The Mastery of

Healing

The Lanka Hospitals Corporation PLC | Annual Report 2018

Mastering the art of any subject requires razor sharp focus, a commitment to being the best, and a quiet confidence in one's abilities. That is why we have employed the best in professional people power, the optimum technology that provides hundreds of medical procedures, and access for Sri Lankans all over the island, to experience the best medical care with us.

We are proud to have mastered the art of healing not just bodies but also minds, as we give you the comfort, trust and assurance you need to live up to your true potential.

The Mastery of
Healing

LANKA HOSPITALS
සුවෙන් සැපෙන් • CARING CURING • பராமரித்தல் குணமாக்கல்

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About this Report

Welcome to our 3rd Integrated Report

This Integrated Report aims to provide a balanced review of our financial, operational, environmental and social performance for the period from 1st January 2018 to 31st December 2018. As our primary publication to shareholders this Report is intended to address the information requirements of long-term investors. It also contains information that is relevant to other stakeholders and allows them to make an informed assessment of our ability to create value. The narrative should be read in conjunction with the annual financial statements for a comprehensive overview of our performance. We adopt an annual reporting cycle and this Report builds on the Group's Annual reporting for the period ending 31st December 2017.

Refer to page 127 for financial statements

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 2018. The financial and non-financial information presented in the narrative report represents both entities unless otherwise stated. There were no significant changes to the size, structure or ownership of the Group or its supply chain during the year. There are also no material restatements of non-financial information presented in previous reports.

Basis of preparation

The Report has been prepared on the principles prescribed by the International <IR> Framework, published by the International Integrated Reporting Council. The financial statements have been prepared in accordance with the Sri Lanka Financial Reporting Standards and comply with the requirements of the Companies Act No. 7 of 2007 and the Listing Requirements of the Colombo Stock Exchange. The sustainability reporting is based on the GRI Standards published by the Global Reporting Initiative; we have reported ' in accordance' with the 'core' option.

Read report online
www.lankahospitals.com

Board Responsibility

The Board is collectively responsible for overseeing the integrity and completeness of this Report. On 25th February 2019, the Board approved the 2018 Integrated Report taking into consideration the relevance and completeness of the material matters and accuracy of data presented.

Dr. Sarath Paranavitane
Chairman

Materiality

Information included in this Report has been selected and prioritised based on the principle of materiality. Material matters are the issues which have or could potentially impact the Group's ability to create value over the short, medium and long-term. We have considered both qualitative and quantitative matters, material to our operations and strategic objectives which may influence stakeholder decision making. Across the report, we have provided context for what we have determined as our material matters and how we are addressing these issues through strategic responses.

Refer to page 35 for a full list of our material topics

Assurance

We adopt various assurance mechanisms to ensure the transparency and reliability of our information. The financial statements were audited by Auditor General while assurance on the sustainability reporting was provided by Messrs. KPMG.

Refer page 128 and 81 for assurance statements

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

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.

Performance Highlights of 2018

Statement of Financial Performance

			2018	2017	Y-O-Y (%)
Financial Capital	Financial Performance				
	Revenue	Rs. Million	7,077	6,382	11
	Results from operating activities	Rs. Million	643	729	(12)
	Profit before tax	Rs. Million	1,122	922	22
	Profit after tax	Rs. Million	870	581	50
	Profit attributable to owners of the parent	Rs. Million	870	581	50
	Dividends	Rs. Million	447	224	100
	Gross profit margin	%	44	45	(2)
	Operating profit margin	%	9	11	(20)
	Net profit margin	%	12	9	35
	Earnings per share (basic)	Rs.	3.89	2.60	50
	Return on Assets (ROA)	%	10	7	36
	Return on Capital Employed (ROCE)	%	13	10	40
	Financial Position Highlights and Ratios				
	Total assets	Rs. Million	8,950	8,150	10
	Shareholders' funds	Rs. Million	6,455	6,020	7
	Gearing ratio	Times	N/A	N/A	N/A
	Asset turnover	Times	0.79	0.78	1
	Net assets per share	Rs.	28.85	26.91	7
	Current ratio	Times	3.19	3.45	(8)
	Quick asset ratio	Times	2.90	3.15	(8)
	Market / Shareholder Information				
	Market value per share	Rs.	42.60	62.00	(31)
	Dividend per share	Rs.	2.00	1.00	100
	Market capitalisation	Rs. Million	9,531	13,871	(31)
	Price earnings ratio	Times	10.95	23.88	(54)
	Dividend yield ratio	%	4.69	1.61	191
	Dividend payout ratio	%	51.43	38.52	34
	Dividend Cover	Times	1.94	2.60	(25)

			2018	2017	Y-O-Y (%)
Manufactured Capital	Property Plant and Equipment	Rs. Million	4,489	4,520	(1)
	CAPEX	Rs. Million	363	657	(45)
	No. of beds	No.	367	350	5
	Company owned laboratory collection centres	No.	23	19	21
	Pharmacy network	No.	21	18	17

Statement of Social Performance

			2018	2017	Y-O-Y (%)
Human Capital	Employees				
	Total employees	No.	1,868	1,784	5
	Consultants	No.	840	754	11
	Resident consultants	No.	43	43	-
	Payments to employees	Rs. Million	2,057	1,843	12
	Retention rate	%	70	80	(13)
	Productivity - Net profit per employee	Rs.	465,770	325,589	43
	New recruits	No.	629	677	(7)
	Investment in training	Rs. Million	15.05	11.35	33
	Training hours	Hours	41,819	28,972	44
	Average training hours	Hours	22.39	16.24	38
	Female participation rate - Training	%	69.30	72.88	(5)
	Employee injury rate	%	0.05	0.34	(84)

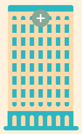
Performance Highlights of 2018

			2018	2017	Y-O-Y (%)
Social and Relationship Capital 	Customers				
	Inpatient volume	No.	28,012	27,116	3
	Outpatient volume	No.	359,576	348,362	3
	Occupancy rate	%	82	85	(4)
	Customer satisfaction rate	%	97.35	95.00	2
	Suppliers and Business Partners				
	No. of suppliers	No.	582	552	5
	Payments to suppliers (Company)	Rs. Million	3,292	2,883	14
	Spending on local suppliers (Company)	%	98	98	-
	Community Relationships				
	Investment in CSR	Rs. Million	3.39	2.17	56
	Free surgeries performed	No.	100	-	-
	Economic Value				
	Economic value generated	Rs. Million	7,615	6,627	15
	Economic value distributed	Rs. Million	6,778	5,772	17
	Government	Rs. Million	252	85	196
	Employees	Rs. Million	2,057	1,843	12
	Others	Rs. Million	4,469	3,844	16
Intellectual Capital 	New procedures introduced	No.	49	20	145

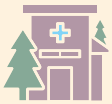
Statement of Environmental Performance

			2018	2017	Y-O-Y (%)
Natural Capital	Energy consumption	Mj	38,370	37,009	4
	Energy intensity	J/Inpatients	1,370	1,365	0
	Water usage	Ml	127.77	126.99	1
	Water discharged	Ml	127.75	109.50	17
	Solid waste	MTs	29.77	27.43	9
	Medical waste	MTs	103.89	101.67	2
	Carbon footprint	tco2e	6,048	5,680	6
	Emission intensity	Kgco2e/Inpatients	216	209	3
	Instances of environmental non-compliance	No.	0	0	-

Awarded Asia's Best Employer Brand



Launched the Seychelles Medical Centre



Medical Centre opened in Galle

Satellite labs in Negombo and Galle

Lanka Hospitals at a Glance

Launch of Mobile App

82% Average Occupancy

1,210,441 Laboratory Tests

28,000+

Patient Admissions

344,690 Admissions Since 2002

Launch of Men's Wellness Center

350,000+

OPD Consultations

3,600,884 Consultations Since 2007

24-hour Ambulance Service

3,700+

Foreign Patient Admissions

35,985 Foreign Patient Admissions Since 2002

2,547

Deliveries

14,543 Deliveries Since 2013

10,927

Surgeries

91,787 Surgeries Since 2009

539

IVF Registrations

3,310 IVF Registrations Since 2014

55

Kidney Transplants

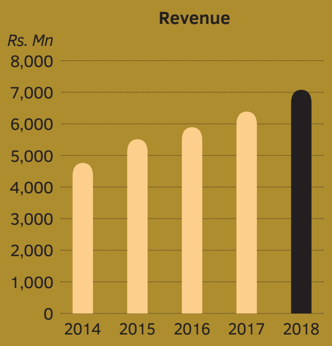
1,054 KT's Since 2003

14,302

Dialysis

122,178 Dialysis Since 2007

Highlights of Our Performance in 2018



Revenue

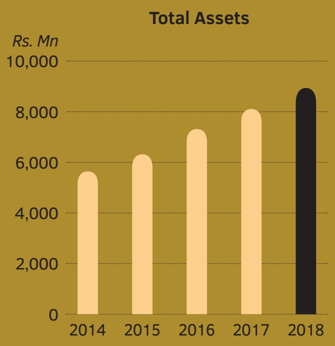
Rs. 7.08 Bn
(+11%)

Total Assets

Rs. 8.95 Bn
(+10%)

Profit After Tax

Rs. 870 Mn
(+50%)



Earnings Per Share

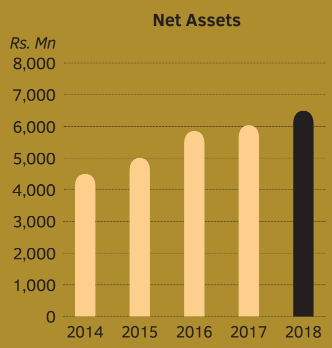
Rs. 3.89
(+50%)

Dividend Per Share

Rs. 2.00
(+100%)

Net Asset Value Per Share

Rs. 28.85
(+7%)



Dividend Yield Ratio

4.69 %
(+191%)

Dividend Payout Ratio

51.43%
(+34%)

Return on Capital Employed

13 %
(+40%)

Dr. Sarath Paranavitane

Chairman

Chairman's Review

"A portfolio of relevant international certifications bear testimony to our commitment to global standards of patient care. It also provides a competitive advantage and is a key factor in promoting Lanka Hospitals as a medical tourism player in overseas markets. Our successful forays in to the Maldives, Seychelles and Fiji markets are strengthened by our reputation for high quality healthcare which are affirmed by the certifications."

Reported profit after tax

2018	Rs. 870 Mn
2017	Rs. 581 Mn

Reported profit before tax

2018	Rs. 1,122 Mn
2017	Rs. 922 Mn

Total Assets

2018	Rs. 8,950 Mn
2017	Rs. 8,150 Mn

Dear Shareholders,
The Lanka Hospital Corporation PLC delivered 50% profit growth recording Rs. 870 Mn for the financial year ended 31st December 2018 despite pressure on margins through careful investment of funds. Balance sheet growth was a steady 10% largely attributable to increases in current assets. Rs. 209 Mn was medical equipment to expand our diagnostic and treatment capability in line with our mandate. We continue to focus on facilitating affordable healthcare whilst maintaining globally accepted standards of care and retaining skills vital to succeeding in the intensely competitive healthcare industry. Lanka Hospitals maintains its position as the country's single largest globally accredited tertiary care facility with an extensive panel of specialists, the largest menu of services and a culture of care that has been a key differentiator.

Health Sector Review

Human health activities, residential care and social work activities sub sector accounted for 2.3%[1] of the country's GDP as per 3rd quarter estimates for 2018 recording a 7.3% increase over the same period in 2017. Health related inflation was 12.2% as the category in the Colombo Consumer Price Index increased from 153 at the end of 2017 to 171.7 at the end of the November 2018 outpacing overall inflation which moved from 122.9 to 126.2 during the same period reflecting growing concerns over affordability of healthcare. Accordingly, the National Medicines Regulatory Authority has taken steps to reduce the prices of selected essential drugs with effect from August 2018 and is also expected to issue guidelines to regulate the price of certain scans, laboratory test and surgeries. It is noteworthy that average household spending on healthcare increased by a multiple of 2.6 during the period 2006 to 2016 as more people opted for private healthcare as mean incomes increased in the country reflecting the demand for private healthcare.

Key Factors Driving Private Healthcare

- Increasing prevalence of non-communicable diseases
- Ageing population
- Rising incomes facilitating affordability of healthcare
- Increased penetration of medical insurance
- Capacity contraints in the public healthcare sector
- International accreditation of key private sector healthcare facilities opening up opportunities for medical tourism

[1] *CBSL Statistics*

Chairman's Review

At the end of June 2018, there were 19,692 qualified doctors and 34,714 nurses in government hospitals representing one doctor for 1,100 persons and one nurse for 624 persons. The government hospitals had 76,824 beds as at end June 2018, while the private sector had a further 5,095 beds in 191 private care facilities in the country. Additionally, there were 124 registered medical and channelling centres, 291 registered medical laboratories, 381 full time and part time medical clinics operating around the country by end June 2018 as the demand for healthcare services increased outside the Western province. Additionally, the government also introduced a medical insurance scheme for students aged 5 to 19 years in government, private and international schools, covering 4.5 Million student to a maximum of Rs. 200,000.

Sri Lanka has one of the fastest ageing populations in the world with the population of the elderly of 23% forecast to surpass the population of youth of 17% by 2050[2]. This is attributable to rising life expectancy of 78.5 years for women and 72.1 years for men which is on par with upper middle income countries and declining fertility rates which are closer to upper middle income countries. While this points to significant economic challenges as the ratio of dependency increases, it also provides an opportunity for geriatric care which is still in its infancy in the country.

