcare expenditure. In 2011, out of pocket (OOP) expenses consisted of an average of 87% with private voluntary insurance and employers contributing to 6%. Utilisation of private healthcare services due to inadequacies of the public healthcare services and poor health insurance penetration has resulted in the high proportion of OOP expenditure. With increasing disposable income and growing awareness and knowledge of healthy lifestyles, it is expected that the usage of health insurance will rise. This will be beneficial to private healthcare providers

and result in increasing their customer base as those with health insurance will be able to utilise their services.

Disease Trends

Sri Lanka was certified as a Malaria free country by the World Health Organisation (WHO) in September 2016 following three consecutive years without a single indigenous Malaria case being reported. Although successful in combating communicable diseases such as Malaria, the country faces many challenges in minimising the occurrence of other communicable diseases. Dengue continued to be a major public hazard, reaching epidemic proportions in a worst ever outbreak in 2017. The Ministry of Health has implemented numerous activities to minimise and control the burden of dengue by vector control, early diagnosis and proactive case management.

NCDs make up 70% of the disease burden in Sri Lanka as per the Demographic and Health Survey done in 2016. The results confirm the expectation of a higher prevalence of NCDs associated with the pace of life of urban inhabitants, such as high blood pressure, diabetes, high blood cholesterol, heart disease, wheezing and asthma, compared to the prevalence observed in the rural and estates sector residents. NCDs are estimated to account for 70% of total deaths in Sri Lanka. The risk of NCDs are fueled by sedentary lifestyles, tobacco and alcohol consumption and unhealthy diets. NCDs have a serious impact on the economy as well as being a public health issue. Therefore the government has set up an operational plan to reduce these risk factors by educating the public and imposing controls on marketing and standards of food and beverages.



NCD Prevalence in Sri Lanka, 2016

	% of Population
Heart disease	2.2%
High blood pressure	8.2%
Wheezing/asthma	5.0%
Diabetes	5.7%
High blood cholesterol	5.4%

Source: Sri Lanka Demographic and Health Survey, 2016 - DCS

Sri Lanka is considered to have one of the fastest aging populations in the world. This has been brought about resulting from the change in Sri Lanka's demographic profile due to decline in mortality and fertility rates as well as the effect of international migration over time. At present, 2.5 Mn (12.4%) of Sri Lanka's total population is aged 60 and over. That is, one in every seven Sri Lankans are aged 60 and over. It is expected that this number will increase to one in every five and one in every three for 2030 and 2050, respectively. Geriatric care frequently includes long term care. NCDs, alzheimers and other forms of dementia, and various forms of disability are the diseases that the elderly more frequently suffer from. The private healthcare sector will benefit from this trend, as capacity limitations and unavailability of some services for the over 60 population health needs in the public sector will result in increased demand for these services from the private sector.

Operating Context and Strategy

Medical Tourism

Sri Lanka is emerging as a popular medical tourism destination. Its state of the art private hospitals and diagnostic facilities, some of which are internationally accredited, a large number of English-speaking medical professionals and the relatively lower cost of services compared to other regional and global players are some of key factors supporting medical tourism. However, these strengths are being offset to a certain extent by other factors, such as lack of a clear strategy to support health tourism, non-recognition of local service providers by international insurance firms and low brand awareness worldwide.

Diagnostics

Both the public and private sectors provide diagnostic services in Sri Lanka. However, due to significant resource constraints faced by the public sector, the diagnostics market is dominated by the private sector. Despite high operating margins, pricing of diagnostics services is such that the vast majority of the population is able to afford such services. One of the private diagnostic providers operates the largest laboratory network in Sri Lanka, with a market share in test volumes amounting to approximately 60%.

Pharmaceuticals

The pharmaceutical industry in Sri Lanka is governed by The Cosmetics, Devices and Drugs (CDD) Act of 1980. The National Medicines Regulatory Authority (NMRA) is responsible for ensuring the industry's adherence to the Act. The Sri Lankan pharmaceutical industry includes manufacturing, importing and marketing of licensed drugs for medication and is estimated to be worth US\$ 400 Mn per year. The State Pharmaceuticals Manufacturing Corporation (SPMC) is the largest drug manufacturer in Sri Lanka, and together with other local manufacturers accounted for 15% of the total pharmaceutical market in 2015. Therefore, the bulk of the pharmaceuticals market consists of imported drugs. Sri Lanka's



Economic and Industry Environment contd.

pharmaceutical market is therefore dominated by the private retail market. The NMRA is constantly challenged to ensure an uninterrupted supply of pharmaceuticals that are safe, efficacious and of acceptable quality. On the other hand, industry players face price controls and a lack of qualified pharmacists among others. In October 2016, the Government set a price ceilings for 48 essential medicines used to treat non-communicable diseases (NCDs), such as diabetes, heart disease, high blood pressure, high cholesterol, and other common diseases.

The many opportunities and challenges facing the private healthcare sector in this environment as it translates to Lanka Hospitals is summarised as follows.

Strengths

- Multi award winning and accredited hospital including JCIA and MTQA accreditations
- Availability of one of the highest number of resident medical officers and consultants in the private healthcare sector
- Nurses of high calibre graduating from the Lanka Hospital Nurses Training School
- Established foreign patient base in Maldives and Seychelles
- Sound financials
- Strong track record in core specialties
- Having a diagnostic arm to support core hospital operations with the CAP accreditation. LHD provides at least 100 tests which are not provided by any other diagnostic provider in Sri Lanka



Opportunities

- Capacity constraints in the public healthcare sector will drive more patients, even in lower income groups, to private hospitals
- NCDs are on the rise
- Catering to the disease trends of an aging population
- Expanding operations locally as well as internationally with the brand name and JCI accreditation
- Cost effectiveness compared to the region will be a boon to attract medical tourism. MTQA accreditation will also attract medical tourists
- Employee health insurance coverage in the private sector enables patients to obtain private healthcare services
- Expanding pharmacy operations and regional presence in diagnostics



Threats

- Low health insurance penetration
- Increase in hospitals outside Colombo will result in fewer patients coming to Colombo
- Medical tourists are targeted by competitors
- Industry wide shortage of skilled professionals increases the risk of losing key employees/staff to competitors
- Improvements in the public healthcare sector
- Patients are becoming increasingly demanding and more aware of their rights
- Rising cost of living will help to reduce the spending capacity on healthcare
- Price competition among the bigger players in the private healthcare sector



Weaknesses

- Capacity constraints. Eg: In-patient rooms, OP pharmacy, Consultation rooms, Dialysis
- Over dependency on a few consultants and medical officers in certain areas
- Lack of regional presence locally as well as internationally
- Restricted parking within the hospital premises
- Lack of information regarding hospital facilities flowing to outside consultants and other key stakeholders

Market Review: Opportunities and Risks

Remaining agile is critical to maintaining our market position and competitive edge, and we continually monitor demographic changes, evolving consumer needs and other opportunities and risks which could affect our ability to create value.

Demographic Changes +

The increase in life expectancy rates, sustained decline in fertility and higher migration levels have resulted in significant changes in the country's dependent population. The elderly population of 2.48 Mn in 2001, increased to 3.7 Mn in 2016, representing 17.5% of the country's total population. By 2041, 25% of the population is expected to be elderly. These demographic changes necessitate specialist geriatric care involving substantial investment. Given the limited coverage of social welfare mechanisms in the country, the Government is likely to face challenges in funding such investments. The private healthcare sector, therefore would have a role to play in fulfilling these shortcomings and catering to the increasing demand for the specialised healthcare needs of the elderly, including alzheimer's disease, arthritic conditions and other geriatric services.

17.5% of population over 55 years

Rising Prevalence of NCDs -

The country's disease profile has also changed over the past decade or so, with an increasing prevalence of non-communicable-diseases (NCDs) such as Diabetes, Cancer and Chronic Respiratory Diseases accounting for nearly 70% of hospital deaths. NCDs have thus emerged as a serious economic and public health issue and is aggravated by unhealthy diets, sedentary lifestyles and tobacco/alcohol use. The rising prevalence of NCDs are likely to stress the existing system as the current public healthcare is ill-equipped to provide the long-term care associated with NCDs. This provides an opportunity for private sector healthcare operators to improve their presence in specialised services such as Diabetes, Hypertension and Asthma which are usually financed through out-of-pocket private health expenditure.

70% of hospital deaths due to NCDs

Shortage of Skilled Personnel -

The increasing demand for healthcare has resulted in significant disparities in the numbers, quality and distribution of skilled medical practitioners and allied health staff. Although the pool of healthcare human resources has widened over the past decade or so, the skill mix remains unbalanced with a lack of specialists, qualified pharmacists, nursing staff and technical staff. This shortage has become increasingly acute as both public and private sectors are compelled to rely to state-funded programmes. High labour migration in skilled categories has further exacerbated the issue as qualified staff seek more lucrative opportunities abroad.

Regulatory Changes -

In 2016 the government mandated the price reduction of 48 essential drugs and applied temporary price ceilings on the dengue antigen test and full blood count, with the objective of providing relief to the public. This adversely impacted the revenue and earnings of the sector's pharmacy and diagnostics businesses. Overall, the private healthcare sector is regulated by the Private Health Services Regulatory Council (PHSRC) which has regulatory purview over multiple aspects of operations including pricing, standard of care, patient billing and information and qualifications of employees.

Increase in Disposable Incomes +

Personal disposable incomes have continued to rise with Sri Lanka's transition to a middle-income earning country. Per capita income has increased by more than 22% over the past five years while per capita health expenditure has witnessed a parallel rise. Increasing affluence and higher propensity to seek healthcare services have supported increased demand for private healthcare, particularly given overcrowding, long waiting times and inconsistent service standards in the state health sector.

4% CAGR in private health expenditure in 2012-2016

Implications of ICT and Social Media - +

The ubiquity of electronic communication and social media is transforming interactions between customers and healthcare operators making them relatively simple and accessible. Customer reviews on service/products enable hospitals to identify inadequacies of the existing services that are provided and this feedback can be harnessed meaningfully to enhance service and brand visibility. On the other hand, negative customer experiences can also circulate rapidly through social media, and the organisation has the added burden of tracking such statements and responding in a timely and satisfactory manner. ICT also has the potential to revolutionise the traditional healthcare model, by providing a virtual platform for engagement between customers and medical professionals.

Mobile penetration:135.7%

Opportunities in Medical Tourism +

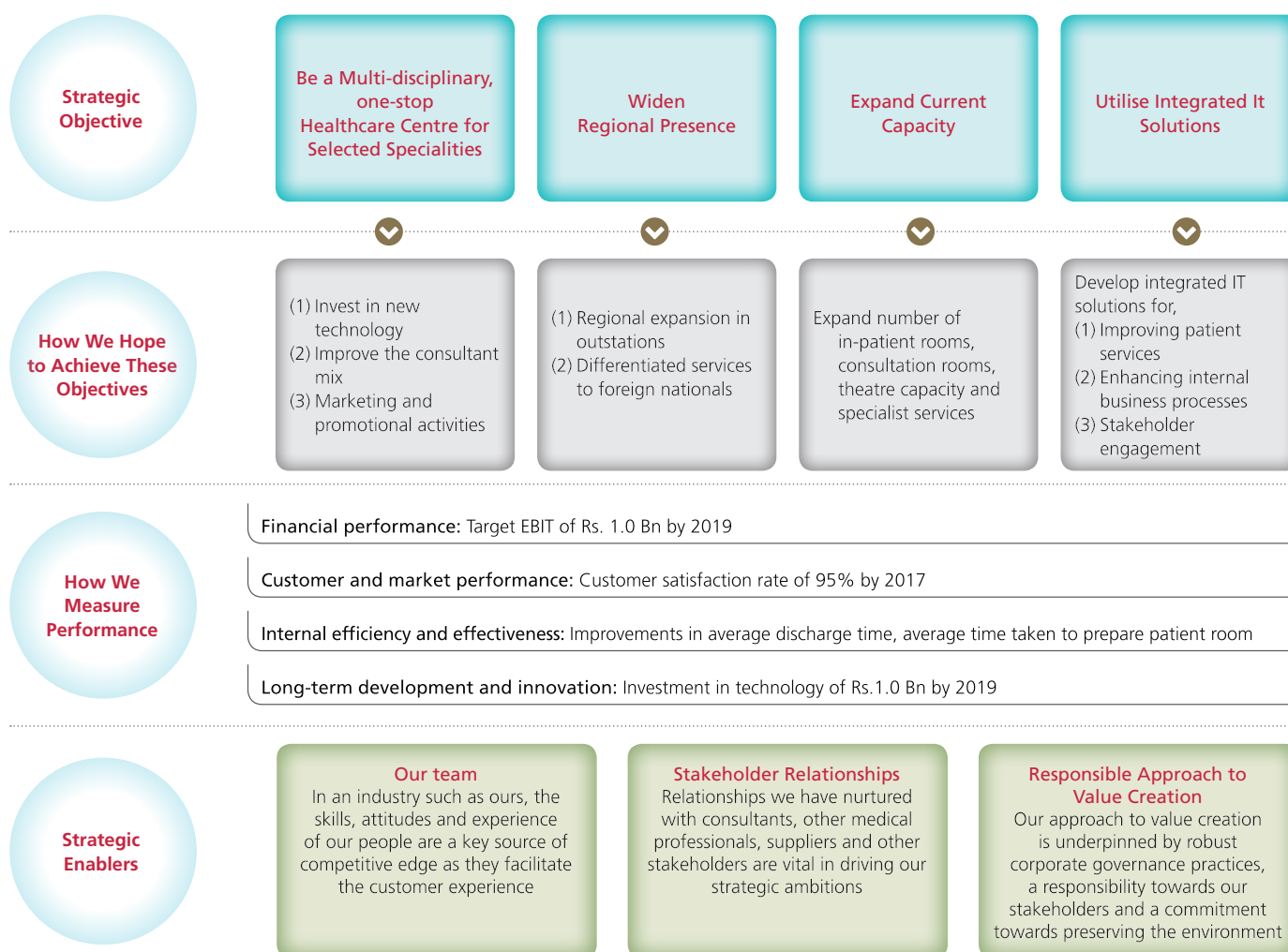
Sri Lanka holds strong appeal as a destination for medical tourism given the country's English-speaking medical professionals, internationally qualified specialists, state-of-the-art infrastructure in private hospitals and relatively low cost of services in comparison to global and regional players. Lanka Hospitals has been quick to position itself to capture these growth opportunities by being the first hospital in Sri Lanka to obtain the Medical Travel Quality Alliance (MTQUA) certification in 2016.

Our Strategic Framework

Our vision is to be the foremost and preferred private healthcare facility in the country and we have put in place a cohesive and clear strategy to achieve this ambition. The Group's Strategic Plan for 2017-2020, aptly named 'Renaissance', aims to build on our core competencies while sharpening our competitive edge through focusing on quality, range of care and technology. Potential capacity limitations in the Hospital's existing location has compelled us to explore ways of optimising the current space while seeking avenues for growth in other locations.

Our strategic ambitions will be powered by our most valuable asset the unmatched talent and performance-oriented mindset of our Human Capital. The Group's stakeholder relationships are another vital enabler and is embodied in our 'Promise' to our patients, their families, our colleagues and the community.

Our Strategic Framework- 'Renaissance' 2017-2020



Key Performance Indicators: 2017

Strategic Objective

Be a Multi-Disciplinary, One-stop Healthcare Centre for Selected Specialities

Widen Regional Presence

Expand Current Capacity

Utilise Integrated IT Solutions

Developments During the Year

- Successfully obtained the JCI re-accreditation.
- Successfully obtained the CAP accreditation.
- Introduced a 3 Tesla MRI scanner with 64-channel Neuro coil and a Lasic Laser machine

- Opened a regional laboratory in Kandy and a mini-laboratory in Colombo. Added 04 new company owned collection centres.

- Commenced constructions of new 17 patient rooms.
- Commenced constructions of regional labs in Negombo & Galle

- Implemented an electronic medical records system for the Emergency Medicine areas
- Introduced self channelling service

Key Performance Indicators

Financial Performance: Group revenue increased by 8.4% and Company revenue increased by 6.6%

Customer and market performance: Customer satisfaction rate of 95% in 2017

Internal efficiency and effectiveness: Hospital occupancy increased by 2.4% in 2017

Long-term development and innovation: Investment in technology: Rs. 536 Mn & largest test menu and over 100 tests which are only provided by us

Outlook for 2018

- 17 new Surgical patient rooms
- Establish and start operation medical centre in Seychelles

- Further expand the pharmacy network in partnership with Keells Supermarkets
- Expansion of laboratory and collection centre network

- Maintain all medical records in electronic form

Customer satisfaction rate averaging over 95% in 2018

Improvements in average discharge time/ drug dispensing time

Plan to invest a further Rs. 200 Mn in expansion of our facilities in the country in 2018

Operating Context and Strategy

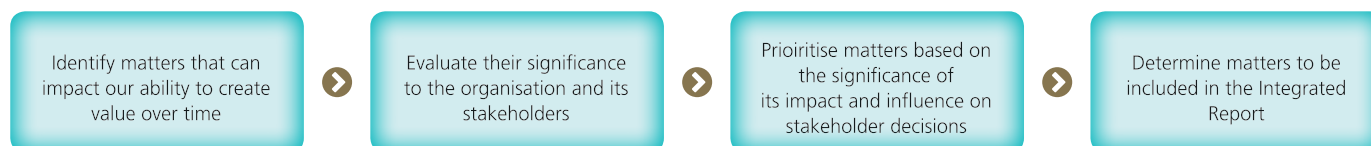
Managing Materiality and Risk

Material topics are defined as any economic, social or environmental factor that could affect an organisation's ability to create value for its stakeholders. As the primary publication to stakeholders, the content included in this Report also reflects the Group's material topics, thereby ensuring that we report on the factors that matter most to our diverse stakeholders.

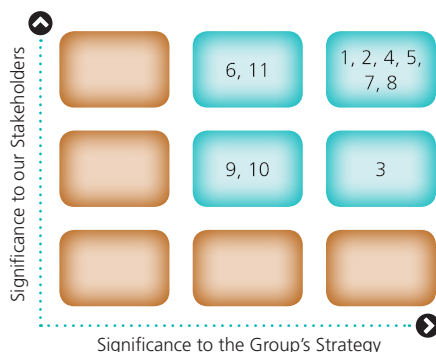
When determining our material topics, we give due consideration to the economic and industry environment in which we operate, expectations of our stakeholders, emerging risks and opportunities and our strategic ambitions.

We adopt a systematic process in determining material topics; initially, we

identify a list of various issues across the organisation and then prioritise these issues based on the significance of their potential impacts and its influence on stakeholder decisions. We also obtain input on our material topics from several key internal and external stakeholder groups including employees, customers and regulators whenever possible.



The material matrix is presented below; there were no major restatements of non-financial information presented in the previous year's report.



Management Approach

(1) Technology and innovation

Investment in state-of-the-art medical, clinical and surgical technology can be a key source of competitive edge to a healthcare provider, as it paves way for better diagnostics, advanced surgical procedures and improved patient care. The digital revolution has also resulted in

breakthroughs in research, information gathering and patient communication thereby providing hospitals with new tools to enhance the overall quality of care. A Hospital's inability to keep abreast of the emerging technological changes can result in a reluctance on the part of consultants to visit such a hospital and over time will cause an erosion of market share. The topic boundary is internal, as impacts are likely to be felt primarily within Lanka Hospital's business.

Relevant GRI topics: None

(2) Consultant relationships

Sri Lanka's private healthcare sphere is doctor-centric, with consultants visiting multiple private hospitals upon completing duty hours at government hospitals. A private hospital's ability to attract and retain visiting consultants is therefore a key factor in driving patient volumes and plays a vital role in preserving market position. Although Lanka Hospitals currently has the country's largest resident consultant base, it is still somewhat reliant on leading visiting

consultants to attract patients. Nurturing co-operative and mutually beneficial relationships with visiting consultants is therefore a critical material topic; the topic boundary is mainly internal as it directly affects the operations of the organisation.

Relevant GRI topics: None

(3) Operational efficiency

Space limitations in its current location has made it challenging for Lanka Hospitals to pursue further capacity expansions while the price competitive nature of the industry and regulatory restrictions on pricing renders it difficult to increase prices to maintain earnings growth. Enhancing process and operational efficiency has therefore emerged as a key mechanism in driving earnings growth through enabling productivity improvements and eliminating bottlenecks. Focus on operational efficiency will also lead to better customer service and increased satisfaction. For Lanka Hospitals, this is therefore a critical material topic with an internal topic boundary.

Relevant GRI topics: None

Operating Context and Strategy

(4) Customer satisfaction

We strive to ensure that patients are satisfied with the quality of service and standard of care they receive at our Hospital. High levels of customer satisfaction translate to increased customer retention and will enable us to sustain a loyal customer base, despite intense competitive pressures. Satisfaction levels are monitored on an ongoing basis through regular engagement and feedback mechanisms. The boundary for this material topic is both internal and external as its impacts will be felt within the organisation as well as by its customers.

Relevant GRI topics: None

(5) Responsible care

Achieving clinical excellence through consistent focus on quality of care and patient safety is a strategic priority for the Group and is achieved through compliance to several international accreditations and certifications. We strive to entrench the highest standards of quality throughout all our operations, ensuring that our patients receive world-class care; this is therefore an important material topic for which the boundary is the Group's healthcare, diagnostics and pharmacy operations.

Relevant GRI topics: Product responsibility, Marketing communications, Customer health and safety, Security practices, Compliance (PR), Product and service labelling, Customer privacy

(6) Supply chain management

Effective supply chain management ensures the procurement of high quality products and components and creates an enabling environment for the smooth continuity of operations. It also creates opportunities for cost reduction which can translate to wider profitability margins. It is an integral part of our value creation process and the performance of our suppliers, directly impacts our operations and sustainability

considerations. The impacts of effective supply chain management extend beyond the organisation's internal boundaries to a diverse base of suppliers which include suppliers of medical equipment, pharmaceuticals, food and beverages among others.

Relevant GRI topics: Procurement practices, Supplier assessment for labour practices

(7) Employee attraction

The dearth of doctors, nurses and other healthcare professionals is an industry-wide challenge and has resulted in intense competition for skilled labour among private healthcare operators. Given the doctor-centric nature of Sri Lanka's healthcare industry and the vital role played by the nursing staff in facilitating the patient experience, a hospital's ability to attract and retain such personnel is a critical factor in driving its competitive edge. This material topic is relevant to the hospital's operations as well its diagnostics arm, which requires qualified laboratory technicians.

Relevant GRI topics: Employment, Equal remuneration, Market presence, Training and education, Parental leave

(8) Occupational health and safety

Hospitals are hazardous workplaces and unless managed effectively employees are at risk of injury, illness and exposure to toxic materials. An occupational health and safety management framework can help reduce employee exposure to such risks, nurture a culture of safety and optimise resources. The topic boundary relates to the Organisation's own operations.

Relevant GRI topics: Occupational health and safety

(9) Minimising environmental impacts

Lanka Hospitals impacts the natural environment through the utilisation of natural resources and discharge of waste and emissions from its operations. As

a responsible corporate citizen, we are cognisant of these impacts and make concerted efforts towards minimising the adverse environmental effects of our operations. These impacts are both internal and external as discharge of waste materials, effluents and emissions will have implications to the external environment.

Relevant GRI topics: Raw materials, Energy, Water, Waste and effluents, Emissions, Environmental compliance, Supplier environmental assessment

(10) Community engagement and development

Having a clear direction for guiding community and social investment in the areas we operate in enables us to nurture long-term relationships in our communities. We strive to maintain open and ongoing engagement with these communities and contribute towards their long-term development in strategic and proactive ways. The topic boundary includes communities in and around our Hospital, as well as our laboratories and pharmacy outlets.

Relevant GRI topics: Local communities

(11) Regulatory engagement and compliance

Our operations are regulated by several bodies including the Private Health Service Regulatory Council, Consumer Affairs Authority and National Medicines Regulatory Authority of Sri Lanka. We maintain ongoing engagement with all relevant regulatory authorities to ensure that we understand and comply with all applicable regulations to the fullest. Regulatory compliance is applicable to the entire Lanka Hospitals Group.

Relevant GRI topics: Socioeconomic compliance

Risk Management

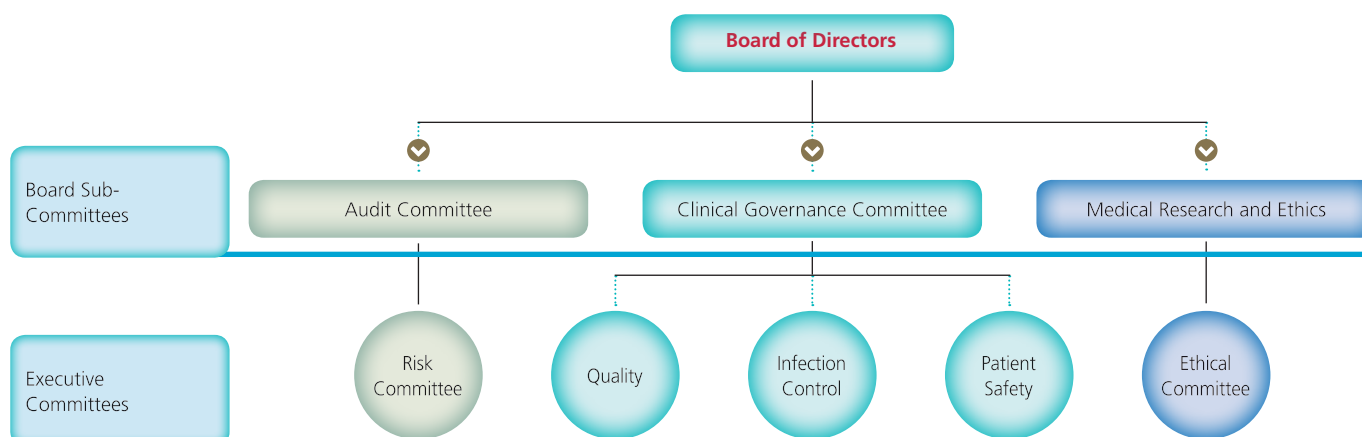
In our aspiration to be a sustainable business, we adopt a proactive approach in identifying and mitigating economic, social and environmental risks. We are exposed to a range of risks throughout our value creation process; some of these can be foreseen in advance so that mitigating actions can be taken while other risks may arise unexpectedly. Risk identification, measurement and mitigation measurements are embedded in the Group's daily operations through a comprehensive

framework of internal controls, management reporting and monitoring mechanisms.

Our approach to risk management

The Board of Directors is ultimately responsible for the Group's risk management practices, internal controls and reviewing their effectiveness. The Board monitors key risk exposures on an ongoing basis to ensure that strategic ambitions and corporate plans remain relevant and

are in alignment with emerging risks and opportunities. Several Board sub-committees and executive committees (including a dedicated Risk Committee) are in place to support the Board in the discharge of its risk-related duties. The Group's most significant risk is clinical risk, the management of which is shared between three executive-level committees as displayed below.



The Group's Enterprise Risk Management Framework has been designed to accommodate the risk monitoring requirements of JCI and other accreditations, as well as regulatory and voluntary standards on corporate governance and risk management. It provides a foundation for the proactive identification and management of risks, with teams in all organisational areas being responsible for the continuous identification, assessment and reporting of current and emerging risks. Regular reporting to the Board through the relevant executive committees ensure that risk parameters are monitored in a holistic and comprehensive manner.

Key aspects of our Enterprise Risk Management Framework include,

- ① Board-approved risk management policy
- ① Formalised corporate plan detailing strategic objectives and key performance indicators
- ① A defined process with delegated responsibility for risk identification, measurement, management and mitigation
- ① Ongoing monitoring of emerging risks and opportunities
- ① Integration of risk management considerations to key business processes

Operating Context and Strategy

Principal Risks


The following discussion provides an overview of the principal risks the Group is exposed to, their potential consequences and mitigating actions. This does 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 our regulatory, economic and industry landscapes, to ensure that we proactively identify risks which could impact our ability to create value.


Clinical Risk

Clinical risks are potential losses to earnings, reputation and risk of regulatory pressure arising from events or incidents that affect quality of care and/or patient safety. As a hospital, this is the Group's most significant and risk. The management of this risk involves identifying the circumstances and opportunities that put patients at risk of harm and then acting to prevent or control those risks.

Mitigation Measures

- ④ Accreditations providing assurance on all processes within the Hospital
- ④ Alignment of operations to International patient safety goals
- ④ Multiple safety programs such as infection control, laboratory safety and emergency preparedness among others
- ④ Structured mechanism for reporting near misses, patient falls, medication errors etc.
- ④ Robust customer complaint mechanism
- ④ Ongoing employee training on patient and facility safety
- ④ Identification and cataloging of drugs
- ④ Frequent testing of medical and laboratory equipment

 **Net risk assessment**
Low (Unchanged)


 **Link to material issues**
Responsible care, Customer satisfaction, Occupational health and safety

Shortage of skilled personnel

Sri Lanka has an acute shortage of doctors, nurses, laboratory technicians, pharmacists and other qualified healthcare professionals, which could affect the Group's quality of service as well as its growth ambitions. This is further amplified by the doctor-centric nature of Sri Lanka's healthcare market and since visiting consultants are not directly employed by the Hospital, they are at liberty to terminate their association with the Hospital at any given time.

Mitigation measures

- ④ High level of engagement with consultants
- ④ The industry's largest resident consultant base
- ④ In-house nurse training school to develop skilled and proficient nursing staff
- ④ Ongoing training and development for nurses and other support staff
- ④ Recruitment and retention strategy

 **Net risk assessment**
High \nearrow : Increasing competition for talent among private hospitals

 **Link to material issues**
Employee attraction, Responsible care, Consultant relationships


Risk Management contd.

Reputational Risk

Medical decisions directly impact patient's health and safety and any errors could lead to irreversible damage to a patient's life, litigation and significant damages and a permanently tarnished reputation which would affect its ability to attract patients. These risks could arise from misdiagnosis, wrong treatments and accidents stemming from people, process or equipment error.

Mitigation measures

- ④ Comprehensive quality management and patient safety framework
- ④ Mechanisms in place to ensure responsible marketing communications
- ④ Robust stakeholder engagement to ensure stakeholder needs are identified and addressed

 **Net risk assessment**
Low (Unchanged)


 **Link to material issues**
Responsible care, Customer satisfaction


Increased regulatory pressure

The private healthcare sector is subject to increasing regulatory pressure from price ceilings on drugs, selected procedures and laboratory tests as well as customer information and employee qualifications. Regulatory developments can affect the cost and quality of care and growth aspirations while non-compliance can lead to financial and reputational losses. On the other hand, onerous and restrictive regulation could be an effective barrier to entry.

Mitigation measures

- ④ Continued engagement with the regulators and relevant industry stakeholders
- ④ Comprehensive budgeting and planning mechanism in place to mitigate impacts of price ceilings

 **Net risk assessment**
Moderate (Unchanged)


 **Link to material issues**
Responsible care, Regulatory engagement


Competition

Capacity expansions by private healthcare operators in recent years have resulted in an intense competition for skilled labour. Most hospitals therefore experience high staff turnover in nursing and other allied health services category, as employees seek more lucrative opportunities in competing hospitals. This has led to an overall increase in the cost of care as Hospitals are compelled to provide more attractive remuneration to attract and retain qualified professionals. The rise in demand for healthcare has to a certain extent countered the increase in room inventory in recent years.

Mitigation measures

- ④ Focus on gaining competitive advantage through quality rather than price considerations
- ④ Employee recruitment and retention strategy
- ④ Continued monitoring of the industry and competitive landscape
- ④ Frequent introduction of new facilities, medical procedures and specialty units

 **Net risk assessment**
Moderate (Unchanged)

 **Link to material issues**
Employee attraction, Consultant relationships

Operating Context and Strategy

IT risks

Globally, the healthcare industry has emerged as one of the most targeted industries for information and cyber-security breaches. With the move to electronic healthcare records, confidential patient information could be compromised in the event of a information security breach, leading to litigation, reputational and financial losses. System failures and breakdowns could also lead to significant operational losses and process shut-downs.

Mitigation measures

- ④ Comprehensive IT and information systems security policy
- ④ Access and password controls
- ④ Disaster Recovery and Business Continuity Plans

**Net risk assessment**

Low (Previously classified under operational risk)

**Link to material issues**

Operational efficiency, Technology and innovation

Supply-chain related risks

Supply chain partners play a critical role in our business, supplying products and services that are essential for the smooth continuity of operations. Unforeseen supply chain disruptions could therefore affect processes, resulting in financial and operational losses. Quality control within the supply is another critical area of risk management as procurement of sub-standard materials/equipment would impact the overall standard of care.