It is also linked to the prevalence of Non-Communicable Diseases as per the Sri Lanka Demographic & Health Survey 2016 which points to opportunities for growth in both preventive and curative care as levels of awareness regarding the importance of prevention, early detection and treatment continues to increase. Lanka Hopitals has invested significant resources in providing diagnostic and treatment options for this significant category of diseases through specialised wellness centres for men and women in addition to an extensive menu of diagnostic facilities supporting early detection.

Several outbreaks of communicable diseases were reported in Sri Lanka including a severe seasonal Influenza epidemic and a significant increase in the number of leptospirosis cases recorded which increased to 2,579 during the first seven months of 2018 compared to 1,666 cases recorded in the same period of the previous year. Dengue prevalence decreased from 597 per 100,000 persons in the first seven month of 2017 to 154 per 100,000 persons in the same period in 2018 largely attributable to escalation of preventive activities.

There is significant opportunity to produce better patient outcomes at a lower cost through increased digitisation. Lanka Hospitals has commenced its journey to to embrace a digital culture driving a paradigm shift in patient experiences, moving beyond internal digitisation of processes. Our Mobile App now available on Google Play Store and the Apple Store heralds a new era of patient centric innovations that will significantly enhance customer experiences.

Challenges to Growth of Healthcare Sector

Regulation in the form of price caps may be a key threat as healthcare related inflation continues to outpace general inflation. Price controls implemented on essential drugs, blood tests, stents and medical devices reflect government concern on rising costs of healthcare and the trend is likely to continue with the government casting a wider net. On our part, we continue to focus on driving cost efficiencies to manage affordability of services as this is a key concern for our patients and their families and ensure compliance with government regulations.

The field of medicine has witnessed rapid advancements in technology necessitating high levels of investment to keep pace with emerging treatments and diagnostics which drive our competitive edge. This is a key area of concern as payback periods are generally long due to the capital outlay involved and the training of our team in handling the new equipment. Depreciation of the rupee exacerbates the issue through increased costs for related consumables and making new technology more expensive.

Capacity constraints remain a key concern for the sector as the specialised skills required for the industry remain in relatively short supply resulting in a doctor centric culture within the industry as opposed to a patient centric culture. This can be detrimental to the development of a sustainable healthcare industry and pose challenges to long term balancing of key stakeholder interests leading to over regulation of the industry. Additionally, while the concentration of consultants in the Western Province supports our growth in Colombo, it may prove a challenge for expansion of the sector as 55% of state sector consultants are located in the Western province and Galle and Kandy districts.

The paucity of talent in paramedical services continues to be a key concern as nurses, physiotherapists and technicians remain in short supply. While the

[2] *World Bank Statistics*

nursing school provides a steady pipeline of talent for this key area of skills, intense competition and overseas opportunity give rise to talent leakages in the country's talent pools.

Focus on Quality

A portfolio of relevant international certifications bear testimony to our commitment to global standards of patient care. It also provides a competitive advantage and is a key factor in promoting Lanka Hospitals as a medical tourism player in overseas markets. Our successful forays in to the Maldives, Seychelles and Fiji markets are strengthened by our reputation for high quality healthcare which are affirmed by the certifications. Our In patient satisfaction rate of 97.35% bears further testimony to the positive patient experiences we have delivered. Numerous awards in different aspects of our operations also affirm our pursuit of excellence.

Growing Our Footprint

In October 2018 we set up the first fully fledged medical centre in Seychelles in accordance with the terms of our agreement signed on the occasion of the visit of His Excellency, the President of Seychelles, Danny Fuare to Sri Lanka. This is our first venture overseas to set up our own facility and we are closely monitoring its progress to ensure that we have a lean model that can be replicated elsewhere as we pursue our growth aspirations.

We also opened our first local medical and channelling centre in Galle which will also serve as a pilot for our domestic expansion forecast to pick up pace in 2019. Opening of the Medical Centres at Central Bank of Sri Lanka and Sri Lanka Telecom PLC are also notable initiatives which complements our business model while facilitating patient convenience. The Pharmacy division continued to increase its presence to 21 outlets while Lanka Hospital Diagnostics opened 6 locations during the year taking the total Company owned collection centres to 23.

Corporate Governance

We welcome on to the Board Mr. Rajiv Puri as a Director and Mr. Anurag Kalra as an Alternate Director to Mr. Daljit Singh during the year. We thank Mr. Kalyana Srivasatava and Mr. Mohan Wijesinghe who retired from the Board for their valuable contributions during their tenure of service.

The mind-set of the Board has expanded beyond a risk mitigation and compliance agenda to pursuit of growth aspirations and breakthrough strategies to drive competitive advantages. The composition of the Board has been key to driving change as it comprises expertise, entrepreneurship and business acumen facilitating well informed risk reward assessment of proposals set before the Board. Our culture has evolved to ensure that contrarian view points are heard and that a healthy relationship exists between the Board and the Management supporting progress of the Company.

Way Forward

The demand for private healthcare is expected to continue its upward trend in 2019 as well as key players continue to invest in expanding their offering. We will continue to grow our presence in 2019 as expansion is a priority. Investments in technology will be a key differentiator to attract and retain both consultants and patients and Lanka Hospitals plans for 2019 include breakthrough technologies that will set industry benchmarks. Increased digitisation of processes will support enhanced patient experiences while streamlining our own processes, driving service excellence.

Depreciation of the rupee and the introduction of new technology is likely to drive up healthcare costs as costs of consumables and new machines increase. This is a key concern as we seek to ensure that our offerings remain affordable and competitive in an intensely competitive market. Increasing regulation, particularly with regards to pricing of services is a potential concern and continue to engage with regulators through industry associations to present a balanced view of key issues, considering varied stakeholder perspectives.

Appreciations

I wish to congratulate the Group Chief Executive Officer, Dr. Prasad Medawatte for ably leading his team to success in diverse aspects of the business and delivering the results set out in this annual report. I also thank our regulator the National Medical Regulatory Authority for their continued guidance and co-operation which facilitates compliance. I conclude by thanking our loyal customers for their continued patronage of our services and assuring them of our commitment to their health and wellbeing as we continue to set industry benchmarks for healthcare in Sri Lanka.

Dr. Sarath Paranavitane
Chairman

25th February 2019

Dr. Prasad Medawatte
Group Chief Executive Officer

Group Chief Executive Officer's Review

"The Lanka Hospitals Corporation PLC Group delivered a profit of Rs.870 mn for the year 2018 recording profit growth of 50% over 2017. Asset growth was 10% supported by investments in new technologies and in expansion of our working capital to support growth. We have expanded our operations both beyond our shores and within as we pursued our growth aspirations."

- Opening of first overseas branch in Seychelles
- Opening of first local branch in Galle
- 1150th IVF baby
- Opening Male Wellness Centre
- Ranked Best Healthcare Provider by LMD's Most Respected Entities
- SLAB Accreditation for Lanka Hospitals Diagnostics
- Expansion of pharmacies and diagnostics footprint
- Expansion of services and capacity within premises
- Maintained a Customer satisfaction rate of 97.35%

Dividend paid

2018	Rs. 447 Mn
2017	Rs. 224 Mn

Earnings per share

2018	Rs. 3.89
2017	Rs. 2.60

The Lanka Hospitals Corporation PLC Group delivered a profit of Rs. 870 Mn for the year 2018 recording profit growth of 50% over 2017. Asset growth was 10% supported by investments in new technologies and in expansion of our working capital to support growth. We have expanded our operations both beyond our shores and within as we pursued our growth aspirations. Strong customer satisfaction rates affirm high standards of care and while globally renowned accreditations provide frameworks for driving excellence in service delivery creating a solid foundation for delivering growth.

Seizing Opportunities

Our growth has been propelled by nimble strategies formulated to provide solutions for perceived market gaps and emerging issues in healthcare, seizing opportunities with smart resource allocation. 2018 was no different as we set our selves an ambitious plan to deliver multifaceted growth in our present location as well as in new locations within the country and overseas.

Lanka Hospitals opened a fully fledged Medical Centre in Seychelles as per the agreement entered in to with the Health Care Agency of Seychelles on the occasion of the visit of His Excellency, the President Danny Fuare in 2017. As our first venture overseas, this is a key milestone in our annals. Our franchise in Seychelles continued to grow as the number of patients from Seychelles increased to 187.

The opening of our first branch in the country in Galle marked another milestone in the history of the company. It is a fully fledged Medical & Channelling Centre located in the busiest town in the Southern Province with significant potential for growth. Two new Medical Centers and Pharmacies were opened at the Central Bank of Sri Lanka and Sri Lanka Telecom which were through open quotes in line with government tender processes. We continued to expand our presence with Pharmacies in Wellampitiya and Angoda while Lanka Hospital Diagnostics opened two mini labs and Company Owned Collection Centres in 6 new locations.

Continuous expansion of capacity and services at our main locations remains a key focus but present significant challenges due to availability of space. Lanka Hospitals opened a new Male Wellness Centre to provide a highly specialised service becoming the first hospital in the country to provide focussed care for issues specific to males. We expanded our room capacity with 13 super

Group Chief Executive Officer's Review

deluxe rooms and 4 deluxe rooms by maximising use of premium space. Expansion of the Cardio Thoracic Intensive Care Unit by 10 beds enhanced our capacity to cater to the needs of patients requiring life saving surgeries. Capacity of the Dental surgery was increased with the addition of a 4th Dental surgery room. A surgical hub was introduced facilitating surgical care coordination and a CTOT 3 was introduced by restructuring the eye operating theatre to improve patient care and workflows. Several other areas were renovated and restructured to improve workflows and patient experiences driving service excellence. Moving Administrative functions to an adjacent building enabled increased utilisation of space at our iconic site while the rental of external car parking space for our staff and opening up new spaces within the premises provided additional parking facilities for patients.

Measuring Success

Lanka Hospitals delivered its 1150th IVF baby maintaining our record of above average success rates assisting couples to realise their aspirations of becoming parents. We also continue to be the leader in cardiac surgeries having conducted the highest number of cardiac surgeries done by any private sector hospital in 2018.

Receiving the Brand Leadership award at The World Medical Tourism Congress 2018 was encouraging and supports our growth initiatives in this lucrative field which already has steady patient flows from Maldives, Bangladesh, Seychelles and other countries.

Commitment to Quality

We are proud of our heritage as the trendsetter for quality healthcare in the country which has been affirmed by several prestigious global accreditations including re-accreditation by the Joint Commission International, 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 certifications. Our laboratories received accreditation by SLAB adding to the accreditation by the College of American Pathologists. These accreditations reflect the effective functioning of systems and processes which conform to global standards supporting our focus on driving service excellence and positive patient experiences and outcomes.

Awards conferred on us encourage and inspire us to reach higher, adding lustre to our Brand equity. Awards received during the year are set out on page 23 and reflect our commitment to excellence across several operational areas and aspects in relation to peers. A customer satisfaction rate of 97.35% from in patients upholds the awards and the ranking as the best healthcare provider in the list of Most Respected Entities by the prestigious LMD.

Performance

Revenue growth of 11% to Rs. 7.08 Bn was supported by capacity expansions and innovations described above despite relatively subdued economic growth. However, direct cost increases outpaced revenue growth exerting pressure on gross profit margins which declined marginally from 45% to 44%. The gross profit of Rs. 3.1 Bn reflects our own concerns over the increasing cost of healthcare and the need to maintain a balance between key stakeholder interests. We implemented several initiatives to do more with less, offsetting the increase in costs which stemmed largely from the depreciation of the rupee which had a significant impact on costs as most consumables are imported. Administrative expenses increased by 21% due to expansion activities and inflation, adversely impacting operating margins. This was offset by a 148% increase in finance income which amounted to Rs. 479 Mn. Accordingly, profit before tax increased by 22% to Rs. 1.12 Bn reflecting careful management of a matrix of variables.

The charge for taxation decreased from Rs. 341 Mn in 2017 to Rs. 252 Mn due to deferred tax impacts which were higher in 2017 despite a 90% increase in taxable income. Deferred tax expenses due to temporary differences declined from Rs. 252 Mn in 2017 to Rs. 4.9 Mn in 2018 which countered the increase in taxable income from Rs. 85 Mn to Rs. 246 Mn. Consequently the effective tax rate declined from 37% to 22%. This resulted in strong growth of profit after tax to Rs. 870 Mn in 2018, an increase of 50% over the profit after tax of Rs. 581 Mn.

Total Asset growth was encouraging at 10% as we invested Rs. 689 Mn in PPE and financial assets enhancing our revenue earning capability. Asset growth was funded largely through broad based growth across liabilities. Equity remains the main source of funding accounting for 72% of total liabilities and equity reflecting strong foundations for growth.

"We will also establish a new cath Lab and High Dose Radioactive Iodine Therapy Unit while also commissioning 2 new General Operating Theaters and establishing a state of the art GU Centre."

A Positive Outlook

The demand for private healthcare continues to rise and key industry players are expanding their reach rapidly to reach untapped potential outside Colombo and increasing in relevance to the country's healthcare strategy. However, it is a capital intensive industry with long pay back times although rapid advances in technology in both diagnostics and treatments require regular upgrading of highly specialised equipment. Many are proprietary technologies with associated consumables which are specific to the models installed. As both machinery and consumables are imported, the devaluation of the rupee has a significant impact on our operations leading to pressure on margins and rising costs of healthcare. We also see an increase in regulation of healthcare not just locally but globally as well which is expected to increase compliance costs increasing pressure on margins.

We propose to expand our operations beyond Colombo through expansion of our presence outside Colombo, increasing capacity and through creating centres of excellence for specialities. Accordingly, our plans include establishment of 6 new medical centres with pharmacies and adding a further 5 pharmacy outlets in the suburbs of Colombo. We will also establish a new cath Lab and High Dose Radioactive Iodine Therapy Unit while also commissioning 2 new General Operating Theaters and establishing a state of the art GU Centre. A detailed programme of process improvements have already commenced to support our strategic goals, streamlining processes and improving cost efficiencies.

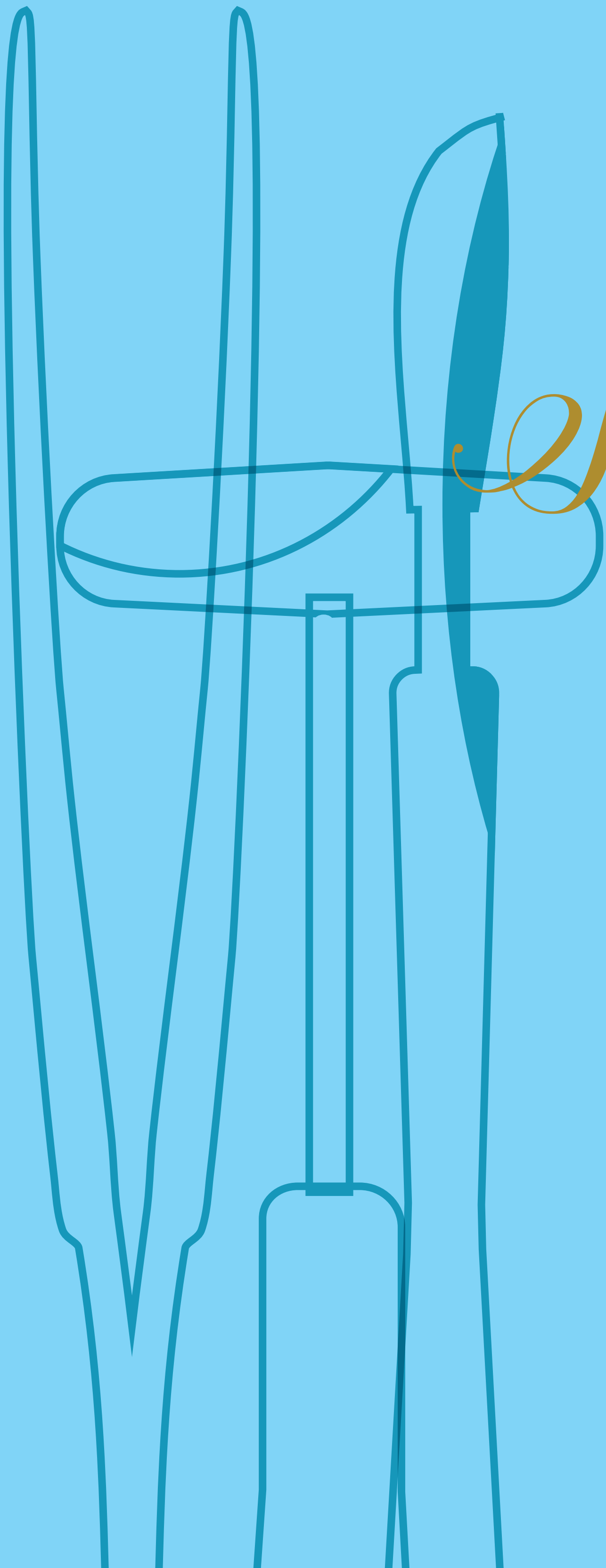
Acknowledgements

I wish to thank the Chairman and the Board of Directors for their visionary leadership and guidance as they charted our journey and allocated the necessary resources. A passionate and hardworking team who are committed to enhancing our service delivery while maintaining exceptional customer satisfaction rates is a key strength and I wish to extend my sincere appreciation of their contribution to the strong performance delivered. Our dedicated panel of Consultants and doctors drives our success and I wish to thank them for their inspired leadership and care. I am deeply appreciative of the assistance provided by officials of the Ministry of Health in facilitating compliance.

In conclusion, I thank all our patients for their continued patronage of Lanka Hospitals and assure them that their health and well-being is our highest priority. Lanka Hospitals continues to be the trendsetter in the industry and look forward to sharing our journey with you.

Dr. Prasad Medawatte
Group Chief Executive Officer

25th February 2019



The Mastery of *Surgical* Precision

Our skilled surgeons have the capability to handle an unmatched array of procedures with a success rate that makes us the trusted medical service provider for many.

10,927

Surgeries

Our Business and Strategy

Who we are...

Lanka Hospitals is Sri Lanka's most accredited multi-speciality hospital and a leader in the healthcare sector offering an unmatched range of primary, secondary and tertiary health services. With a bed capacity of over 367 and over 883 consultants which include the largest resident consultant base in the country, we serve over 387,000 patients annually, amongst the largest patient volumes to be achieved by a single-location hospital. A differentiation strategy centred on international standards, best-in-class patient care and advanced technology has enabled the hospital to sustain its unique competitive edge despite intensifying competitive pressures. In 2018, the hospital sought geographical expansion with the opening of 2 Medical centres in Galle and in the Seychelles.

The Hospital's diagnostics arm, Lanka Hospitals Diagnostics (Pvt) Ltd is the only laboratory in the country to obtain the prestigious College of American Pathologistis (CAP) Accreditation and offers the country's largest test menu which includes over 100 tests which are provided only by us. We also operate 5 regional laboratories, 23 Company Owned Collection Centres (COCOs) and a network of 720 collection centres across the island, in addition to a chain of 21 pharmacy outlets.

43 Resident Consultants

367 **Beds**

840 **Visiting Consultants**

1,230 **Surgical Procedures**

Medical centres in Seychelles & Galle

Laboratory Arm
- Main lab in Colombo
- 5 Regional labs
- 23 COCOs
- 720 Collection centres

Pharmacy Network
- Main pharmacy in Colombo
- 21 Pharmacy outlets

As a 54.61%-owned subsidiary of the state-owned Sri Lanka Insurance Corporation Ltd., 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.

Awards and Accreditations

Accreditations

Joint Commission International (JCI) Accreditation

ISO 15189-Medical Laboratory Accreditation

ISO 22000:2005- Food Safety Management

College of American Pathologists Accreditation

Medical Travel Quality Alliance

ISO 14001: Environmental Management Systems

What makes us different

- International standards
- Strategic location
- Largest resident consultant base
- Range of care

Awards

- Silver Award in the Healthcare Sector at the 54th Annual Report Awards of the Institute of Chartered Accountants of Sri Lanka in 2018
- Awarded as Top 10 Integrated Reports in Sri Lanka at the CMA “EXCELLENCE IN INTEGRATED REPORTS” Awards in 2018
- Honors Award for PDF Version of Annual Report: Healthcare & Diverse Businesses awarded by ARC 32nd ACR Awards International 2018
- “BRAND LEADERSHIP AWARD” Awarded under World Medical Tourism in 2018
- Awarded by The Golden Globe Tiger for excellence in HR leadership as “Best HR Company” in 2018

Value Creation Model

CAPITAL INPUTS

Strong Financial Position

The pool of funds supporting operations and growth aspirations

(page 55)

Equity: Rs. 6.45 Bn
Total Assets: Rs. 8.95 Bn
Net Asset per Share: Rs. 28.85

Facilities and Technology

Facilities and general infrastructure which enables the delivery of our service

(page 58)

Beds: 367
Laboratories: 6
Company Owned Collection Centres: 23
Pharmacy Network: 21

Engaged Team

Skills, attitudes and experience of our employees

(page 62)

Employees: 1,868
Resident Consultants: 43
Visiting Consultants: 840

Sound Relationships

The long-term relationships we have facilitated with stakeholders

Our brand

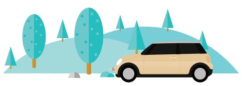
(page 68)

Expertise

Organisational knowledge-based intangibles which facilitate effective performance

(page 74)

Natural Resources



Natural resources that are used in our service delivery

(page 77)

Energy Consumption: 38,370 Mj
Water Consumption: 127.77 Ml

Business Activities

Primary, secondary and tertiary care
(page 49)

Diagnostic services
(page 50)

Pharmacy services
(page 51)

Opportunities and Risks

- Demographic changes
- Increasing prevalence of non-communicable diseases
- Increasing disposable incomes

- Competition
- Regulatory developments

Strategic Priorities

- Multi-disciplinary one-stop shop healthcare centre
- Widen regional presence
- Expand current capacity
- Utilise integrated IT solutions

Forward Outlook

- Enhance geographical reach
- Focus on service excellence
- Driving process efficiencies and productivity
- Techonological enhancement

OUTPUTS

359,576 Outpatients and 28,012 inpatients treated

10,927 Surgeries performed

1,210,441 Lab tests

58 Nursing students completed three years training

Rs. 848 Mn pharmacy sales

OUTCOMES/IMPACTS

Shareholders

Sustainable returns through dividend and share price growth
Net Profit: Rs. 870 Mn
EPS: Rs. 3.89
Dividends: Rs. 447 Mn
Dividend per Share Increase: 100%
(Page 55)

Employees

Attractive remuneration and opportunities for skill and career development
Salaries & Benefits: Rs. 2,057 Mn
Training Investment: Rs. 15.05 Mn
(Page 62)

Customers

Access to international healthcare at affordable pricing
Customer Satisfaction Rate: 97.35%
(Page 68)

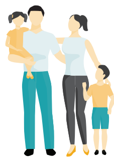
Suppliers

Mutually beneficial relationships with diverse suppliers
No. of Suppliers: 582
Total Payments to Suppliers (Company): Rs. 3,292 Mn
(Page 68)

Regulators/ Government

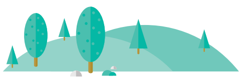
Contributions to government revenue and enhancing access to healthcare
Tax Payments: Rs. 252 Mn

Communities



Sustainable relationships with the communities we operate in
Investment in CSR: Rs. 3.39 Mn
(Page 68)

Environmental Impacts



Sustainable service provider to minimum effect to the environment
Waste Generated: 29.77 MTs
Effluents: 103.89 MTs
Carbon Footprint: 6,048 tCO2e
(Page 77)

Operating Landscape

Economic Environment

A challenging economic environment aggravated by a political impasse at the end of the year resulted in an estimated GDP growth of 3.9%[1] (2017: 3.1%) for 2018. Despite a rebound in the agricultural sector following favourable weather conditions and broad-based expansion of the services sector the slowdown in the industrial sector resulted in a moderate GDP growth of 3.3% for the nine months up to September 2018 (2017: 3.2%).

[1] Forecast – World Bank Group, Global Economic Prospects January 2019

Fiscal Policy

Tax reforms in favour of revenue based fiscal consolidation

New Inland Revenue Act effective April 1, 2018 aiming at broadening the direct tax base and simplyfying and rationalising the existing income tax structure

Increased VAT collections subsequent tax reforms in mid 2016

Rise in international oil prices resulted in weaker financials of state energy affliates compelling the government to introduce a fuel price formula from May 2018

Mixed outcomes - lower revenue collection challenged achievement of targeted budget deficit. Primary balance records a surplus for the 2nd consecutive year; the third time since 1955

Monetary Policy

A challenging global and domestic environment in which to conduct monetary policy

End of monetary policy tightening by reducing upper bounds of policy interest rates in April 2018

Reduction of the Statutory Reserve Ratio (SRR) while increasing policy interest rates to neutralise the impact in November 2018

Cautious approach with the broad aim of stabilising inflation at mid-single digits

Exchange Rates

Sharp depreciation of Rupee by 19% (2017-2.87%) to end the year at a USD/Rs exchange rate of 180.1

Tightening monetary policy in the US and a strengthening US dollar resulted in a surge of capital outflows inserting pressure on Sri Lanka's current account

A widening trade deficit added to the rupee's woes

A flexible exchange rate followed in most instances with the Central Bank only intervening in the foreign exchange market to prevent disorderly adjustments

External Sector

Widening of trade deficit as growth in exports outpaced imports

Pressure on the balance of payments due to foreign exchange outflows was cushioned to an extent by earnings through tourism, workers' remittances foreign direct investment and debt related inflows

High external debt position at 77.4% of GDP

Key Economic Indicators

	2018	2017
GDP Growth	3.9%[1]	3.1%
Unemployment rate (% of labour force)	4.5%[2]	4.3%[2]
NCPI (year-on-year)	0.4%	7.3%
CCPI (year-on-year)	2.8%	7.1%
Exports (US$ Million)	10,856[3]	10,341[3]
Imports (US$ Million)	20,498[3]	18,931[3]
Trade balance (US$ Million)	(9,642[3])	(8,590[3])
Central government debt (% of GDP)	77.4%[4]	77.4%
Fiscal deficit (% of GDP)	(4.8%[5])	(5.5%)
Exchange rate (Rs/US$)	180.10	152.85
Sri Lanka's sovereign rating (Moody's)	B2 stable	B1 stable

[1] World Bank Group estimate
[2] Upto June 30 (1H) of the relevant year
[3] Upto 11 months ended November 30
[4] Estimated, Central Bank of Sri Lanka
[5] Annualised based on published June 30 fiscal deficit of 2.4% of GDP
Sources: Central Bank of Sri Lanka, Department of Census and Statistics

Outlook

The government's continued commitment towards fiscal consolidation, such as measures to improve revenue generation, rationalise expenditure and streamline debt management will help to improve the fiscal sector in the medium term and be essential for the success of Central Bank's move to adopt Flexible Inflation Targeting as its monetary policy framework. On the other hand, the widened trade deficit is likely to weaken the performance of the external current account while possible fiscal slippage due to the upcoming elections could weaken government finances in 2018. However, policy measures initiated to curtail the expansion in import expenditure complemented by the adjustment of the exchange rate are expected to improve the external current account performance in 2019. The successful implementation of growth strategies already laid out by the government in a consistent and coordinated manner with active private sector participation will gradually support improvement in growth in the medium term. In the backdrop of tightening policy spaces in the monetary, fiscal and external fronts amidst subdued economic performance, it is important to facilitate private sector led growth with prudent, consistent and far reaching reforms that support increased productivity in the economy.