Mitigation measures

- ④ Comprehensive procurement manual defining responsibilities and processes for administration, ethical considerations and inventory management among others
- ④ Supplier assessment framework covering financial, social and environmental performance considerations

**Net risk assessment**

Low (Previously classified under operational risk)



**Link to material issues**

Supply chain management, Responsible care




Risk Management contd.

Our Commitment to the Sustainable Development Goals

In September 2015, 191 member states including committed to the United Nations' Sustainable Development Goals thereby galvanising global efforts to end poverty, promote prosperity and protect the environment. The 17 interrelated global goals cover a broad range of social development, environmental and social justice considerations and includes 169 targets and 244 indicators. Businesses, along with governments will play a vital role in the country's progress towards achieving these goals and we are exploring how we can contribute towards these targets. The goals which are of greatest relevance to our operations and how we are currently contributing towards these targets are presented below.

SDG	Global Goal	Facts from Sri Lanka	Our Commitment
 <p>Ensure healthy lives and promote well-being for all at all ages</p>	<ul style="list-style-type: none"> Reduce maternal mortality rate to less than 70 per 100,000 live births Reduce neo natal mortality to at least 12 per 1000 live births Substantially increase health financing and the recruitment, development, training and retention of the health workforce in developing countries 	<ul style="list-style-type: none"> Maternal mortality rate: 26.8 per 100,000 live births Neo natal mortality rate: 5.6 per 1000 live births Medical officers were 100,000 population: 87 Specialist medical officers per 100,000 population: 9 	<ul style="list-style-type: none"> Our operations directly contribute towards improving access to healthcare in the country's capital. Compliance to stringent accreditations means that we are able to provide an international standard of care at relatively affordable rates.
 <p>Ensure inclusive and quality education for all and promote lifelong learning</p>	<ul style="list-style-type: none"> Ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship 	<ul style="list-style-type: none"> Proportion of youth with ICT skills: 56.5% 	<ul style="list-style-type: none"> The Lanka Hospitals Nursing Training School (LHNTS) is a dedicated training facility for aspiring young individuals who wish to pursue a career in nursing. The LHNTS provides a 3-year diploma which is recognised by the Tertiary and Vocational Education Commission. Around 180 youth (particularly from outstation regions) obtain training from LHNTS on an annual basis.

Operating Context and Strategy

SDG	Global Goal	Facts from Sri Lanka	Our Commitment
 <p>Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.</p>	<ul style="list-style-type: none"> By 2020, substantially reduce the proportion of youth not in employment, education or training Protect labour rights and promote safe and secure working environments for all workers 	<ul style="list-style-type: none"> Proportion of youth not in education, employment or training: 26.1% 	<ul style="list-style-type: none"> We provide a dynamic and rewarding environment for employees, offering numerous opportunities for skill and career development. We also recruit approximately 680 new employees annually.
 <p>Ensure sustainable consumption and production patterns</p>	<ul style="list-style-type: none"> By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle 	<ul style="list-style-type: none"> Data not available 	<ul style="list-style-type: none"> The Group has a comprehensive environmental management framework in place and all toxic and other wastes are disposed in a responsible manner. The Group also produces an integrated annual report, which details in economic, social and environmental impacts. For sustainability reporting, the Group adopts the GRI Standards Framework.
 <p>Achieve gender equality and empower all women and girls</p>	<ul style="list-style-type: none"> Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels 	<ul style="list-style-type: none"> Proportion of women in managerial positions: 28.4% 	<ul style="list-style-type: none"> We are an equal opportunity employer, and do not practice gender-based discrimination in recruitment, promotions or when determining remuneration. In 2017, 58% of our total cadre was female, while female representation in the executive/managerial cadre was 47%.

Trust in...

World Class Healthcare at Lanka Hospitals

At Lanka Hospitals, the brand of care we give is the same as what we bring from home. And to you, we afford that care with a combination of skill, technology and service that is award winning and world class.

We house the best doctors and state-of -the-art technology with unparalleled attentive care. That's why we are Sri Lanka's first and only hospital to be re-accredited with the internationally acclaimed 6th Edition of the JCI standard. Come, experience world class healthcare at Lanka Hospitals.



**LANKA HOSPITALS
ACCREDITED**
BY JOINT COMMISSION INTERNATIONAL
GOLD SEAL OF APPROVAL SINCE SEPTEMBER 2014



**MTQUA
CERTIFIED**
International Medical Tourism Certification
1st Hospital In Sri Lanka To Be Accredited



Financial Capital

Highlights

Group	2017	2016
Revenue (Rs. Mn)	6,382	5,886
PBT (Rs. Mn)	922	1,081
PAT (Rs. Mn)	581	972
Net Assets (Rs. Mn)	6,020	5,844
EPS (Rs.)	2.60	4.34
DPS (Rs.)	1.00	2.00

Achievements

- Group revenue increased by 8.4% and Company revenue increased by 6.6%
- Group assets reached Rs. 8 Bn

Challenges

- Imposition of price ceilings by the government on certain pharmaceutical products and diagnostic tests
- Increased costs arising from complying with the standards required of maintaining the CAP accreditation awarded to LHD

Plans for 2018

- Impact on Group profitability due to increased income tax rates and previously exempt income being subject to income tax from April 1, 2018



Material issues:
Operational efficiency

The Group weathered a challenging year to achieve revenue growth of 8.4%, although profitability was impacted by narrower gross profit margins, expenses associated with obtaining new accreditations and implications of a deferred tax adjustment. Accordingly, consolidated pre-tax profit decreased by 14.7% during the year while the decline in net profit was more pronounced due to deferred tax adjustments, arising from revisions in the income tax rate which will be effective from 1st April 2018.



Performance and Capital Management

Revenue and Costs

Group revenue increased by 8.4% in 2017, supported by the introduction of new services and an upward revision of prices. This is also reflective in Company revenue, which grew at a relatively accelerated pace compared to previous years. Hospital services contributed 82% to Group revenue with the diagnostic services contributing 18%. Hospital revenue grew by 6.6% in 2017, supported by the upward revision in prices although in-patient and consultation numbers decreased marginally during the year. However, the number of foreign patients increased by 2.9% in 2017, subsequent to the MTQUA accreditation in the latter part of 2016, with growth observed in the Australian, European and Seychelles markets. Pharmaceutical revenue grew by 9.5% and diagnostics revenue grew by 17.5% during the year, resulting from increased demand following the rapid rise of the dengue epidemic, although government imposed price ceilings impacted growth to a certain extent.

The Group's gross profit margin decreased to 44.86% in 2017, (2016 – 47.35%) resulting from higher direct costs, partly attributed to an increase in costs associated with obtaining the CAP Accreditation. Administrative expenses and other operating expenses also increased by 12.33% and 13.31% respectively. Price ceilings imposed by the government from 2016 on 48 drugs for common diseases such as diabetes, heart disease, high blood pressure and high cholesterol impacted the margins of the pharmaceutical division. LHD was similarly affected by price ceilings imposed on dengue antigen tests and full blood counts at the height of the dengue epidemic in Sri Lanka. The Group imports approximately 90% of its input material and therefore, the depreciation of the

rupee also contributed to an increase in costs. The depreciation charge of high value medical equipment purchased during the year and an increasing trend in building and equipment maintenance also added to the Group's expenses.

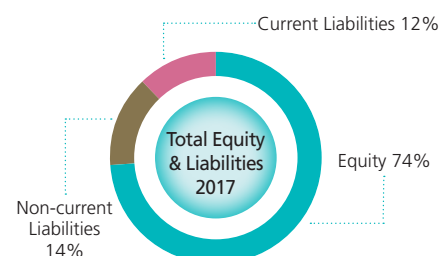
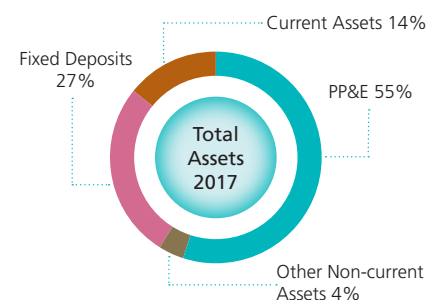
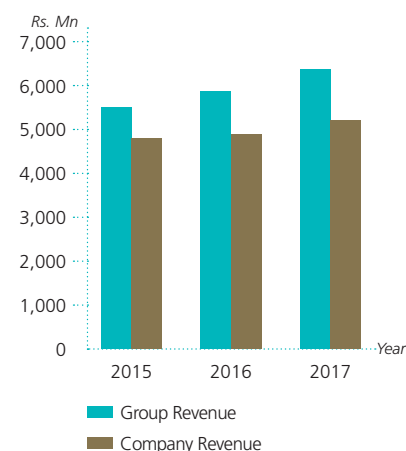
Profitability

Group profit before taxation decreased by 14.7% during the year, primarily due to the subdued performance of LHD. At Company level, profit before taxation increased marginally by 1%. A Rs. 274 Mn deferred tax adjustment due to income tax rate changes to be effected from April 1, 2018 resulted in the Group's profit for the year decreased by 40.24% to Rs. 581 Mn. A similar adjustment to the statement of profit or loss and comprehensive income of Rs. 269 Mn decreased profit attributable to the equity holders of the parent company by 69% to Rs. 399 Mn.

Financial strength

The Group continued to demonstrate a strong financial position with total assets growing by 10.8% to Rs. 8.15 Bn and total equity growing by 3% to Rs. 6 Bn during the year. Of the Group's total asset base, 55.5% are in the form of Manufactured Capital (property, plant and equipment). The Group's ability to provide cutting-edge medical and clinical technology is a key source of competitive advantage, requiring continued investments in equipment and machinery. During the year medical equipment additions amounted to Rs. 536 Mn which included investments made on a MRI scanner, a mammogram machine for the women's wellness centre and a lasik laser machine for the eye care centre. The Group also strengthened its digital infrastructure at an investment of Rs. 63 Mn during the year.

Revenue



Performance and Capital Management

Financial Capital contd.

The Group's investment in fixed deposits, classified as other financial assets, constituted 27.3% (or Rs. 2.23 Bn) of total assets. Excess funds are invested as per the guidelines articulated by the Group Investment Committee. Other financial assets increased by 9.7% in 2017, and together with a net favourable cash balance, the Group showed a strong cash position. This year too, the Group continued to be debt-free with strong cashflow generation supporting its working capital and long term capital requirements without the need to resort to borrowings.

The Group continues to be well capitalised, with total equity representing 73.9% of the funding profile of the Group with non-current liabilities accounting for 14.3% and current liabilities 11.8%.

Cashflows

Net cash inflows from operating activities declined marginally by 2.6% in 2017. The net cash outflow from investing activities increased 0.8% during the year reflecting investments in manufactured capital. The dividend paid by the Group was 50% less than that of 2016 and that is reflected in the reduction of the net cash outflow from financing activities as well as being a reason for the decrease in the amount of withdrawals of fixed deposits of the Group during the year. Overall the Group generated a net cash inflow of Rs. 84 Mn during the year, compared to a cash outflow of Rs.104 Mn in 2016 and ended the year with cash and cash equivalents of Rs. 16 Mn.

Value created for shareholders

2017 was a challenging year and this was reflected in the subdued performance of the Group. A dividend of Rs. 1/- per share was declared and paid in 2017.

	2017	2016	Y-O-Y %
Earnings per share (Rs.)	2.60	4.34	(40)
Dividends per share (Rs.)	1.00	2.00	(50)
Net assets per share (Rs.)	26.91	26.12	3
Share price (closing) (Rs.)	62	65	(5)
Market capitalization (Rs. Mn)	13,871	14,543	(5)
P/E Ratio	26.16	19.83	32
Dividend payout	42.19	60.98	(31)

Business Line Performance

➤ Lanka Hospitals

	2017	2016	Y-O-Y Change (%)
Revenue (Rs. Mn)	5,226	4,902	7
EBITDA (Rs. Mn)	1,031	941	10
EBIT (Rs. Mn)	692	669	3
Pre-tax profit (Rs. Mn)	835	827	1
Profit for the year (Rs. Mn)	530	733	(28)
Total assets (Rs. Mn)	7,815	7,150	9
GP margin (%)	44	45	(2)
EBITDA margin (%)	20	19	5
NP margin (%)	10	15	(33)

➤ External impacts in 2017

- ⌚ Imposed of value added tax on room rent and consultation fees
- ⌚ Price ceiling on medical services and drugs

➤ Achievements

- ⌚ Re-accreditation by Joint Commission International
- ⌚ Installation of 3 Tesla MRI Scanner
- ⌚ Installation of Lasik Eye Surgery Unit

➤ Challenges

- ⌚ Shortage of skilled nurses and medical professionals
- ⌚ Increased operational cost arising from JCI
- ⌚ Increased corporate tax rate from 12% to 28%

➤ Plans for 2018

- ⌚ Investment on new 12 storeyed building to further expand the services
- ⌚ Setup 10 satellite units to support patients requiring care outside the Western province
- ⌚ Setup a branch office in Seychelles strengthening medical tourism in Sri Lanka

The Hospital's revenue grew by 6.6% to Rs. 5,226 Mn during the year under review, supported by an upward revision in prices although overall patient volumes showed a decline in comparison to the previous year. The number of foreign patients, however increased by 2.9% during the year following the Hospital's MTQUA accreditation in the latter part of 2016. During the year, total inpatients declined by 0.47% translating to an average occupancy rate of 85%, compared to 83% the year before. The average length of stay for the year was 2.42 days, compared to 2.29 days the year before. Meanwhile, outpatient admissions also decreased marginally by 4% during the year. The Hospital's profitability was affected by rising costs and narrower margins, however the pre-tax profit grew only by 1% in 2017.

Commitment to quality: The unmatched quality of care offered by the Hospital is a key source of competitive advantage and during the year, we successfully obtained the JCI reaccreditation. JCI revises its accreditation standards every three years, and the latest edition (6th) was introduced with effect from 1st July 2017. The new edition consists of 14 chapters and features more stringent criteria on patient safety and hospital management. Lanka Hospitals is currently the only Sri Lankan hospital to comply with the 6th edition of JCI and also the only local hospital to successfully obtain reaccreditation in the first attempt.

Range of care: As the country's only purpose built hospital, Lanka Hospitals offers a comprehensive range of medical, surgical and specialty care under one roof covering a broad spectrum of facilities and procedures. In several specialty areas such as haemato-oncology and nuclear medicine

Performance and Capital Management

Business Line Performance contd.

the Hospital holds monopoly positions, a testament to its ability to attract internationally trained, highly specialised consultants. It is also the only private hospital in the country which conducts paediatric cardiac surgery, minimally invasive cardiac surgery and spinal surgery. Services offered in the Hospital include,

Primary care	Secondary care	Tertiary and specialised care
Outpatients Department	Physiotherapy	Gastroenterology
General Medicine	Blood Bank	Neurosciences
Emergency Services	ENT Centre	Cosmetic Center
Dental Clinic	Radiology	Kidney Care
Eye Clinic	Surgical Department	Nuclear Medicine
Pharmacy	Dermatology	Fertility Centre
Vaccinations	Mother and Baby Care	Heart Centre
		Centre for Blood Disorders
		Haemato-oncology

Leveraging technology: The Hospital continues to leverage on emerging medical and clinical technology to better serve the evolving needs of its customers. In 2017, we introduced a new 3 Tesla MRI Scanner with 64 channel neuro coil, a state-of-the-art mammogram as well as a lasik laser machine. We also introduced a digital radiology system and a nerve stimulator and navigation allowing higher accuracy for neuro surgeons.

Way Forward

The Group will continue to focus on its strategic priorities, with plans underway for capacity expansion and pursuing regional growth opportunities. We hope to add 17 new surgical rooms in 2018. Following its partnership with the Government of Seychelles, the Group also plans to establish and commence operations of the Seychelles Medical Centre which will enable an increase in the admission of Seychelles patients. We also hope to partner with the National Insurance Trust Fund to offer heart surgeries and ophthalmology services to public sector employees. While operationally, the outlook for 2018 is promising, persistent rising costs and the sharp increase in our income tax rate from 12% to 28% is expected to have an impact on profitability in the next financial year.

Performance and Capital Management

➤ Lanka Hospitals Diagnostics (LHD)

	2017	2016	Y-o-y change (%)
Revenue (Rs. Mn)	1,157	984	17
EBITDA (Rs. Mn)	196	273	(28)
EBIT (Rs. Mn)	158	240	(34)
Pre-tax profit (Rs. Mn)	209	266	(21)
Profit for the year (Rs. Mn)	172	250	(31)
Total assets (Rs. Mn)	1,104	981	13
GP margin (%)	50	58	(14)
EBITDA margin (%)	17	28	(39)
NP margin (%)	15	25	(40)

➤ External impacts in 2017

- ⦿ Regulatory price ceiling on dengue antigen and full blood count tests
- ⦿ Adverse weather conditions impacted sample collections

➤ Achievements

- ⦿ LHD obtained the prestigious CAP Accreditation
- ⦿ Opened a regional laboratory in Kandy and a mini-laboratory in Colombo, together with 910 collection centres
- ⦿ Introduced over 10 new tests during the year

➤ Challenges

- ⦿ Shortage of pathologists and skilled laboratory technicians
- ⦿ Increased operational costs arising from CAP

➤ Plans for 2018

- ⦿ Widen geographical presence through regional laboratories and COCOs
- ⦿ Facilitate diagnostics for clinical research

LHD's revenue growth was 17% during the year supported by strong volume expansion following the high incidence of the dengue virus in 2017. Profitability, was however affected by increased costs associated with obtaining the CAP Accreditation and government mandated price ceilings on the dengue antigen and full blood count tests. Resultantly, LHD's profits decreased by 31% to Rs. 172 million, contributing 30% to the Group's total net profit for the year.

Expansion strategy: In 2017, we opened a regional laboratory in Kandy at a total investment of Rs. 54 Mn. The lab offers state-of-the-art diagnostic tools and the capability to perform 270 tests and is expected to emerge as a key contributor to LHD's earnings over the medium term. We also obtained control of a mini-laboratory at the Sulaiman Hospital in Colombo, thereby bringing our count of mini laboratories to 2. Company owned collection centres (COCOs) act as a satellite network through which samples are collected for laboratory tests. During the year we added 4 such COCOs to our network, bringing the total count to 19 by end-2017, in addition to 887 third party collection centres.

CAP Accreditation: During the year, much of our efforts were devoted towards obtaining the prestigious CAP Accreditation, the world's leading certification for the

Business Line Performance contd.

practice of pathology and laboratory medicine. The accreditation follows compliance to several stringent checklists which ensure quality and patient safety. It also necessitates the use of better quality material, more frequent calibration and stringent controls which pushed up costs and pressured profitability margins during the year. Over the long-term however, the improved accuracy and reliability resulting from the Accreditation is expected to result in a sustained improvement in LHD's customer retention and market position. LHD is currently the only Sri Lankan laboratory to obtain this accreditation. LHD was also the first laboratory in the country to obtain the ISO 15189 certification for medical laboratories. These international accreditations also calls for highly skilled employees; for instance all six departments within the laboratory are headed by full-time consultants while all technicians are graduates/diploma holders registered with the Sri Lanka Medical Council.

Largest test menu: LHD offers the country's largest test menu of over 1,250 tests and procedures, of which over 100 are performed exclusively by LHD. Over the last three years, we have introduced over 90 new tests to the country, directly contributing towards the growth and evolution of the diagnostics sector. The range of tests offered as well as reputation for accuracy, reliability and timeliness has enabled LHD to emerge as one of the top 3 players in the diagnostics sector, despite being a new entrant to this highly competitive sector.

Technology driven convenience: We place strategic emphasis on harnessing the opportunities presented by ICT to drive better customer service and process

efficiencies. LHD operates a fully-automated laboratory, and all test results are linked to an integrated laboratory information system which enables customers to access test results securely through the LHD website. In addition to enhancing customer convenience and facilitating real time information transfer, all relevant records are maintained within the system in a structured manner, enabling the easy recall of patients' medical history if required.



Manufactured Capital

Highlights

	2017	2016
PPE (Rs. Mn)	4,520	4,083
Capex (Rs. Mn)	657	358
Beds	350	350
Collection Centres	910	729
Pharmacy network	16	18

Achievements

- Investment in new medical technology amounting to Rs. 536 Mn
- Expansion of laboratory network

Plans for 2018

- Further expansion of the company-owned-collection-centres
- Increasing bed capacity with the expected addition of 17 new patient rooms.



Material Issues:

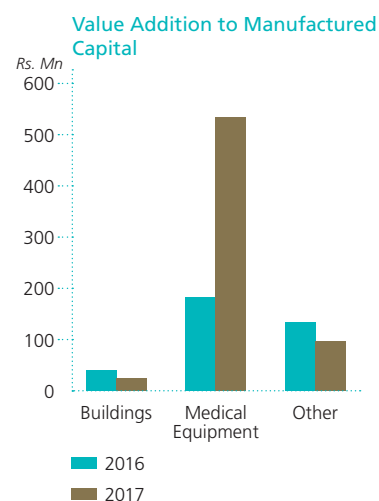
Technology and Innovation

Our Manufactured Capital consists of hospital buildings, theatres, beds, specialised hospital equipment, laboratory and the pharmacy network. Manufactured Capital is an integral component of our value creation process as the physical infrastructure of a hospital is a determinant of its competitive position and a key enabler in providing high quality healthcare services.

Value addition to Manufactured Capital: Our strategic plan 'Renaissance' (2017-2020) calls for continued investments in Manufactured Capital with the objective of enhancing capacity, widening our regional presence and strengthening technological capabilities. Investment in PPE during the year amounted to Rs. 657 Mn, consisting primarily of additions to medical equipment amounted to Rs. 536 Mn. These investments were funded primarily through cash generated from operations and retained earnings. Resultantly, the Group's PPE base increased from Rs. 4,083 Mn to Rs. 4,520 Mn by end-2017.

Investment in technology: Upgrading existing technology and investing in state-of-the-art medical equipment is an important factor in driving better customer experiences and strengthening the Hospital's competitive position. Key investments during the year included,

- 3 Tesla MRI scanner with 64-channel Neuro coil
- Lasik Laser Machine
- Nerve Stimulator and Navigator System
- Digital Radiology System



Performance and Capital Management

Manufactured Capital contd.

Expanding the Diagnostics Network

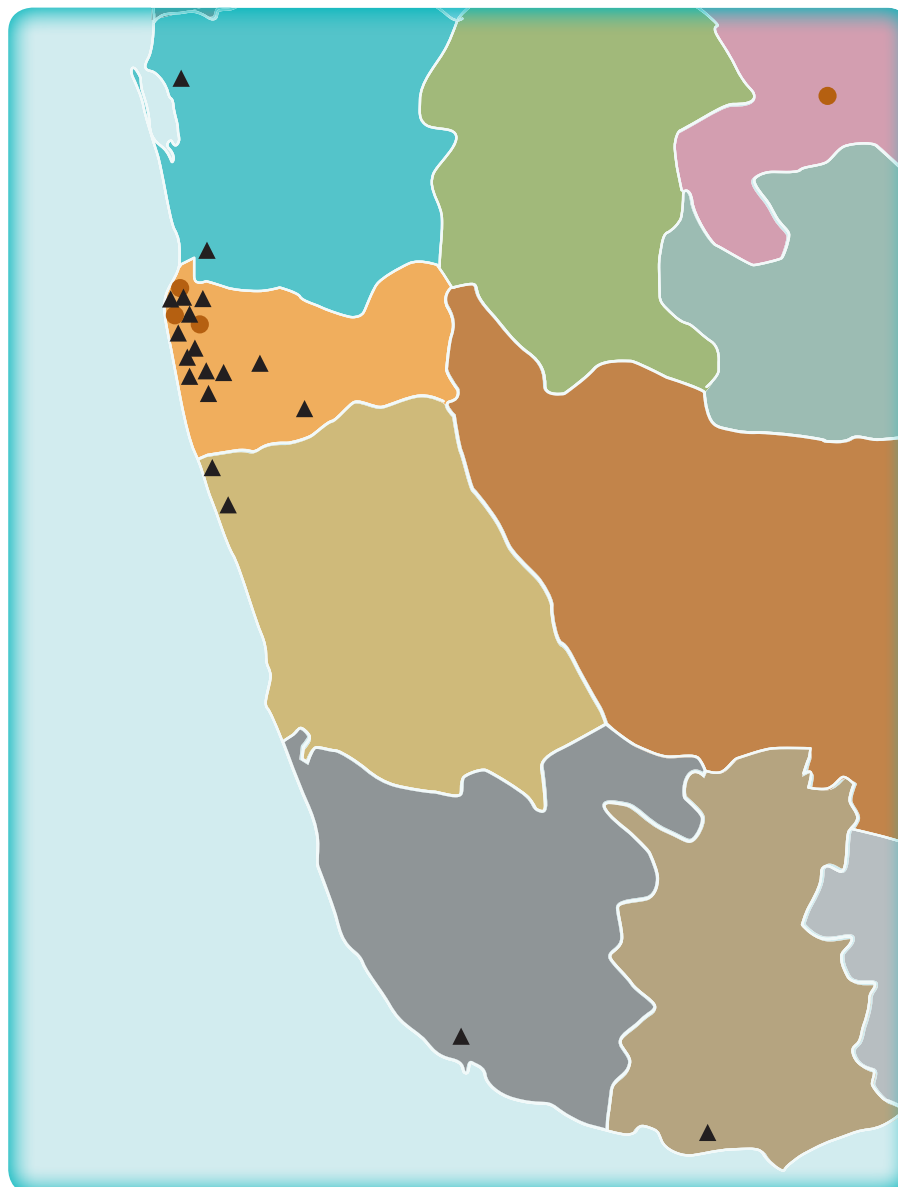
Widening its regional presence was a key strategic priority for the diagnostics arm and during the year we opened a regional laboratory in Kandy at an investment of around Rs. 54 Mn. The regional lab has the capability to conduct approximately 280 tests. We also commenced operations in the Sulaiman Hospital, by opening a mini laboratory during the year. We expanded our network of company-owned-collection centres (COCO) adding 4 centres in 2017; by the end of the year, we operated a total network of 910 centres.



Lab	Location
Reference Lab - Colombo	Narahenpita
Regional Lab - Kandy	Kandy
Royal Hospital - LHD	Wellawatte
Sulaiman Hospital	Kotahena



COCO	Location
LHD - Bambalapitiya	Bambalapitiya
LHD - BOC	Pettah
LHD - Dilma Healthcare - Moratuwa	Ratmalana
LHD - Galle	Karapitiya
LHD - Homagama	Homagama
LHD - Kalubowila	Kalubowila
LHD - Kesbewa	Kasbewa
LHD - Kids Clinic	Polhengoda (Narahenpita)
LHD - Malabe	Malabe
LHD - Matara	Matara
LHD - Nagoda	Nagoda
LHD - Negombo	Negombo
LHD - Panadura	Panadura
LHD - Pensions Department	Maligawatta
LHD - Ragama	Ragama
LHD - Ratmalana	Ratmalana
LHD - SLIC	Union Place
LHD - Soysapura	Ratmalana
LHD - Warakapola	Warakapola



Human Capital

➤ Highlights

	2017	2016
No. of Employees	1,784	1,708
Salaries and benefits (Rs. Mn)	1,843	1,652
Investment on Training (Rs. Mn)	11	08
Average training hours per employee	16	21

➤ Achievements

- Introduction of a KPI based performance management system – assistant manager level upwards
- Developed a grading system to facilitate a structured career path for nurses
- Fulfilling 100% of the nursing cadre – a first for Lanka Hospitals

➤ Challenges

- Countrywide shortage of technical staff such as nurses, laboratory technicians and pharmacists

➤ Plans for 2018

- Extending the KPI based performance management system - for all employees



⌚ Material issues:

Operational efficiency, customer satisfaction, responsible care, employee attraction, occupational health and safety, consultant relationships

Our vision of being the 'most sought after healthcare companion' would only be possible with our dedicated, caring and skilled team of professionals. Industry renowned consultants, medical officers, nurses, technical staff, administration staff and outsourced workers, are all part of the Lanka Hospitals family. Together, our staff of 1,784 employees work towards providing patients with a superior healthcare experience in a safe and caring environment. Therefore attracting, motivating and retaining our pool of diverse employees is a key success factor of the Group.

Our Team

The Group's value creation in 2017 was facilitated by a team of 1,784 employees (1,708 – 2016). This includes payroll consultants and medical officers, nurses, other medical support staff and administration staff. The Group's core competencies in specialties such as cardiac, fertility, haemato-oncology, nuclear medicine, gastroenterology and neuro surgery has been nurtured through the skills and industry experience of our employees.

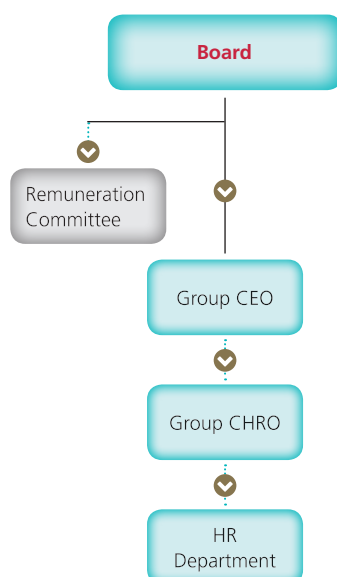
The Hospital has the largest resident consultants base in the private sector; consultants are also engaged through consultancy agreements and thus are not on the Group's payroll. Overall our base of 43 resident consultants and 754 visiting consultants provide us a competitive edge, given the doctor-centric nature of the Sri Lankan healthcare market and the emerging trend of directly referring a consultant of a specialty for primary healthcare.

Employee Profile - Breakdown by Category

Category	Female	Male	Total
Manager	76	86	162
Executive	77	88	165
Other	890	567	1457
Total	1043	741	1784

Human Capital contd.

Human Resources Governance



Our Approach to Human Resource Management

In our industry, employees are a key source of competitive advantage and we strive to create an environment that is satisfying and conducive to drive high-performance. A comprehensive suite of policies are in place in to ensure that employees are treated fairly and consistently, with dignity and respect. In recognition of our commitment, Lanka Hospitals won Sri Lanka's 'The Best Employer Brand Award' in 2017 for its HR practices and also went on to win the prestigious 'Asia's Best Employer Brand Award'. This is a testament to our HR team who have worked unflinchingly to attract and retain talent and help promote the Lanka Hospitals family culture.

Talent Attraction

A country wide shortage of technical staff has led to intense competition for talent in the healthcare industry. The Group's commitment towards consistently enhancing its employee value proposition and the strength of its brand has however, enabled Lanka Hospitals to emerge as a preferred employer in the industry, enabling it to attract the country's top talent. As a result, the Group has one of the largest number of resident medical staff in the private healthcare sector in Sri Lanka. 754 number of consultants of different specialties and 43 number of medical officers work with the Group on a full time basis. In 2017, we were also able to fill 100% of our nursing staff requirement – a first for the Group. During the year we recruited 677 new employees to our team.

Total Number of New Employee Hires and Employee Turnover by Gender *GRI 401-1*

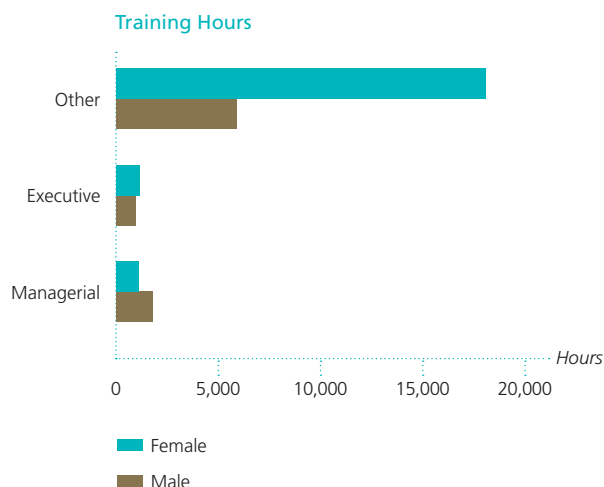
	2017		
	Male	Female	Total
Employee Hires			
Managerial (Nos.)	10	20	30
Executive (Nos.)	11	13	24
Other (Nos.)	230	393	623
Total	251	426	677
Employee Turnover			
Managerial (Nos.)	12	15	27
Executive (Nos.)	7	11	18
Other (Nos.)	193	363	556
Total	212	389	601

Performance and Capital Management

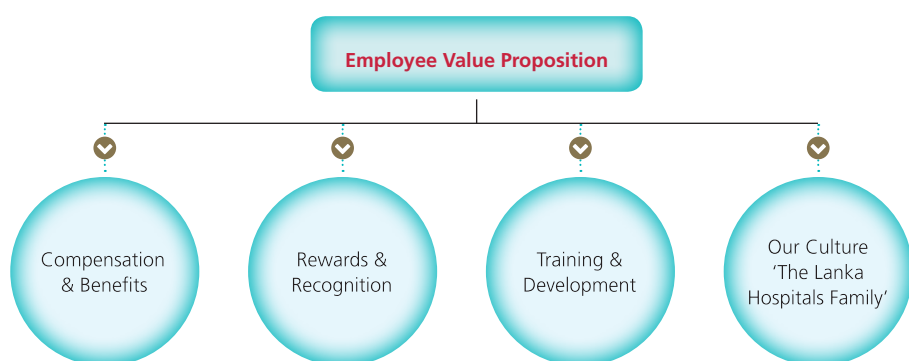
Diversity and equal opportunity

We are an equal opportunity employer and understand the importance of nurturing a pool of employees that is diverse in gender and age representations. This approach has allowed us to combine diverse industry experience and different insights into customer behaviour to drive our strategic ambitions. By end-2017, our overall female representation was 58%, including 47% at manager level and above.