Operating Landscape

Healthcare Industry

Sri Lanka's Total Health Expenditure 2016 3.9% of GDP[1]

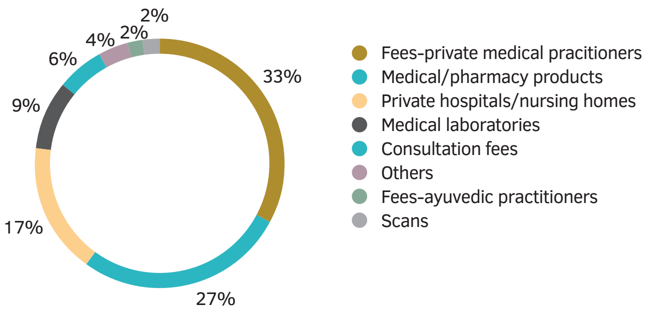
Private Health Expenditure 56%[1]

Government Health Expenditure 44%[1]

[1] World Health Organisation – Global Health Expenditure Database

Monthly household expenditure on health (2016) Rs. 2,529 - 4.60%

Components of Personal Health Expenditure



The Public and Private Healthcare Sectors

Successive Sri Lankan governments have adopted a policy of free healthcare for citizens and the public health sector has been successful in providing efficient and good quality health services. However, given the inadequacy of government resources the state has been unable to cater to the persistently increasing demand for healthcare services. The private health sector accounted for 24% of the hospitals and 6% of the available bed capacity in Sri Lanka. It also provided approximately 95% of inpatient care and provided an almost equal share of outpatient care as the private sector. Limitations in the public health sector such as drug shortages, waiting times and access to specialist has resulted in driving an increasing amount of people to the private healthcare industry.

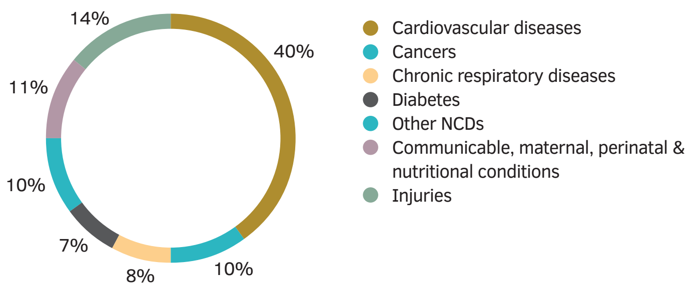
The private sector's role in healthcare has continued to increase in importance in recent years. Private healthcare services tend to be limited to mainly urban areas in and around Colombo, where household disposable incomes are higher and the ability to afford such services are greater. Expansion of this sector to other regions by the bigger players have been limited. During the last few years private health expenditure has increased considerably with capital investments on medical equipment, expanding capacity and strengthening IT infrastructure. This has resulted in the availability of medical procedures with the latest technology, while capacity constraints and poor maintenance of equipment and infrastructure has led to public hospitals referring patients to private hospitals.

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 2016, Out Of Pocket (OOP) expenses consisted of an average of 96% with private voluntary insurance, employers and others contributing to 4%. Household expenditure on health was 4.6% of a household's total expenditure. 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. In fact, more than half of OOP expenditure incurred by an individual is on fees to private medical practitioners and on medical/pharmaceutical products. 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.

	Government	Private	Private Sector Share (%)
No. of Hospitals[1]	598	191	24.2%
No. of Beds[1]	76,824	5,095	6.2%

[1] As of June 30, 2018, Central Bank of Sri Lanka

Mortality Patterns in Sri Lanka



Disease Trends

Several outbreaks of communicable diseases were reported in Sri Lanka in 2018. Dengue, which reached epidemic proportions in 2017 was controlled by using mass scale inspection of premises, integrated vector control mechanisms, legal action against the owners of vector breeding grounds and public awareness campaigns.

Non-Communicable Diseases (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 75% of total deaths in Sri Lanka. The risk of NCDs are fuelled by tobacco use, unhealthy diets, harmful consumption of alcohol and physical inactivity. NCDs have a serious impact on the economy as well as being a public health issue. 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%

Highest NCD Rates

	% of Population Within District
High blood pressure – Colombo	11.7%
Diabetes - Colombo	9.2%
High blood cholesterol - Colombo	8.5%
Wheezing/asthma – Polonnaruwa	7.3%
Heart disease – Matale	3.4%

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

Operating Landscape

Medical Tourism

Sri Lanka is emerging as a popular destination for medical tourism. Its state-of-the-art private hospitals and diagnostic facilities, some of which are internationally accredited, a large number of English-speaking medical professionals, attractiveness as a tourist location 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 factors such as 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.

Regulatory Challenges

In August 2018 the government took measures to reduce the price of selected essential drugs with immediate effect. This is in addition to price controls imposed on 48 essential drugs in October 2016. The rupee depreciation which negatively affected the cost of imported drugs has led to the withdrawal of 11 drugs from the local market due to unviability with existing price controls. It has now become necessary to ensure that price controls do not prevent supply of high quality imported medicine to Sri Lanka. The National Medicines Regulatory Authority is also expected to issue guidelines to regulate prices of private healthcare services such as scans, laboratory tests and surgeries, which if effected, will prove very challenging for the private healthcare sector.

Risks and Opportunities

The landscape in which we operate offers both opportunities and challenges, which in turn informs the Group's strategy and performance. Remaining agile is critical to maintaining our market position and competitive edge and we continually monitor these emerging dynamics to ensure that our value proposition remains relevant and adaptable.

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 Million in 2001, increased to 3.7 Million in 2017, 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

By 2041, 25% of population is expected to be elderly

Rising prevalence of NCDs +

Non-communicable-diseases (NCDs) such as Diabetes, Cancer and Chronic Respiratory Diseases are on the rise accounting for nearly 75% 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.

17.5% of hospital deaths due to NCD's

Regulatory changes

The regulatory environment has become increasingly challenging in recent years with the government mandating price reduction of drugs, temporary price ceilings on certain tests and pursuing price controls for private hospital room rates and charges for basic procedures. While we support regulation offers relief to the public, we urge the government to pursue evidence-based balance regulation which benefits all relevant stakeholders.

Our response

- Diversification of services
- Regional expansion
- Ongoing engagement with the regulators

Shortage of skilled personnel

The healthcare industry is grappling with a shortage in skilled professionals including doctors, specialists, qualified pharmacists, nursing staff and technical staff. The shortage has become increasingly acute as both public and private sectors are compelled to rely on state-funded programmes which usually have limited resources. High labour migration in skilled categories have further exacerbated the issue as qualified staff seek more lucrative opportunities abroad.

Our response

- Access to nursing staff through Lanka Hospital's dedicated nurse training school
- Strong relationships with consultants and other specialists
- Focus on retention through providing a superior value proposition

Increase in disposable incomes

Personal disposable incomes have continued to rise with Sri Lanka's transition to a middle-income earning country. Per capital income has increased by more than 22% during the five years to 2017 while per capital 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.

9% CAGR in private health expenditure (2013-17)

Our response

- Capacity expansion
- Regional expansion within Sri Lanka
- Increased repertoire of services

Implications of ICT and social media

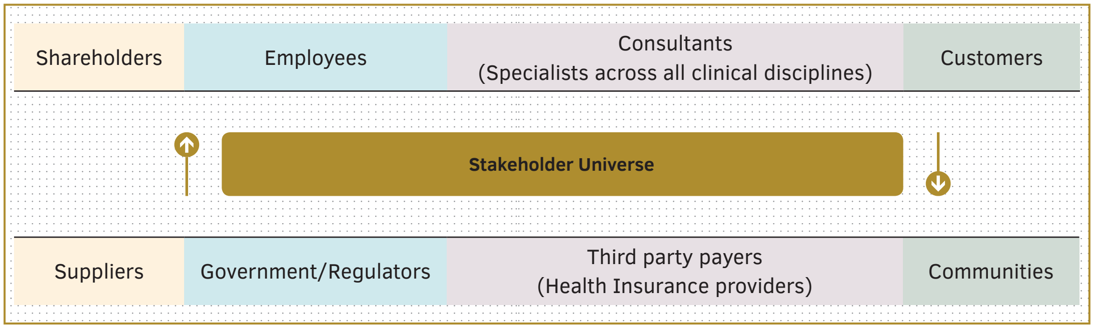
The ubiquity of electronic communication and social media is transforming interactions between customers and healthcare operators relatively simple and accessible. Customer reviews on service/products enable hospitals to identify inadequacies of the existing services that are provided and this feedback 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.

Our response

- Consistently monitoring the social media landscape

Stakeholder Interaction

Stakeholder engagement is a high priority for the Group as it enables strategy and as our reputation depends on and is influenced by stakeholder perceptions. Inclusivity of stakeholders requires ongoing conversations in order to understand and adequately respond to their needs, interests and expectations.



Approach to Stakeholder Engagement

The Group's stakeholder engagement strategy ensures that we obtain a better understanding the needs of the stakeholders which ultimately support the achievement of our objectives. We also strive to improve relationships by enhancing both the quality and frequency of interactions. The engagement approach therefore consists of interactive, two-way engagements and responsive relationships, ensuring transparency and continuous engagement.

We operate in a landscape which involves many different stakeholders with diverse requirements. These stakeholders are engaged through several platforms and touch points. The following section provides an overview of the stakeholder groups we engage with, how we engage them and the key concerns that were raised during the year.

Stakeholder Engagement in 2018

Stakeholder Group	Engagement mechanism and frequency	Topics and concerns
Shareholders (Page 55)	• 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 Risk Management • Growth opportunities and Outlook • Way Forward
Employees (Page 62)	• Performance appraisals (Annual) • Email communications/notices (Ongoing) • Multi-level staff meetings (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
Consultants	• One-on-one engagement • Conduct and sponsorship for CME programmes	• Availability of the latest technology and equipment • Quality of nursing and support staff • Optimal infrastructure facilities • Customer base

Stakeholder Group	Engagement mechanism and frequency	Topics and concerns
Customers (Page 68)	- 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 - Ability to facilitate the most up to date medical procedures - Low infection rates and medical errors
Suppliers (Medical suppliers, medical device manufacturers, pharmaceutical suppliers and other general suppliers) (Page 68)	- 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
Government/ Regulators	- 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
3rd party payers	- 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 cash management	- Efficiencies in cash management and billing - Cost reductions - Access to quality statistics - Meeting expectations regarding patient experience - Billed services relate to actual and necessary services provided
Communities (Page 68)	- Conducting various medical awareness programmes and medical discussions (Ongoing)	- Ethical practices - A caring hospital - CSR initiatives

Our Strategy

Progress Against Strategy

The Group's Strategic Plan for 2017-2020, aptly themed 'Renaissance' aims to build on our core competencies while sharpening our competitive edge through focusing on quality, range of care and technology. The Strategy is directed towards our vision of being the foremost and preferred private healthcare facility in the country. The Strategic Plan clearly defines four strategic pillars and the progress we made against each of these pillars is presented alongside.

The achievement of these strategic objectives is dependent on our ability to effectively manage 3 key enablers- namely our human capital, stakeholder relationships with patients, their families, our colleagues and the community and a responsible approach to value creation.

Strategic pillars	What it means	Progress in 2018
Be a multi-disciplinary, one-stop healthcare centre for selected specialities	The Group seeks to be a market-leading, speciality healthcare provider by investing in cutting-edge technology, expanding the repertoire of medical and clinical services and enhancing employee capabilities in achieving excellence in patient care	• Digital radio for x-ray • Launched male wellness centre • Introduced minimally invasive spine surgery • Minimally invasive direct coronary bypass surgery • Expand the test menu in the laboratory arm
Widen regional presence	Potential capacity limitations in the Hospital's existing locations and opportunities outside the Western province and regional markets have compelled us to widen our geographical presence.	• Launched medical centre in Seychelles • Opened a medical centre, laboratory and pharmacy in Galle • Added 3 pharmacies to the network • 2 mini labs in Negombo and Galle
Expand current capacity	Optimising existing space to expand bed capacity, consultation rooms, theatre capacity and specialist services	• Added 17 new surgical patient rooms • Better space utilisation through obtaining additional space for car parking • Rented a new space for non-clinical services
Utilise integrated IT solutions	Develop integrated IT solutions for, (1) Improving patient services (2) Enhancing internal business processes (3) Stakeholder engagement	• Introduced an e-fertility system providing access to outstation patients • Launched mobile app • Introduced a Queue Management System in main pharmacy

Enabled by,

Our Team
In an industry such as ours, the skills, attitudes and experience of our people are a key source of competitive edge as they facilitate the customer experience

Stakeholder Relationships
Relationships we have nurtured with consultants, other medical professionals, suppliers and other stakeholders are vital in driving our strategic ambitions

Responsible Approach to Value Creation
Our approach to value creation is underpinned by robust corporate governance practices, a responsibility towards our stakeholders and a commitment towards preserving the environment

Material Matters

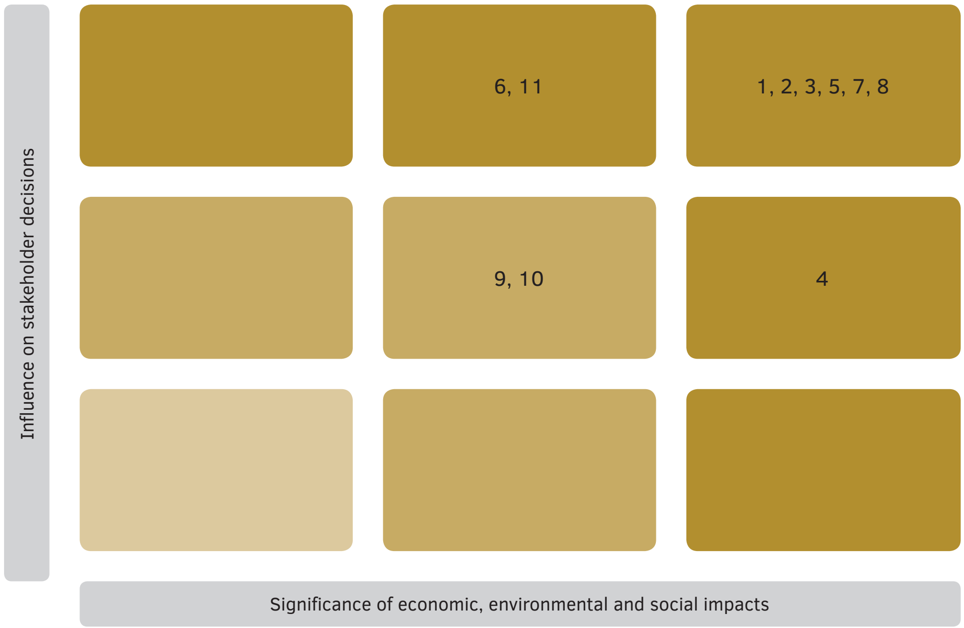
Material matters are those which are likely to influence the decisions or behaviour of either the Group or its stakeholders and affect our ability to create value in the short, medium and long-term. When determining material issues attention is given to changes in the operating landscape, issues raised by various stakeholder groups through numerous platforms, risk management outcomes as well as topics discussed at Board level. Issues are ranked as being high, medium or low based on the level of impact the issue could have on our ability to create value and stakeholders' level of concern. Those deemed to be material are covered in detail in our integrated report while other matters are addressed through other platforms.

1 **Identify issues**
- Matters raised by stakeholders
- Continuous monitoring of the external environment
- Business model and the risks associated with the same
- Internal deliberations/ research

2 **Priorities**
- Based on the level of stakeholder concern
- Impact on the Group's ability to create value

3 **Respond and Monitor**
- Specific actions are decided on and monitored regularly.

Material Matters for 2018



Management Approach and Topic Boundaries

(1) Responsible Care

Achieving clinical excellence through consistent focus on quality of care and patient safety is a strategic priority for the Group and is attained through compliance to several international accreditations and certifications. We strive to entrench the highest standards of quality across 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 Capitals:

Page 68 & 74 for further information

Relevant GRI topics: Product responsibility, Marketing and labelling, Customer health and safety, Customer privacy,

(2) 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 Capitals:

Page 58 for further information

Relevant GRI topics: None

(3) Consultant Relationships

Given the doctor-centric nature of Sri Lanka's private healthcare industry, a hospital's ability to attract and retain visiting consultants is 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 are therefore a critical material topic; the topic boundary is mainly internal as it directly affects the operations of the organisation.

Relevant Capitals:

Page 62 & 68 for further information

Relevant GRI topics: None

(4) 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 Capitals:

Page 74 for further information

Relevant GRI topics: None

(5) 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 Capitals:

Page 68 for further information

Relevant GRI topics: None

(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 Capitals:

Page 68 for further information

Relevant GRI topics: None

(7) Employee Attraction and Retention

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 as its diagnostics arm, which requires qualified laboratory technicians.

Relevant Capitals:

Page 62 for further information

Relevant GRI topics: Employment, Diversity and equal opportunity, Training and development

(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 Capitals:

Page 62 for further information

Relevant GRI topics: Occupational health and safety

Management Approach and Topic Boundaries

(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 Capitals:

Page 77 for further information

Relevant GRI topics: Energy, Water, Waste and effluents, Emissions, Environmental Compliance

(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 Capitals:

Page 68 for further information

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 Capitals:

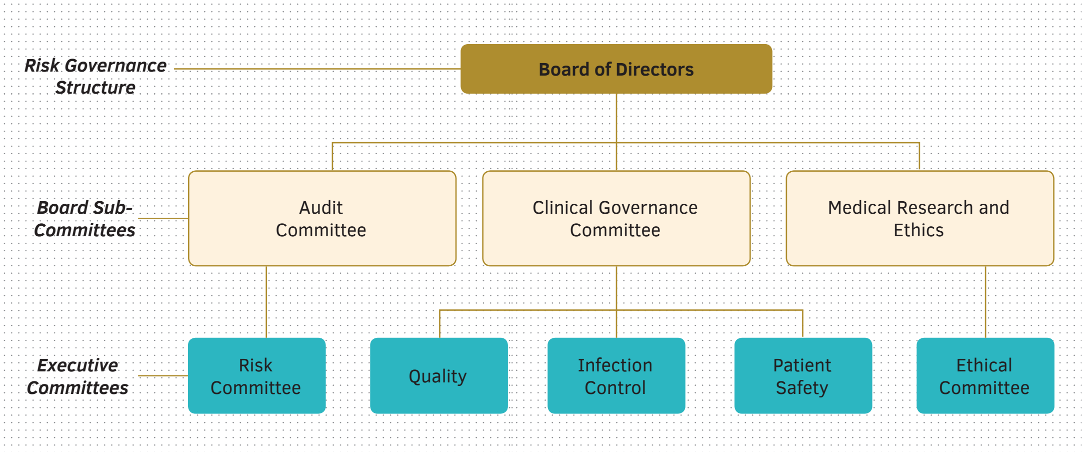
Page 68 for further information

Relevant GRI topics: Local Communities

Risk Management Review

Effective and proactive management of risks enable us to minimise the potential adverse impacts on our operations. Understanding, analysing and addressing risk is an essential part of our risk management process. Given the increasing complexity of the healthcare industry including challenges of financial sustainability, care delivery, patient centricity, digital transformation and regulatory compliance, identifying and effectively responding to our risks is vital in driving towards our organisational objectives.

The Board of Directors holds ultimate responsibility for ensuring the effectiveness and adequacy of the Group's risk management practices. The Board monitors key risk exposures on an ongoing basis to ensure that strategic ambitions and corporate plans remain relevant and given emerging risks and opportunities. Several Board sub-committees and executive committees 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 3 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,

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

Principal Risks

The following is an overview of the principal risks the Group faces, their potential impact and mitigating measures in place. This may not include all risks that could ultimately affect the Group, as some risks may be unknown at this point. We remain vigilant of changes in the regulatory, economic and industry landscapes, to ensure that we proactively identify risks which could impact our ability to create value.

Risk Management Review

Key Risks	Impact	Mitigation Measures	Links to Material Issues & Other Reports
Macro-economic conditions The sharp depreciation of the Sri Lankan Rupee by 19% against the USD during the year had an adverse impact on the Group's cost base. Price increases were not immediately or fully passed on to customers and with a significant portion of its cost base consisting of imports, the rupee depreciation has had a significant effect on the Group's operating margins. On the other hand, foreign currency deposits amounting to US$ 9.6Mn resulted in a massive exchange gain on currency translation which helped to mitigate the impact of cost increases. The subdued economic conditions during the year also had an impact on disposable income resulting in a moderation in patient admission patterns as well as patients choosing to postpone elect surgeries which affects revenue and profits negatively.	High	• Foreign currency deposits of US$ 9.6Mn that provides a hedge and counters increased costs due to currency depreciation. • Ability to make payments to suppliers in foreign currency if required and permitted	• Operational efficiency
Increased regulatory pressure Regulatory developments can directly affect the cost base of healthcare providers and in turn affect quality of care and growth aspirations. Non-compliance can lead to financial and reputational losses whilst onerous and restrictive regulation could be an effective barrier to entry. The private healthcare sector has been subject to increasing regulatory pressure including price ceilings on drugs, selected procedures and laboratory tests. Government investigations on scrutiny of complaints has also been on the rise. Further price ceilings on rates charged by private hospitals on in-patient and out-patient procedures, including surgeries are expected to be imposed by the Ministry of Health and are currently under discussion.	High Increasing	• Representation and active engagement with regulators and industry associations • Comprehensive budgeting and planning mechanisms to mitigate impacts of price ceilings	• Operational efficiency • Responsible care • Regulatory engagement and compliance

Key Risks	Impact	Mitigation Measures	Links to Material Issues & Other Reports
Shortage of skilled personnel An acute shortage of technically skilled staff such as nurses, laboratory technicians and pharmacists in the country could affect service quality and growth plans of the Group.	High Unchanged	- In-house nurses training school to develop skilled and proficient nursing staff - Ongoing training and development for nurses and other support staff - Recruitment and retention strategy	- Employee attraction and retention - Responsible care - Refer to Human Capital (page 62) for further information
Competition Capacity expansions by private healthcare providers in recent years have led to an intensely competitive landscape. Investing in the medical and clinical technology and emphasising quality has enabled us to effectively differentiate ourselves from competition. The anticipated entry of several new entrants to the private healthcare sector in the coming years and better facilities offered by government hospitals is set to heighten the competition for skilled labour that includes consultants and medical officers. Currently most private hospitals experience high staff turnover in nursing and other allied health services category, as employees seek more lucrative opportunities in competing hospitals including government hospitals. This will extend to consultants and medical officers as the competition increases. The result will be an overall increase in the cost of care of Hospitals due to providing more attractive remuneration to attract and retain qualified professionals. If price ceilings on private hospital procedures that are currently under discussion are imposed, this will further aggravate private healthcare providers' cost base.	Moderate Increasing	- Focus on gaining competitive advantage through quality rather than price considerations - Employee recruitment and retention strategy - New remuneration models and obtaining service of a wider base of consultants - Continued monitoring of the industry and competitive landscape - Frequent introduction of new facilities, medical procedures and specialty units	- Employee attraction and retention - Consultant relationships - Technology and innovation - Customer satisfaction - Refer to Human Capital (page 62), Manufactured Capital (page 58) and Social and Relationship Capital (page 68) for further information

Risk Management Review

Key Risks	Impact	Mitigation Measures	Links to Material Issues & Other Reports
Clinical Risk The most significant risk for Lanka Hospitals arises due to the potential loss of earnings, loss of reputation, possibility of litigation and increased regulatory pressure arising from events or incidents that affect quality of care and/or patient safety. To manage clinical risk, we are constantly striving to improve the quality and safety of our healthcare services by identifying circumstances and opportunities that put patients at risk of harm and acting to mitigate these risks.	Low Unchanged	• Accreditations providing assurance on all processes within the Hospital • Alignment of operations to International patient safety goals • Multiple safety programs such as infection control, laboratory safety and emergency preparedness among others • Structured mechanism for reporting incidents, near misses, patient falls, medication errors etc. • Robust customer complaint mechanism • Continuous employee training on patient and facility safety • Identification and cataloguing of drugs • Frequent testing of medical and laboratory equipment	• Responsible care • Customer satisfaction • Occupational health and safety • Refer to Clinical Governance Review (page 112) and Social and Relationship Capital (page 68) for further information.
Reputational Risk Lanka Hospital's reputation is critical in attracting consultants, patients and other skilled medical professionals/ technicians. Cases of misdiagnosis, incorrect treatments and accidents stemming from people, process or equipment error could result in outcomes causing significant damage to the Group's reputation.	Low Unchanged	• Accreditations and awards provide assurance to stakeholders regarding the quality of our offering • Procedures to ensure responsible marketing communications • Building and maintaining relationships with key stakeholders to ensure their needs are identified and addressed • Engaging in online dialogue through social media and company website	• Responsible care • Customer satisfaction • Refer to Clinical Governance Review (page 112) and Awards and Accreditations (page 23) for further information.

Key Risks	Impact	Mitigation Measures	Links to Material Issues & Other Reports
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 an 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.	Low Unchanged	• Comprehensive IT and information systems security policy • Access and password controls • Disaster Recovery and Business Continuity Plans	• Technology and innovation • Operational efficiency
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 chain is another critical area of risk management as procurement of sub-standard materials/equipment would impact the overall standard of care.	Low Unchanged	Lanka Hospitals follows the National Procurement Guidelines as a SOE. Adhering to the supplier assessment framework covering financial, social and environmental performance considerations	• Supply chain management • Responsible care • Refer Social and Relationship Capital (page 68) for further information.