The Group's ability to retain female employees through offering a conducive environment and effective work-life balance is demonstrated in its return-to-work after parental leave ratios. In 2017, 84% of the employees who took maternity leave returned to work, and 47% were in our employment 12 months after. *GRI 401-3*



Number of employees:	2017
Entitled to parental leave	1,043
That took parental leave	58
That returned to work after parental leave	22
Still employed 12 months after returning to work after parental leave	27

**Compensation & Benefits** *GRI 401-2*

The Group remunerates its employees competitively within industry norms and in line with the overall strategy to be able to attract and retain the industry's top talent. Benefits provided to employees include contributions to EPF/ETF, medical insurance for the employee and

dependents, performance related incentives, bonuses and subsidised meals among others. These benefits may vary according to the grade of employment.

Rewards & Recognition

Motivating and retaining high performing employees, some with skills scarce in the industry and therefore in high demand, is an important part of the Group's employee value proposition. To encourage a performance-driven culture, the Group introduced a KPI based performance management framework in 2017, with objectives cascading from the Group CEO to the Assistant Manager level. The framework is designed to reward employees for achieving strategic objectives as well as individual performance targets. We hope to extend this to all levels of employees by 2018. During the year, we also developed a nurses' grading system during the year which provides a structured career path for nursing staff. All permanent employees undergo annual performance appraisals, enabling the identification of training needs and areas for further improvement.

Performance and Capital Management

Human Capital contd.

Training and Development *GRI 404*

We are cognisant of the need to provide opportunities for continuous professional development to keep up in an evolving industry as well as ensuring that all staff have the appropriate skills to provide a superior patient experience. Training needs are identified at annual performance appraisals and a master training plan for the year is developed with the inputs of Divisional Heads. Employees participate in training programs that are conducted both in-house and externally with a selected few being sent for specialised training overseas. Outsourced staff of supervisory level – janitorial, security, housekeeping etc. are also required to participate in Lanka Hospital's induction program attended by all new employees. During the year our investment in training initiatives amounted to approximately Rs.11 Mn and the total training hours amounted to 28,972. This was an average of 16 hours of training per employee.

Succession planning is also an essential component of developing staff and an impetus for high performers. A structured development plan is drawn out for those employees marked for succession whilst the Group advertises all vacancies internally to ensure that current staff is given an opportunity to apply. During the year the senior management post of Deputy Director Medical was filled by an internal candidate demonstrating effective succession planning.

Average training hours	Male	Female
Managerial	21	15
Executive	11	15
Others	10	20

Lanka Hospitals Nurses Training School (LHNTS)

Lanka Hospitals operates a dedicated school to train nurses producing high-calibre nursing staff, who are among the most sought after in the industry.

LHNTS is registered with the Tertiary and Vocational Educational Commission and offers a 3 year Diploma in nursing. All students are trained based on a comprehensive syllabus covering theoretical and clinical knowledge. Clinical training is given to the students at Lanka Hospitals on various procedures and on patient care. English and IT also form part of the curriculum and students are awarded the NVQ3 certificate on completion. The diploma is only awarded after completion of a 3-year training period.

Students can join Lanka Hospitals as a junior nursing staff member whilst studying. Lanka Hospitals invests in developing each student

Health and Safety

- ③ Safety culture
- ③ Infection control
- ③ Medication safety
- ③ Radiation safety

to a fully-fledged nurse and absorbs all graduate nurses to the employee cadre of the Hospital.

The quality of education provided at LHNTS has also enabled it to attract Maldivian trainee nurses. Through a partnership with a Maldivian University, 50 trainee nurses are provided a 6-week training program in an ongoing arrangement.

Our Culture

We believe that a challenging and conducive work environment will bring out the best in our employees. The Group strives to provide such an environment



Performance and Capital Management

and embraces bringing together all the Group employees as 'One Family'. Promoting an environment where employees are treated with respect and dignity, encouragement of open, honest communication within all levels of employees, together with opportunities for training and development and career progression has boded well in providing the work environment Lanka Hospitals has today. Employee behaviour is also guided by a Code of Ethics, which sets out the Group's expectations in employee interaction with stakeholders. The Code of Ethics includes provisions on employee behaviour. All employees undergo training on the Code of Ethics during induction.

Health and Safety

Healthcare workers face a number of serious health and safety hazards. Exposure to infections and hazardous substances, workplace stress resulting from the emotional labour of caring for patients are faced by our employees every day. At Lanka Hospitals, we consider it critical to provide an environment where our employees' exposure to health and safety hazards is at a minimum. As a JCI accredited hospital our standards are on par internationally. All occupational injuries are recorded and followed-up to ensure corrective action is taken. During the year, there were 6 work-place related injuries recorded.

Work-place Related Injuries *GRI 403-2*

Description	2016	2017
Work Related Fatalities	-	-
Work Related Injuries	6	6

Employee Grievance Mechanism

A structured mechanism is in place for employee grievances, which includes direct communication with the relevant line manager; if the grievance is not resolved within two weeks it is directed to the HR Department for corrective action. In addition, the Group maintains an open door policy with all employees encouraged to bring forward their concerns to management.

Employee Retention

Employee retention has emerged as a key challenge for the industry, including Lanka Hospitals. High employee exit rates were noted in the employee category 'Others' and in the <30 years female category. This was mainly due to turnover of trained nursing staff for whom there is an industry wide shortage. Lanka Hospitals is addressing this issue by identifying a talent pool and focusing on retaining these employees as well as ensuring that succession planning is in place.

Employee Turnover Rate by Gender

Exit Employee Profile	Turnover Rate	
	Male	Female
Managerial	14%	20%
Executive Officers	08%	14%
Others	35%	41%
Total Employees	29%	37%

Our strategy going forward

In line with the Group's strategy of strengthening its position as a one stop shop in selected medical specialties and capacity expansion, expanding the nursing school and retaining its graduates and building a consultant base with the correct mix of consultants, are its priority goals. Country wide technical staff shortages and immense competition for the best consultants remains a constant challenge that the Group will have to overcome to achieve its goals in the short to medium term.

Intellectual Capital

➤ Highlights

- ⌚ Investment in JCI re-accreditation: Rs. 14 Mn
- ⌚ Investment in CAP accreditation: Rs. 20 Mn

➤ Achievements

- ⌚ Obtained JCI re-accreditation (6th edition) in the first attempt
- ⌚ Lanka Hospital Diagnostics (Pvt) Ltd. obtained the prestigious CAP accreditation
- ⌚ Reviewed/revised several clinical governance policies

➤ Challenges

- ⌚ Short-term pressure on financial capital due to accreditation related investments
- ⌚ Strengthened IT systems for better customer engagement

➤ Plans for 2018

- ⌚ Applying for National Quality Awards



⌚ Material issues:

Responsible care, Customer satisfaction

The Group's intellectual property is its internal knowledge and management systems which is critical to nurturing and sustaining its business. Given the nature of its operations, the Group's quality and safety management systems, policies, procedures and organisational culture is a key determinant of customer satisfaction and a source of competitive edge.

Developments during the year

Successfully obtaining the JCI re-accreditation was a key achievement for Lanka Hospitals in 2017. JCI revises its accreditation standards every three years, and the latest edition (6th) was introduced with effect from 1st July 2017. The new edition consists of 14 chapters and features more stringent criteria on patient safety and hospital management. Lanka Hospitals is currently the only Sri Lankan hospital to comply with the 6th edition of JCI and also the only local hospital to successfully obtain re-accreditation in the first attempt.

The Diagnostics arm obtained the prestigious College of American Pathologists (CAP) accreditation during the year, making it the only Sri Lankan laboratory to do so. The accreditation followed compliance to stringent quality standards and substantial improvements to laboratory operations and processes. Although involving a significant initial investment and pressurising profit margins in the short-term, the enhanced test accuracy and reliability resulting from the accreditation is expected to strengthen the Company's competitive position in the future.

All policy frameworks are reviewed annually and the following were updated during the year;

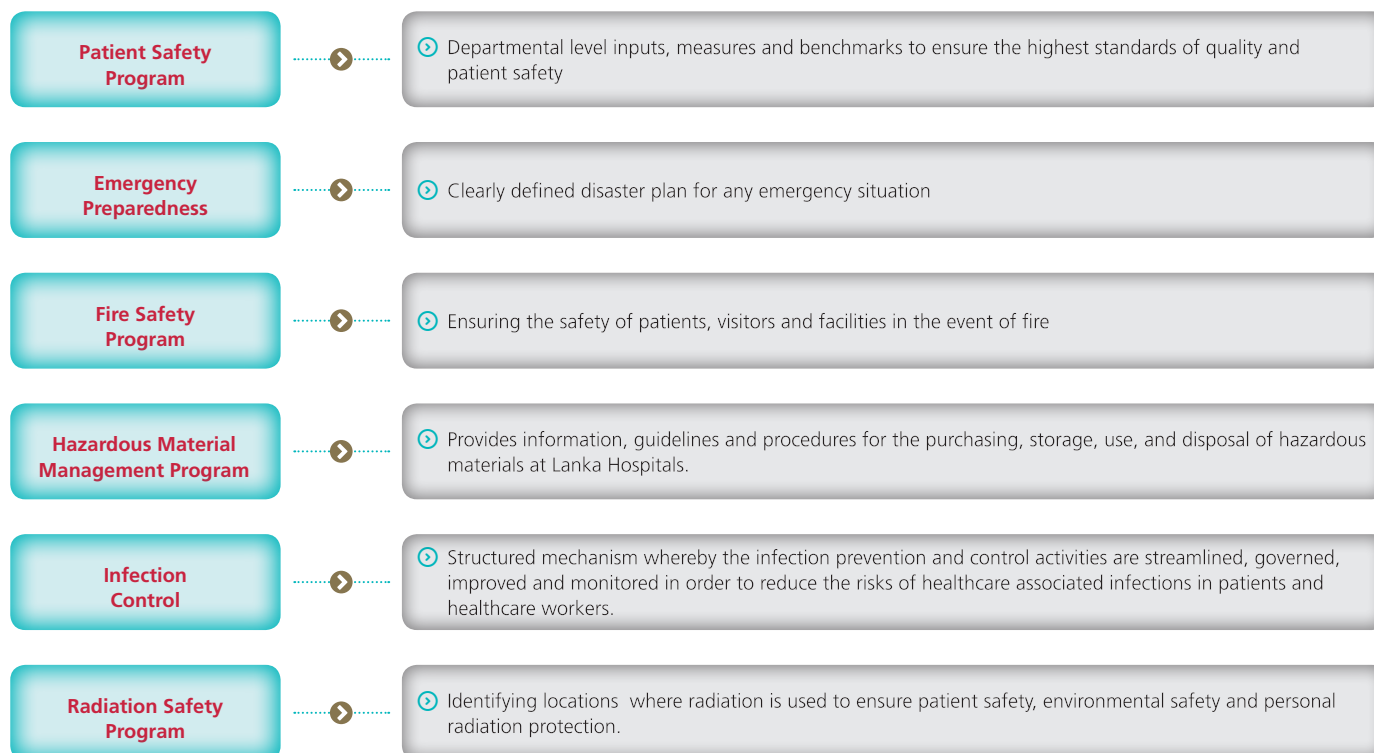
- ⌚ Nursing policy
- ⌚ Antibiotics stewardship policy
- ⌚ Medication management framework
- ⌚ Medical ethics framework



Performance and Capital Management

Safety-driven culture

A quality and safety driven culture is nurtured across the Group through formalised policy frameworks, ongoing training programmes and other employee engagement mechanisms. These programmes have been formulated in line with international best practices and the requirements of the Group's numerous accreditations. They ensure the effective management of patient and employee safety, infection control and facility safety among others as demonstrated below;



IT-enabled Solutions

We have identified the need to strengthen and modernise the Group's ICT framework over the next 3 years, to effectively cater to the evolving organisational requirements and industry landscape. Our medium-term IT strategy has been designed to complement our overall business strategy and encompasses the following;

- IT services for improving the Group's internal business processes
- IT framework for improving patient care services
- IT services for stakeholder interaction

During the year, we invested Rs. 63 Mn in our ICT framework; emphasis was placed on strengthening the electronic storage of medical records and obtaining customer feedback through online platforms.

Social and Relationship Capital

	2017	2016
Customer satisfaction rate	95%	91%
No. of suppliers	552	814
Community investment in CSR (Mn)	2.17	2.0

➤ Achievements

- JCI re-accreditation under the 6th edition
- Introduction of electronic medical records

➤ Challenges

- Maintaining quality standards whilst sharing non-resident consultants with other hospitals
- Admission and discharge delays
- Waiting time in the pharmacy
- Tracking and responding appropriately to negative comments on social media

➤ Plans for 2018

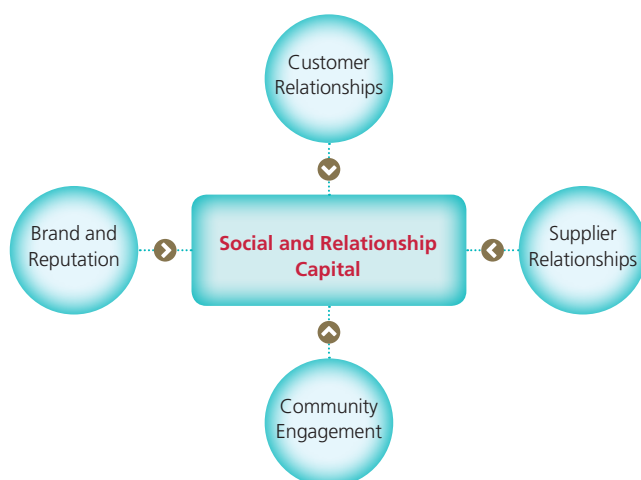
- Availability of electronic medical records for all patients
- Prescribing medication through IPADs and collecting directly at the pharmacy
- Apply for the National Quality Award which is held once every 5 years



⌚ Material issues:

Customer satisfaction,
responsible care, supply chain
management,
local communities

Social and Relationship Capital consists of the relationships the organization has nurtured within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being. For Lanka Hospitals, the relationships with our customers, suppliers and community helps to enhance value creation and is built upon the brand and reputation that we have created and maintained throughout the years.



Customer Capital

Customer Relationships

A high level of engagement with our patients and continuously striving to exceed their expectations has enabled us to build a loyal customer base. In a service industry, customer goodwill is essential in preserving brand reputation and will facilitate higher levels of retention as well as attraction of new customers. Our relationships are strengthened through:

Performance and Capital Management

- ③ Constant endeavours to improve patient experience and satisfaction
- ③ Focusing on responsible patient care and patient safety
- ③ Providing training on aspects of patient care, safety and experience to employees

GRI - 102-43, 102-44

Our commitment to improve customer experience and satisfaction

We have sought to sharpen our competitive edge in the intensely competitive healthcare industry to be provide care that is 'patient and family centered'. To this end, Lanka Hospitals was actively involved in improving patient experience by building stronger co-ordination, communication and instilling the value of compassion among individual caregivers and teams. We have put in place structured mechanisms for customers to provide us their feedback, ensuring that we are listening to our patients. It is our belief that a healthcare model based on a foundation that collaborates and engages with patients and their families will result in improved clinical and medical outcomes.

Lanka Hospitals caters to both local and international patients of varied demographic characteristics. Local patients are referred not only from Colombo but from all parts of Sri Lanka. A dedicated 'International Patient Care Centre' provides personalised care for international patients.

Our Focus on Patient and Family Centred Care

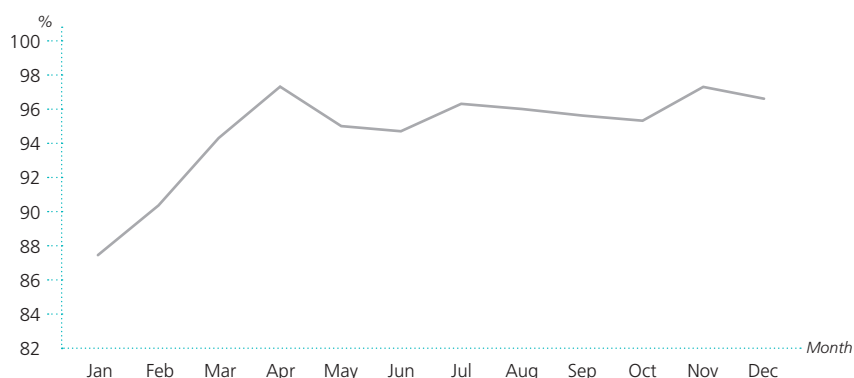
- ③ A healthcare delivery which effectively engages patients and their families
- ③ A patient's care preferences and priorities respected and understood in critical situations
- ③ The rights of patients and their families are understood and uncompromised in any circumstance
- ③ Safeguarding privacy and confidentiality of patients and their families at all times
- ③ 'One stop shop centres' with every facility for selected specialties available under one roof
- ③ Online presence for laboratory, radiology and pharmacy services, health education and patient follow ups.

	2017	2016
Patient Admissions	27,116	27,245
Out Patient Consultations	348,362	363,427
International Patients	2,205	2,141

During the year several steps were taken to improve patients' experience. The procedures relating to the emergency room, which was subjected to overcrowding, was strengthened so that triage was strictly followed. This has resulted in less patients being treated in the emergency room with reduction in waiting time and crowds. We also introduced electronic medical records during the year. Electronic medical records significantly improved our ability to co-ordinate a patient's care by ensuring that all medical team members have access to the information they need to make optimal treatment decisions, across shift changes, patient transfers and cross functional teams.

Feedback from our patients is an important tool we use to gauge patient satisfaction. A structured feedback mechanism is in

Inpatients Satisfaction Rates 2017



Social and Relationship Capital contd.

place where all inpatients are given the opportunity to submit feedback at the time of discharge. If the patient is unable to provide feedback at that time, a web link is provided so that feedback can be submitted electronically. During the year, providing feedback was also extended to outpatients. The satisfaction survey tracks multiple aspects of the customer experience including the admission procedure, housekeeping, attitude and quality of medical staff including nurses, quality and taste of food and beverages among others. Overall patient satisfaction levels were high throughout most part of the year and averaged 95%. Satisfaction rates are analysed and monitored at least monthly by management and actioned as appropriate.

The increasing propensity to use social media, has brought with it certain specific risks. For instance, unstructured negative feedback can sharply impact brand image. Keeping track of all mentions of our brand and responding in a timely manner is essential to control a negative message of a dissatisfied customer spreading through multiple users of social media. More time and effort will have to be spent by us to understand and placate these customers on their cause for dissatisfaction to prevent the spread of negative perception needlessly.

GRI 417-1

Marketing and labelling

External marketing communications including advertisements and hoardings are approved by the respective Group CEO, ensuring the integrity and credibility of

information. Communications with patients are in compliance with the regulations set out by the Private Health Services Regulatory Council (PHSRC) and Consumer Affairs Authority (CAA), particularly pertaining to billing information; in 2015, the CAA directed all private hospitals to issue comprehensive bills detailing the consultation charges, drugs and equipment used to enhance transparency of the pricing mechanism. During the year, there were no instances of non-compliance to any product/service labelling or marketing communication regulations or laws.

GRI 418-1

Customer Privacy

We respect a patient's privacy and confidentiality of information. Lanka Hospitals is committed to ensuring that all patient related information including medical records, investigations and diagnostic summaries are stored in secure platforms. Patient records are securely stored by the Medical Records Department in an isolated database which has limited access and is password protected. Programs such as 'Planned and Unplanned Downtime', 'Hospital Security', 'Safe Physical Facility' and 'Staff Health and Safety' have also been implemented which have helped to keep patient complaint numbers low. All substantiated complaints are addressed by the Group with complaints received from regulatory bodies such as the Private Health Services Regulatory Council and the Ministry of Health directly addressed by the Group's Director of Medical Services.

Customer Privacy Breaches - 2017

Substantiated complaints received from:

Outside parties	None
Regulatory bodies	None

GRI 416-2

Caring for our patients in a safe environment






We constantly work towards providing each of our patients with high quality care. At Lanka Hospitals, an individual patient's preferences and values are respected, and will guide clinical decisions. As a JCI-accredited organisation, we adhere to the International Patient Safety Goals, which helps to address specific areas of concern in some of the most problematic areas of patient safety. Indicators relating to these goals are recorded and monitored by Lanka Hospitals periodically. During the year, there were no instances of non-compliance to any relevant regulation concerning the health and safety impacts of products and services.

An Unwavering Commitment to Quality

Lanka Hospitals is one of Sri Lanka's most accredited private hospitals and the recipient of many quality awards. International accreditation ensures that world class quality standards are maintained. The receipt of quality awards showcases Lanka Hospital's leadership when it comes to quality at both local and regional levels.

Performance and Capital Management

National Convention on Quality and Productivity Awards 2017**Lanka Hospitals won 6 Awards**

-  Quality circle – General operating theatre
-  Kaizen suggestion – Engineering department
-  Continuous improvement project – Breast feeding unit
-  Quality circle – Nursing school
-  Continuous improvement project – Gastro-enterology unit
-  Poster competition – Staff nurse

A comprehensive framework of Standard Operating Procedures is in place to nurture a safety-culture and include patient safety programs, laboratory safety programs and infection control programs among others. Along with the JCI accreditation, chapter champions have been assigned for each of the 14 chapters leading to the accreditation to ensure that all standards are complied with and are continuously and rigorously monitored. The chapter champions report to a dedicated Quality Steering Committee, which is responsible for the implementation and monitoring of all quality standards within the Hospital, and reports monthly to the Group CEO and Director Medical Services. At department level, quality circles consisting of employees from various categories and grades are in place to identify areas for further quality improvements.

Our strategy going forward

Lanka Hospital's will expand its network in Sri Lanka by commissioning two regional centres making available its world class health facilities outside Colombo. The current capacity of the Hospital is also being expanded to be able to accommodate more patients. Patient experience is to be further improved through IT based personalised patient services. Our strategy for our international patients is to offer a differentiated service to the varying nationalities that form part of our medical tourist base and establish a physical presence in countries from which a large number of medical tourists are referred to us.

*GRI 308-1***Supplier relationships**

Lanka Hospitals procures a broad range of items which includes medical equipment, pharmaceuticals, food and beverages and maintenance equipment for its hospital, diagnostic and pharmacy operations. We engaged with 552 suppliers during the year and endeavour to maintain a balance between quality and value of goods purchased.

With the Group coming under the purview of the Public Enterprises Department from March 2017, it is now required to adhere to the National Procurement Guidelines, with a few deviations resulting from operational limitations, which have been approved by the Board of Directors. The Procurement Committee, which comprises representatives from the Board of Directors and the management team is responsible for the implementation of the relevant policy frameworks.



International Convention on Quality Circles Awards 2017
Lanka Hospitals' Team won Gold

LANKA HOSPITALS QUALITY WEEK

Organised annually to coincide with the International Standards Day, the Quality Week comprises of a series of lectures, competitions and events aimed at reaffirming employee commitment to the Hospital's quality journey. The events contribute towards raising employee awareness on quality and creating a quality conscious culture.

Social and Relationship Capital contd.

Quality Assurance in Procurement

As a leading private healthcare provider, it is imperative that high standards are maintained with respect to the quality of goods procured. To this end we have specific procedures and guidelines in place to ensure minimum quality requirements are met.



GRI - 308, 414

Assessment of our suppliers

Registration and evaluation of suppliers is a comprehensive process at Lanka Hospitals. Potential suppliers are required to complete an evaluation form disclosing information on financial stability, quality assessment and ethical practices which includes environmental and social criteria. Existing suppliers are screened for environmental and social practices during the annual supplier evaluation process. In 2017, the Group had 552 registered suppliers. All these suppliers had been screened for environmental and social practices.

GRI - 308, 414

Supplier Assessment Framework

Supplier audits are also conducted on a regular basis to ensure that the product quality, manufacturing process including social and environmental practices adopted by our suppliers are in line with our expectations. We work closely with suppliers to ensure that corrective action is implemented in situations where these expectations are not met.



Performance and Capital Management

Brand and Reputation

Our Brand

Providing Healthcare that is Cutting Edge, World Class and Affordable

Lanka Hospital was ranked within the 75 most valuable brands in Sri Lanka with an estimated brand value of Rs. 557 Mn in 2017¹. In the healthcare sector, Lanka Hospitals was ranked as the third most valuable brand.

A brand is strengthened by how well it has fulfilled its promise to customers over time. Lanka Hospital's excellence in its core specialties supported by international accreditations and a patient-centric approach has helped to keep its promise of believing every person having the right to be treated with utmost respect and consideration, caring about patients and their families. The ranking highlights that we are still a strong brand in the Sri Lankan market. Our strategy for the next 3 years is geared at further improving the brand equity of Lanka Hospitals. Marketing campaigns to build the brand of each Centre of excellence among target segments using social media, grow market share of each Centre of excellence and sustain the best mix of consultants and patients by attracting more numbers from potential provinces forms part of our marketing plan.

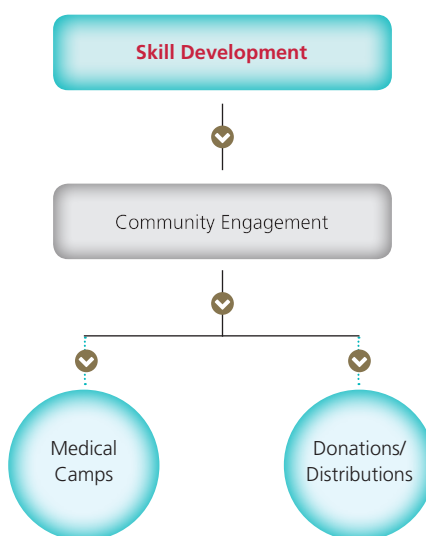
Lanka Hospitals maintains a high level of engagement with regulators and other relevant stakeholders. As an active contributor at industry forums, the Hospital is at the forefront of supporting policy makers and regulators in ensuring the continued development of the country's healthcare industry.

¹ Brand Finance

GRI 413-1

Corporate Social Responsibility

The relationships we have nurtured with the communities we operate in provides us our social license to operate. These relationships have been strengthened through our strategic and holistic approach towards CSR. Our CSR ambitions are driven by our inherent strengths as an organisation and in 2017 focused on the key areas below



Skill Development

Through our dedicated Nurses Training School (LHNTS), the Group directly contributes towards empowering and developing skills of the country's youth. The Group attracts many students from outside the Western Province, directly contributing towards regional socio-economic growth. Annually, around 50 students are selected to undergo comprehensive theoretical and clinical training through a 3-year course, at the end of which they obtain a Diploma in Nursing. Students are provided all facilities including accommodation and food. In 2017, total student intake for the year was 93, of which 69 were from regions outside the Western Province.

Memberships in industry associations

- Private Health Services Regulatory Council

Medical Camps

During the year, we conducted numerous medical camps for needy and vulnerable communities. Our employees volunteered their time and effort in all these initiatives, enabling the Group to combine its skills and expertise to serve communities who required our support. The medical camps conducted during the year included,

- Medical Camp for the victims of the Meethotamulla garbage dump collapse
- Medical Camp for the victims of flood in partnership with the Rotary Club
- Camp at Valvitiya Village, Baddegama
- Camp for flood victims at Yatawara Temple
- Camp at Poruwadanda, Horana
- Medical Camp at Waduramba, Galle

Donations

In addition to the above, Lanka Hospitals also provided donations and/or distributed goods to communities on a needs-based approach. During the year, we spent around Rs. 1.5 Mn in such donations which included the following;

- Donations for employees and their families affected by flooding
- Donations for flood victims'
- Distribution of dry rations to the flood victims using the Ifthar allocation fund as decided by the Islamic staff of LH
- Health education and distribution of gifts to pre-school children at the Sri Rathgama Montessori in Rathgama

Natural Capital

► Highlights

	2017	2016
Energy consumption (Mj)	37,009	33,983
Water consumption (M ³ "000")	127	121
Water discharge ("000" Litres)	109,500	108,043
Carbon footprint (tCO ₂ e)	5,680	5,510

► Achievements

- Installing chill water A/C with variable speed drives

► Plans for 2018

- Installation of solar panels
- Increase capacity of effluent treatment plant



📌 Material issues:

Minimising Environmental Impacts

Management Approach

Although the direct environmental impacts of our operations are relative low, we are cognizant of the need to manage the consumption of natural resources in a sustainable manner, conserve energy and water, dispose of hazardous waste in a responsible manner and to reduce carbon emissions in line with international best practices. We also adopt the precautionary approach during decision making pertaining to capacity expansions, new product development and other major capex investments.

A comprehensive set of policies and procedures ensure that a commitment towards environmental responsibility is instilled in our employees from the point of recruitment. Structured mechanisms, including ISO 14001:2015 are in place to measure, monitor and report environmental indicators so that issues can be identified and addressed as required.

We utilise natural resources such as water and energy in our operations and impact the environment with outputs such as effluents, solid waste and emissions. We recognise that in generating value across our other capitals, we can impact adversely on the natural environment/resources. We are committed to minimizing the adverse environmental impact of our operations and are governed by a holistic environmental management framework in measuring and reducing our environmental footprint.

Approach to Environmental Management



Performance and Capital Management

GRI 307-1

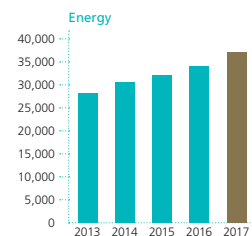
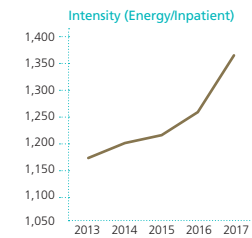
During the year, there were no instances of non-compliance or penalties imposed on the Group for contravention of any environmental regulation/guideline.

GRI 302

⚡ Energy: The Hospital's energy requirements are fulfilled entirely through the national grid. Electricity is the main contributor to our carbon footprint and the

adoption of the ISO 14001 management standards have helped us to improve the energy efficiency of our equipment and processes. During the year, total energy consumption increased by 9% to 37,009 (Mj) reflecting the overall increase in operational activity. Energy intensity (defined as Energy Usage per inpatient) also increased by around 10% to 1,365 J during the year. We continued to adopt numerous energy-saving initiatives, as listed below;

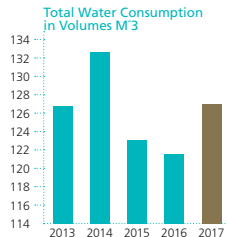
- ② Installation of chill water air conditioners with variable speed drives to control motor power
- ② Replacing high-energy consuming equipment with more efficient technologies such as using LED lighting solutions in theatres and inverter technology for cooling
- ② Encouraging energy conservation among employees

Energy indicator	2013	2014	2015	2016	2017	Trend
Energy consumption (Mj) <i>GRI 302-1</i>	28,205	30,477	32,098	33,983	37,009	
Energy intensity (J/Inpatient) <i>GRI 302-3</i>	1,165	1,194	1,209	1,247	1,365	

GRI 303

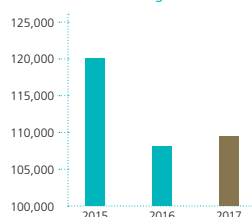
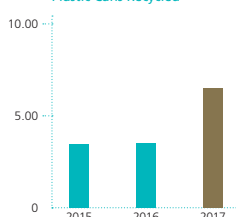
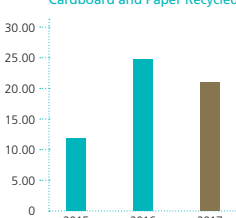
💧 Water: Our operations are highly water intensive, so it is critical that we monitor water consumption closely. During the year, the Group's water consumption increased by 5% primarily due to increase in operational activity. There are various measures in place to minimise water consumption including installing sensor taps, control sensors and an incident reporting system to identify leaks. Creating awareness and instilling the importance of water conservation among employees has also contributed towards reducing the total water consumption.

Natural Capital contd.

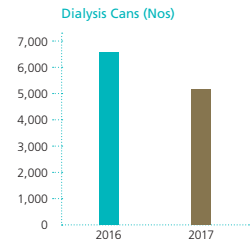
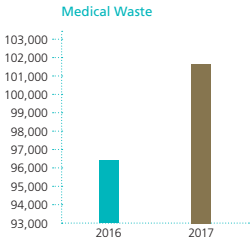
Water indicator	2013	2014	2015	2016	2017	Trend
Water consumption (M ³ "000") <i>GRI 303-1</i>	127	133	123	121	127	 <p>Total Water Consumption in Volumes M³</p>

GRI 306

Waste and Effluents: The key types of solid waste generated through our operations are plastic cans, cardboard and paper. These are segregated at source and sent to third party recyclers approved by the Central Environmental Authority. The nature of our operations also make the discharge of toxic waste inevitable, and measures are in place to ensure the responsible and non-hazardous disposal of all types of waste. The toxic waste is treated prior to disposal and sent to an approved third-party recycler for incineration.

	2015	2016	2017	Trend
Water discharge - municipality sewerage, drainage lines ('000 litres) <i>GRI 306-1</i>	120,032	108,043	109,500	 <p>Water Discharge</p>
Plastic cans recycled (tonnes) <i>GRI 306-2</i>	3.11	3.50	6.53	 <p>Plastic Cans Recycled</p>
Cardboard and paper recycled (tonnes)	11.75	24.60	20.89	 <p>Cardboard and Paper Recycled</p>

Performance and Capital Management

	2016	2017	Trend
Dialysis cans recycled (Nos.)	6,579	5,165	 <p>Dialysis Cans (Nos)</p>
Medical waste (tonnes)	96.43	101.67	 <p>Medical Waste</p>

GRI - 305

Carbon footprint:

Emissions are measured using the Greenhouse Gas Protocol as governed by the World Resource Institute (WRI) and the World Business Council for Sustainable Development. The emission factors have been derived from IPCC Guidelines for National Greenhouse Gas Inventories. The boundary for the emission measurement is governed by Scope 1 and Scope 2. The mechanisms in place within the Group for measuring emissions include,

- ① Direct emissions which occur directly from sources that are owned/controlled by the organisation.
- ② Indirect emissions from the consumption of electricity.

During the year, the Group's total carbon footprint increased marginally by 3%, while the emission intensity factor (defined as carbon footprint/inpatients) increased by 3% reflecting ongoing focus on enhancing energy efficiency.

	2013	2014	2015	2016	2017
Operations owned or controlled by the organisation (kj)	602,384	637,488	639,639	725,086	661,770
Fuel combustion and company owned vehicles					
From purchased/acquired electricity (kj)	3,969,866	4,325,114	4,639,187	4,785,061	5,018,685

Performance and Capital Management

Independent Assurance Report To The Lanka Hospitals Corporation PLC



KPMG
(Chartered Accountants)
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We have been engaged by the directors of The Lanka Hospital Corporation PLC ("the Company") to provide reasonable assurance and limited assurance in respect of the Sustainability Indicators as identified below for the year ended 31 December 2017. The Sustainability Indicators are included in the The Lanka Hospital Corporation PLC's Integrated Annual Report for the year ended 31 December 2017 (the "Report").

The Reasonable Assurance Sustainability Indicators covered by our reasonable assurance engagement are:

Assured Sustainability Indicators	Integrated Annual Report Page
Financial Performance	6

The Limited Assurance Sustainability Indicators covered by our limited assurance engagement are:

Limited Assurance Sustainability Indicators	Integrated Annual Report Page
Sustainability performance indicators - Non Financial Performance	7
Information provided on following capitals	
Financial	48-54
Manufactured	55-56
Human	57-61
Intellectual	62-63
Social and Relationship	64-69
Natural	70-73

Our conclusions

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Reasonable Assurance Sustainability Indicators

In our opinion, the Reasonable Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2017 are, in all material respects, prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

Limited Assurance Sustainability Indicators

Based on the limited assurance procedures performed and the evidence obtained, as described below, nothing has come to our attention that causes us to believe that the Limited Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2017, have not in all material respects, been prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

Management's Responsibility

Management is responsible for the preparation and presentation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne FCA
R.H. Rajan ACA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyratne FCA
R.M.D.B. Rajapakse FCA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA
Ms. C.T.K.N. Perera ACA

Performance and Capital Management



These responsibilities includes establishing such internal controls as management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

Our responsibility

Our responsibility is to express a reasonable assurance conclusion on the Company's preparation and presentation of the Reasonable Assurance Sustainability Indicators and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Indicators included in the Report, as defined above.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000:

Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka.

We have complied with the independence and other ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of Sri Lanka.

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the Reasonable Assurance Sustainability Indicators are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Indicators are free from material misstatement.

Reasonable assurance over Reasonable Assurance Sustainability Indicators

The procedures selected in our reasonable assurance engagement depend on our judgment, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Indicators whether due to fraud or error.

In making those risk assessments, we have considered internal controls relevant to the preparation and presentation of the Reasonable Assurance Sustainability Indicators in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes

of expressing a conclusion as to the effectiveness of the Company's internal controls over the preparation and presentation of the Report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Indicators, the suitability of the criteria, being the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines, used by the Company in preparing and presenting the Reasonable Assurance Sustainability Indicators within the Report, obtaining an understanding of the compilation of the financial and non-financial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Company, and re-computation of the calculations of the Reasonable Assurance Sustainability Indicators.

Limited assurance on the Assured Sustainability Indicators

Our limited assurance engagement on the Limited Assurance Sustainability Indicators consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Indicators, and applying analytical and other procedures, as appropriate. These procedures included:

Independent Assurance Report To The Lanka Hospitals Corporation PLC contd.



- ④ interviews with senior management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- ④ enquiries of management to gain an understanding of the Company's processes for determining material issues for the Company's key stakeholder groups;
- ④ enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Indicators;
- ④ enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Indicators, including the aggregation of the reported information;
- ④ comparing the Limited Assurance Sustainability Indicators to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- ④ reading the Limited Assurance Sustainability Indicators presented in the Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of the Company;

- ④ reading the remainder of the Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Indicators.

Purpose of our report

In accordance with the terms of our engagement, this assurance report has been prepared for the Company for the purpose of assisting the Directors in determining whether the Company's Reasonable and Limited Assurance Sustainability Indicators are prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines and for no other purpose or in any other context.

Restriction of use of our report

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company, for any purpose or in any other context. Any party other than the Company who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Company for our work, for this independent assurance report, or for the conclusions we have reached.

CHARTERED ACCOUNTANTS
Colombo

March 28, 2018

GRI Content Index Tool

GRI Standard	Disclosure	Page number	Omission
GRI 101: Foundation			
General Disclosures			
GRI 102: General Disclosures	102-1 Name of Organisation	Inner Back Cover	-
	102-2 Activities, brands, products and services	52	-
	102-3 Location of headquarters	Inner Back Cover	-
	102-4 Location of operations	Inner Back Cover	-
	102-5 Ownership and legal form	Inner Back Cover	-
	102-6 Markets served	31-33	-
	102-7 Scale of the organisation	8-9	-
	102-8 Information on employees and other workers	57	-
	102-9 Supply chain	68	-
	102-10 Significant changes to the organisation and supply chain	68-71	-
	102-11 Precautionary principle	40-45	-
	102-12 External initiatives	90	-
	102-13 Membership of associations	67	-
	102-14 Statement from senior decision maker	14-17	-
	102-16 Values, principles, norms and standards of behaviour	96	-
	102-18 Governance Structure	90-103	-
	102-40 List of stakeholder groups	26-28	-
	102-41 Collective bargaining agreements	-	-
	102-42 Identifying and selecting stakeholders	26-28	-
	102-43 Approach to stakeholder engagement	26-28	-
	102-44 Key topics and concerns raised	26-28	-
	102-45 Entities included in the consolidated financial statements	104	-
	102-46 Defining report content and topic boundary	4	-
	102-47 Material topics	38-39	-
	102-48 Restatement of information	38	-
	102-49 Changes in reporting	4	-
	102-50 Reporting period	4	-
	102-51 Date of most recent report	5	-
	102-52 Reporting cycle	104	-
	102-53 Contact point for questions regarding Report	4	-
	102-54 Claims of reporting in accordance with GRI Standards	4	-
	102-55 GRI context index	77-79	-
	102-56 External assurance	74-76	-

GRI Content Index Tool contd.

GRI Standard	Disclosure	Page number	Omission
Material topics			
Economic Performance			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	38-39	-
	103-2 The Management Approach and its components	38-39	-
	103-2 Evaluation of the Management Approach	38-39	-
GRI 201: Economic Performance	201-1 Direct economic value generated and distributed	165	-
Energy			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	38-39	-
	103-2 The Management Approach and its components	38-39	-
	103-2 Evaluation of the Management Approach	38-39	-
GRI 302: Energy	302-1 Energy consumption within the organization	71	-
	302-5 Energy intensity	71	-
Emissions			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	38-39	-
	103-2 The Management Approach and its components	38-39	-
	103-2 Evaluation of the Management Approach	38-39	-
GRI 305 Emissions:	305-2 Energy indirect greenhouse gas (GHG) emissions (Scope 2)	73	-
	305-5 Reduction of greenhouse gas emissions	73	-
Effluents and Waste			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	38-39	-
	103-2 The Management Approach and its components	38-39	-
	103-2 Evaluation of the Management Approach	38-39	-
GRI 306: Effluents and Waste	306-1 Water discharge by quality and destination	72-73	-
	306-2 Waste by type and disposal method	72-73	-
Employment			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	38-39	-
	103-2 The Management Approach and its components	38-39	-
	103-2 Evaluation of the Management Approach	38-39	-
GRI 401: Employment	401-1 Employee hires and turnover	58	-
	401-3 Parental leave	59	-
Health and Safety			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	38-39	-
	103-2 The Management Approach and its components	38-39	-
	103-2 Evaluation of the Management Approach	38-39	-
GRI 403: Health and Safety	403-4 Types of injury and rates of injury, occupational diseases, lost days and absenteeism and number of work-related fatalities	61	-

Performance and Capital Management

GRI Standard	Disclosure	Page number	Omission
Training and education			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	38-39	-
	103-2 The Management Approach and its components	38-39	-
	103-2 Evaluation of the Management Approach	38-39	-
GRI 404: Training and education	404-1 Average hours of training per year per employee	59	-
	404-2 Programs for upgrading skills and transition assistance programmes	59	-
	404-3 Percentage of employees receiving regular performance and career development reviews	59	-
Diversity and equal opportunity			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	38-39	-
	103-2 The Management Approach and its components	38-39	-
	103-2 Evaluation of the Management Approach	38-39	-
GRI 405: Diversity and equal opportunity	405-2 Ratio of basic salary and remuneration of women to men	59	-
Local Communities			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	38-39	-
	103-2 The Management Approach and its components	38-39	-
	103-2 Evaluation of the Management Approach	38-39	-
GRI 413: Local communities	413-1 Operations with local community engagement, impact assessments and development programmes	69	-
Marketing and labelling			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	39	-
	103-2 The Management Approach and its components	39	-
	103-2 Evaluation of the Management Approach	39	-
GRI 417: Marketing and labelling	417-1 Requirements for product and service labelling	66	-
	417-2 Incidents of non-compliance concerning product and service information and labelling	66	-
	417-3 Incidents of non-compliance concerning marketing communications	66	-
Customer Privacy			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	39	-
	103-2 The Management Approach and its components	39	-
	103-2 Evaluation of the Management Approach	39	-
GRI 418: Customer Privacy	418-1 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	66	-



Trust in...

World Class Healthcare at Lanka Hospitals

At Lanka Hospitals, the brand of care we give is the same as what we bring from home. And to you, we afford that care with a combination of skill, technology and service that is award winning and world class.

We house the best doctors and state-of-the-art technology with unparalleled attentive care. That's why we are Sri Lanka's first and only hospital to be re-accredited with the internationally acclaimed 6th Edition of the JCI standard. Come, experience world class healthcare at Lanka Hospitals.



LANKA HOSPITALS
ACCREDITED
BY JOINT COMMISSION INTERNATIONAL
GOLD SEAL OF APPROVAL SINCE SEPTEMBER 2014



**MTQUA
CERTIFIED**
International Medical Tourism Certification
1st Hospital In Sri Lanka To Be Accredited

Board of Directors



Mr. Asendra Siriwardena



Mrs. Uma Rajamantri



Dr. Anil Abeywickrama



Dr. Sarath Paranavitane

Governance



Ven. Thiniyawala Palitha Thero



Mr. Jayantha Munasinghe



Mr. Thanuja Weeratne



Mr. Mohan Wijesinghe

Governance

Board of Directors contd.



Mr. Daljit Singh



Mr. Kalyana Srivastava



Mr. Keerthi Kotagama



Mr. Saadi Wadood

Governance

Dr. Sarath Paranavitane*Chairman*

Appointed in March 2015

Other Appointments:

He was elected as a fellow of the Institute of Chemistry Ceylon. Chairman and Medical Director of Central Medical Centre (Pvt) Limited, a family-owned business that provides primary care.

Skills and experience:

He holds an MD in Family Medicine, Diploma in Child Health and Diploma in Family Medicine from the University of Colombo. He obtained his MBBS Degree (with second-upper class honours) from the University of Peradeniya. He also holds an MBA (Merit), specialising in Health Care Services from the Manipal University of India and an MBA (Distinction) from the Cardiff Metropolitan University in the UK. He is the first and only Board certified Specialist family physician in Sri Lanka to hold two MBA degrees.

Ven. Thiniyawala Palitha Thero*Independent Non-Executive Director*

Appointed in February 2015

Other Appointments:

Serves as an Advisor to the former Finance Minister, Minister of Home Affairs and formerly to the Ministry of Commerce and Consumer Affairs, Ministry of Education and Buddhist Advisory Council of Ministry of Buddhist. Ven. Palitha Thero also acts as Director Dangerous Drugs Control Board, Chief Incumbent Nalandaramaya Nugegoda, Beruwala Sapugoda Sri Maha

Viharaya, Kalugaldeniya Aranya Senasanaya, Chief incumbent of Mahabodhi Centre, Chennai, India. Ven. Palitha Thero is also the Financial Secretary for Jathika Sangha Sabawa, Committee member for Kotte Sri Kalyani Samagi Dharma Maha Sangha Sabawa, Administrative member for Mahabodhi Society of Sri Lanka and Deputy General Secretary, and the Vice President of Prison Head Quarter's Welfare Society. Ven Palitha Thero is the Chief Secretary of Eksath Jathika Bhikshu Peramuna affiliate to the United National Party of Sri Lanka.

Skills and experience:

Ven. Palitha Thero is an all-island Justice of Peace and an Active Member of the Maha Sangha in the propagation of Buddhism locally and internationally.

Mr. Daljit Singh*Non-Independent Non-Executive Director*

Appointed in December 2014

Other Appointments:

President of Fortis Healthcare Limited, Chairman-Malar Hospitals, the Director of Dion Global Solutions Limited and Religare Health Insurance Limited. He is currently the President of Nathealth (Healthcare Federation of India). He is on the Steering Boards constituted by the World Economic Forum to guide two major Global projects: "Scenarios for Sustainable Health Systems" and "The Healthy Living Charter". He is also on the Forum's Advisory Board on "The Economic Burden of Non-Communicable Diseases in India."

Skills and experience:

A thought leader in health care delivery, Mr.Singh has over 40 years' management experience and has led Fortis Healthcare's strategy and organisational development functions. He played a vital role in formulating and implementing Fortis' winning growth strategy. A certified Life and Executive Coach, he also leads and facilitates workshops on Strategy, Business Planning & Leadership.

He is a graduate from the Indian Institute of Technology and a Commonwealth Scholar to the Senior Management Programme at the Manchester Business School.

Mrs. Umashanthiee Rajamantri*Independent Non-Executive Director*

Appointed in November 2015

Skills and experience:

A renowned marketing professional, Mrs. Rajamantri has supported almost every local and international brand in the country during her time at Ogilvy & Mather, and GroupM. Her long standing relationship with the industry, direct association with numerous brands and participation at the cutting-edge of change, has fortified Uma with the capability to go beyond conventional thinking. Her numerous accolades include 6 prestigious EFFIE awards, which recognises 'Effective Marketing Campaigns,' including the renowned 1st Gold award for the Trail Campaign. She holds an MBA from the prestigious Mahatma Gandhi University of India as well as Specialised Media training at the Mudra Institute of Communication, Ahmadabad, India.

Governance

Board of Directors contd.

Dr. Anil Abeywickrama

Independent Non-Executive Director
Appointed in November 2015

Other Appointments:

Consultant Cardiothoracic Surgeon at Teaching Hospital Kandy.

Skills and experience:

He is a Board Certified specialist in Cardiothoracic surgery, with a combined practice in adult and paediatric cardiac surgery. He has also served as a Consultant Cardiothoracic Surgeon in the National Hospital of Sri Lanka till 2015 and in the Lady Ridgeway Hospital for Children from 2015 to 2016. He is in the processes of establishing a Cardiopulmonary Transplant and Mechanical Circulatory support program in the Teaching Hospital Kandy in collaboration with the Freeman hospital, Newcastle in the UK. His special clinical interests are in Cardiopulmonary Transplant, Donor Management, Mechanical Circulatory Support Therapy, Total Arterial Revascularisation of Myocardium, Transcatheter Aortic Valve implantation (TAVI), Surgery and interventions in Aorta and Minimal Access Cardiac surgery. He holds an MBBS, MS and MRCS eng.

Mr. Asendra Siriwardena

Independent Non-Executive Director
Appointed in November 2015.

Other Appointments:

Director of National Insurance Trust Fund.

Skills and experience:

He holds a Bachelor of Law Degree (LLB) from the Open University of Sri Lanka and is an Attorney-at-law. He is a practising lawyer

handling civil cases. He has also completed a Diploma Course in Mass Communication from the Sri Lanka Foundation.

Mr. Kalyana Srivastava

Non-Independent Non-Executive Director
Appointed in November 2015

Other Appointments:

CFO for International Business at Fortis Healthcare Pte Limited.

Skills and experience:

With about 25 years of experience spanning across Pharmaceuticals, Vaccines, Healthcare, Diagnostics and Shipping and exposure to both in India and Singapore, Mr Srivastava has cross-functional exposure to Finance, Technical, Commercial including Procurement and Logistics, Medico Marketing and Operations. He is a trained professional in Finance and Secretarial and has ability to understand businesses holistically, providing win-win solutions for partners.

Mr. Thanuja Weeratne

Independent Non-Executive Director
Appointed in June 2016

Other Appointments:

Deputy Chairman of Property Development PLC, and also the Co-ordinating Secretary to the Hon. Minister of Higher Education & Highways. Previously served as CEO of Serendib Marinas International (Pvt) Ltd, Executive Director of E-Channeling PLC, Director/Group Chief Executive Officer of Magline Group of Companies, Chief Operating Officer/Head of Operations at Middleware Technologies, General Manager

– Special Projects at Brandix Lanka Ltd and Group Manager- Head of Accidental & Health at AIG Insurance.

Skills and experience:

In an illustrious career spanning over 20 years, Mr. Weeratne has held various senior Management positions in the fields of Insurance, Marketing, Procurement, Process Improvement, manufacturing and Information Technology. He also played a vital role in setting up the Ministry of Public Enterprise Development in which the commencement of restructuring of State-Owned Enterprise.

Mr. Keerthi Kotagama

Independent Non-Executive Director
Appointed in October 2017

Other Appointments:

Founder, Managing Director/CEO of CIC Agri Businesses, the only “Seed to Shelf” Agriculture company in Sri Lanka and Director CIC Holdings PLC (2014 – 2017). He currently serves as an Executive Director of Sri Lanka Insurance Corporation, Chairman of Janatha Estates Development Board, Chairman of Galoya Plantations (Pvt) Limited, Director of National Film Corporation, Board Member of Business Management Education Board of NIBM, Member of the Committee on Matters related to the Plantation Sector, Ministry of Public Enterprise Development, Advisor/Consultant (Science & Technology) to the Minister of Science, Technology & Research, Advisor to the Minister of Public Administration and Management, Advisor/Consultant (Agriculture & Plantations) to the Minister of Public Enterprise Development, Board Member of CSR Sri Lanka, Board

Governance

Member of Colombo School of Business & Management, Member of the Working Committee (Biotechnology & Bioethics) and Member of the Steering Committee (Food Security) of the National Science Foundation Sri Lanka.

Skills and experience:

With wide ranging experience in the agri-business sector, Mr. Kotagama has been awarded and recognised for his professional services and contribution. He holds a BSc in Agriculture (Hons) from the University of Peradeniya, Sri Lanka and Master of Business Administration (Finance & Management of Technology) from the Asian Institute of Technology, Thailand. Mr. Kotagama has been awarded and recognised for his professional services and contribution by several Local and International Organizations. This includes the Responsible Business Leader Award 2012, presented by the Enterprise Asia, Malaysia and the Outstanding Entrepreneurship Award 2012, presented by the Enterprise Asia, Sri Lanka.

Mr. Jayantha Munasinghe

Independent Non-Executive Director
Appointed in March 2017

Other Appointments:

Served on the Advisory Committee of the Printing and Packaging Industry (2011-2013) of the Ministry of Industries and on the Executive and Management Committee of the Ceylon National Chamber of Industries. He has also served as the General Manager of Ninewells Hospital in addition to senior positions in the Maharaja Group, Harrisons and Crosfield, Aitken Spence PLC and as a Director/CEO of Sithara Ltd.

Skills and experience:

Finance professional with over 35 years of experience at senior management and strategic level positions across multiple industries. He has wide-ranging exposure in imports, exports, trading, manufacturing, agriculture, printing & packaging and healthcare. He is an Associate Member of the Chartered Institute of Management Accountants and the Chartered Global Management Accountants.

Mr. Mohan Wijesinghe

Independent Non-Executive Director
Appointed in June 2017

Other Appointments:

General Manager of the Colombo International Container Terminals Ltd, Senior Overseas Advisor of China Merchants Ports Holding Company Ltd. and a Senior Legal Advisor to the Ministry of Public Enterprise Development. Director of Bank of Ceylon and Interoceanic Services Ltd. Mr. Wijesinghe is also a Member of the National Agenda Committee of the Colombo Chamber of Commerce.

Skills and experience:

Mr. Wijesinghe, an Attorney-at-law, brings to the Board multi-faceted experience in the private and public sectors and holds a Master's Degree in International legal Cooperation from the University of Vrije, Brussels. Mr. Wijesinghe is also a Solicitor of the Supreme Court of England and Wales, a Solicitor and Barrister of the Supreme Court of Australian Capital Territory and Barrister of the High Court of Australia.

Mr. Saadi Wadood

Independent Non-Executive Director
Appointed in October 2017

Other Appointments:

Holds Board positions in several companies including SMB Leasing PLC, Colombo Dockyard PLC and Sri Lanka Insurance Corporation Ltd.

Skills and experience:

An Attorney-at-law of the Supreme Court of Sri Lanka, Mr. Wadood currently practices as a Corporate/Civil lawyer in Colombo. He holds a LLM in Corporate Law from King's College, University of London.

Exco Members



From Left to Right:

Mr. Ruwan Amarasekara

Group Chief Information Officer

Mr. Sanjeewa Serasinghe

Group Chief Human Resource Officer

Dr. Sunil Rathnapriya

Director Medical Services

Dr. Prasad Medawatte

Group Chief Executive Officer

Governance

**From Left to Right:****Mr. Badrajith Siriwardana***Group Chief Financial Officer***Mr. Nimal Ratnayake***Group Chief Marketing Officer***Dr. Deepthi Karunatileke***Deputy Director Medical Services***Dr. G.C.S. Galagoda***Head of Laboratories - Lanka Hospitals Diagnostics Private Limited***Mr. Pradeep Edward***Chief Executive Officer - Lanka Hospitals Diagnostics Private Limited*

Governance

Corporate Governance Review

Strong and effective governance systems are critical in achieving our strategic goals and we are committed towards upholding the highest standards of integrity, transparency and accountability in maintaining the trust of our stakeholders and ensuring sustainable value creation. The Group's governance frameworks, policies and procedures are aligned with the requirements of all relevant statutory requirements while embracing industry and international best practices.

Board Highlights

Appointment of New Directors	Appointed Date
Mr. Jayantha Munasinghe	20.03.2017
Mr. Aruna Siriwardana (Resigned on 10.12.2017)	12.05.2017
Mr. Mohan Wijesinghe	28.06.2017
Mr. Saadi Wadood	24.10.2017
Mr. Keerthi Kotagama	24.10.2017

Corporate Governance Framework

The Group's corporate governance framework is based on the following internal and external steering instruments;

External instruments	Internal standards and principles	Governance mechanism
Companies Act No. 7 of 2007	Articles of Association	Stakeholder Engagement
Continuing listing requirements of the Colombo Stock Exchange	Board and Sub-Committees Charter	Accreditations and Certifications
Code of Best Practice on Corporate Governance issued by the SEC and ICASL	Code of Ethics	People Management
Private Medical Institutions Act No.21 of 2006	Comprehensive policy framework	Quality Management
Integrated Reporting Framework issued by the International Integrating Reporting Council (IIRC)	Integrated Risk Management Framework	IT Governance
GRI Standards for Sustainability reporting issued by the Global Reporting Initiative		Investor Relations

Governance

Operations of the Board

Effective Board

Lanka Hospital's Board of Directors is its apex governing body and is ultimately responsible for delivering sustainable shareholder value. Our Board comprises of Twelve (12) Directors, all of whom operate in Non-executive capacity while Ten (10) are Independent Directors. The profiles of all directors are given on pages 82 to 87 of this Report. The Board combines a diverse mix of professional, medical and academic perspectives, generating discussion and debate on key aspects while enabling them to exercise independent judgement on deliberations and decision making. There is also a clear division of responsibilities between Board activities and the executive responsibility of running the business.

Roles and responsibilities of the Board

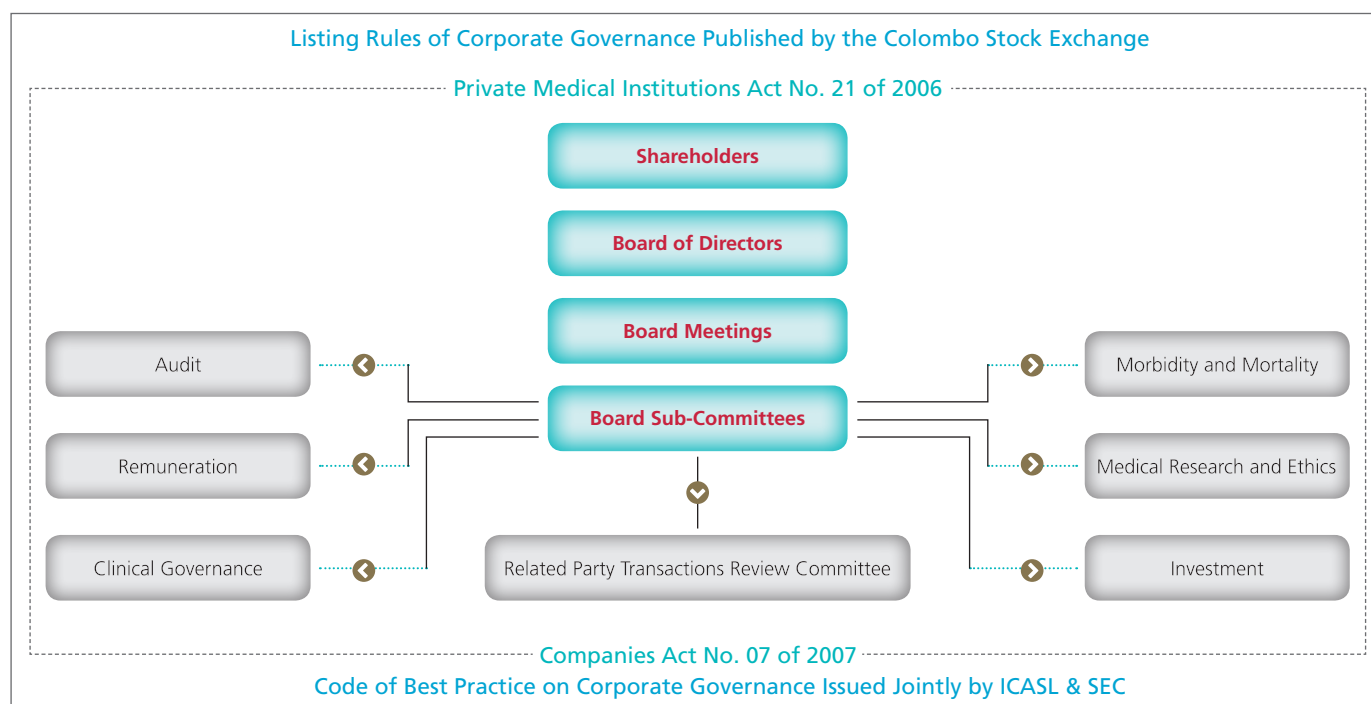
The roles and responsibilities of the Board of Directors are set out in the Board Charter and Articles of Association. The Board of Directors is responsible for setting the strategic direction and holds overall accountability for the Group's stewardship function. The Board's primary roles and responsibilities include,

- ② Providing direction for Group's medium and long-term strategy and review and approval of the same
- ② Ensuring the adequacy and effectiveness of the Group's internal controls and risk management practices
- ② Formulating policy frameworks to ensure compliance with relevant statutory requirements and industry best practices

- ② Ensuring that key management personnel and the management team have the required skills, experience and knowledge to implement strategy

Governance Structure

The Board is supported by several sub-committees in discharging its duties, as illustrated below. In addition to the 3 mandatory sub-committees Lanka Hospitals has also set up four committees to provide oversight key clinical matters.



Governance

Corporate Governance Review contd.

The roles and responsibilities of the sub-committees are defined in the respective Committee charters, and are summarised below.

Committee	Responsibilities	Composition
Board level committees		
Audit	Review the financial reporting process, internal controls and audit function to ensure the integrity of the Financial Statements	Three Independent Non-Executive Directors
Remuneration	Assist the Board in the establishment of remuneration policies and practices	Three Independent Non-Executive Directors
Related Party Transactions Review	Review the inter related transactions of the cluster while ensuring the existence of arms length price	Three Independent Non-Executive Directors
Clinical Governance	Maintain and improve the quality of service and safeguards high standards	Two Independent Non-Executive Directors
Morbidity and Mortality	<ul style="list-style-type: none"> ④ Review the morbidity pattern of patients and deaths that occurred in the hospital within a month ④ Involve a multidisciplinary team in a critical analysis of the systems and processes leading to such outcome of medical care ④ Recommend improvements to the processes and systems ④ Monitor action taken regarding these recommendations and the results 	Two Independent Non-Executive Directors
Medical Research and Ethics	<ul style="list-style-type: none"> ④ Review Research proposals submitted to the hospital and approval of the same ④ Review and guide the hospital regarding issues of ethical nature ④ Promote education regarding ethical issues related to health among the hospital staff 	Three Independent Non-Executive Directors
Investment	Ensure the highest return, associate with the tolerable risk level to maximise the company wealth	Three Independent Non-Executive Directors

Board appointments

During the year, 5 new directors were appointed to the Board. Appointments of new directors are promptly communicated to the CSE. This communication would typically include a brief profile of the Director, relevant skills and industry experience and directorships in other entities. As per the Articles of Association,

4 Directors will offer themselves for re-election at the AGM, depending on those who have held office for the longest time period since the election/re-appointment. In accordance with this provision, the following directors retire and offer themselves for re-election:

- ④ Ven. Thiniyawala Palitha Thero
- ④ Mr. Thanuja Weeratne

- ④ Mr. Asendra Siriwardena
- ④ Mrs. Uma Rajamantri

If a Director has been appointed as a result of a casual vacancy that has arisen since the previous AGM, he/she is subject to election by shareholders at the first general meeting after their appointment.

Governance

Board meetings and attendance

The Board meets at least on a monthly basis and convened 14 times during the year. Meeting agendas and Board papers are circulated to all Board members electronically prior to Board and sub-committee meetings, providing adequate time for preparation. Board meetings and Sub-committee meetings are scheduled well in advance and Board agendas and papers are circulated at least 7 days prior to the meeting to enable Directors to prepare adequately.