Contributing to the Sustainable Development Goals (SDGs)

The United Nations' SDGs were signed into effect in September 2015 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.

Ensure sustainable consumption and production patterns

A comprehensive environmental management framework ensures that the consumption of all natural resources are tracked and monitored on a continuous basis. We also produce an Integrated Annual Report and comply with the GRI Standards on Sustainability Reporting.

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

- Total employees: 1,868
- New recruitments during the year: 629
- Average training hours per employee: 22.39

Achieve gender equality and empower all women and girls

We are an equal opportunity employer, and do not practice gender-based discrimination in recruitment, promotions or when determining remuneration.

- Overall female representation rate: 59%
- Female representation in the executive/managerial cadre: 42%.

Ensure healthy lives and promote well-being for all at all ages

Our operations directly contribute towards improving access to healthcare in the country's capital.

- Inpatients treated: 28,012
- Outpatients treated: 359,576
- Surgeries performed: 10,927

Ensure inclusive and quality education for all and promote lifelong learning

- 58 Nursing students graduated from the Lanka Hospitals Nursing Training School.
- Investment in training: Rs. 15.05 Mn
- Total training hours to employees: 41,819

Extending a helping hand

The Mastery of *Professional* Consultants

At Lanka Hospitals, our patients have access to the largest base of resident consultants in the private sector and over 800 top notch visiting consultants who lead the industry in skills, knowledge and expertise.

43

Resident Consultants

840

Visiting Consultants

Business Line Reviews

Lanka Hospitals

Rs. Million	2018	2017	Y-O-Y (%)
Revenue	5,763	5,226	10
Gross profit	2,422	2,289	6
EBIT	633	692	(9)
Pre-tax profit	1,056	835	26
Profit for the year	826	530	56
Total assets	8,568	7,815	10
GP margin (%)	42	44	(4)
EBIT margin (%)	11	13	(17)
NP margin (%)	14	10	41

Achievements

- Geographical and capacity expansion
- Launch of several new services
- Process improvements

Challenges

- Depreciation of the Sri Lankan Rupee and its impact on import costs

Way Forward 2019

- Refurbishment of certain room categories
- Capacity optimisation
- Broaden scope of services

Performance

The Hospital's revenue grew by 10% to Rs. 5.76 Billion in 2018, driven by an increase in patient volumes, higher occupancy levels, geographical expansion and an upward revision of prices. Total inpatients and outpatients to the Hospital grew by a respective 3% and 3% during the year while the average occupancy rate amounted to 82%, compared to 85% the year before. The average length of stay for the year was 2.24 days, compared to 2.42 the year before. The growth in turnover was to an extent countered by the faster escalation in costs given the sharp depreciation of the rupee and the Company's reliance on imported items which led to the gross profit margin contracting to 42% from 44% the year before. Overall profits, however, were upheld by translation gains on the Company's foreign currency holdings resulting in pre-tax profit increasing by 26% to Rs. 1.06 Billion during the year.

Strategic Priorities

- **Expansion:** We sought to expand our geographical footprint through the opening of two medical centres in Seychelles and Galle and increased room capacity in the main hospital through the addition of 17 rooms. (Please refer to page 58 - Infrastructure and Technology for further details on our expansion strategy)
- **Technology:** The Hospital continues to leverage on emerging medical and clinical technology to better serve the evolving needs of its customers. During the year we introduced minimally invasive spine surgery, a tissue harmonic machine, e-fertility system and a new laparoscopic system among others. (Please refer to page 58 - Infrastructure and Technology for further details on our expansion strategy)
- **Quality Commitment:** We continued to comply with a host of local and international accreditations, attesting to the quality and standard care offered. During the year we obtained reaccreditation of the MTQUA certification. (Please refer to page 23 - Awards and certifications for further details on our expansion strategy). During the year we also sought to drive quality and process improvements across the organisation through departmental level projects and quality drives.

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 haemoto-oncology and nuclear medicine 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 and minimally invasive cardiac surgery.

Way Forward

We will continue to widen the coverage of services we offer through adopting the latest medical and clinical technology and hope to introduce hyperbaric wound treatment and stem cell treatments next year. Optimising existing space to enhance capacity and refurbishment of certain room categories will also be a key area of focus in 2019.

Primary care	Secondary care	Tertiary and specialised care
Outpatients department	Physiotherapy	Gastroenterology
General medicine	Blood bank	Neurosciences
Emergency services	ENT centre	Cosmetic centre
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
		Haemoto-oncology

Business Line Reviews

Lanka Hospitals Diagnostics

Rs. Million	2018	2017	Y-O-Y (%)
Revenue	1,314	1,157	14
Gross profit	689	574	20
EBIT	222	158	40
Pre-tax profit	277	209	33
Profit for the year	255	172	48
Total assets	1,146	1,104	4
GP margin (%)	52	50	6
EBIT margin (%)	17	14	24
NP margin (%)	19	15	31

Achievements

- Gained market share
- Strong revenue and profit growth
- Cost and process efficiencies

Challenges

- Sharp depreciation of Rupee
- Shortage of skilled staff

Way Forward 2019

- Regional expansion
- Re-accreditation of College of American Pathologists (CAP)

Performance

The Diagnostics arm turned in a year of strong performance in 2018 with revenue and profit after tax increasing by 14% and 48% respectively during the year; resultantly, it contributed Rs. 207 Million in dividends to the parent company. Revenue expansion was supported by geographical expansion and strong volume growth as the segment gained market share to emerge as the 3rd largest player in the diagnostics segment commanding a market share of around 17% despite being a relatively new entrant. The depreciation of the Sri Lankan Rupee understandably had an adverse impact on profitability margins given the rise in import costs of consumables and testing agents; However, the segment's GP margin widened to 52% from 50% the year before through process improvement. Operating costs normalised from last year in which significant funds were directed towards obtaining the CAP accreditation; this together with ongoing focus on cost control and efficiencies allowed the segment to widen its operating margins. Resultantly, the segment turned in a profit after tax of Rs. 255 Million during the year.

Strategic Priorities

- **Rebranding:** During the year we sought to rebrand and reposition the diagnostics arm by bringing it under the Lanka Hospitals branding. This is expected to accrue natural synergies as Diagnostics can successfully leverage on the established brand of the Hospital.
- **Expanding geographical footprint:** We continued to invest in expanding the geographical reach of our diagnostics arm and during the year added 2 mini laboratories in Galle and Negombo, bringing the total count to 6. We also added 6 company owned collection centres to the network during the year; we also have over 720 third party collection centres across the island.
- **Targeted marketing:** The segment engaged in targeted marketing focusing on opinion leaders and corporate customers which supported the strong revenue expansion during the year.

Competitive edge

Largest Test Menu	Quality	Technology driven convenience
We offer the country's largest test menu of over 1,250 tests and procedures, of which over 100 are performed exclusively by LHD. We have introduced over 90 new tests to the country, directly contributing towards the growth and evolution of the diagnostics sector.	LHD is the only Sri Lankan laboratory to obtain the prestigious CAP Accreditation, the world's leading certification for the practice of pathology and laboratory medicine. LHD was also the first laboratory in the country to obtain the ISO 15189 certification for medical laboratories.	Our main laboratory is fully-automated with all test results are linked to an integrated laboratory information system which enables customers to access test results securely through the LHD website.

Way Forward

LHD will continue to pursue geographical expansion with emphasis on driving regional growth; our strategy will centre on offering the entire package of medical, laboratory and pharmacy services to customers rather than stand-alone laboratories. We will also focus on widening contributions from corporate sales through targeted marketing.

Pharmacy Operations

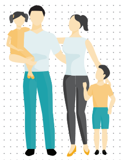
Performance

The Group's pharmacy division performed commendably during the year, achieving a revenue and growth of 16%. Growth was supported by the increased network as we added 2 outlets in partnership with the Keells supermarket chain and one outlet at the Lanka Hospitals' medical centre in Galle. Performance was somewhat affected by the rebranding and new store layouts of the supermarkets which have impacted the visibility of the pharmacies in certain outlets leading to brand dilution. The increasing stringency of regulations including price restrictions and stipulations on the minimum geographical distance between pharmacies also impacted performance to a certain extent. Against this backdrop, we continued to focus on driving process efficiencies and leveraging on technology to enhance productivity.

Strategic Priorities

- **Expansion:** We operate a network of 15 pharmacies in partnership with the Keells supermarkets chain. The customer profile and expansion strategy of Keells supermarkets make it an ideal partner to support our growth aspirations and we hope to strengthen our partnership in the coming years.
- **Process efficiencies:** We introduced a Queue Management System at the main pharmacy within the Hospital premises leading to significant improvements in prescription clearing time and accuracy. We have also sought to increase customer accessibility and convenience by leveraging on technology; for instance, customers are able to now send their prescriptions through Whatsapp, Viber and other electronic platforms and physically visit the pharmacy just for collection.
- **Employee incentive schemes:** We introduced a KPI based framework to incentivise our pharmacy teams as part of the monthly awards scheme; this has led to increased turnaround times, efficiency and accuracy.


10,900+
Surgeries
Capital Management

Our Outputs and Impacts		Value Drivers	Relevant Capitals	Page Reference
Economic Impacts	 Statement of Financial Performance	Financial resources	Financial capital	55
		Infrastructure and technology	Manufactured capital	58
Social Impacts	 Statement of Social Performance	Engaged team	Human capital	62
		Sound relationships	Social and relationship capital	68
		Expertise and innovation	Intellectual Capital	74
Environmental Impacts	 Statement of Environmental Performance	Environmental commitment	Natural capital	77

Capital Management

Statement of Financial Performance (Group)

			2018	2017	Y-O-Y (%)
Financial Capital	Financial Performance				
	Revenue	Rs. Million	7,077	6,382	11
	Results from operating activities	Rs. Million	643	729	(12)
	Profit before tax	Rs. Million	1,122	922	22
	Profit after tax	Rs. Million	870	581	50
	Profit attributable to owners of the parent	Rs. Million	870	581	50
	Dividends	Rs. Million	447	224	100
	Gross Profit Margin	%	44	45	(2)
	Operating Profit Margin	%	9	11	(20)
	Net Profit Margin	%	12	9	35
	Earnings per share (basic)	Rs.	3.89	2.60	50
	Return on Assets (ROA)	%	10	7	36
	Return on Capital Employed (ROCE)	%	13	10	40
	Interest cover	Times	N/A	N/A	N/A
	Financial Position Highlights and Ratios				
	Total Assets	Rs. Million	8,950	8,150	10
	Total Debt	Rs. Million	0	0	0
	Shareholders' funds	Rs. Million	6,455	6,020	7
	Gearing ratio	Times	N/A	N/A	-
	Debt/Equity	%	N/A	N/A	-
	Asset Turnover	Times	0.79	0.78	1
	Net assets per share	Rs.	28.85	26.91	7
	Current ratio	Times	3.19	3.45	(8)
	Quick asset ratio	Times	2.90	3.15	(8)
	Market / Shareholder Information				
	Market value per share	Rs.	42.60	62.00	(31)
	Dividend per share	Rs	2.00	1.00	100
	Company market capitalisation	Rs. Million	9,531	13,871	(31)
	Price earnings ratio	Times	10.95	23.88	(54)
	Dividend yield ratio	%	4.69	1.61	191
	Dividend payout ratio	%	51.43	38.52	34
	Dividend cover	Times	1.94	2.60	(25)
Manufactured Capital	Property Plant and Equipment	Rs. Million	4,489	4,520	(1)
	CAPEX	Rs. Million	363	657	(45)
	No. of beds	No.	367	350	5
	Company owned laboratory collection network	No.	23	19	21
	Pharmacy network	No.	21	18	17

Financial Resources

Adequacy of financial resources determine the Group's ability to pursue its' strategic aspirations and generate sustainable shareholder returns. While operating performance during the year was challenged by difficult external conditions, overall profitability was upheld by significant foreign exchange gains. The Group's financial position remains strong, given its low gearing and healthy liquidity position.

Value Creation in 2018

Revenue
Rs.7.08 Billion
+11%

Profit for the Year
Rs. 870 Million
+50%

Total Assets
Rs. 8.95 Billion
+10%

Dividend per Share
Rs. 2.00
+100%

Rs. 1.16 Billion Operating Cashflow

Rs. 6.45 Billion Shareholders' Funds

Highlights

- Strong performance of the laboratory arm driven by geographical expansion and cost efficiencies
- Maintained a healthy liquidity position
- Increased investments in working capital requirements

Challenges

- Significant depreciation of the rupee and its impact on import costs
- Price ceilings imposed by the government on specific pharmaceutical products

Way Forward

- The National Medicine Regulatory Council is expected to regulate prices on scans, laboratory test and surgeries which if imposed will have a significant effect on operational profitability
- Increasing competition within the industry may result in higher costs to attract and retain medical staff and consultants

Capital Management

Revenue

The Group's revenue increased by 11% to Rs. 7.08 Billion in 2018 supported by top line expansion at both Lanka Hospitals and Diagnostic services by 10% and 14% respectively. The Company's revenue growth was supported by improved occupancy levels and volume growth in gynaecological and surgical procedures. The laboratory arm performed exceptionally well during the year, supported by an expanding network of laboratories and collection centres which allowed it to capture market share. Gross profit growth was relatively strong at 9%, despite an escalation in cost of sales as the cost of imported material increased sharply due to the near 19% depreciation of the Rupee during the year. Given the Group's reliance on imported material, the Group's gross profit margin for the year decreased to 44% compared to 45% the previous year.