Attendance and Board and Sub-Committee meetings in 2017

Directors Name	Board Meeting	Audit Committee	Remuneration Committee	Related Party Transactions Review Committee
Dr. Sarath Paranavitane	14/14	N/A	N/A	N/A
Ven. Thiniyawala Palitha Thero	14/14	N/A	N/A	N/A
Prof. Dilani Lokuhetty	8/10	N/A	4/4	N/A
Dr. R.L. Wijesundera	5/5	N/A	2/3	N/A
Mr. Daljit Singh or his Alternate Mr. Ravi Sachdev	9/14	N/A	N/A	N/A
Mr. Keith D. Bernard	5/5	2/2	N/A	N/A
Dr. Anil Abeywickrama	12/13	5/5	N/A	2/2
Mrs. R.A.D.U. Rajamantri	13/13	N/A	N/A	N/A
Mr. H.A.C. Siriwardena	13/13	5/5	6/6	2/2
Mr. K.S. Srivastava or his Alternate Mr. P. Raghunath	11/14	N/A	N/A	N/A
Mr. W. Thanuja Weeratne	14/14	N/A	5/6	N/A
Mr. N.J. Munasinghe	9/9	3/3	2/2	2/2
Mr. Aruna Siriwardhana	4/5	N/A	0/1	N/A
Mr. R. Mohan Wijesinghe	5/6	N/A	N/A	N/A
Mr. Keerthi Kotagama	2/2	N/A	N/A	N/A
Mr. Saadi Wadood	2/2	N/A	N/A	N/A

Governance

Corporate Governance Review contd.

Independence

Independence of the Directors have been determined in accordance with the Continuing Listing Rules of the CSE and all 10 Independent, Non-Executive Board members have submitted signed declarations of their independence.

Name of Director/ Capacity	Shareholding	Management/ Director *	Material Business Relationship **	Employee of Company ***	Family Member of Director or CEO	Years of Continuous Service
Independent Non-Executive Directors						
Dr. Sarath Paranavitane	None	Director	None	None	None	3
Ven. Thiniyawala Palitha Thero	None	Director	None	None	None	3
Dr. Anil Abeywickrama	None	Director	None	None	None	3
Mrs. R.A.D.U. Rajamantri	None	Director	None	None	None	3
Mr. H.A.C. Siriwardena	None	Director	None	None	None	3
Mr. W. Thanuja L. Weeratne	None	Director	None	None	None	2
Mr. N.J. Munasinghe	None	Director	None	None	None	1
Mr. R. Mohan Wijesinghe	None	Director	None	None	None	1
Mr. Keerthi Kotagama	None	Director	None	None	None	1
Mr. Saadi Wadood	None	Director	None	None	None	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.

** Income non cash benefits derived from Company equivalent to 20% of annual income

*** Employed by Company two years immediately preceding appointment

Board Effectiveness

Training for directors

Newly appointed non-executive directors are apprised of the Group's values and culture, policies and procedures, strategy and the directors' responsibilities in accordance with current legislation. In addition, Directors are encouraged to update their skills and knowledge on a continuous basis, facilitated through the following;

- ① Access to the internal/external auditors
- ① External training sessions
- ① Access to industry experts and other professionals on a frequent basis
- ① Regular updates by the Corporate management team

Governance

Board procedures

All Directors have access to the Group's Company Secretary, Messrs Business Intelligence (Pvt) Ltd., who is responsible for ensuring that Board procedures are followed and that all applicable rules and regulations are complied with. The Board acts in accordance with the applicable laws and regulations. The Board and the Audit Committee receive statements of compliance on recurrent statutory requirements from management on a quarterly basis in this regard.

Access to information

Directors are supplied with timely and comprehensive information required to discharge their duties. Quantitative and qualitative information provided includes monthly financial performance reports, minutes of review meetings and stakeholder relationships which are furnished to all Directors at least 7 days prior to Board/Sub-Committee meetings. Directors also have open access to the Executive management to obtain further information that could be required.

Board appraisal

The Board sets financial and non-financial targets for the CEO at the commencement of each financial year, in line with the Group's strategic objectives of the year. The CEO's performance is monitored on an ongoing basis and a formal appraisal is carried out at least annually by the Board Human Remuneration Committee.

Director's Remuneration

The Group's Remuneration policy is formulated by the Board Remuneration Committee which has put in place a formal and transparent procedure for determining remuneration of the Executive management including the CEO. The Remuneration policy has been designed to ensure that individuals of high caliber are attracted and retained within the Group. The Committee

benchmarks the reward structures of the Group to industry counterparts to ensure that compensation is attractive.

Remuneration for Non-Executive Directors is determined taking into consideration the time commitment, role and responsibilities of each individual Director as well as industry practice. Non-Executive Directors do not receive any performance related payments and their remuneration comprises solely of an allowance for attendance at Board meetings. This is determined by the Board as a whole.

The Remuneration Committee comprises of 3 non-executive directors and their profiles are detailed on pages 82 to 87 of this Report. Please refer the Remuneration Committee Report on page 111 for further details on the Committee's activities during the year under review. The aggregate remuneration paid Non-Executive Directors is disclosed in the Notes to the Financial Statements on page 153 of this Report.

Shareholder engagement

The Annual General Meeting is used as the main platform for engaging with shareholders and is also the main forum of contact between small shareholders and the Board. In using the AGM constructively towards enhancing the Group's relationship with its shareholders, the following procedures are followed;

- ④ Notice of the AGM and all relevant papers are sent to the shareholders at least 15 working days prior to the AGM in accordance with the rules stipulated by the Securities and Exchange Commission.
- ④ Directors of the Board, including Chairmen of Audit and Remuneration Committees are available to clarify any points raised by the shareholders.

- ④ A summary of procedures governing voting at the AGM is provided in the proxy form, which is also circulated to shareholders 15 working days prior to the AGM.

In addition to the AGM, all material and price sensitive information about the Company is promptly communicated to shareholders through the CSE. Communication is also facilitated through the Group's corporate website. There were no transactions which would materially affect the Hospital's performance or assets nor any major related party transactions other than those disclosed on page 154 of this Report.

Accountability and Audit

The Board holds overall responsible for presenting an accurate, balanced and understandable assessment of the Group's financial performance and position. The Group's financial statements are prepared in accordance with the Sri Lanka Financial Reporting Standards laid down by the Institute of Chartered Accountants of Sri Lanka and comply with the requirements of the Companies Act. The Group's Annual Report for 2017 also conforms to the GRI Standards on sustainability reporting, prescribed by the Global Reporting Initiative and the Integrated Reporting Framework published by the International Integrated Reporting Council.

The following specialised information requirements are also included in this Annual Report.

- ④ The Annual Report of the Board of Directors on the Affairs of the Company on pages 104 to 108 of this Report contains the declarations prescribed by the Code
- ④ The Statement of Directors' Responsibility is given on page 109 of this Report.

Governance

Corporate Governance Review contd.

- ④ The Directors' Statement on Internal Controls is given on page 110 of this Report.
- ④ The Independent Auditor's Report on page 116 of this Report.
- ④ In addition, the Management Discussion and Analysis as set out from page 24 to page 73 of this Report, includes the following information specified in the Code of Best Practice
- ④ Industry structure and developments;
- ④ Opportunities and threats;
- ④ Risks and concerns;
- ④ Internal control systems and their adequacy;
- ④ Social and environmental protection activities carried out by the Company;
- ④ Financial performance;
- ④ Material developments in human resource/industrial relations and
- ④ Prospects for the future

Internal controls

The Board is responsible for formulating and implementing a framework of internal controls which ensure that the Group's assets are safeguarded and proper accounting records are maintained. The Board Audit Committee supports the Board in ensuring the adequacy and effectiveness of the Group's internal control systems. Meanwhile, the Internal Audit function conducts independent reviews of the Group's risk management and internal controls on a regular basis. The Director's Report on page 110 includes a declaration on compliance with laws and regulations, review of the internal controls covering risk management and compliance controls and that they have obtained reasonable assurance of their effectiveness and compliance thereof.

Monitoring compliance

The Group has been successful in nurturing a compliance-culture with multiple structures and mechanisms in place to facilitate compliance to statutory and mandatory requirements. The Medical Credentials Committee, Quality Steering Committee and several safety committees are in place to ensure that all procedures are followed to guarantee the highest standard of care.

Audit Committee

The Board has established an Audit Committee comprising 3 Non Executive Independent Directors and information regarding its activities is provided in the Audit Committee Report on page 113. The Terms of Reference of the Audit Committee complies with the recommendations of the Code of Best Practice on Board Audit Committees issued by ICASL and the relevant regulations of the Colombo Stock Exchange. The Group CEO, Group CFO, Group Head of Internal Audit, and representatives of the External auditors are invited to attend Committee meetings.

Messrs. KPMG are the Company's external auditors and key oversight is provided by the Audit Committee, whose primary relationship is with the Committee. The audit fees paid by the Company and Group to its auditors are separately classified in the Notes to the Financial Statements of the Annual Report.

Code of Business Conduct and Ethics

The Chairman of the Board affirms that there was no material violations of any of the provisions of stipulated in the Code of Conduct. In instances where violations did take place, they were investigated

and handled through well established procedures.

Whistleblowing Policy

The Group has a Whistleblowing Policy which encourages employees to report legitimate concerns on potential wrongdoings occurring within the Group. Employees bringing forward such complaints are guaranteed complete confidentiality and such complaints are investigated and addressed through a formalised procedure and brought to the notice of the Chairman of the Audit Committee.

Corporate Governance disclosures

The Board of Directors has taken all reasonable steps to ensure that all financial statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the ICASL and other relevant requirements. The Company and its subsidiaries are fully compliant with all the mandatory rules and regulations stipulated by the Corporate Governance Listing Rules published by the CSE (revised in 2014) and also by the Companies Act No. 07 of 2007. The Group has also given due consideration to the Best Practice on Corporate Governance Reporting guidelines jointly set out by the ICASL and the SEC and has voluntarily adopted the relevant provisions as far as is practicable.

Sustainability reporting

This Annual Report has been prepared in accordance with the Integrated Reporting Framework published by the IIRC and sustainability reporting is in line with the GRI criteria. We also follow a stakeholder model of governance as detailed in Stakeholder Engagement on page 26 of this Report.

Governance

The main Sustainability disclosures prescribed by the Code of Best Practice are as follows;

Disclosure	Page Reference	Compliance
Economic Performance	48	Adopted
The Environment	70	Adopted
Labour Practice	57	Adopted
Society	64	Adopted
Product Service and Responsibility	62	Adopted
Stakeholder identification, engagement and effective communication	26	Adopted
Sustainable Reporting and Disclosure	74	Adopted

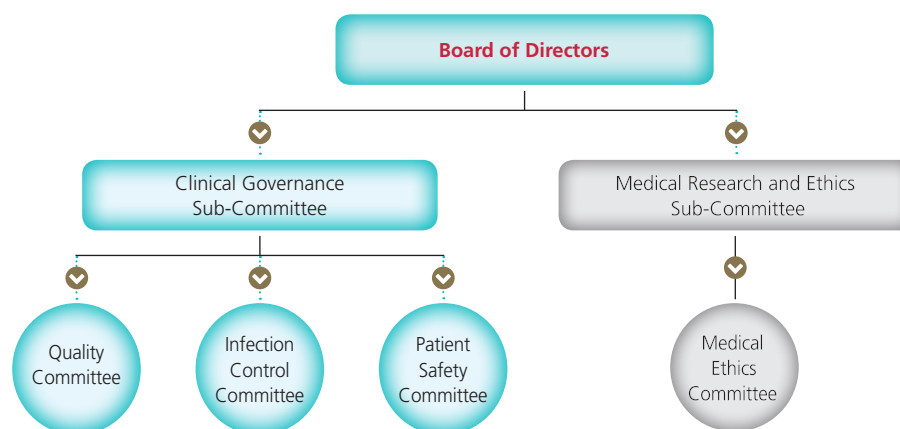
Clinical Governance Review

Lanka Hospital's clinical governance framework is underpinned by a systematic approach to maintaining and improving the standard of patient care in all aspects of our operations. It ensures that employees are responsible for continuously improving the quality of services by adhering to international standards of healthcare, thereby creating an environment which fosters excellence in clinical care. This Report sets out the key components of the Group's clinical governance framework and the progress made during the year under review.

Clinical Governance Framework

A clearly defined governance structure sets out Board and executive level responsibilities for implementing the Group's clinical management strategy. The Clinical Governance Board sub-committee has oversight responsibility in all clinical management aspects and is supported by three executive level committees which are responsible for quality, infection control and patient safety. The Medical Research and Ethics sub-committee at Board level is responsible for addressing value conflicts and ethical dilemmas that may arise when providing care and is supported by an executive level Ethics Committee.

Clinical Governance Structure



The Group's Clinical Governance framework has been developed to comply with the stringent requirements of numerous international standards and accreditations. These include the 6th edition of the JCI Accreditation, MTQA, CAP and relevant ISO standards. A robust policy framework which includes Standard Operating Procedures, Infection Control, Medication Management and Quality Management policies ensure clear guidelines and protocols are in place to guide operational decisions.

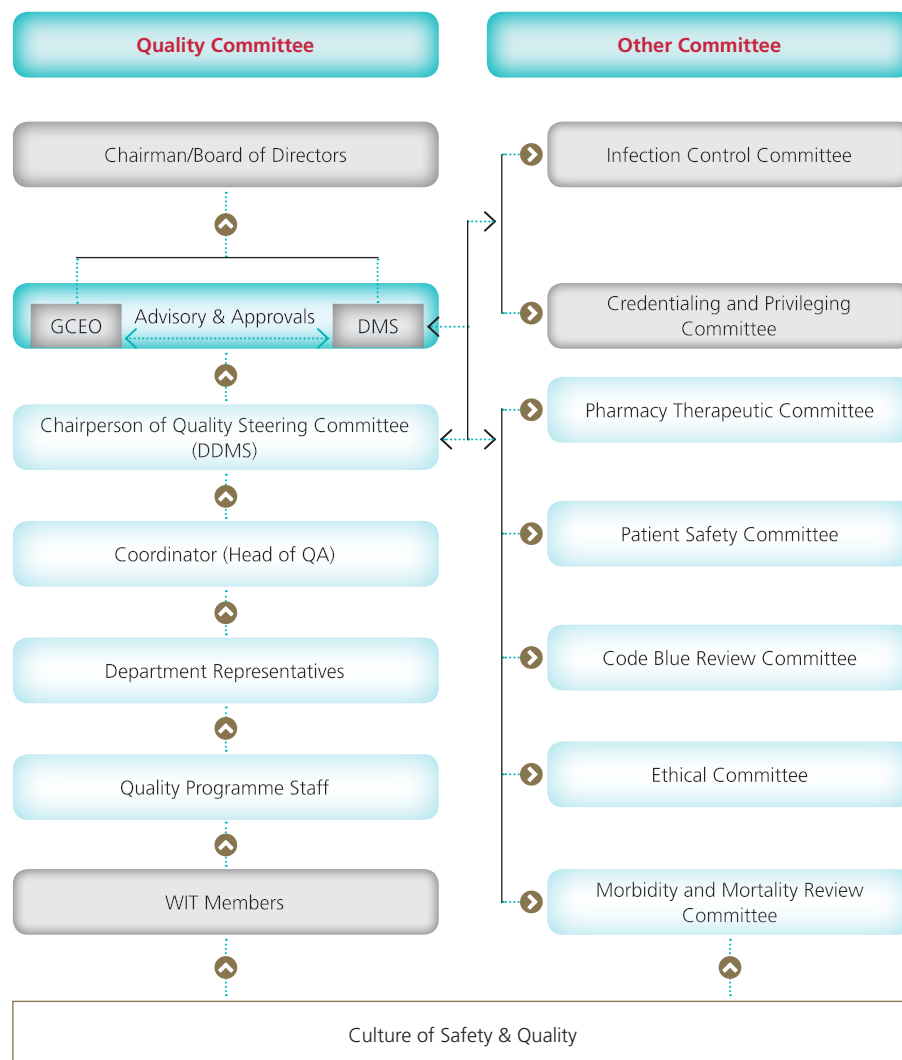
Governance

Corporate Governance Review contd.

The Group's clinical governance is managed through 5 key pillars;

**Quality**

Quality of patient care is of utmost importance to the Group and a dedicated Quality Committee is in place at executive level to oversee the implementation and monitoring of all quality standards within the Hospital. This Committee is supported by several clinical and patient safety committees. Quality is managed through a list of clinical indicators which are reported monthly to the Board, CEO and Director of Medical Services.

The Quality Committee Structure and its relationship with other Committees

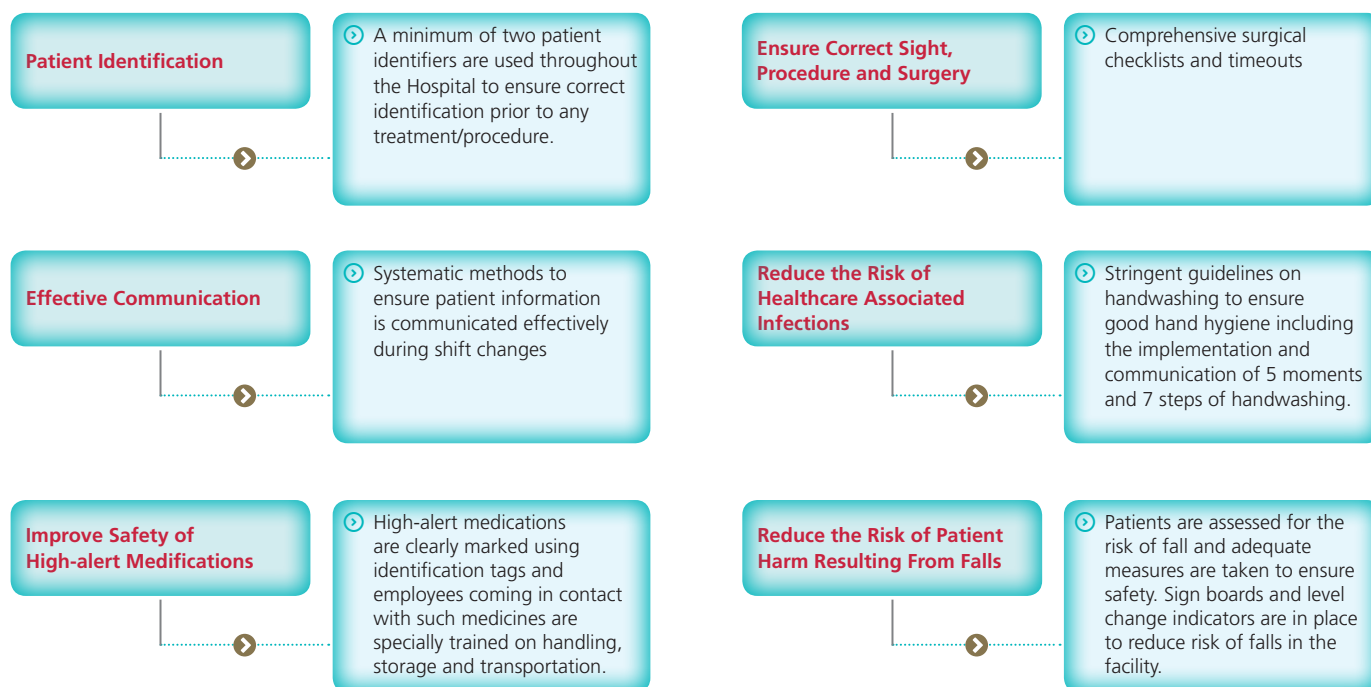
Governance

Audits including facility, medical records and patient safety audits are conducted on a regular basis while, quality training and departmental quality circles have been implemented to nurture a quality-oriented culture within the Organisation. During the year we,

- ④ Obtained reaccreditation of JCI, making us the first hospital in the country to comply with the 6th edition in the first attempt.
- ④ Achieved overall customer satisfaction rates of over 90% consistently during the year
- ④ Strengthened and streamlined the emergency triage processes
- ④ Reviewed and updated the Nursing Policy, Antibiotics Stewardship Policy and Medication Management Framework
- ④ Employee training on new operating procedures and policies

Patient Safety

Patient safety indicators are monitored on an ongoing basis and checklists have been introduced across our operations in accordance with the guidelines of the JCI. Our processes have been designed to ensure that the International Patient Safety Goals are fulfilled, enabling us to identify and address several problematic areas related to patient safety. The 6th edition of JCI calls for more stringent criteria on patient safety, with additional sub-chapters.



Infection Prevention and Control

Systematic mechanisms and dedicated personnel are in place to identify any potential outbreaks in order to reduce the risks of healthcare associated infections in patients and healthcare workers. When infections do occur, immediate steps are taken to contain its possible spread. Stringent guidelines on handwashing are in place to ensure good hygiene including the implementation and communication of 5 moments and 7 steps of handwashing as prescribed by JCI.

Training and Development

The quality of our service delivery is enhanced by engaging employees in ongoing training and development initiatives. We understand the importance of continuously up-skilling our employees to ensure that they are able to deliver new treatment modalities and utilise new technology. The nursing staff undergo on-the-job training as part of the Nursing Diploma provided by the LHNTS.

Governance

Corporate Governance Review contd.

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 12 Directors as at 31 December 2017, 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.	Complied with	The Board comprises of 10 Independent Non- Executive Directors as of 31st December 2017, and 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 pages 94 & 103 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.	Complied with	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 82 to 87 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.
7.10.5	Remuneration Committee	A listed company shall have a Remuneration Committee.	Complied with	Please refer to page 111 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	As of 31st December 2017, the Remuneration Committee comprises three Independent Non Executive Directors and as of the date Annual Report the composition has remains unchanged.
	Chairman of the Remuneration Committee	One Non- Executive Director shall be appointed as Chairman of the committee by the Board.	Complied with	Mr. Asendra Siriwardena functioned as the Chairman of the Committee and he is a Non-Executive Director of the Board.

Governance

Rule No.	Subject	Requirement	Compliance Status	Details
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 111 of this report.
7.10.5 (c)		The annual report shall set out:		
		The names of the Directors that comprise the Remuneration Committee.	Complied with	Please refer to page 111.
		A statement of remuneration policy.	Complied with	Please refer to page 111.
		Aggregate remuneration paid to Executive and Non- Executive Directors.	Complied with	Please refer to page 153.
7.10.6	Audit Committee	A listed company shall have an Audit Committee.	Complied with	Please refer to page 113.
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	As of 31st December 2017 and as of the date of the Annual Report, the Audit Committee comprised three Independent Non- Executive Directors.
		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. Nandana Jayantha Munasinghe 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 Management Accountants and the Chartered Global Management Accountants.
7.10.6 (b)		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 113.

Governance

Corporate Governance Review contd.

Rule No.	Subject	Requirement	Compliance Status	Details
7.10.6 (c)		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 page 113.
		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 page 113.
		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 page 113.

Rule No.	Corporate Governance Principles	Compliance Status	Extent of Adoption by Lanka Hospitals
9.2.1 & 9.2.3	Related Party Transaction Review Committee	Compliant	The functions of the committee are stated in related party transactions review committee report on page 112.
9.2.2	Composition of the Related Party Transaction Review Committee	Compliant	Please refer the related party transaction review committee report on page 112.
9.2.4	Related Party Transactions Review Committee Meetings	Compliant	The Committee met two times during the Financial Year 2017.
9.3.1	Immediate Disclosures	Compliant	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	Compliant	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	Compliant	Please refer to pages 152 to 154.
9.3.2 (c)	Report by the Related Party Transaction Review Committee	Compliant	Refer the Related Party Transactions Review Committee report on page 112.
9.3.2 (d)	A declaration by the Board of Directors	Compliant	Please refer to page 112.

Governance

Composition As at 31st Dec 2017

Name of the Director	Directorship Status
Dr. Sarath Paranavitane	Independent Non Executive
Ven. Thiniyawala Palitha Thero	Independent Non Executive
Mr. Daljit Singh	Non-Independent Non Executive
Dr. Anil Abeywickrama	Independent Non Executive
Mrs. Umashanthiee Rajamantri	Independent Non Executive
Mr. Asendra Siriwardena	Independent Non Executive
Mr. Kalyana Sundaram Srivastava	Non-Independent Non Executive
Mr. Thanuja Lasitha Weeratne	Independent Non Executive
Mr. Nandana Jayantha Munasinghe	Independent Non Executive
Mr. Ranjan Mohan Wijesinghe	Independent Non Executive
Mr. Keerthi Bandara Kotagama	Independent Non Executive
Mr. Saadi Wadood	Independent Non Executive

Composition As at 28th March 2018

Name of the Director	Directorship Status
Dr. Sarath Paranavitane	Independent Non Executive
Ven. Thiniyawala Palitha Thero	Independent Non Executive
Mr. Daljit Singh	Non-Independent Non Executive
Dr. Anil Abeywickrama	Independent Non Executive
Mrs. Umashanthiee Rajamantri	Independent Non Executive
Mr. Asendra Siriwardena	Independent Non Executive
Mr. Kalyana Sundaram Srivastava	Non-Independent Non Executive
Mr. Thanuja Lasitha Weeratne	Independent Non Executive
Mr. Nandana Jayantha Munasinghe	Independent Non Executive
Mr. Ranjan Mohan Wijesinghe	Independent Non Executive
Mr. Keerthi Bandara Kotagama	Independent Non Executive
Mr. Saadi Wadood	Independent Non Executive

Governance

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, 2017 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. This Report was reviewed and approved by the Board of Directors 28th March 2018.

2. Review of Business

2.1 Vision, Mission and Corporate Conduct

LHC's Vision and Mission are given on page 3. 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 high standards of business conduct and ethics.

2.2 Review on Operations of LHC and its Subsidiary

The Group CEO's Review on pages 19 to 21 and the 'Management Discussion and Analysis' on pages 24 to 73 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 was 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 provisioning of state-of-the-art laboratory services with the technical know-how shared from SRL Limited -India. It is the first referral lab in Sri Lanka. Lanka Hospitals Diagnostics (Private) Limited has over 900 collection centres in the main cities and is planning to set up Regional Labs in Galle and Kurunegala.

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 appearing on pages 117 to 163.

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 appearing on page 109.

2.5 Auditors' Report

The Independent Auditors, Messrs KPMG, Chartered Accountants performed the audit on the Consolidated Financial Statements for the year ended December 31, 2017 and the Auditors' Report issued thereon is given on page 116 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 page 165. The Interests Register is available for inspection

Governance

by Shareholders or their authorised 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, 2017, are given in Note 28.2 to the Financial Statements on page 137 and 153.

2.9 Corporate Donations by the Company

During the year, the Company made donations amounting to Rs. 1,409,206.

3. Net Income and Profitability

The net income of the Group for 2017 was Rs. 6.38 Bn (Rs. 5.89 Bn. in 2016), while LHC's net income was Rs. 5.23 Bn (Rs. 4.90 Bn. in 2016). The profit after tax of the Group stood at Rs. 581 Mn (Rs. 972 Mn in 2016), while LHC's profit after tax was Rs. 530 Mn (Rs. 733 Mn in 2016).

4. Dividends and Reserves

4.1 Dividends on Ordinary Shares

The final dividend of Rs. 1/- per share for the year ending 31st December 2016 was paid on 24th May 2017. 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 2016 was Rs. 223,732,169. 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 interim/

final dividend payment 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 120 to 121 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, the details of which are given in Notes 12 to 14 on pages 140 to 147 to the Financial Statements respectively. Capital expenditure approved and contracted for are given in Note 30 to the Financial Statements on page 155 and 156.

6. Market Value of Freehold Properties

The buildings of the Company were revalued by professionally qualified independent valuers as at December 31, 2017, 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 12.2.1 to the Financial Statements on page 144.

7. Stated Capital

The Stated Capital as at 31st December 2017 was Rs. 2,671,543,090/- comprising of 223,732,169 ordinary voting shares (Rs. 2,671,543,090/- as at 31st December 2016 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 '2017 performance and 2018 outlook' on pages 6 to 7 and page 166.

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 'Shareholder and Investor Information' on pages 164 to 166.

10. Distribution Schedule for Shareholdings

Information on the distribution of Shareholdings and the respective percentages are given in the Section on 'Shareholder and Investor Information' on page 166.

11. Directors

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

11.1.1 List of Directors

The Board of Directors of the Company as at December 31, 2017 consisted of Twelve Directors (Eleven Directors as at December 31, 2016) 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 82 to 87.

Governance

Annual Report of the Board of Directors on the Affairs of the Company contd.

Names of the Directors of the Company as at the end of 2017, 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. Sarath Paranavitane	Independent Non-Executive Director
Ven. Thiniyawala Palitha Thero	Independent Non-Executive Director
Mr. Daljit Singh	Non-Independent Non-Executive Director
Dr. Anil Abeywickrama	Independent Non-Executive Director
Mrs. Ranathunge Arachchige Dona Umashanthiee Rajamantri	Independent Non-Executive Director
Mr. Hewakumanayakage Asendra Siriwardena	Independent Non-Executive Director
Mr. Kalyana Sundaram Srivastava	Non-Independent Non-Executive Director
Mr. Weeratnemullagamage Thanuja Lasitha Weeratne	Independent Non-Executive Director
Mr. Nandana Jayantha Munasinghe	Independent Non-Executive Director
Mr. Ranjan Mohan Wijesinghe	Independent Non-Executive Director
Mr. Saadi Wadood	Independent Non-Executive Director
Mr. Keerthi Kotagama	Independent Non-Executive Director

11.1.2 Directors Holding Office in Lanka Hospital Diagnostics (Private) Limited as at 31st December 2017.

Name of the Director

Dr. Sarath Paranavitane
Ven. Thiniyawala Palitha Thero
Prof. Dilani Samarawickrema Lokuhetty
Mr. Hewakumanayakage Asendra Chaminda Siriwardena
Dr. Anil Abeywickrama
Mr. Weeratnemullagamage Thanuja Lasitha Weeratne
Mr. Nandana Jayantha Munasinghe

11.1.3 New Appointments and Resignations

The information on new appointments and resignations to and from the Board of Directors of the Company is given below.

Name of the Director	Appointment	Resignation	Re-Appointment
Prof. Dilani Samarawickrema Lokuhetty	-	09.05.2017 27.10.2017	12.05.2017
Mr. Rohan Lalith Wijesundera	-	09.05.2017	-
Mr. Keith Damien Bernard	-	09.05.2017	-
Dr. Anil Abeywickrama	-	09.05.2017	12.05.2017
Mrs. R.A. Dona Umashanthiee Rajamantri	-	09.05.2017	12.05.2017
Mr. H. Asendra Chaminda Siriwardena	-	09.05.2017	12.05.2017
Mr. Nandana Jayantha Munasinghe	20.03.2017	09.05.2017	12.06.2017
Mr. D.B. Aruna Siriwardhana	12.05.2017	10.10.2017	-
Mr. Ranjan Mohan Wijesinghe	28.06.2017	-	-
Mr. Saadi Wadood	24.10.2017	-	-
Mr. Keerthi Kotagama	24.10.2017	-	-

Governance

11.1.4 Recommendations for Re-election**11.1.4.1 Directors who were appointed to fill casual vacancies**

All the Directors appointed to the Board to fill casual vacancies and 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, Mr. Ranjan Mohan Wijesinghe, Mr. Saadi Wadood and Mr. Keerthi Kotagama who were appointed to the Board subsequent to last Annual General Meeting offer themselves for re-election as Directors of the Company at this Annual General Meeting.

11.1.4.2 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, Ven. Thiniyawala Palitha Thero, Mr. Thanuja Weeratne, Mr. Asendra Chaminda Siriwardena and Mrs. Dona Umashanthiee Rajamantri are subject to retire by rotation and being eligible offer themselves for re-election.

11.1.5 Details of Directors attendance at Directors' meetings are presented on page 93 under Corporate Governance.

11.1.6 Board Sub-Committees.

Audit Committee, Remuneration Committee and Related Party Transaction Review Committee are in place as required by the Listing Rules of the Colombo Stock Exchange. Composition of these Board Sub-

Committees and its functions are presented under the section on Corporate Governance, Audit Committee Report, Remuneration Committee Report and Related Party Transactions Review Committee Report.

11.2 . Disclosure of Directors' Dealing in Shares as at 31st December 2017.

Name of the Director	No of Shares
Dr. Sarath Paranavitane	Nil
Mr. Daljit Singh	Nil
Ven. Thiniyawala Palitha Thero	Nil
Mr. Kalyana Sundaram Srivastava	Nil
Mr. Weeratnemullagamage Thanuja Lasitha Weeratne	Nil
Dr. Anil Abeywickrama	Nil
Mrs. Ranathunge Arachchige Dona Umashanthiee Rajamantri	Nil
Mr. Hewakumanayakage Asendra Chaminda Siriwardena	Nil
Mr. Nandana Jayantha Munasinghe	Nil
Mr. Ranjan Mohan Wijesinghe	Nil
Mr. Saadi Wadood	Nil
Mr. Keerthi Bandara Kotagama	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 153 to 155. 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 2017 are given in Note 08 to the Financial Statements on page 137.

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 review 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.

Annual Report of the Board of Directors on the Affairs of the Company contd.

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 minimises the detrimental effects on the environment within which the Company and the Group operate.

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 31 to the Financial Statements on page 156.

16. Appointment of Auditors

Messrs KPMG, Chartered Accountants retires at this Annual General Meeting. The retiring Auditors, have signified their willingness to continue functioning as the Auditor to the Company. A resolution to re-appoint Messrs KPMG as Auditors and granting authority to the Directors to fix their remuneration will be proposed at this Annual General Meeting. The fees paid to auditors for the statutory audit of the financial year ended 31st December 2017 are disclosed in Note 08 to the Financial

Statements on page 137. As far as the Directors are aware, the Auditors do not have any other relationship or interest in contracts with the Company, or any of its subsidiaries other than being the Auditors for Company's Subsidiary company, Lanka Hospitals Diagnostics (Private) Limited.

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 in each quarter to the Audit Committee.
2. All material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested.
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 29 to the Financial Statement on page 155.

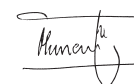
20. Annual General Meeting

The Annual General Meeting of the Company will be held on 9th May 2018 at 2.30pm 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. Sarath Paranavitane
Chairman



Jayantha Munasinghe
Director

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



Business Intelligence (Private) Limited,
Secretaries to the Company,

28th March 2018

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 account of all the 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 of the financial performance of the LHC and the Group for each financial year and place them before a general meeting. The Financial Statements comprise of the Statement of Financial Position as at December 31, 2017, 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 Group Chief Financial Officer, the Officer responsible for their preparation. In

addition, the Financial Statements of the LHC and the Group have been signed by two Directors of the LHC on 28th March 2018 as required by the 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 2017, 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 have been made which are reasonable and prudent.

The Directors also confirm that the underlying books of account 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, 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 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,



Business Intelligence (Private) Limited,
Secretaries to the Company,

28th March 2018

Directors' Statement on Internal Controls

The ensuing statement fulfills the requirement to publish the Directors' Statement on internal control as per the Code of best practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka.

The Board of Directors of Lanka Hospitals PLC holds apex responsibility for maintaining a sound system of internal controls in safeguarding shareholder investments and the Company's assets. The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and Group. Internal controls are also regularly updated in view of emerging changes in the operating landscape and/or regulatory guidelines.

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of Financial Statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements.

The Board has implemented the following mechanisms to obtain assurance that proper systems of internal controls are in place;

- ④ The Audit Committee reviews internal control issues identified by internal auditors, independent auditor and management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. A summary of the Audit Committee proceedings are presented at the Board meetings.
- ④ Multiple committees have been formed to assist the Board in ensuring the effectiveness of Company's operations and the operations are aligned to the Company's strategic agenda and expectations of corporate conduct.
- ④ The adoption of new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2013, processes that are required to comply with new requirements of recognition, measurement, presentation and disclosures were introduced and implemented. Continuous monitoring is in progress to ensure effective implementation of the required processes.

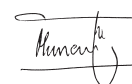
Conclusion

The Board having implemented the above is aware that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatements of loss.

The Board of Directors confirm that the financial reporting system of The Lanka Hospitals Corporation PLC has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with the Sri Lanka Accounting Standards, requirements of the Company's Act no 7 of 2007 and the Listing Rules of the Colombo Stock Exchange



Dr. Sarath Paranavitane
Chairman



Jayantha Munasinghe
Chairman - Audit Committee

28th March 2018

The Board Remuneration Committee Report

Composition of the Committee

The Board appointed Remuneration Committee of the Company comprises of 3 independent, non-executive directors, whose profiles appear on pages 82 to 87 of this Report.

- ① Mr. Asendra Siriwardena- Chairman
- ① Mr. Thanuja Weeratne
- ① Mr. N.J. Munasinghe

The committee has the authority to seek external advice on matters within its purview. The Committee may also call on outside compensation experts as required.

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

Remuneration Policy for Lanka Hospitals

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.

Activities in 2017

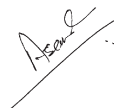
The Remuneration Committee met six times during the year and the proceedings of the meetings have been handed over the Board of Directors in adequate detail. Attendance at Committee meetings is given on page 93 of this Annual Report.

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.

Resignations and the New Appointments to the Committee

Prof. Dilani Lokuhetty and Dr. Rohan Wijesundera have resigned from the Remuneration Committee during the last year, with the appointment of Mr. N.J. Munasinghe.

On behalf of the Committee;



Asendra Siriwardena
Chairman – Remuneration Committee

28th March 2018

Governance

The Board Related Party Transactions Review Committee Report

Composition of the Committee

The Board Related Party Transactions Review Committee consists of independent non-executive directors as recommended by the Code of Best Practice on Related Party Transactions issued by the CSE and by ICASL 2017. The Committee comprises the following directors, whose profiles are given on pages 82 to 87 of this Report.

Mr. Jayantha Munasinghe (IND/NED) – Chairman

Mr. Asendra Siriwardena (IND/NED)

Dr. Anil Abeywickrama (IND/NED)

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

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

Activities in 2017

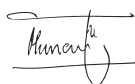
During the year 2017, the RPT transactions & policy was further reviewed and discussed. The Committee met 2 times during the year and the proceedings of the meetings have been handed over the Board of Directors in adequate detail. Attendance at Committee meetings is given on page 93 of this Annual Report.

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

- ④ Insurance services obtained from the Parent Company and payments made thereof
- ④ Services provided and payments made to related parties
- ④ Laboratory services obtained from the subsidiary Company and payments made thereof
- ④ Review of such transactions and determining whether to permit or prohibit the transaction

During the financial year 2017, 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 28 to the financial statements.

On behalf of the Committee;



Jayantha Munasinghe

Chairman - Related Party Transactions Review Committee

28th March 2018

Governance

The Board Audit Committee Report

Composition of the Committee

The Board Audit Committee is appointed by the Board of Directors and comprised of the following independent, non-executive directors at the end of 2017.

Mr. Nandana Jayantha Munasinghe -
Chairman
Mr. Asendra Siriwardena
Dr. Anil Abeywickrama

Profiles of the Audit Committee members are given on pages 82 to 87 of this Report. The Chief Executive Officer, Head of Internal Audit and the Chief Financial Officer attend Audit Committee meetings by invitation and the Company Secretary functions as the Secretary to the Committee.

Mandate and responsibilities

The responsibilities of the Committee are clearly set out in the Charter of the Audit Committee approved by the Board. This Charter is reviewed annually to ensure that any new/emerging developments relating to the Committee's functions are addressed. Primary responsibilities of the Audit Committee include,

- ① 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
- ② Review and ensure the adequacy of Internal Control Systems and Risk Management
- ③ Ensure adherence to all policies and procedures set out by the Board of Directors
- ④ Monitor the independence and performance of Internal and External Audit functions and follow up with the management on their findings and recommendations

Activities in 2017

The Committee convened 5 times during the financial year ending 31st December 2017 and the proceedings of these meetings were regularly reported to the

Board of Directors in adequate detail. Attendance at the Committee meetings is given on page 93 of this Report.

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 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 approach to its 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 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.

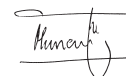
External Audit

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.

In terms of Article 143 of the Company's Articles of Association, KPMG, the present Statutory Auditor of the company stands automatically reappointed as the Statutory Auditor of the Company till the next AGM unless changed in compliance with the provisions of the said Articles.

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.



Jayantha Munasinghe
Chairman - Audit Committee

28th March 2018

Chairman, Group Chief Executive Officer's and Group Chief Financial Officer's Responsibility Statement

The Financial Statements of The Lanka Hospitals Corporation PLC and the Consolidated Financial Statements of the Group as at 31st December 2017 are prepared and presented in compliance with the requirements of the Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka. It also complies with the Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and Listing Rules of the Colombo Stock Exchange. The Corporate Governance narrative complies with the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

Sufficient care has been taken in formulating and implementing systems of internal controls and accounting records, with the objective of safeguarding assets and preventing frauds and other irregularities. These are reviewed and updated on a regular basis. The Audit Committee of the Company meets periodically with the Internal Auditors and the Independent Auditors to review the effectiveness of the audits, and to discuss auditing, internal control and financial reporting issues. The Independent Auditors and the Internal Auditors have full and free access to the Audit Committee to discuss any matter of substance. Reasonable assurances that the established policies and procedures of the Company have been consistently followed were provided

by periodic audits conducted by Group's internal auditors. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The significant accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied, as described in the Notes to the Financial Statements. The significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with the Audit Committee and our External Auditors.

The Financial Statements were audited by independent external auditors, Messers, KPMG, Chartered Accountants, the independent external auditors. Their report is given on page 116 of the Annual Report.

The Audit Committee approves the audit and non-audit services provided by the External Auditor, in order to ensure that the provision of such services does not impair their independence.

We hereby confirm that the Company and its subsidiary have complied with all relevant laws, regulations and prudential requirements and there are no material non-compliances or material litigations that are pending against the Group other than disclosed in the Note 29 to the Financial Statements in this Annual Report.



Dr. Sarath Paranavitane
Chairman



Dr. Prasad Medawatte
Group Chief Executive Officer



Badrajith Siriwardena
Group Chief Financial Officer

28th March 2018

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Financial Calendar 2017 and Proposed Financial Calendar 2018

Submission of the Interim Financial Statements in terms of Rule 7.4 of the Colombo Stock Exchange

	2017 Submitted on	2018 to be Submitted on or Before
For the 3 months ended 31st March (unaudited)	12th May 2017	15th May 2018
For the 3 and 6 months ended 30th June (unaudited)	14th August 2017	15th August 2018
For the 3 and 9 months ended 30th September (unaudited)	14th November 2017	15th November 2018
For the 3 months and year ended 31st December (unaudited)	27th February 2018	28th February 2019

Independent Auditors' Report



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

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Internet : www.kpmg.com/lk

TO THE SHAREHOLDERS OF THE LANKA HOSPITALS CORPORATION PLC

Report on the Financial Statements

We have audited the accompanying financial statements of The Lanka Hospitals 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 December 31, 2017, and the income statement, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 117 to 163 of the annual report.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that

we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Financial Statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of the Group as at December 31, 2017, and of its financial

performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In our opinion:
 - we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
 - the Financial Statements of the Company give a true and fair view of its financial position as at December 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards,
 - and the Financial Statements of the Company, and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

CHARTERED ACCOUNTANTS
Colombo

March 28, 2018

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyrathne FCA	S.T.D.L. Perera FCA
G.A.U. Karunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan ACA		
Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA		
Ms. C.T.K.N. Perera ACA		

Income Statement

For the year ended 31st December,			Group		Company
	Note	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Revenue	5	6,382,058,005	5,886,441,551	5,225,553,083	4,902,083,201
Cost of services		(3,519,256,941)	(3,099,004,248)	(2,936,767,520)	(2,680,769,950)
Gross profit		2,862,801,064	2,787,437,303	2,288,785,563	2,221,313,251
Other income	6	51,981,337	52,543,367	161,467,842	58,468,360
Administrative expenses		(1,549,695,351)	(1,379,606,581)	(1,232,813,576)	(1,116,309,248)
Other operating expenses		(636,519,186)	(561,752,170)	(539,116,222)	(502,043,239)
Change in fair value of investment property		-	-	14,000,000	8,000,000
Finance income	7	193,479,536	182,832,019	142,552,626	157,325,997
Profit before taxation	8	922,047,400	1,081,453,938	834,876,233	826,755,121
Income tax expense	9	(341,197,506)	(109,428,894)	(304,604,482)	(93,371,502)
Profit for the year		580,849,894	972,025,044	530,271,751	733,383,619
Attributable to:					
Equity holders of the company		580,849,894	972,025,044	530,271,751	733,383,619
Earnings per share	10	2.60	4.34	2.37	3.28

The notes form an integral part of these Financial Statements.
The figures shown in brackets indicate deductions.

Financial Reports

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December,	Note	Group		Company	
		2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Profit for the year		580,849,894	972,025,044	530,271,751	733,383,619
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Surplus on revaluation of property, plant and equipment	23	145,407,587	368,955,016	127,310,159	332,095,015
Actuarial gains / (losses) on defined benefit obligations	24	(7,853,157)	5,563,663	(6,768,430)	4,820,259
Deferred tax charge on revaluation surplus	23	(52,553,043)	(44,268,002)	(47,485,763)	(39,844,802)
Effect on deferred tax due to increase in tax rate	23	(268,566,978)	-	(262,660,577)	-
Tax on other comprehensive income	25	2,198,884	(667,639)	1,895,160	(578,431)
Items that are or may be reclassified to profit or loss					
Other comprehensive income/(expense) for the year, (net of tax)		(181,366,707)	329,583,037	(187,709,451)	296,492,041
Total comprehensive income for the year		399,483,187	1,301,608,081	342,562,300	1,029,875,660
Attributable to:					
Equity holders of the parent		399,483,187	1,301,608,081	342,562,300	1,029,875,660

The notes form an integral part of these Financial Statements.
The figures shown in brackets indicate deductions.

Financial Reports

Statement of Financial Position

As at 31st December,	Note	2017 Rs.	Group 2016 Rs.	2017 Rs.	Company 2016 Rs.
ASSETS					
Non-current assets					
Property, plant and equipment	12	4,520,192,810	4,082,879,318	4,126,645,770	3,707,134,116
Intangible assets	13	95,520,181	60,324,099	64,919,468	32,596,152
Investment property	14	-	-	124,000,000	110,000,000
Advance lease premium	15	203,169,008	189,305,932	203,169,008	189,305,932
Investment in subsidiary	16	-	-	414,000,020	414,000,020
		4,818,881,999	4,332,509,349	4,932,734,266	4,453,036,220
Current assets					
Inventories	17	294,734,245	318,869,291	229,990,892	266,626,776
Trade and other receivables	18	551,484,152	498,903,444	493,872,919	455,908,612
Amounts due from related companies	19	6,763,000	3,567,716	143,226,342	100,856,467
Economic Service Charge recoverable		2,763,657	4,310,970	-	-
Other financial assets	20	2,225,856,177	2,028,553,267	1,767,813,585	1,708,553,267
Cash and cash equivalents	21	249,420,585	165,601,181	247,730,886	164,702,029
		3,331,021,816	3,019,805,869	2,882,634,624	2,696,647,151
Total assets		8,149,903,815	7,352,315,218	7,815,368,890	7,149,683,371
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	1,066,204,888	1,284,777,893	996,747,320	1,220,128,576
Retained earnings		2,282,277,858	1,887,953,837	1,978,640,321	1,636,428,933
Total equity		6,020,025,836	5,844,274,820	5,646,930,731	5,528,100,599
Non-current liabilities					
Employee benefit obligations	24	166,551,295	133,612,675	150,614,830	119,668,001
Deferred tax liabilities	25	998,190,212	426,595,105	948,697,360	412,055,759
		1,164,741,507	560,207,780	1,099,312,190	531,723,760
Current liabilities					
Amounts due to related companies	26	23,481,174	24,235,610	4,769,075	4,769,075
Trade and other payables	27	669,823,897	653,625,821	797,415,984	817,952,446
Income tax payable		38,458,806	36,107,993	33,568,315	33,274,297
Bank overdraft	21	233,372,595	233,863,194	233,372,595	233,863,194
		965,136,472	947,832,618	1,069,125,969	1,089,859,012
Total liabilities		2,129,877,979	1,508,040,398	2,168,438,159	1,621,582,772
Total equity and liabilities		8,149,903,815	7,352,315,218	7,815,368,890	7,149,683,371

The notes form an integral part of these Financial Statements.

I certify that the above Financial Statements for the year ended 31st December 2017 are in compliance with the requirements of the Companies Act No 7 of 2007.

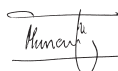


Badrajith Siriwardana
Group Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.
Signed for and on behalf of the Board;



Dr. Sarath Paranavithana
Chairman



Jayantha Munasinghe
Director

28th March, 2018
Colombo

Consolidated Statement of Changes in Equity

	Stated capital Rs.	Revaluation reserve Rs.	Retained earnings Rs.	Total equity Rs.
Balance as at 1st January, 2016	2,671,543,090	994,281,265	1,324,306,720	4,990,131,075
Total comprehensive income for the year				
Profit for the year	-	-	972,025,044	972,025,044
Other comprehensive income	-	-	4,896,024	4,896,024
Surplus on revaluation of Land & buildings	-	368,955,015	-	368,955,015
Depreciation transfer on surplus on revaluation of buildings	-	(34,190,386)	34,190,386	-
Deferred tax impact on depreciation of revalued buildings	-	(44,268,002)	-	(44,268,002)
Transaction with owners of the Group, directly reported in equity				
Dividend	-	-	(447,464,338)	(447,464,338)
Balance as at 31st December, 2016	2,671,543,090	1,284,777,893	1,887,953,837	5,844,274,820
Total comprehensive income for the year				
Profit for the year	-	-	580,849,894	580,849,894
Other comprehensive income	-	-	(5,654,273)	(5,654,273)
Surplus on revaluation of Land & buildings	-	145,407,587	-	145,407,587
Depreciation transfer on surplus on revaluation of buildings	-	(42,860,570)	42,860,570	-
Effect on deferred tax due to rate change	-	(268,566,978)	-	(268,566,978)
Deferred tax impact on revalued land and depreciation of revalued buildings	-	(52,553,043)	-	(52,553,043)
Transaction with owners of the Group, directly reported in equity				
Dividend	-	-	(223,732,169)	(223,732,169)
Balance as at 31st December, 2017	2,671,543,090	1,066,204,888	2,282,277,858	6,020,025,836

The figures shown in brackets indicate deductions.

The notes form an integral part of these Financial Statements.

Statement of Changes in Equity

	Stated capital Rs.	Revaluation reserve Rs.	Retained earnings Rs.	Total equity Rs.
Balance as at 1st January, 2016	2,671,543,090	960,466,514	1,313,679,672	4,945,689,276
Total comprehensive income for the year				
Profit for the year	-	-	733,383,619	733,383,619
Other comprehensive income	-	-	4,241,828	4,241,828
Surplus on revaluation of Land & buildings	-	332,095,015	-	332,095,015
Depreciation transfer on surplus on revaluation of buildings	-	(32,588,151)	32,588,151	-
Deferred tax impact on depreciation of revalued buildings	-	(39,844,802)	-	(39,844,802)
Transaction with owners of the Company, directly reported in equity				
Dividend	-	-	(447,464,338)	(447,464,338)
Balance as at 31st December, 2016	2,671,543,090	1,220,128,576	1,636,428,933	5,528,100,599
Total comprehensive income for the year				
Profit for the year	-	-	530,271,751	530,271,751
Other comprehensive income	-	-	(4,873,270)	(4,873,270)
Surplus on revaluation of Land & buildings	-	127,310,159	-	127,310,159
Depreciation transfer on surplus on revaluation of buildings	-	(40,545,075)	40,545,075	-
Effect on deferred tax due to rate change	-	(262,660,578)	-	(262,660,578)
Deferred tax impact on revalued land and depreciation of revalued buildings	-	(47,485,763)	-	(47,485,763)
Transaction with owners of the Company, directly reported in equity				
Dividend	-	-	(223,732,169)	(223,732,169)
Balance as at 31st December, 2017	2,671,543,090	996,747,320	1,978,640,321	5,646,930,731
Dividend per share - 2017 (Note - 11)				1.00
Dividend per share - 2016 (Note - 11)				2.00

The figures shown in brackets indicate deductions.

The notes form an integral part of these financial statements.

Financial Reports

Statement of Cash Flows

For the year ended 31st December,	2017 Rs.	Group 2016 Rs.	2017 Rs.	Company 2016 Rs.
Cash flow from operating activities				
Profit before taxation	922,047,400	1,081,453,938	834,876,233	826,755,121
Adjustments for:				
Interest income	(149,075,593)	(120,813,244)	(99,154,194)	(95,860,517)
Dividend Income	-	-	(103,500,005)	-
Depreciation on property, plant and equipment	363,205,269	291,875,433	327,248,405	261,007,445
Amortisation of intangible assets	13,012,958	11,374,967	6,988,879	6,016,644
Amortisation of advance lease premium	4,683,472	4,683,472	4,683,472	4,683,472
Net change in fair value of investment property	-	-	(14,000,000)	(8,000,000)
Provision for retiring gratuity	37,521,697	30,280,445	33,186,288	27,051,975
Impairment loss/(gain) on inventories	(4,459,786)	2,031,520	(4,459,786)	2,031,520
Impairment loss on trade receivables	6,860,976	443,505	6,860,976	443,505
Gain on disposal of property, plant and equipment	(1,923,968)	(4,800,000)	(1,923,968)	(4,800,000)
Operating cash flows before working capital changes	1,191,872,424	1,296,530,036	990,806,300	1,019,329,164
(Increase)/decrease in inventories	28,594,832	(48,561,977)	41,095,670	(41,090,135)
Increase in trade and other receivables	(57,798,913)	(65,806,852)	(45,222,779)	(52,464,142)
(Increase)/decrease in amounts due from related companies	(3,195,283)	1,866,152	(42,369,875)	(25,966,299)
Increase/(decrease) in trade and other payables	16,198,076	(6,173,739)	(20,536,462)	(8,672,040)
Decrease in amounts due to related companies	(754,436)	(4,245,327)	-	-
	1,174,916,700	1,173,608,292	923,772,854	891,136,547
Cash generated from operations				
Retiring gratuity paid	(12,436,234)	(9,345,114)	(9,007,889)	(8,738,577)
Income tax paid	(86,172,722)	(59,361,610)	(75,920,043)	(54,212,682)
Net cash inflow from operating activities	1,076,307,744	1,104,901,569	838,844,922	828,185,288
Cash flows from investing activities				
Acquisition of property, plant and equipment	(645,110,439)	(305,554,438)	(609,449,167)	(248,987,752)
Expenditure incurred on capital work in progress	(12,267,617)	(52,437,679)	(12,267,617)	(52,437,679)
Acquisition of intangible assets	(48,209,040)	(8,999,028)	(39,312,195)	(3,061,412)
Proceeds from disposal of property, plant and equipment	4,190,852	4,800,000	4,190,852	4,800,000
Advance lease premium paid	(18,546,548)	(18,546,552)	(18,546,548)	(18,546,552)
Interest income received	148,980,131	117,010,152	99,551,691	97,213,284
Dividend income received	-	-	103,500,005	-
Investment in other financial assets	(197,302,910)	(497,943,244)	(59,260,318)	(227,943,244)
Net cash generated from investing activities	(768,265,571)	(761,670,789)	(531,593,297)	(448,963,355)
Cash flows from financing activities				
Dividend paid	(223,732,169)	(447,464,338)	(223,732,169)	(447,464,338)
Net cash outflow from financing activities	(223,732,169)	(447,464,338)	(223,732,169)	(447,464,338)
Net increase/(decrease) in cash and cash equivalents	84,310,003	(104,233,559)	83,519,456	(68,242,405)
Cash and cash equivalent at the beginning of the year	(68,262,013)	35,971,546	(69,161,165)	(918,760)
Cash and cash equivalent at the end of the period (Note A)	16,047,990	(68,262,013)	14,358,291	(69,161,165)
Note A- Analysis of cash and cash equivalents				
Favourable balances				
Cash in hand and at bank	115,362,723	117,601,181	113,673,024	116,702,029
Short term investments	134,057,862	48,000,000	134,057,862	48,000,000
	249,420,585	165,601,181	247,730,886	164,702,029
Unfavourable balances				
Bank overdrafts	(233,372,595)	(233,863,194)	(233,372,595)	(233,863,194)
Cash and cash equivalents	16,047,990	(68,262,013)	14,358,291	(69,161,165)

The notes form an integral part of these Financial Statements.
The figures shown in brackets indicate deductions.

Notes to the Financial Statements

1. GENERAL INFORMATION

1.1 Reporting entity

- (a) 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.
- (b) 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.

1.2 Consolidated Financial Statements

The consolidated financial statements of the Company as at, and for the year ended 31st December 2017 comprise the financial statements of Company and its subsidiary (together referred to as the "Group")

1.3 Date of authorisation for issue

These consolidated financial statements were authorised for issue by the Board of Directors on, 28th March 2018.

1.4 Principal activities and nature of operations

The principal 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.

1.5 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 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.

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.

2.3 Basis of measurement

The consolidated and separated 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.

These financial statements have been prepared on the basis that the Company and the Group would continue as a going concern for the foreseeable future.

2.4 Functional and presentation currency

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

2.5 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:

2.5.1 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

Notes to the Financial Statements contd.

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 minimizing the use of unobservable inputs.

2.5.2 Useful lives of depreciable assets

Management reviews its estimation of the useful lives of depreciable assets 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.

2.5.3 Business combinations

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.

2.5.4 Defined benefit obligation

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.

2.5.5 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.

2.5.6 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 in assessing the impact of any legal or economic limits or uncertainties in various future tax jurisdictions.

2.5.7 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 valuation 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 categorized 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.

2.6 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 01 on "presentation of Financial Statements".

2.7 Comparative information

The comparative information have been reclassified where necessary to conform to the current year's presentation.

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3. 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.

3.1 Basis of consolidation

3.1.1 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.

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. Such amounts are generally recognised in profit or loss.

3.1.2 Subsidiary

Subsidiary is 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 subsidiary are 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.

The accounting policies of subsidiary is aligned with the policies adopted by the Group.

3.1.3 Non-controlling interest

For each business combination, the group elect to measure any non- controlling 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.

3.1.4 Loss of control

On the loss of control, the Group immediately derecognises the assets 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. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

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

3.1.5 Reporting date

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

3.1.6 Intra-group transactions

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

3.1.7 Transactions eliminated on consolidation

Intra-group balances, transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currencies

3.2.1 Foreign currency transactions

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

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting

date. Non-monetary assets and liabilities denominated in foreign currencies that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the reporting currency at the exchange rate that prevailed at the date the fair value was determined.

Foreign currency differences arising on retranslation are recognised in the income statement, except for differences arising on the retranslation of available for sale equity investments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income.

Foreign currency gains and losses are reported on a net basis in the income statement.

3.3 Financial instruments

Financial assets and financial liabilities are recognised when a Group company becomes a party to the contractual provisions of the instrument.

The classification of financial instruments at initial recognition is dependent on their purpose and characteristics and the management's intention in acquiring them.

Financial instruments are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities other than financial instruments recognised as fair value through profit and loss, are

added to or deducted from the fair value of the financial instruments. Transaction costs, which are insignificant are expensed immediately to the income statement.

3.3.1 Non-derivative financial assets

3.3.1.1 Initial recognition and measurement

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets including assets designated at fair value through profit or loss are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group determines the classification of its financial assets at initial recognition.

3.3.1.1.1 Financial assets at fair value through profit or loss

A financial asset is recognised at fair value through profit or loss, if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are classified as held for trading if they are acquired for the purpose of trading in the near term. Financial assets at fair value through profit or loss are measured at fair value, and any changes therein, are recognised in the income statement.

Attributable transaction costs of fair value through profit or loss financial assets are recognised in the income statement when incurred.

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Financial assets at fair value through profit or loss comprise of its portfolio of investments in treasury bills and treasury bonds.

The Group has not designated any equity instruments in fair value through profit and loss category.

3.3.1.1.2 Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs, if the transaction costs are significant. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest rate method (EIR) less any impairment losses.

Loans and receivables comprise cash and cash equivalents, trade and other receivables.

3.3.1.1.3 Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities until maturity, then such financial assets are classified as held-to-maturity.

Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs if the transaction costs are significant. Subsequent to initial recognition held-to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

During the financial year the Group has not designated any financial assets as held-to-maturity investments.

3.3.1.1.4 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the previous categories of financial assets. Available for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and any changes therein, other than impairment losses and foreign currency differences on available for sale debt instruments, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised the gain or loss accumulated in equity is reclassified to the income statement.

During the financial year the Group has not designated any financial assets as available for sale financial assets.

3.3.1.2 Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that is impaired. A financial asset is impaired if, there is objective evidence as a result of one or more events that has occurred after the initial recognition of the financial asset (an incurred 'loss event') and the estimated future cash flows of the investment have been affected.

3.3.1.2.1 Loans and receivables

The objective evidence of impairment could include significant financial difficulty of the issuer or counter party, breach of contract such as default in interest or principal payments, or it becomes probable that the borrower will enter bankruptcy or financial re organisation.

The Group considers impairment of trade receivables at both a specific significant individual debtor level and collectively. Any Group company which has any individually significant debtors assesses them for specific impairment.

All individually insignificant debtors that are not specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified by grouping them together based on similar risk characteristics. In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred and adjusted for the management's judgment. The carrying amount of the trade receivables is reduced through the use of the bad debt provision account and the amount of the loss is recognised in the income statement. If there is no realistic prospect of future recovery of a debt, the amount is written off.

An impairment loss in respect of other financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. When a subsequent event causes the amount of impairment loss

Notes to the Financial Statements contd.

to decrease, the decrease in impairment loss is reversed through the income statement to the extent that the carrying amount of the financial asset at the date the impairment is reversed, does not exceed what the amortised cost would have been had the impairment not been recognised.

3.3.1.3 Derecognition of financial assets
The Group derecognises a financial asset when;

- The right to receive cash flows from the asset have expired or the entity 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 pass-through arrangement; and either
- The entity has transferred substantially all the risks and rewards of the asset, or
- The entity has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition 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 the consideration received together with receivable and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement.

3.3.2 Non-derivative financial liabilities

3.3.2.1 Initial recognition and measurement
The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

3.3.2.1.1 *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit loss.

Gains or losses on liabilities held for trading are recognised in the income statement.

The Group has not designated any financial liabilities upon initial recognition at fair value through profit or loss.

3.3.2.1.2 *Other financial Liabilities*

All financial liabilities other than those at fair value through profit and loss are classified as other financial liabilities.

All other financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method. The financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts.

3.3.2.2 Derecognition of financial liabilities
The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

3.3.3 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

3.3.4 Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognised at fair value on the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period.

3.3.5 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.

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3.4. Property, plant and equipment**3.4.1 Recognition and measurement**

Items of property, plant and equipment other than land and buildings, are measured at cost less accumulated depreciation and accumulated impairment losses.

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.

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

The Group recognises land and buildings in the statement of financial position at the revalued amount. 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 13 to the financial statements.

3.4.2 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.

3.4.3 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.

3.4.4 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:

Leased assets over the periods of the lease

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.

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3.4.5 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 derecognition of an item of property, plant and equipment is included in profit or loss when item is de recognised.

3.4.6 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.

3.5 Investment properties

3.5.1 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 measured initially at its cost. 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.

Fair value measurement on investment property under construction is only applied if the fair value is considered to be reliably measurable.

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.

Changes in fair values are recognised in the income statement. Investment properties are derecognised when they have been disposed.

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.

3.6 Leases

3.6.1 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 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.

3.6.2 Operating leases

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.

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3.6.3 Determining whether an arrangement contains a lease

At the inception of an arrangement, the Group determines whether such an arrangement is a lease or contains a lease. This will be apparent if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s)

At the inception or on reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those in respect of the lease and those for other elements, on the basis of their relative fair values. In respect of a finance lease, If the Group concludes that it is impractical to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset.

Subsequently as payments are made the liability is reduced and imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

3.7 Intangible assets**3.7.1 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.

3.7.2 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.

3.7.3 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.

3.7.4 Intangible assets recognised by the Group**3.7.4.1 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

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

Notes to the Financial Statements contd.

3.8 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.

3.9 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.

3.9.1 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.

3.9.2 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 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.

3.10 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.

3.11 Provisions

A provision is recognised if, as a result of past events, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not

recognised for future operating losses.

"Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small."

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 recognised as finance cost.

3.12 Employee benefits

3.12.1 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 ex gratia 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.

3.12.2 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.

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3.12.2.1 Employee provident fund and Employee trust fund

The Group contributes a sum not less than 12% of the gross emoluments of employees employed in Sri Lanka as provident fund benefits and 3% as trust fund benefits.

3.12.3 Defined benefit plan – retiring gratuity

A defined benefit plan is a post-employment 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. 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.

3.13 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

3.13.1 Hospital revenue

Revenue from hospital service is recognised at the point of delivering services. Service income is recognised by reference to the stage of completion of the transactions at the end of the reporting period.

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.