Around 19% (or Rs. 1.7 Billion) of Group assets consist of foreign currency fixed deposits in foreign exchange earners accounts. While the interest income earned on these accounts during the year increased marginally by 7% to Rs. 62 Mn, the exchange gain on foreign currency translation amounted to Rs. 287 Mn, a 547% increase due to translation gains.

Cost Management

Administrative and other operating expenses increased by 21% and 3% respectively in 2018 mainly attributed to the following;

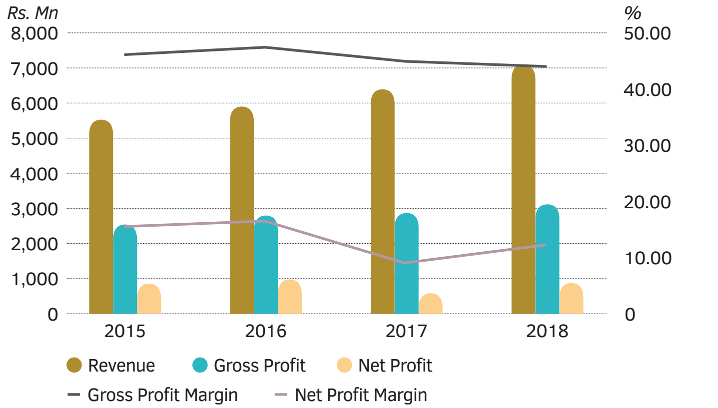
- Depreciation of the Rupee and its impact on the cost of imported material
- Opening of the Seychelles medical centre
- Increasing the number of outsourced service providers to ensure continuity of service
- Rent for administration office building to utilise hospital premises more efficiently
- Costs of additional parking facilities for staff outside the hospital premises to facilitate customer parking.

The Company was more affected by the increase in costs than diagnostic services. Focus on driving cost efficiencies and productivity improvements together with the normalisation of costs associated with obtaining the CAP accreditation in 2017 led to wider GP margins and a decrease in other operating expenses in diagnostic services.

Profitability

Consolidated pre-tax profit increased by 22% to Rs. 1.12 Billion in 2018, reflecting growth in both the Company and Diagnostic services profits. The Rs. 253 Million deferred tax adjustment due to changes in income tax rates made in 2017 contributed to a 26% y-o-y decline in Group income tax expense this year. However, excluding deferred tax, Group income tax expense for the year grew by 179% due to an increase in the income tax rate and withholding tax on dividend income resulting from changes to the Inland Revenue Act effective April 2018. Overall, Group profit for the year increased by 50% to Rs. 870 Million.

Group Revenue, Profits and Profit Margins



Financial Strength

The Group's total assets increased by 10% to reach Rs. 8.95 Billion reflecting increased investments in working capital, investments and a stronger liquidity position. The Group's investment of Rs. 4.5 Billion in property, plant and equipment forms 50% of its asset base. To maintain its edge as a leading player in the private healthcare industry, the Group has continued to significantly invest in the latest technology and medical equipment. During the year additions to medical equipment amounted to Rs. 209 Million which included a digital radiography system, a heart lung machine, echocardiography system and an erectile dysfunction system. Capital expenditure incurred on the new medical centres in Seychelles and Galle and the construction of 17 patient rooms also contributed to acquisitions of property, plant and equipment.

Fixed deposits, classified as other financial assets, made up 30% of total assets and amounted to Rs. 2.7 Billion. The Group Investment Committee has the direct responsibility for investing excess funds and only places deposits in banks with a Fitch credit rating of AA- and above.

Investment in inventories and trade and other receivables increased by a respective 25% and 32% during the year reflecting the escalation in input costs and receivables from insurance companies respectively. Meanwhile the Group continues to maintain a healthy liquidity profile with cash and cash equivalents and investments in fixed deposits collectively accounting for 34% of total assets.

Funding Profile

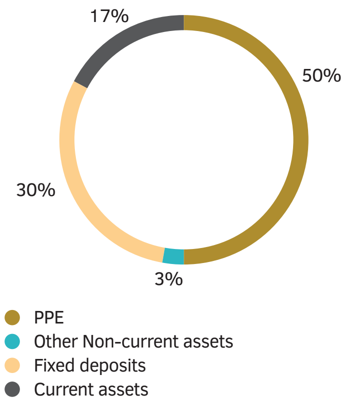
Strong profit generation in recent years has strengthened the Group's capital structure, with equity representing 72% of total funding during the year and together with a net favourable cash balance, the Group showed a strong cash position. This year too, the Group continued to be debt-free with strong cashflow generation supporting its working capital and long term capital requirements without the need to resort to borrowings.

As such the Group's funding profile remains strong with limited gearing and a healthy base of shareholders' funds.

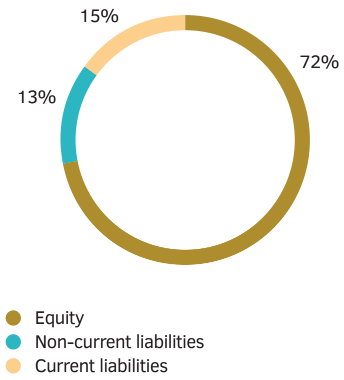
Cashflow Position

In 2018, net cash inflows from operating activities increased by 8% supported by the expansion in business volumes while net cash outflows from investing activities decreased 10% reflecting comparatively lower investments in the acquisitions of property, plant and equipment compared to last year. Cash outflows from financing activities increased by 100% due to the higher dividend payment during the year. Overall the Group generated a cash inflow of Rs. 28 Million and ended the year with cash and cash equivalents of Rs. 44 Million.

Total Assets - 2018



Total Equity and Liabilities - 2018



Shareholder Value Creation

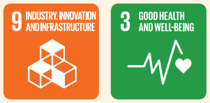
The Group continued to generate sustainable shareholder returns with earnings per share increasing by 50% to Rs. 3.89 during the year. Meanwhile a dividend of Rs. 2 per share was declared and paid during the year. The share price on the other hand declined by 31% to end the year at Rs. 42.60 reflecting subdued market conditions and the broad market decline during the year.

Group		2018	2017	Y-O-Y %
Earnings per share	Rs.	3.89	2.60	50
Dividends per share	Rs.	2.00	1.00	100
Net assets per share	Rs.	28.85	26.91	7
Share price (Closing)	Rs.	42.60	62.00	(31)
Market capitalisation	Rs. Million	9,531	13,871	(31)
P/E Ratio	Times	10.95	23.88	(54)
Dividend payout	%	51.43	38.52	34

Capital Management

Infrastructure and Technology

In the healthcare industry, infrastructure and technology is a key source of competitive advantage as it determines the Hospital's ability to attract doctors and patients and is a key enabler in providing high quality healthcare services. Consisting of hospital buildings, theatres, beds, specialised hospital equipment, laboratory and pharmacy network as well as the Hospital's digital and IT infrastructure Manufactured Capital is an integral component of our value creation process.



02
Medical Centres

06
Laboratories

21
Pharmacies

Value Creation in 2018

Investment in Medical Technology:
Rs. 209 Million

Increase in Bed Capacity
5%

Investment in IT
Rs. 35 Million

Highlights

- The Group's first venture outside Sri Lanka with the launch of the Seychelles Medical Centre
- Regional expansion outside Colombo- medical centre in Galle
- Addition of 17 new rooms
- Addition of 2 mini laboratories outside Colombo
- Addition of 6 company owned collection centres
- Ongoing investment in enhancing medical equipment/technology

Challenges

- Capacity limitations in existing facility
- Technological obsolescence
- High cost of medical technology

Way Forward

- Expanding the capacity
- Increasing the asset utilisation
- Expansion of pharmacy network
- Expansion of Company owned Lab and collection centres

Expanding Our Reach and Capacity

Given capacity limitations in the current location we sought to strengthen our presence through pursuing geographical expansion, both within and outside the country. During the year we marked our first venture outside Sri Lanka with the launch of a medical centre in Seychelles, offering outpatient, pharmacy and laboratory services. Powered by 9 employees the centre acts as an effective referral point for our Sri Lankan operations. We also widened our presence within Sri Lanka with the opening of a medical centre in the Galle. As presented below, we also sought to increase capacity within the Hospital, expand certain speciality services and widen our pharmacy and laboratory network. Total investments in strengthening our physical infrastructure amounted to Rs. 363 Million during the year.

Geographical Expansion

- Ventured outside Sri Lanka with the launch of a medical centre in Seychelles
- Medical centre in Galle providing OPD, laboratory and pharmacy services

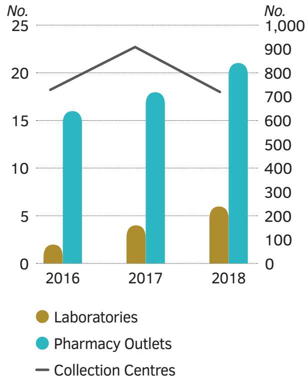
Capacity Expansion in Existing Facility

- Added 17 surgical rooms
- Expansion of dental services
- Enhancements to surgical care facility
- Launched the Male Wellness Centre, the first of its kind in Sri Lanka
- Developed and relaunched the cosmetic centre

Pharmacy and Lab Network

- 2 mini laboratories in Negombo and Galle
- 3 pharmacies in Galle, Wellampitiya and Angoda
- Added 6 Company-owned collection centres

Expansion of the diagnostics and pharmacy network



Space Optimisation

- Non-clinical departments moved to a new administrative building which was rented during the year
- External car park for employees, thereby availing additional parking space for customers

Medical Technology

Rapid advances in medical and clinical technology have paved for way for cutting-edge procedures, enhanced diagnostics and better customer experiences. Ongoing investments in medical technology is also an imperative in attracting consultants and patients to the Hospital and we have placed strategic emphasis on investing in state-of-the-art medical equipment and technology in retaining our competitive position. Total investments in medical technology amounted to Rs. 209 Million during the year and comprised the following;

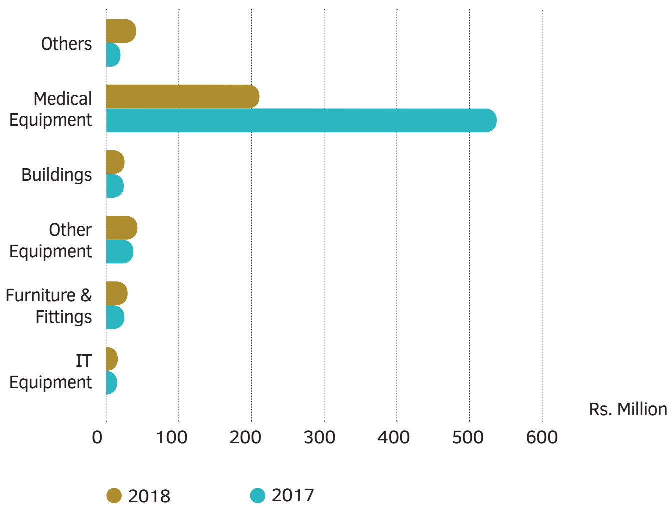
- Digital radio for X-ray which allows for increased convenience and patient safety
- Tissue harmonic machine for tissue sealing during cardiac surgeries
- Echo machine for out-patients department
- E-fertility system which enables obstetricians and gynaecologists from outstation regions to electronically upload all patient details, following which the patient is only required to visit the Hospital for the procedure.
- New laparoscopic system

Information Technology

We are cognisant of the increasing relevant of information technology in driving excellence in healthcare and how it is coupled with effective hospital management and better patient outcomes. As a key pillar of our strategy, the Group continued to invest in strengthening its IT infrastructure in developing competencies and effectiveness. The total investment in IT infrastructure amounted to Rs. 35 Million during the year and comprised of strengthening the Group's IT security, internet connectivity and patient related systems.

Capital Management

Investments in physical capital



- Launch of mobile app for customers enabling patients to book and confirm appointments.
- Wireless (Wi-Fi) internet connectivity project thereby providing free internet access to all patrons of the hospital
- System to generate discharge summary
- Upgrade of current back up application

Value Addition to Manufactured Capital

During the year the Group invested Rs. 363 Million in strengthening its manufactured capital, of which 57% was directed towards enhancing the Group's medical technology and equipment. Since 2017 the Group has invested close to Rs. 750 Million in upgrading its medical and clinical technology. These investments were funded primarily through cash generated from operations and retained earnings.