3.13.2 Pharmacy revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts. Revenue is recognised when persuasive evidence exists, that the significant risks and rewards of ownership have been transferred to the customer; recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with

the goods, and the amount of revenue can be measured reliably.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

3.13.3 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.

3.13.4 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.

3.14 Expenditure

All expenditure incurred in the running of the business and in maintaining the capital assets in a state of efficiency has been

Notes to the Financial Statements contd.

charged to income statement in arriving at the profit for the year.

3.15 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.

3.15.1 Current Tax

The current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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 10 of 2006 and the amendments thereto.

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.

3.15.2 Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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 income taxes levied by the same authority on the same taxable entity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences will 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 tax benefit will be realised.

3.15.3 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.

3.16 Segment reporting

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.

3.17 Statement of cash flows

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

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.

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.

3.18 Contingencies and capital commitments

Contingencies are possible assets or obligations that arise from a past event and would be confirmed only on the occurrence or non-occurrence of uncertain future events, which not wholly within control of the Group.

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

3.19 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.

3.20 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 Company by the

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weighted average number of ordinary shares outstanding during the period.

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

3.21 Events occurring after the reporting date

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. 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 standards which become effective for annual periods beginning after the current financial year. Accordingly these standards have not been applied in preparing these financial statements. The Company is currently in the process of evaluating the potential effect of adoption of these standards and amendments on its financial statements. Such impact has not been quantified as at the reporting date. The Company will be adopting these standards when they become effective.

- **Sri Lanka Accounting Standard – SLFRS 9 “Financial Instruments”**

effective for annual periods beginning on or after 1st of January 2018.

SLFRS 9 brings together all three aspects of the accounting for the financial instruments i.e. classification and measurement,

impairment and hedge accounting. SLFRS 9 is effective for annual periods beginning on or after 1st January 2018, with early adoption permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting the requirements are generally applied prospectively with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. During the financial year, the Group has performed an impact assessment of all three aspects of SLFRS 9 and determined that its impact on the Financial Statements would be insignificant. This assessment is based on currently available information and may be subject to changes arising from further analysis.

- **Sri Lanka Accounting Standard - SLFRS 15 Revenue from Contracts with Customers**

effective for annual periods beginning on or after 1st of January 2018.

SLFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under SLFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new standard will supersede all current revenue recognition requirements under SLFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1st January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method.

During the year, the Group performed an assessment of SLFRS 15 and determined that its impact on the Financial Statements would be insignificant. This assessment is based on currently available information and may be subject to changes arising from further analysis.

- **Sri Lanka Accounting Standard - SLFRS 16 Leases**

effective for annual periods beginning on or after 1st of January 2019.

SLFRS 16 replaces LKAS 17 Leases and related interpretations. SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under LKAS 17. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

SLFRS 16 is effective for annual periods beginning on or after 1st January 2019. Early application is permitted, but not before an entity applies SLFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Group plans to assess the potential effect of SLFRS 16 on its consolidated Financial Statements.

Notes to the Financial Statements contd.

For the year ended 31st December,	2017 Rs.	Group 2016 Rs.	2017 Rs.	Company 2016 Rs.
5. REVENUE				
Hospital revenue	5,225,553,083	4,902,083,201	5,225,553,083	4,902,083,201
Laboratory services revenue	1,156,504,922	984,358,350	-	-
	6,382,058,005	5,886,441,551	5,225,553,083	4,902,083,201
6. OTHER INCOME				
Rent income	13,403,691	9,715,000	19,442,691	15,655,000
Car park income	35,205,912	32,160,388	35,205,912	32,160,388
Sundry income	1,447,766	5,867,979	1,395,266	5,852,972
Gain on disposal of property, plant and equipment	1,923,968	4,800,000	1,923,968	4,800,000
Dividend Income	-	-	103,500,005	-
	51,981,337	52,543,367	161,467,842	58,468,360
7. FINANCE INCOME				
Interest income from;				
- Call deposit	16,395,675	10,178,812	13,627,887	6,969,543
- Fixed deposits- Sri Lankan Rupees	69,916,107	53,610,268	22,762,497	31,866,808
- Fixed deposits- Foreign Exchange Earners Account (FEEA)	58,376,843	53,429,503	58,376,843	53,429,503
Gain on translation of foreign currency	44,403,943	62,018,773	43,398,431	61,465,480
Gain on disposal / Fair value gain on Unit Trust	2,309,720	3,594,663	2,309,720	3,594,663
Short term deposits - Interest income	2,077,248	-	2,077,248	-
	193,479,536	182,832,019	142,552,626	157,325,997

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8. PROFIT BEFORE TAXATION

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

For the year ended 31st December,	Group		Company	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Directors' remuneration and fees	23,130,000	34,041,600	16,914,000	30,600,000
Auditors' remuneration				
-Statutory audit	1,220,000	1,120,000	860,000	800,000
-Audit related/non audit services	932,511	1,577,500	932,511	1,577,500
Technical service fee	76,321,483	64,662,701	-	-
Amortisation of intangible assets	13,012,958	11,374,967	6,988,879	6,016,644
Impairment loss of trade receivables	6,860,976	443,500	6,860,976	443,500
Impairment /(reversal of provision) of inventories	(4,459,786)	2,031,520	(4,459,786)	2,031,520
Amortisation of advanced lease premium	4,683,472	4,683,472	4,683,472	4,683,472
Legal expenses	4,769,697	10,482,636	4,442,580	10,300,722
Staff cost (note 8.1)	1,843,086,770	1,652,481,280	1,587,389,995	1,438,174,359
Depreciation on property, plant and equipment - cost of services	171,602,303	128,107,458	157,992,581	116,339,156
Depreciation on property, plant and equipment - administrative expenses	191,602,966	163,767,974	169,255,824	144,668,289

8.1 Staff cost**Staff cost under cost of services**

Salaries and other related costs	752,975,880	682,431,081	739,456,152	665,784,531
Defined contribution plan cost - EPF and ETF	44,367,103	40,562,234	43,339,452	39,393,463
Defined benefit plan cost - Retiring gratuity	14,514,486	12,996,163	12,312,887	11,249,366
	811,857,469	735,989,478	795,108,491	716,427,360

Staff cost under administrative expenses

Salaries and other related costs	934,395,303	837,339,239	714,764,963	656,755,105
Defined contribution plan cost - EPF and ETF	73,826,787	61,868,281	56,643,140	49,189,285
Defined benefit plan cost - Retiring gratuity	23,007,211	17,284,282	20,873,401	15,802,609
	1,031,229,301	916,491,802	792,281,504	721,746,999
	1,843,086,770	1,652,481,280	1,587,389,995	1,438,174,359
No of employees	1,784	1,708	1,480	1,456

Notes to the Financial Statements contd.

For the year ended 31st December,	2017 Rs.	Group 2016 Rs.	2017 Rs.	Company 2016 Rs.
9. INCOME TAX EXPENSE				
Recognised in income statement				
Income tax expense				
Taxation on the profit for the year	85,385,717	75,737,777	71,393,025	68,746,813
Under/(over) provision in respect of previous year	3,137,820	(740,010)	4,821,036	(798,439)
	88,523,537	74,997,766	76,214,061	67,948,374
Deferred tax expense				
Origination of temporary difference and effect due to increase in tax rate	252,673,969	34,431,128	228,390,421	25,423,127
	341,197,506	109,428,894	304,604,482	93,371,502
Recognised in statement of profit or loss and other comprehensive income				
Deferred tax expense on temporary difference	318,921,137	44,935,641	308,251,180	40,423,233
	318,921,137	44,935,641	308,251,180	40,423,233
Tax reconciliation statement				
Profit before taxation	922,047,400	1,081,453,938	834,876,233	826,755,121
Consolidation adjustments	121,597,434	10,990,000	-	-
Profit after adjustments	1,043,644,833	1,092,443,938	834,876,233	826,755,121
Less : Income not liable for income tax	(384,496,107)	(367,210,733)	(225,701,406)	(126,489,644)
Allowable expenses	(515,063,729)	(537,541,330)	(515,063,729)	(537,541,330)
Income from other sources	(143,090,133)	(112,613,643)	(93,116,234)	(87,645,915)
Add : Disallowable expense	453,141,584	439,106,698	453,141,584	439,106,698
Business income	454,136,449	514,184,931	454,136,449	514,184,930
Add : Income from other sources	143,090,133	112,613,643	93,116,234	87,645,915
	597,226,582	626,798,573	547,252,683	601,830,845
Less : Qualifying payments	(47,520,769)	(78,160,311)	(47,520,769)	(78,160,311)
Taxable income	549,705,814	548,638,263	499,731,914	523,670,534
Income tax at 12%	51,398,933	58,477,920	51,398,933	58,410,702
Income tax at 28%	33,986,784	17,259,857	19,994,092	10,336,111
Taxation on profits for the year	85,385,717	75,737,777	71,393,025	68,746,813

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9.1 The Lanka Hospitals Corporation PLC is liable to income tax at 12% for the year ended 31st December 2017. In accordance with the Inland Revenue Act No 24 of 2017 which has been legislated and is expected to become effective from 1 April 2018, the Company will be liable to pay income tax at 28% instead of 12% on its profits commencing 1st April 2018. 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.

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	
	2017	2016	2017	2016
Profit attributable to the shareholders (Rs.)	580,849,894	972,025,044	530,271,751	733,383,619
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	4.34	2.37	3.28

11. DIVIDEND PER SHARE

Final dividend (Rs.)	223,732,169	447,464,338	223,732,169	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.)	1.00	2.00	1.00	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 2016	54,945,002	2,365,348,007	1,996,886,663	253,770,055	69,997,615
Additions during the year	-	40,256,698	183,567,814	15,988,411	3,833,188
Revaluation	55,000	111,249,484	-	-	-
Transfer from capital work in progress	-	31,888,746	-	662,550	-
Transfer to intangible assets	-	-	-	-	-
Disposals during the year	-	-	(6,500,381)	-	-
Balance as at 31st December 2016	55,000,002	2,548,742,935	2,173,954,096	270,421,016	73,830,803
Accumulated depreciation					
Balance as at 1st January 2016	-	172,233,052	1,028,614,006	147,102,008	40,886,223
Charge for the year	-	89,340,172	123,363,030	16,204,822	6,891,159
Disposals during the year	-	-	(6,500,381)	-	-
Transfers on revaluation	-	(257,650,530)	-	-	-
Balance as at 31st December 2016	-	3,922,694	1,145,476,656	163,306,830	47,777,381
Carrying amounts as at 31st December 2016	55,000,002	2,544,820,241	1,028,477,440	107,114,187	26,053,422
Cost or valuation					
Balance as at 1st January 2017	55,000,002	2,548,742,935	2,173,954,096	270,421,016	73,830,803
Additions during the year	-	24,004,166	536,027,307	25,065,806	6,401,916
Revaluation	-	38,804,459	-	-	-
Transfer from capital work in progress	-	4,191,374	9,610,638	-	-
Disposals during the year	-	-	(118,404,375)	-	(165,200)
Balance as at 31st December 2017	55,000,002	2,615,742,935	2,601,187,666	295,486,822	80,067,519
Accumulated depreciation					
Balance as at 1st January 2017	-	3,922,694	1,145,476,656	163,306,830	47,777,381
Charge for the year	-	108,448,470	168,656,951	18,423,018	5,163,090
Disposals during the year	-	-	(116,203,571)	-	(99,120)
Transfers on revaluation	-	(106,603,129)	-	-	-
Balance as at 31st December 2017	-	5,768,035	1,197,930,036	181,729,848	52,841,352
Carrying amounts as at 31st December 2017	55,000,002	2,609,974,900	1,403,257,630	113,756,975	27,226,167

12.1.1 Property plant and equipment as at 31st December 2017 includes fully depreciated assets having a gross carrying amount (cost) of Rs. 1.42 Bn (2016- 1.40 Bn) that are still in use.

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Computer equipment Rs.	Other equipment Rs.	Kitchen equipment Rs.	Medical vehicles Rs.	Motor vehicles- Others Rs.	Capital work in progress Rs.	Total Rs.
192,565,355	593,799,851	32,162,381	24,117,956	30,114,961	4,753,148	5,618,460,994
16,454,997	36,071,177	1,482,153	-	7,900,000	52,437,679	357,992,118
-	-	-	-	-	-	111,304,484
-	-	-	-	-	(32,551,296)	-
-	-	-	-	-	(1,699,275)	(1,699,275)
-	-	-	-	-	-	(6,500,381)
209,020,352	629,871,028	33,644,534	24,117,956	38,014,961	22,940,256	6,079,557,940
116,499,146	393,885,620	31,811,606	15,621,257	22,301,183	-	1,968,954,101
21,769,379	25,433,714	1,508,265	4,744,428	2,620,464	-	291,875,433
-	-	-	-	-	-	(6,500,381)
-	-	-	-	-	-	(257,650,530)
138,268,524	419,319,334	33,319,871	20,365,685	24,921,647	-	1,996,678,623
70,751,828	210,551,693	324,663	3,752,271	13,093,314	22,940,256	4,082,879,318
209,020,352	629,871,028	33,644,534	24,117,956	38,014,961	22,940,256	6,079,557,940
14,965,809	37,637,245	1,008,190	-	-	12,267,617	657,378,057
-	-	-	-	-	-	38,804,459
-	11,762,932	-	-	-	(25,564,944)	-
-	(1,556,775)	-	-	-	-	(120,126,350)
223,986,162	677,714,430	34,652,724	24,117,956	38,014,961	9,642,929	6,655,614,106
138,268,524	419,319,334	33,319,871	20,365,685	24,921,647	-	1,996,678,623
22,931,680	33,072,983	(434,963)	2,945,352	3,998,688	-	363,205,269
-	(1,556,775)	-	-	-	-	(117,859,466)
-	-	-	-	-	-	(106,603,129)
161,200,204	450,835,542	32,884,908	23,311,037	28,920,335	-	2,135,421,297
62,785,958	226,878,888	1,767,816	806,919	9,094,626	9,642,929	4,520,192,810

Notes to the Financial Statements contd.

12. PROPERTY, PLANT AND EQUIPMENT

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 2016	54,945,002	2,236,200,818	1,881,881,768	219,077,000	47,815,657
Additions during the year	-	15,550,951	161,634,784	14,886,152	2,732,552
Revaluation	55,000	83,359,484	-	-	-
Transfer from capital work in progress	-	31,888,746	-	662,550	-
Transfer to intangible assets	-	-	-	-	-
Disposals during the year	-	-	(6,500,381)	-	-
Balance as at 31st December 2016	55,000,002	2,367,000,000	2,037,016,171	234,625,702	50,548,209
Accumulated depreciation					
Balance as at 1st January 2016	-	164,685,637	1,012,002,660	142,177,242	38,238,664
Charge for the year	-	83,994,894	111,594,728	12,665,986	4,621,963
Disposals during the year	-	-	(6,500,381)	-	-
Transfers on revaluation	-	(248,680,531)	-	-	-
Balance as at 31st December 2016	-	-	1,117,097,007	154,843,228	42,860,627
Carrying amounts as at 31st December 2016	55,000,002	2,367,000,000	919,919,164	79,782,474	7,687,582
Cost or valuation					
Balance as at 1st January 2017	55,000,002	2,367,000,000	2,037,016,171	234,625,702	50,548,209
Additions during the year	-	24,004,166	528,248,611	14,667,255	2,504,257
Revaluation	-	24,804,459	-	-	-
Transfer from capital work in progress	-	4,191,374	9,610,638	-	-
Disposals during the year	-	-	(118,404,375)	-	(165,200)
Balance as at 31st December 2017	55,000,002	2,420,000,000	2,456,471,044	249,292,956	52,887,266
Accumulated depreciation					
Balance as at 1st January 2017	-	-	1,117,097,007	154,843,228	42,860,627
Charge for the year	-	102,505,700	155,047,229	13,819,444	2,630,855
Disposals during the year	-	-	(116,203,571)	-	(99,120)
Transfers on revaluation	-	(102,505,700)	-	-	-
Balance as at 31st December 2017	-	-	1,155,940,665	168,662,672	45,392,362
Carrying amounts as at 31st December 2017	55,000,002	2,420,000,000	1,300,530,379	80,630,284	7,494,904

The building constructed on leasehold land of the Company was revalued by Mr. A.A.M. Fathihu (FIV), Chartered Valuer 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 2016 on current market value basis.

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Computer equipment Rs.	Other equipment Rs.	Kitchen equipment Rs.	Medical vehicles Rs.	Motor vehicles- Others Rs.	Capital work in progress Rs.	Total Rs.
148,409,514	584,091,610	32,162,381	24,117,956	30,114,961	4,753,148	5,263,569,815
9,825,031	34,976,128	1,482,153	-	7,900,000	52,437,679	301,425,431
-	-	-	-	-	-	83,414,484
-	-	-	-	-	(32,551,296)	-
-	-	-	-	-	(1,699,275)	(1,699,275)
-	-	-	-	-	-	(6,500,381)
158,234,545	619,067,738	33,644,534	24,117,956	38,014,961	22,940,256	5,640,210,075
107,594,703	392,816,474	31,811,606	15,621,257	22,301,183	-	1,927,249,426
14,843,153	24,413,564	1,508,265	4,744,428	2,620,464	-	261,007,445
-	-	-	-	-	-	(6,500,381)
-	-	-	-	-	-	(248,680,531)
122,437,856	417,230,038	33,319,871	20,365,685	24,921,647	-	1,933,075,959
35,796,690	201,837,700	324,663	3,752,271	13,093,314	22,940,256	3,707,134,116
158,234,545	619,067,738	33,644,534	24,117,956	38,014,961	22,940,256	5,640,210,075
7,599,093	31,417,595	1,008,190	-	-	12,267,617	621,716,784
-	-	-	-	-	-	24,804,459
-	11,762,932	-	-	-	(25,564,944)	-
-	(1,556,775)	-	-	-	-	(120,126,350)
165,833,638	660,691,490	34,652,724	24,117,956	38,014,961	9,642,929	6,166,604,968
122,437,856	417,230,038	33,319,871	20,365,685	24,921,647	-	1,933,075,959
15,536,381	31,199,720	(434,963)	2,945,352	3,998,688	-	327,248,405
-	(1,556,775)	-	-	-	-	(117,859,466)
-	-	-	-	-	-	(102,505,700)
137,974,237	446,872,983	32,884,908	23,311,037	28,920,335	-	2,039,959,198
27,859,402	213,818,507	1,767,816	806,919	9,094,626	9,642,929	4,126,645,770

Notes to the Financial Statements contd.

12.2.1 Freehold land carried at revalued amount

Location	Method of valuation	Effective date of revaluation	Property valuer	Extent (Perches)	Significant unobservable input	Carrying amount as at 31.12.2017 Rs.	Revaluation surplus Rs.	Carrying amount at cost Rs.
Hathbodiya, Kirula Road, Narahenpita, Colombo 05	Open market value method	31st December 2016	Mr. A A M Fathihu (FIV), Chartered Valuer	10.35	Estimated price per perch Rs.2,702,702	27,972,975	20,511,975	7,461,000
Hathbodiya, Kirula Road, Narahenpita, Colombo 05	Open market value method	31st December 2016	Mr. A A M Fathihu (FIV), Chartered Valuer	10.00	Estimated price per perch Rs.2,702,702	27,027,027	21,769,876	5,257,151
				20.35		55,000,002	42,281,851	12,718,151

12.2.2 Building on leasehold land carried at revalued amount

Location	Method of valuation	Effective date of revaluation	Property valuer	Significant unobservable input	Cost as at 31.12.2017 Rs.	Cumulative depreciation if assets were carried at cost Rs.	Net carrying value Rs.
578, Elvitigala Mawatha, Colombo 05	Depreciated Replacement Cost method	31st December 2017	Mr. A A M Fathihu (FIV), Chartered Valuer	Estimated value per square foot Rs. 5,000- Rs. 12,500	1,633,142,498	233,849,793	1,399,292,704

12.2.3 Property, plant and equipment as at 31st December 2017 includes fully depreciated assets having a gross carrying amount (cost) of Rs. 1.42 Bn (2016- 1.40 Bn) that are still in use.

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12.2.5 Capital work in progress

As at 31st December,	Balance as at 1.1.2017 Rs.	Additions during the year Rs.	Transfers during the year Rs.	Balance as at 31.12.2017 Rs.
Building on leasehold land	9,414,391	4,419,912	(4,191,374)	9,642,929
Medical equipment	1,762,932	7,847,705	(9,610,638)	-
Other Equipment	11,762,932	-	(11,762,932)	-
	22,940,256	12,267,617	(25,564,944)	9,642,929

As at 31st December,	2017 Rs.	Group 2016 Rs.	2017 Rs.	Company 2016 Rs.
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13. INTANGIBLE ASSETS

Cost

Balance at the beginning of the year	83,384,239	72,685,936	43,471,006	38,710,320
Additions during the year	48,209,040	8,999,028	39,312,195	3,061,412
Transferred from capital work in progress	-	1,699,275	-	1,699,275
Balance as at the end of the year	131,593,279	83,384,239	82,783,201	43,471,006

Accumulated amortisation

Balance at the beginning of the year	23,060,140	11,685,173	10,874,854	4,858,210
Amortisation charge for the year	13,012,958	11,374,967	6,988,879	6,016,644
Balance as at the end of the year	36,073,098	23,060,140	17,863,733	10,874,854

Carrying amount	95,520,181	60,324,099	64,919,468	32,596,152
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Intangible assets include software used by the Group.

Notes to the Financial Statements contd.

As at 31st December,	Group		Company	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
14. INVESTMENT PROPERTY				
Balance at the beginning of the year	-	-	110,000,000	102,000,000
Change in fair value	-	-	14,000,000	8,000,000
Balance as at the end of the year	-	-	124,000,000	110,000,000

Investment property consists of value attributable to 7th floor of the building constructed on leasehold land, which is given on rental to Lanka Hospitals Diagnostics (Private) Limited for a monthly rental of Rs. 495,000/- from 1st November 2015 to 31st October 2017 and from 1st of November 2017 rental of Rs.544,500/-.

Details of 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	124,000,000	31st December 2017

Income on Investment property

for the year ended 31st December,	Company	
	2017 Rs.	2016 Rs.
Rental income	6,039,000	5,940,000

The above building has been revalued by independent qualified valuer on the current replacement cost basis on 31st December 2017, valuation is carried out by Mr. A.A.M. Fathihu (FIV), Chartered Valuer.

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 categorised as a Level 3.

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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	increase (decrease) if: - Depreciation rate was lesser / (higher) - Square foot value was higher / (lesser)

As at 31st December,	2017 Rs.	Group 2016 Rs.	2017 Rs.	Company 2016 Rs.
15. ADVANCE LEASE PREMIUM				
Balance at the beginning of the year	189,305,932	175,442,852	189,305,932	175,442,852
Premium paid during the year	18,546,548	18,546,552	18,546,548	18,546,552
Amortisation during the year	(4,683,472)	(4,683,472)	(4,683,472)	(4,683,472)
Balance as at the end of the year	203,169,008	189,305,932	203,169,008	189,305,932

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. 18,546,548/- 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 2017 a sum of Rs. 158 Mn is payable by 2026. (31 December 2016 - Rs. 176 Mn).

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

As at 31st December,	2017 Rs.	Group 2016 Rs.	2017 Rs.	Company 2016 Rs.
16. INVESTMENT IN SUBSIDIARY				
Lanka Hospitals Diagnostics (Pvt) Ltd				
Balance at the beginning of the year	-	-	414,000,020	414,000,020
Balance as at the end of the year	-	-	414,000,020	414,000,020
16.1 Number of shares				
Balance at the beginning of the year	-	-	41,400,002	41,400,002
Balance as at the end of the year	-	-	41,400,002	41,400,002

Notes to the Financial Statements contd.

As at 31st December,	2017 Rs.	Group 2016 Rs.	2017 Rs.	Company 2016 Rs.
17. INVENTORIES				
Medical items	280,547,430	310,312,478	215,030,954	257,296,841
Non medical items	8,633,255	7,202,388	8,633,255	7,202,388
Engineering stocks	4,229,029	5,181,329	4,229,029	5,181,329
Food and beverages	3,771,806	3,080,156	3,771,806	3,080,156
	297,181,520	325,776,351	231,665,044	272,760,714
Less; Impairment loss on inventories	(2,447,274)	(6,907,060)	(1,674,152)	(6,133,938)
	294,734,245	318,869,291	229,990,892	266,626,776

As at 31st December,	2017 Rs.	Group 2016 Rs.	2017 Rs.	Company 2016 Rs.
18. TRADE AND OTHER RECEIVABLES				
Trade receivables (Note 18.1)	371,376,046	334,588,770	344,075,551	313,946,321
Provision for impairment loss of trade receivables	(29,359,747)	(22,498,771)	(29,359,747)	(22,498,771)
	342,016,299	312,089,999	314,715,804	291,447,550
Deposits and prepayments	88,266,631	50,237,732	70,862,861	37,064,273
Advances and other receivables	84,649,710	100,119,660	78,249,304	96,954,342
Interest income receivable	36,551,512	36,456,053	30,044,950	30,442,447
	551,484,152	498,903,444	493,872,919	455,908,612

18.1 Trade receivables

Trade receivable - Sri Lanka Insurance Corporation Limited	31,250,339	24,810,018	27,941,521	22,186,100
Trade receivable - Other debtors	286,108,490	276,619,661	262,116,813	258,601,130
Patients not yet discharged	54,017,217	33,159,091	54,017,217	33,159,091
	371,376,046	334,588,770	344,075,551	313,946,321

19. AMOUNTS DUE FROM RELATED COMPANIES

Sri Lanka Insurance Corporation Limited	6,763,000	3,567,716	6,763,000	3,567,716
Lanka Hospitals Diagnostics (Pvt) Ltd	-	-	136,463,342	97,288,750
	6,763,000	3,567,716	143,226,342	100,856,467

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As at 31st December,	2017 Rs.	Group 2016 Rs.	2017 Rs.	Company 2016 Rs.
20. OTHER FINANCIAL ASSETS				
Fixed deposits- Foreign Exchange Earners Account (FEEA)	1,242,813,585	1,379,958,604	1,242,813,585	1,379,958,604
Fixed deposits- Sri Lankan Rupees	983,042,592	520,000,000	525,000,000	200,000,000
Unit Trust	-	128,594,663	-	128,594,663
	2,225,856,177	2,028,553,267	1,767,813,585	1,708,553,267

21. CASH AND CASH EQUIVALENTS**Favourable balance**

Repo	134,057,862	48,000,000	134,057,862	48,000,000
Cash in hand and at bank	115,362,723	117,601,181	113,673,024	116,702,029
	249,420,585	165,601,181	247,730,886	164,702,029

Unfavourable balance

Bank overdraft	(233,372,595)	(233,863,194)	(233,372,595)	(233,863,194)
Cash and cash equivalents for the purpose of statement of cash flow	16,047,990	(68,262,013)	14,358,291	(69,161,165)

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
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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,	2017 Rs.	Group 2016 Rs.	2017 Rs.	Company 2016 Rs.
23. REVALUATION RESERVE				
Balance at the beginning of the year	1,284,777,893	994,281,265	1,220,128,576	960,466,514
Surplus on revaluation of Leasehold Building & Freehold Land	145,407,587	368,955,015	127,310,159	332,095,015
Effect on deferred tax due to increase in tax rate	(268,566,978)	-	(262,660,578)	-
Depreciation transfer on revaluation of building	(42,860,570)	(34,190,386)	(40,545,075)	(32,588,151)
Deferred tax impact on revalued land and depreciation of revalued buildings	(52,553,043)	(44,268,002)	(47,485,763)	(39,844,802)
Balance as at the end of the year	1,066,204,888	1,284,777,893	996,747,320	1,220,128,576

Notes to the Financial Statements contd.

24. EMPLOYEE BENEFIT OBLIGATIONS

24.1 Description of the post employment defined benefit plan

A defined benefit plan is a post employment 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,	2017 Rs.	Group 2016 Rs.	2017 Rs.	Company 2016 Rs.
24.2 Movement in defined benefit obligations				
Balance as at 1st January	133,612,675	118,241,007	119,668,001	106,174,862
Included in income statement				
Current service cost	22,824,303	19,047,549	20,022,808	16,965,363
Interest cost	14,697,394	11,232,896	13,163,480	10,086,612
	37,521,697	30,280,445	33,186,288	27,051,975
Included in other comprehensive income				
Actuarial (gain)/ loss recognised	7,853,157	(5,563,663)	6,768,430	(4,820,259)
	7,853,157	(5,563,663)	6,768,430	(4,820,259)
Employee benefits paid	(12,436,234)	(9,345,114)	(9,007,889)	(8,738,577)
	(12,436,234)	(9,345,114)	(9,007,889)	(8,738,577)
Balance as at 31st December	166,551,295	133,612,675	150,614,830	119,668,001

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 following key assumptions were made in arriving the above figure.

As at 31st December,	2017	Group 2016	2017	Company 2016
24.3 Actuarial assumptions				
The following were the principal actuarial assumptions at the reporting date				
Discount rate	11%	11%	11%	11%
Future salary growth	10%	10%	10%	10%
Retirement age	60 Years	60 Years	60 Years	60 Years

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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.

As at 31st December,	Group		Company	
	2017	2016	2017	2016
Change in:	+1%	+1%	+1%	+1%
	Rs.	Rs.	Rs.	Rs.
Discount rate	(9,213,153)	(6,172,907)	(7,787,847)	(5,271,106)
Future salary growth	11,128,302	7,439,946	9,391,627	6,888,758
Change in:	-1%	-1%	-1%	-1%
	Rs.	Rs.	Rs.	Rs.
Discount rate	10,348,772	6,833,461	8,715,695	6,348,337
Future salary growth	(10,043,585)	(6,832,836)	(8,530,393)	(6,311,185)

25. DEFERRED TAX LIABILITIES**25.1 Group****25.1.1 Recognised deferred tax assets and liabilities**

	Net Balance as at 1st January 2017 Rs.	Recognised in profit or loss Rs.	Recognised in OCI Rs.	Net balance at 31st December 2017 Rs.	Deferred tax liability Rs.	Deferred tax asset Rs.
Property, plant and equipment	440,951,839	276,469,165	321,120,021	1,038,541,025	1,038,541,025	-
Employee benefits	(16,033,520)	(28,705,681)	(2,198,884)	(46,938,085)	-	(46,938,085)
Intangible assets	1,676,786	5,580,236	-	7,257,023	7,257,023	-
Impairment loss on inventory	-	1,251,323	-	1,251,323	1,251,323	-
Impairment loss on trade receivables	-	(1,921,073)	-	(1,921,073)	-	(1,921,073)
	426,595,105	252,673,969	318,921,137	998,190,212	1,047,049,371	(48,859,159)
	Net Balance as at 1st January 2016 Rs.	Recognised in profit or loss Rs.	Recognised in OCI Rs.	Net balance at 31st December 2016 Rs.	Deferred tax liability Rs.	Deferred tax asset Rs.
Property, plant and equipment	360,953,309	35,730,528	44,268,002	440,951,839	440,951,839	-
Employee benefits	(14,188,920)	(2,512,240)	667,639	(16,033,520)	-	(16,033,520)
Intangible assets	1,136,943	539,843	-	1,676,786	1,676,786	-
Impairment loss on inventory	(100,445)	100,445	-	-	-	-
Impairment loss on trade receivables	(572,552)	572,552	-	-	-	-
	347,228,336	34,431,128	44,935,641	426,595,105	442,628,625	(16,033,520)

Notes to the Financial Statements contd.

25. DEFERRED TAX LIABILITIES

25.2 Company

25.2.1 Recognised deferred tax assets and liabilities

	Net Balance as at 1st January 2017 Rs.	Recognised in profit or loss Rs.	Recognised in OCI Rs.	Net balance at 31st December 2017 Rs.	Deferred tax liability Rs.	Deferred tax asset Rs.
Property, plant and equipment	424,739,133	237,667,567	310,146,341	972,553,040	972,553,040	-
Investment property	-	11,729,200	-	11,729,200	11,729,200	-
Employee benefits	(14,360,159)	(25,916,832)	(1,895,160)	(42,172,152)	-	(42,172,152)
Intangible assets	1,676,786	5,580,236	-	7,257,023	7,257,023	-
Impairment loss on inventory	-	1,251,323	-	1,251,323	1,251,323	-
Impairment loss on trade receivables	-	(1,921,073)	-	(1,921,073)	-	(1,921,073)
	412,055,759	228,390,421	308,251,180	948,697,360	992,790,585	(44,093,225)

	Net Balance as at 1st January 2016 Rs.	Recognised in profit or loss Rs.	Recognised in OCI Rs.	Net balance at 31st December 2016 Rs.	Deferred tax liability Rs.	Deferred tax asset Rs.
Property, plant and equipment	358,423,454	26,470,876	39,844,802	424,739,133	424,739,133	-
Investment property	62,981	(62,981)	-	-	-	-
Employee benefits	(12,740,983)	(2,197,608)	578,431	(14,360,159)	-	(14,360,159)
Intangible assets	1,136,943	539,843	-	1,676,786	1,676,786	-
Impairment loss on inventory	(100,445)	100,445	-	-	-	-
Impairment loss on trade receivables	(572,552)	572,552	-	-	-	-
	346,209,399	25,423,127	40,423,233	412,055,759	426,415,919	(14,360,159)

	Group		Company	
As at 31st December,	2017 Rs.	2016 Rs.	2017 Rs.	2016 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	18,712,099	19,466,535	-	-
	23,481,174	24,235,610	4,769,075	4,769,075

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As at 31st December,	2017 Rs.	Group 2016 Rs.	2017 Rs.	Company 2016 Rs.
27. TRADE AND OTHER PAYABLES				
Trade payables (Note 27.1)	283,842,595	285,661,543	450,535,353	482,199,165
Other payables				
- Accrued expenses	97,217,862	95,262,130	92,436,862	90,880,025
- Advance received	70,423,489	47,400,892	70,133,224	47,110,626
- Economic Service Charge payable	306,237	3,090,370	-	-
- Withholding tax payable	1,965,259	3,587,291	39,919	39,919
- Others	216,068,455	218,623,595	184,270,627	197,722,711
	669,823,897	653,625,821	797,415,984	817,952,446
27.1 Trade payables				
Trade payables - Lanka Hospitals Diagnostics (Pvt) Ltd	-	-	219,354,552	270,543,825
Trade payables - Other creditors	283,842,595	285,661,543	231,180,801	211,655,340
	283,842,595	285,661,543	450,535,353	482,199,165

28. RELATED PARTY TRANSACTIONS**28.1 Identify of the related parties**

The Company has a related party relationship with Sri Lanka Insurance Corporation Limited, Lanka Hospitals Diagnostics (Private) Limited and Super Religare Laboratories Limited.

28.2 Transactions with the Key Management Personnel

Key Management Personnel include the members of the Board of Directors of the Company. The compensation of Key Management Personnel for the year ended 31st December 2017 amounted to Rs. 16,914,000/- (2016 - Rs. 30,600,000/-) and the professional fee earned from providing professional services to the company by key management personnel amounted to Rs. 5,927,296/-.

Notes to the Financial Statements contd.

28.3 Transactions with Related Entities

Company	Relationship	Details of Transactions	Transactions during the year Rs.	Balance as at 31st December 2017 (Payable)/ Receivable Rs.	Balance as at 31st December 2016 (Payable)/ Receivable Rs.
Sri Lanka Insurance Corporation Limited	Parent Company	Services provided	125,374,825	27,941,521	22,186,100
		Amounts Received	(119,619,404)		
		Premiums paid for the insurance policy on fire, vehicle, professional indemnity, staff insurance, general insurance and vehicle hiring charges	26,725,815	(4,769,075)	(4,769,075)
		Amounts Paid	(26,725,815)		
		Services provided by the company including Auditorium hiring and food and beverage services other medical services	16,882,408	6,763,000	3,567,716
Lanka Hospitals Diagnostics (Private) Limited (LHD)	Subsidiary Company	Reimbursement of expenses and the rent income received/receivable by the Company	64,174,592	136,463,342	97,288,750
		Amounts Received	(25,000,000)		
		Services provided	(668,810,727)	(219,354,552)	(270,543,825)
		Amounts Paid	720,000,000		
Super Religare Laboratories Limited	Subsidiary Company of Fortis Global Healthcare Holdings Pte Limited	Technical services provided to LHD	(76,321,483)	(18,712,099)	(19,466,535)
		Test charges from LHD	(9,090,000)		
		Amounts Paid	86,165,919		

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29. CONTINGENT LIABILITIES

Pending litigations against The Lanka Hospitals Corporation PLC with a maximum liability of Rs. 202 Mn exist as at the reporting date. Based on the information currently available the management is of the view that 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.

30. CAPITAL COMMITMENTS

30.1 The following commitments for capital expenditure approved by the Directors as at 31st December have not been provided for in the financial statements.

As at 31st December,	2017 Rs.	2016 Rs.
Approximate amount approved but not contracted for	-	-
Approximate amount contracted for but not incurred	157,645,658	176,192,206

30.2 The Company has entered into a 99 years lease agreement with the Urban Development Authority. In terms of this agreement annual lease premium payable are as follow.

	Annual lease premiums (Excluding taxes) Rs.
1999 to 2003	9,273,274
2004 to 2025	18,546,548
2026	9,273,274

The future aggregate minimum lease payments under non cancellable operating lease by 2026 as follows:

As at 31st December,	Group/Company 2017 Rs.	2016 Rs.
Within one year	18,546,548	18,546,548
One year to five years	74,186,192	74,186,192
After 5 years	64,912,918	83,459,466

Notes to the Financial Statements contd.

30.3 Lanka Hospitals Diagnostics (Private) Limited is committed to make a minimum investment of Rs. 500,000,000/- in project fixed assets to get the entitlement for a tax exemption period of seven years. The Company has invested Rs. 413,819,215/- in fixed assets as of 31 st December 2017 and the balance commitment amounting to Rs. 86,180,785/- to be fulfilled.

31. EVENTS OCCURRING AFTER THE REPORTING DATE

The Board of Directors of the Company has declared an interim dividend of LKR 1.00 per share for the financial year 31st December 2017 on 23rd February 2018. As required by section 56 (2) of the Companies Act No. 07 of 2007, the Board of Directors has confirmed that the Company satisfies the solvency test in accordance with section 57 of the Companies Act No.07 of 2007.

In accordance with LKAS 10, Events after the reporting period, the aforesaid dividend has not been recognised as a liability in the financial statements as at 31st December 2017.

No circumstances have arisen since the reporting date which require adjustments to or disclosure in the financial statements other than mentioned above.

32. RECLASSIFICATION OF COMPARATIVE FIGURES FOR INCOME STATEMENT, PROFIT AND OTHER COMPREHENSIVE INCOME AND THE STATEMENTS OF EQUITY CHANGES FOR THE YEAR.

32.1 Administrative expenses reclassification under direct cost - Group & Company

For the better presentation, the management has decided to reclassify the Consultant fees under cost of services which was previously classified in administrative expenses. The amounts reclassified for 2017 Rs. 99,300,000/- and for 2016 was Rs. 72,880,968/-.

33. SEGMENT REPORTING

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

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 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 cashflow originating from a financial instrument being different to the expected cashflow. 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. 1,242,813,585/- (USD 8,213,691) . 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.

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 recognised 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.

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.

34.3 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.

Notes to the Financial Statements contd.

The table below summarises financial liabilities of the company.

As at 31st December,	Group		Company	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Cash in hand and at bank	249,420,585	165,601,181	247,730,886	164,702,029
Trade and other receivables within 30 days	129,482,016	109,408,872	102,181,521	97,298,478
Short term deposits	2,225,856,177	2,028,553,267	1,767,813,585	1,708,553,267
Total liquid assets	2,604,758,778	2,303,563,319	2,117,725,992	1,970,553,774
Less;				
Bank overdraft	233,372,595	233,863,194	233,372,595	233,863,194
Trade payables on demand	283,842,595	285,661,543	450,535,353	482,199,165
Other payables on demand	385,675,065	367,964,277	346,880,631	335,753,281
Total demand liabilities	902,890,254	887,489,015	1,030,788,579	1,051,815,640
Excess liquidity through operating cycle	1,701,868,523	1,416,074,304	1,086,937,413	918,738,134

34.4 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.

As at 31st December,	Group				Company			
	2017 Rs.	Exposure %	2016 Rs.	Exposure %	2017 Rs.	Exposure %	2016 Rs.	Exposure %
Trade and other receivables	551,484,152	18%	498,903,444	19%	493,872,919	19%	455,908,612	20%
Other financial assets	2,225,856,177	74%	2,028,553,267	75%	1,767,813,585	71%	1,708,553,267	73%
Cash and cash equivalents	249,420,585	8%	165,601,181	6%	247,730,886	10%	164,702,029	7%
Total	3,026,760,913	100%	2,693,057,891	100%	2,509,417,389	100%	2,329,163,908	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 minimise 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.

Notes to the Financial Statements contd.

36. 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 LKAS 39- Financial Instruments : Recognition and measurement under headings reported in the Statement of Financial Position and related fair value hierarchy.

Group

As at 31st December 2017	Held to maturity Rs.	Fair value through profit or loss Rs.	Available for sale Rs.	Loans and receivables Rs.	Other financial liabilities Rs.
Non-financial assets					
Property, plant and equipment					
Freehold land	-	-	-	-	-
Leasehold building	-	-	-	-	-
Investment property	-	-	-	-	-
Total non-financial assets	-	-	-	-	-
Financial assets					
Trade and other receivables	-	-	-	551,484,152	-
Other financial assets	-	-	-	2,225,856,177	-
Cash and cash equivalents	-	-	-	249,420,585	-
Total financial assets	-	-	-	3,026,760,914	-
Financial liabilities					
Trade and other payables	-	-	-	-	669,823,897
Bank overdraft	-	-	-	-	233,372,595
Total financial liabilities	-	-	-	-	903,196,492
As at 31st December 2016					
Non-financial assets					
Property, plant and equipment					
Freehold land	-	-	-	-	-
Leasehold building	-	-	-	-	-
Total non-financial assets	-	-	-	-	-
Financial assets					
Trade and other receivables	-	-	-	498,903,444	-
Other financial assets	-	128,594,663	-	1,899,958,604	-
Cash and cash equivalents	-	-	-	165,601,181	-
Total financial assets	-	128,594,663	-	2,564,463,229	-
Financial liabilities					
Trade and other payables	-	-	-	-	653,625,821
Bank overdraft	-	-	-	-	233,863,194
Total financial liabilities	-	-	-	-	887,489,015

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Non financial asset Rs.	Total carrying amount Rs.	Fair Value Rs.	Fair Value			Total Rs.
			Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	
55,000,002	55,000,002	55,000,002	-	55,000,002	-	55,000,002
2,609,974,900	2,609,974,900	2,609,974,900	-	2,609,974,900	-	2,609,974,900
-	-	-	-	-	-	-
2,664,974,902	2,664,974,902	2,664,974,902	-	2,664,974,902	-	2,664,974,902
-	551,484,152	551,484,152	-	-	-	551,484,152
-	2,225,856,177	2,225,856,177	-	-	-	2,225,856,177
-	249,420,585	249,420,585	-	-	-	249,420,585
-	3,026,760,914	3,026,760,914	-	-	-	3,026,760,914
-	669,823,897	669,823,897	-	-	-	669,823,897
-	233,372,595	233,372,595	-	-	-	233,372,595
-	903,196,492	903,196,492	-	-	-	903,196,492
55,000,002	55,000,002	55,000,002	-	55,000,002	-	55,000,002
2,544,820,241	2,544,820,241	2,544,820,241	-	2,544,820,241	-	2,544,820,241
2,599,820,243	2,599,820,243	2,599,820,243	-	2,599,820,243	-	2,599,820,243
-	498,903,444	498,903,444	-	-	-	498,903,444
-	2,028,553,267	2,028,553,267	128,594,663	-	-	2,028,553,267
-	165,601,181	165,601,181	-	-	-	165,601,181
-	2,693,057,892	2,693,057,892	128,594,663	-	-	2,693,057,892
-	653,625,821	653,625,821	-	-	-	653,625,821
-	233,863,194	233,863,194	-	-	-	233,863,194
-	887,489,015	887,489,015	-	-	-	887,489,015

Notes to the Financial Statements contd.

36. 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 LKAS 39- Financial Instruments:

Recognition and measurement under headings reported in the Statement of Financial Position and related fair value hierarchy.

Company

As at 31st December 2017	Held to maturity	Fair value through profit or loss	Available for sale	Loans and receivables	Other financial liabilities
	Rs.	Rs.	Rs.	Rs.	Rs.
Non-financial assets					
Property, plant and equipment					
Freehold land	-	-	-	-	-
Leasehold building	-	-	-	-	-
Investment property	-	-	-	-	-
Total non-financial assets	-	-	-	-	-
Financial assets					
Trade and other receivables	-	-	-	493,872,919	-
Other financial assets	-	-	-	1,767,813,585	-
Cash and cash equivalents	-	-	-	247,730,886	-
Total financial assets	-	-	-	2,509,417,389	-
Financial liabilities					
Trade and other payables	-	-	-	-	797,415,984
Bank overdraft	-	-	-	-	233,372,595
Total financial liabilities	-	-	-	-	1,030,788,579
As at 31st December 2016					
Non-financial assets					
Property, plant and equipment					
Freehold land	-	-	-	-	-
Leasehold building	-	-	-	-	-
Investment property	-	-	-	-	-
Total non-financial assets	-	-	-	-	-
Financial assets					
Trade and other receivables	-	-	-	455,908,612	-
Other financial assets	-	128,594,663	-	1,579,958,604	-
Cash and cash equivalents	-	-	-	164,702,029	-
Total financial assets	-	128,594,663	-	2,200,569,245	-
Financial liabilities					
Trade and other payables	-	-	-	-	817,952,446
Bank overdraft	-	-	-	-	233,863,194
Total financial liabilities	-	-	-	-	1,051,815,640

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Non financial asset	Total carrying amount	Fair Value	Fair Value			Total
			Level 1	Level 2	Level 3	
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
55,000,002	55,000,002	55,000,002		55,000,002	-	55,000,002
2,420,000,000	2,420,000,000	2,420,000,000	-	2,420,000,000	-	2,420,000,000
124,000,000	124,000,000	124,000,000	-	-	124,000,000	124,000,000
2,599,000,002	2,599,000,002	2,599,000,002	-	2,475,000,002	124,000,000	2,599,000,002
-	493,872,919	493,872,919	-	-	-	493,872,919
-	1,767,813,585	1,767,813,585	-	-	-	1,767,813,585
-	247,730,886	247,730,886	-	-	-	247,730,886
-	2,509,417,389	2,509,417,389	-	-	-	2,509,417,389
-	797,415,984	797,415,984	-	-	-	797,415,984
-	233,372,595	233,372,595	-	-	-	233,372,595
-	1,030,788,579	1,030,788,579	-	-	-	1,030,788,579
55,000,002	55,000,002	55,000,002	-	55,000,002	-	55,000,002
2,367,000,000	2,367,000,000	2,367,000,000	-	2,367,000,000	-	2,367,000,000
110,000,000	110,000,000	110,000,000	-	-	110,000,000	110,000,000
2,532,000,002	2,532,000,002	2,532,000,002	-	2,422,000,002	110,000,000	2,532,000,002
-	455,908,612	455,908,612	-	-	-	455,908,612
-	1,708,553,267	1,708,553,267	128,594,663	-	-	1,708,553,267
-	164,702,029	164,702,029	-	-	-	164,702,029
-	2,329,163,908	2,329,163,908	128,594,663	-	-	2,329,163,908
-	817,952,446	817,952,446	-	-	-	817,952,446
-	233,863,194	233,863,194	-	-	-	233,863,194
-	1,051,815,640	1,051,815,640	-	-	-	1,051,815,640

Shareholder and Investor Information

Top 20 Shareholding as at 31st December 2017

Shareholder	No of shares	2017	No of shares	2016
		Holding		Holding
1. Sri Lanka Insurance Corporation Ltd - Life Fund	66,097,350	29.54%	66,097,350	29.54%
2. Fortis Global Healthcare Holdings Pte Ltd	64,120,915	28.66%	64,120,915	28.66%
3. Sri Lanka Insurance Corporation Ltd - General Fund	56,080,643	25.07%	56,080,643	25.07%
4. Property Development PLC	21,329,000	9.53%	21,329,000	9.53%
5. Bank of Ceylon A/c Ceybank Unit Trust	2,927,210	1.31%	2,795,199	1.25%
6. Bank of Ceylon A/c Ceybank Century Growth Fund	844,850	0.38%	833,094	0.37%
7. Deutsche Bank AG as Trustee for Namal Acuity	800,000	0.36%	-	0.00%
8. Ceylon Investment PLC A/c # 01	448,000	0.20%	448,000	0.20%
9. Ceylon Guardian Investment Trust PLC A/C 01	350,000	0.16%	100,000	0.04%
10. Bank of Ceylon No.1 Account	309,949	0.14%	148,450	0.07%
11. Deutsche Bank AG as Trustee to Candor Opportunities Fund	305,624	0.14%	-	0.00%
12. Deutsche Bank AG - National Equity Fund	300,000	0.13%	-	0.00%
13. Deutsche Bank AG as Trustee for Guardian Acuity Equity Fund	249,337	0.11%	-	0.00%
14. Sandwave Limited	227,977	0.10%	206,108	0.09%
15. Mrs. Conceicao Aparecida Dos Santos Woodward	220,300	0.10%	-	0.00%
16. Mr. Abeyesiri Hemapala Munasinghe	179,471	0.08%	179,471	0.08%
17. Sezeka Limited	166,640	0.07%	143,544	0.06%
18. Mr. Surendran Subramaniam	156,104	0.07%	-	0.00%
19. Life Insurance Corporation (Lanka) Ltd	129,600	0.06%	150,000	0.07%
20. Mr. Shyam Anel De Silva	115,196	0.05%	115,196	0.05%
	215,358,166	96.26%	212,746,970	95.09%

Individual / Institution as at 31 December 2017

	No of Shareholders	As %	No of Shares	As %
Individual	7,188	98.36	7,727,873	3.45
Institution	120	1.64	216,004,296	96.55
	7,308	100.00	223,732,169	100.00

Resident / Non-Resident as at 31 December 2017

	No of Shareholders	As %	No of Shares	As %
Resident	7,278	99.59	158,651,402	70.91
Non-Resident	30	0.41	65,080,767	29.09
	7,308	100.00	223,732,169	100.00

Investor Information

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED *GRI 201-1*

	2017 Rs. Mn.	2016 Rs. Mn.
Value Created		
Revenue	6,382	5,886
Other Income	52	52
Finance Income	193	183
Total Value Created	6,627	6,121
Value Distributed		
Cost of Materials & Services bought in	3,620	3,114
To the Employees as Remuneration	1,843	1,652
To the Government as Revenue	85	75
To Shareholders as Dividend	224	448
Total Value Distributed	5,772	5,289
Total Value Retained	855	832
Total Value Distributed and Retained	6,627	6,121
Value Retained Expansion & Growth		
Profit Retained	357	525
Depreciation & Amortisation	498	307
Total Value Retained Expansion & Growth	855	832

Directors'/Senior Management Shareholdings as at 31st December

	Position	2017		2016	
		No of shares	Holding %	No of shares	Holding %
Board of Directors					
Dr. Sarath PARANAVITANE	Chairman	-	-	-	-
Ven. Thiniyawala PALITHA THERO	Director	-	-	-	-
Mr. Daljit SINGH	Director	-	-	-	-
Mr. Kalyana Sundaram SRIVASTAVA	Director	-	-	-	-
Dr. Anil ABEYWICKRAMA	Director	-	-	-	-
Mrs. Ranathunga Arachchige Dona Umashanthiee RAJAMANTRI	Director	-	-	-	-
Mr. Hewakumanayakage Asendra Chaminda SIRIWARDENA	Director	-	-	-	-
Mr. Weeratnemulla Gamage Thanuja Lasitha WEERATNE	Director	-	-	-	-
Mr. Nandana Jayantha MUNASINGHE	Director	-	-	-	-
Mr. Keerthi Bandara KOTAGAMA	Director	-	-	-	-
Mr. Ranjan Mohan WIJESINGHE	Director	-	-	-	-
Mr. Saadi WADOOD	Director	-	-	-	-
Mr. Ravi SACHDEV (Alternate Director to Mr. Daljith SINGH)	Director	-	-	-	-
Mr. Meghraj Aravindrao GORE (Alternate Director to Mr. Kalyana Sundaram SRIVASTA)	Director	-	-	-	-
Senior Management					
Dr. Prasad MEDAWATTE	Group Chief Executive Officer	-	-	-	-

Investor Information

Shareholder and Investor Information contd.

		Group		Company	
		2017	2016	2017	2016
Earning Per Share	Rs.	2.60	4.34	2.37	3.28
Dividend Per Share	Rs.	1.00	2.00	1.00	2.00
Net Assets Value Per Share	Rs.	26.90	26.12	25.24	24.71
Market Value per Ordinary Share					
Highest price	Rs.	-	-	68.50	76.00
Lowest price	Rs.	-	-	57.00	45.00
Closing Price	Rs.	-	-	62.00	65.00
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	3.15	2.85	2.48	2.23

Summary of Share Ranges as at 31 December

		2017			2016		
	Share Range	No of shareholders	No of shares	Holding %	No of shareholders	No of shares	Holding %
1.	1 -1,000	5,930	2,104,651	0.94	5,942	2,158,559	0.96
2.	1001 - 10,000	1,263	3,444,346	1.54	1,333	3,652,945	1.63
3.	10,001 - 100,000	94	2,712,982	1.21	93	2,669,916	1.19
4.	100,001 - 1,000,000	16	4,915,072	2.20	13	3,187,442	1.42
5.	1,000,001 & Above	5	210,555,118	94.11	6	212,063,307	94.78
		7,308	223,732,169	100.00	7,387	223,732,169	100.00

Public Shareholding

Public Shareholding as at 31st December 2017 - 16.73% (2016 - 16.73%)

Number of shares as at 31st December 2017- 37,433,261 (2016 - 37,433,261)

Number of Shareholders as at 31st December 2017 - 7,305 (2016 - 7,384)

Investor Information

Ten Year Financial Summary


	Group				Company					
	Year ended 31 December									
Audited	2017	2016	2015	2014	2013	2012	2011	2010	2009	Year ended 31st March 2008/09
									9 months	
In Rs. Mn										
Revenue	6,382	5,886	5,514	4,754	4,072	3,406	2,918	2,518	1,424	1,997
Cost of services	(3,519)	(3,099)	(2,973)	(2,647)	(2,142)	(1,881)	(1,555)	(1,348)	(784)	(1,045)
Gross Profit	2,863	2,787	2,541	2,107	1,930	1,525	1,363	1,170	640	952
Other operating income	52	52	36	39	30	25	23	1	1	2
Administrative & Other operating Expenses	(2,186)	(1,941)	(1,766)	(1,694)	(1,352)	(1,212)	(1,047)	(894)	(616)	(844)
Finance income	193	183	156	70	148	102	42	20	8	-
Finance cost	-	-	-	-	-	-	(3)	(8)	(12)	(37)
Profit before tax	922	1,081	967	522	756	439	378	289	21	72
Income tax (expense) / release	(341)	(109)	(107)	(8)	(67)	(53)	59	-	(14)	(31)
Profit for the year	581	972	860	514	689	386	437	289	7	41
ASSETS										
Non current assets										
Property, plant and equipment	4,520	4,083	3,650	3,660	3,199	2,817	2,825	2,779	2,262	2,388
Intangible asset	96	60	61	32	6	1	-	-	-	-
Investment in subsidiary	-	-	-	-	50	-	-	-	-	-
Advance lease premium	203	189	175	162	148	134	120	106	89	92
	4,819	4,332	3,886	3,854	3,403	2,952	2,945	2,885	2,351	2,480
Current assets										
Inventories	295	319	272	307	176	149	145	86	57	58
Trade and other receivables	558	503	434	472	471	261	245	216	136	92
Amounts due from related parties	7	4	6	6	32	4	2	1	1	1
Income tax Receivable	-	-	-	34	-	-	-	-	-	-
Cash and cash equivalents	2,475	2,194	1,746	1,000	1,017	1,002	672	468	187	107
	3,331	3,020	2,458	1,819	1,696	1,416	1,064	771	381	258
Total assets	8,150	7,352	6,344	5,673	5,099	4,368	4,009	3,656	2,732	2,738
EQUITY AND LIABILITIES										
Equity										
Stated capital	2,672	2,672	2,672	2,672	2,672	2,672	2,672	2,672	2,672	2,672
Revaluation reserve	1,066	1,284	994	1,028	1,020	858	883	740	320	331
Retained earning / (loss)	2,282	1,888	1,324	783	367	99	(200)	(682)	(984)	(1,002)
Total equity	6,020	5,844	4,990	4,483	4,059	3,629	3,355	2,730	2,008	2,001
Non current liabilities										
Employee benefit obligations	167	134	119	106	67	52	43	33	20	17
Government grants	-	-	-	-	-	-	-	-	-	1
Borrowings	-	-	-	-	-	-	-	-	23	45
Deferred tax liabilities	998	426	347	314	278	231	214	458	351	341
	1,165	560	466	420	345	283	257	491	394	404
Current liabilities										
Borrowings	233	234	179	198	135	111	82	152	80	101
Amounts due to related parties	23	24	28	13	4	5	4	5	4	22
Income tax payable	39	36	21	-	14	-	-	-	-	-
Trade and other payables	670	654	660	559	542	340	311	278	246	210
	965	948	888	770	695	456	397	435	330	333
Total liabilities	2,130	1,508	1,354	1,190	1,040	739	654	926	724	737
Total equity and liabilities	8,150	7,352	6,344	5,673	5,099	4,368	4,009	3,656	2,732	2,738

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 19th Annual General Meeting of The Lanka Hospitals Corporation PLC will be held on 9th May 2018 at 2.30pm. at the Dr. Prathap C Reddy Auditorium of The Lanka Hospitals Corporation PLC, No.578, Elvitigala Mawatha, Colombo 5 for the purpose of conducting the following businesses:

1. To receive and consider the Annual Report and the Financial Statements of the Company for the year ended 31st December 2017 together with the Report of the Auditors' thereon.
2. To re-elect Ven Thiniyawala Palitha Thero who retires by rotation in terms of Article 85 of the Articles of Association and being eligible offers himself for re-election.
3. To re-elect Mr. Weeratnemulla Gamage Thanuja Lasitha Weeratne, who retires by rotation in terms of Article 85 of the Articles of Association and being eligible offers himself for re-election.
4. To re-elect Mr. Asendra Chaminda Siriwardena who retires by rotation in terms of Article 85 of the Articles of Association and being eligible offers himself for re-election.
5. To re-elect Mrs. Dona Umashanthie Rajamantri who retires by rotation in terms of Article 85 of the Articles of Association and being eligible offers herself for re-election.
6. To elect as a Director Mr. Nandana Jayantha Munasinghe who was appointed to the Board subsequent to the last annual General Meeting in terms of Article 92 of the Articles of Association and being eligible offers himself for re-election.
7. To elect as a Director Mr. Ranjan Mohan Wijesinghe who was appointed to the Board subsequent to the last annual General Meeting in terms of Article 92 of the Articles of Association and being eligible offers himself for re-election.
8. To elect as a Director Mr. Saadi Wadood who was appointed to the Board subsequent to the last annual General Meeting in terms of Article 92 of the Articles of Association and being eligible offers himself for re-election.
9. To elect as a Director Mr. Keerthi Bandara Kotagama who was appointed to the Board in terms of Article 92 of the Articles of Association and being eligible offers himself for re-election.
10. To re-appoint Messrs KPMG Chartered Accountants, the retiring Auditors for the ensuing financial year and to authorize the Directors to fix their remuneration.
11. To authorize the Directors to determine donations for the year 2018 and up to the date of the next Annual General Meeting.
12. Any other business of which due notice has been given.

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



Mrs. C. Salgado
Business Intelligence (Private) Limited
Company Secretaries

Colombo, this 28th March 2018

NOTE:

- a. Only persons who are shareholders of the Company and whose names appear on the share Register as at AGM date will be entitled to attend the above meeting.
- b. A shareholder who is unable to attend the meeting is entitled to appoint a proxy to attend an vote in his/her place. A proxy need not be a member of the Company. A Form of Proxy accompanies this Notice.
- c. Shareholders/Proxy holders are kindly advises to bring along with them their National Identity Card or a similar form of acceptable identity when attending the meeting.

Form of Proxy

Folio Number*

THE LANKA HOSPITALS CORPORATION PLC

(Company Registration No PQ180.)

No.578, Elvitigala Mawatha, Narahenpita, Colombo 5.

I/We..... (NIC.).....
 of
 being a shareholder/shareholders of The Lanka Hospitals Corporation PLC, hereby appoint:
 of
 Being NIC No.....(or failing him)

Dr. Sarath Paranavitane	or failing him
Ven. Thiniyawala Palitha Thero	or failing him
Mr. Daljit Singh	or failing him
Mr. K. Srivastava	or failing him
Mr. Thanuja Lasitha Weeratne	or failing him
Dr. Anil Abeywickrama	or failing him
Mr. Asendra Siriwardena	or failing him
Mrs. Umashanthie Rajamantri	or failing her
Mr. Ranjan Mohan Wijesinghe	or failing him
Mr. Nandana Jayantha Munasinghe	or failing him
Mr. Saadi Wadood	or failing him
Mr. Keerthi Bandara Kotagama	

as my/our Proxy to represent and speak and vote for me/us** and on my/our behalf at the 19th Annual General Meeting of the Company to be held on 9th May 2018 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 Financial Statements of the Company for the year ended 31st December 2017 together with the Report of the Auditors' thereon	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Ven. Thiniyawala Palitha Thero who retires by rotation in terms of Article 85 of the Articles of Association and being eligible offers himself for re-election.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. Weeratnemulla Gamage Thanuja Lasitha Weeratne who retires by rotation in terms of Article 85 of the Articles of Association and being eligible offers himself for re-election.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. Asendra Chaminda Siriwardena who retires by rotation in terms of Article 85 of the Articles of Association and being eligible offers himself for re-election.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mrs. Dona Umashanthie Rajamantri who retires by rotation in terms of Article 85 of the Articles of Association and being eligible offers herself for re-election.	<input type="checkbox"/>	<input type="checkbox"/>
6. To elect as a Director Mr. Nandana Jayantha Munasinghe who was appointed to the Board subsequent to the last annual General Meeting in terms of Article 92 of the Articles of Association and being eligible offers himself for re-election.	<input type="checkbox"/>	<input type="checkbox"/>
7. To elect as a Director Mr. Ranjan Mohan Wijesinghe who was appointed to the Board subsequent to the last annual General Meeting in terms of Article 92 of the Articles of Association and being eligible offers himself for re-election.	<input type="checkbox"/>	<input type="checkbox"/>
8. To elect as a Director Mr. Saadi Wadood who was appointed to the Board subsequent to the last annual General Meeting in terms of Article 92 of the Articles of Association and being eligible offers himself for re-election.	<input type="checkbox"/>	<input type="checkbox"/>
9. To elect as a Director Mr. Keerthi Bandara Kotagama who was appointed to the Board subsequent to the last annual General Meeting in terms of Article 92 of the Articles of Association and being eligible offers himself for re-election.	<input type="checkbox"/>	<input type="checkbox"/>
10. To re-appoint Messrs KPMG Chartered Accountants, the retiring Auditors for the ensuing financial year and to authorize the Directors to fix their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
11. To authorize the Directors to determine donations for the year 2018 and up to the date of the next Annual General Meeting.	<input type="checkbox"/>	<input type="checkbox"/>

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

.....
 Signature of Shareholder

Notes: * Please indicate your folio number which is given in the address sticker carrying this annual report pack.

** Instructions as to completion appear overleaf.

Please indicate with and "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 votes as he thinks fit.

Form of Proxy contd.

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 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 registered office Business Intelligence (Private) Limited, No. 08, Tickell Road, Colombo 8 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/ Stature.

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

Telephone : +94 11 5430000

Fax : +94 11 4511199

E-mail : info@lankahospitals.com

Secretaries & Registrars to Shares

M/s. Business Intelligence (Pvt) Ltd

No 8, Tickle Road,

Colombo 08

Telephone : +94 11 5579959-60

Auditors

M/s. KPMG

(Chartered Accountants)

No. 32A,

Sir Mohamed Macan Markar Mawatha,

Colombo 03

Telephone: +94 11 5426426

Board of Directors

Dr. Sarath Paranavitane

Ven. Thiniyawala Palitha Thero

Mr. Daljit Singh

Mrs. Umashanthie Rajamantri

Dr. Anil Abeywickrama

Mr. Asendra Siriwardena

Mr. Kalyana Srivastava

Mr. Thanuja Weeratne

Mr. Jayantha Munasinghe

Mr. Keerthi Kotagama

Mr. Saadi Wadood

Mr. Mohan Wijesinghe

Bankers

Bank of Ceylon

Hatton National Bank PLC



www.lankahospitals.com

No: 578, Elvitigala Mawatha, Narahenpita, Colombo 5, Sri Lanka.

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