Way Forward

Upgrading the CATH laboratory

Increase room capacity with the addition of over 15 rooms

Continued expansion of the pharmacy network with the planned addition of over 5 outlets in 2019

Statement of Social Performance

			2018	2017	Y-O-Y %
Human Capital 	Employees				
	Total employees	No.	1,868	1,784	5
	Consultants	No.	840	754	11
	Resident consultants	No.	43	43	-
	Payments to employees	Rs. Million	2,057	1,843	12
	Retention rate	%	70	80	(13)
	Productivity - Net profit per employee	Rs.	465,770	325,589	43
	New recruits	No.	629	677	(7)
	Investment in training	Rs. Million	15.05	11.35	33
	Training hours	Hours	41,819	28,972	44
	Average training hours	Hours	22.39	16.24	38
	Female participation rate - Training	%	69.30	72.88	(5)
	Employee injury rate	%	0.05	0.34	(84)
Social and Relationship Capital 	Customers				
	Inpatient volume	No.	28,012	27,116	3
	Outpatient volume	No.	359,576	348,362	3
	Occupancy rate	%	82	85	(4)
	Customer satisfaction rate	%	97.35	95.00	2
	Suppliers and Business Partners				
	No. of suppliers	No.	582	552	5
	Payments to suppliers (Company)	Rs. Million	3,292	2,883	14
	Spending on local suppliers (Company)	%	98	98	-
	Community Relationships				
	Investment in CSR	Rs. Million	3.39	2.17	56
	Free surgeries performed	No.	100	-	-
	Economic Value				
	Economic value generated	Rs. Million	7,615	6,627	15
	Economic value distributed	Rs. Million	6,778	5,772	17
	Government	Rs. Million	252	85	196
	Employees	Rs. Million	2,057	1,843	12
	Others	Rs. Million	4,469	3,844	16
Intellectual Capital 	New procedures introduced	No.	49	20	145

Capital Management

Engaged Team

In a service industry such as ours, the customer experience is facilitated by employees and as such they play a vital role in creating an environment in which patients feel safe and cared for. People are also a source of competitive edge in the industry and we offer a unique value proposition aimed at attracting, motivating and retaining the country's top healthcare talent.

Resident Consultants:
43

Average Length of Service: 4.79 years

Total Employees 1,868
Male: 41%
Females: 59%

Value Creation in 2018

Payments to Employees:
Rs. 2,057 Million (+12%)

Investment in Training:
Rs. 15.05 Million (+33%)

Training Hours:
41,819 (+44%)

Customer Satisfaction Rate:
97.35% (+2%)

Highlights

- Launch of one-family initiative to drive increased engagement
- Strategic emphasis on succession planning
- Multiple awards for HR practices
- Leadership training for second tier of management

Challenges

- Shortage of skilled personnel in healthcare
- Employee retention at lower levels
- Increasing competition for skills

Way Forward

- Continued focus on driving productivity improvements
- Ongoing investment in training and development
- Focus on leadership development, motivation training and technical skills

Team Profile

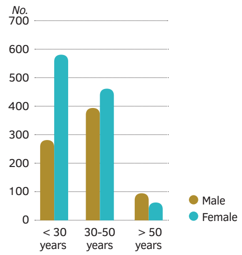
Lanka Hospitals is powered by a team of 1,868 employees which includes highly-skilled medical officers, nurses, medical support staff and administrative staff. We continue to maintain the largest resident consultants base in the private sector totalling 43, a key source of competitive advantage given the doctor-centric nature of Sri Lanka's healthcare industry. The hospital also attracts 840 visiting consultants who are engaged through consultancy agreements and thus are not on the group's payroll. We do not engage employees on a part-time basis.

[GRI 401-1]
During the year, we added 629 employees to the team primarily in the categories of doctors, nurses and administrative staff. The entire industry continues to grapple with a shortage of skilled medical professionals given the dominance of the government sector in healthcare. The Group's commitment towards consistently enhancing its employee value proposition and the strength of its brand have, however enabled Lanka Hospitals to emerge as a preferred employer in the industry, enabling it to attract the country's top talent .

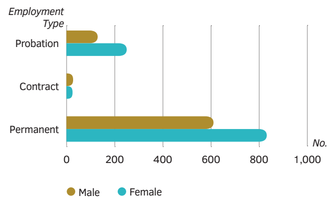
Talent Pool

Consultants:	
Resident:	43
Visiting:	840
Employees:	
Nurses	511
EXCO	7
Managerial	120
Other	1,230

Employee Profile by Age Category



Employees by Contract and Gender



New recruits by age	Number	Rate (%)
Less than 30 years	424	67
30-50 years	176	28
Over 50 years	29	5

New recruits by gender	Number	Rate (%)
Male	238	38
Female	391	62

New recruits by region	Number	Rate (%)
Sri Lanka	620	99
Seychelles	9	1

Capital Management

Strategy and Management Approach

The Group's best in class HR practices have been recognised through numerous awards including the 'Best Employer Brand' and the prestigious 'Asia's Best Employer Award'. HR practices are formalised through a comprehensive suite of policies which ensure that employees are treated fairly and consistently, with dignity and respect. The policy framework has been designed to comply with all relevant labour regulations while embracing industry best practice. Clearly defined governance structures facilitate division of responsibilities and judicious empowerment across the organisation. We do not have collective bargaining agreements in place. Key elements of the Group's HR management approach are illustrated below;

An Engaged Team

The one-family concept is aimed at nurturing a supportive and collaborative work environment which drives performance excellence

Performance Management

A transparent and holistic performance management system together with attractive remuneration schemes has enabled the Group to attract and retain scarce skills

Opportunities for Progression

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

Employee Wellness

We embrace a culture of health and safety within the organisation and provide ongoing training on numerous aspects related to wellness

Equal Opportunity

We are an equal opportunity employer and do not discriminate based on gender, race, religion in recruitment, remuneration or promotions

Skill Development

Ongoing investment in upskilling employees with focus on technical skills, soft skills and workplace attitudes

An Engaged Team

Creating a culture in which employees feel engaged and valued is critical in building and retaining a motivated and high-performing team. At Lanka Hospitals, numerous formal and informal platforms are used to facilitate effective communication and engagement among all levels of employees. The one family program was launched during the year, aimed at nurturing a collaborative work environment in which teams can thrive. Several engagement activities aligned to the one family program, including outbound training programmes, employee award schemes and work-life balance initiatives were conducted throughout the year. Engagement is also facilitated through multi-level staff meetings, an open-door culture, performance appraisals and an year-round calendar of religious, cultural and sporting events.

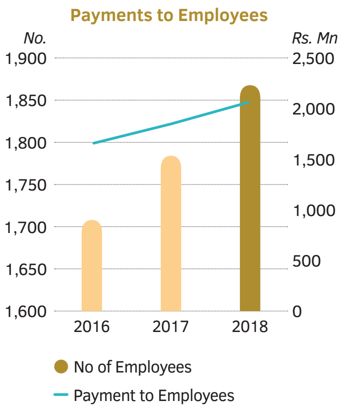
Monthly Employee Awards Programme

In 2018 the Group launched a unique initiative to drive departmental level service improvements; departments are assessed on a set of defined criteria with independent assessors conducting audits and checks on an ongoing basis. Departments achieving the highest scores are rewarded at a monthly awards programme at which employees are given the opportunity to display their talents. The initiative has been extremely well received by our employees with demonstrable improvements in service quality across all departments.

Performance Management

GRI 404-3

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

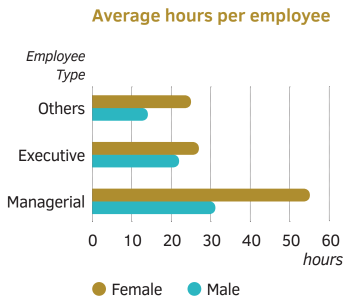


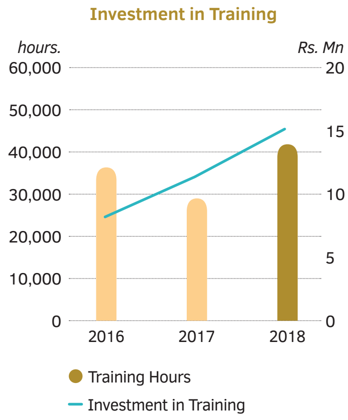
among others. As discussed in last year's Annual Report we extended the balanced scorecard -based performance management framework to cover all employees, providing more clarity in job roles and defining clear career paths for progression. This framework has contributed towards nurturing a performance-driven culture with employees rewarded for achieving both departmental and individual performance targets. A grading system for doctors was also introduced during the year. All permanent employees undergo annual performance appraisals, enabling the identification of training needs and areas for further improvement. Total payments to employees for the year amounted to Rs. 2,057 Million an increase of 12% compared to the previous year. Developing employees

The shortage of skilled healthcare professionals in the country underscores the need to continuously upskill our employees through providing opportunities for training. 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. Focus was placed on building a strong management team and during the year we partnered with the Postgraduate Institute of Management in delivering a leadership development program for our second tier of corporate leaders. In 2018, 26 employees engaged in this program and over the medium-term these investments will lead to better succession planning and leadership capabilities across the Group. Total investment in training amounted to Rs. 15 Million during the year, which in turn translated to 41,819 total training hours and 22.39 average training hours per employee. *GRI 404-2*

GRI 404-1

Training Record





Capital Management

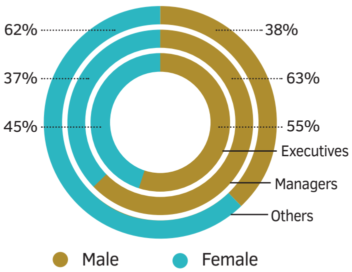
Key Training Initiatives 2018

- Leadership Development - Management Development Programme - PIM
- Neuro Linguistic Programing Residential workshop for Mangers
- Residential workshop on NLP for Assistant Mangers and Nursing Heads
- Senior Executives and Nursing In Charges Out Bound Residential workshop
- Out Bound Training for General category Employees
- Personal Grooming and Dress Sense for Front liners
- Customer Service Excellence for Front Liners
- English Vocabulary Improvement Programme for Front Office Staff
- Workshop on Performance Management System-Building performance Culture
- Microsoft Advanced Excel for Beginners

Career Progression

We have placed strategic emphasis on developing a talent pipeline through identifying high-performing employees and providing clear plans for career progression. All vacancies are advertised internally to ensure that current employees are given the opportunity to apply. During the year 49 vacancies were filled through internal promotions comprising both medical, medical support and administrative positions.

Male & Female Representation



Employee Wellness *GRI 403-1*

Healthcare workers face numerous health and safety hazards including exposure to infections, hazardous substances and workplace stress among others. At Lanka Hospitals, we consider it critical to provide an environment where our employees' exposure to health and safety hazards are minimum and these guidelines are mandated by the requirements of the JCI accreditation. All occupational injuries are recorded and followed-up to ensure corrective action is taken.

The Group's injury record for the year is given below;

Occupational Safety *GRI 403-9*

	2018	2017
Work-related injuries (Nos.)	1	6
Work-related fatalities (Nos.)	0	0

Diversity and Equal Opportunity *GRI 405-2*

Employee diversity makes both commercial and social sense for us and we have strived to create a culture in which diverse employees feel valued and motivated. As an equal opportunity employer, we have built a talent pool which is diverse in both age and gender representations which has allowed us to combine industry experience and different insights into customer behaviour to drive our strategic ambitions. The Group's female representation was 59% in 2018 including 37% at managerial level and above. The Hospital'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 2018, 52% of the employees who took maternity leave returned to work, and 100% were in our employment 12 months after.

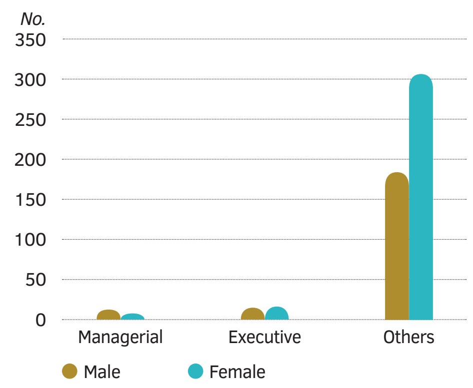
Parental Leave *[GRI 401-3]*

Number of employees:	2018	2017
Entitled to parental leave	1,132	1,043
That took parental leave	48	58
That returned to work after parental leave	25	22
Still employed 12 months after returning to work after parental leave	48	27

Retention *[GRI 404-3]*

Retention is an industry-wide challenge given the increasing competition for skilled labour in the industry. In 2018, the Group's turnover rate was 30% primarily reflecting high employee exit rates in the 'Others' and in the <30 years categories stemming mainly from 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 by Category



Capital Management

Sound Relationships

The sound relationships we have nurtured within and between communities, groups of stakeholders and other networks enable us to share information, enhancing individual and collective well-being while providing us the social license to operate.

3 GOOD HEALTH AND WELL-BEING

Rs. 588 Million
Brand Value

Over 387,000
Customers

582
Supplier Relationships

Value Creation in 2018

Customer Satisfaction Rate : 97.35%

Growth in Customer Base: 3%

Payments to Suppliers (Company): Rs. 3,292 Million

Investment in CSR: Rs. 3.39 Million

Highlights

- Ongoing focus on quality and standard of care
- Maintained excellent customer satisfaction scores
- Continued investments in our corporate social responsibility initiatives

Challenges

- Preserving brand reputation in the age of social media
- Intensifying competition
- Rising costs and its impact on customer affordability

Way Forward

- Driving consistent improvements in patient care and experience
- Enhance the incident monitoring mechanism
- Ongoing focus on community engagement initiatives

Customer Relationships

Patient experience is at the heart of everything we do. A high level of patient engagement that supports our promise of world class service delivery has enabled us to build a loyal customer base. In the healthcare industry, customer goodwill is essential in preserving our brand, facilitating higher levels of retention and attraction of new customers. Our relationships are strengthened through:

- Constant endeavours to improve patient experience and satisfaction
- Focusing on responsible patient care and patient safety
- Providing training on aspects of patient care, safety and experience to employees (Further information Human Capital page 62)

Our Focus on Patient and Family Centred Care

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

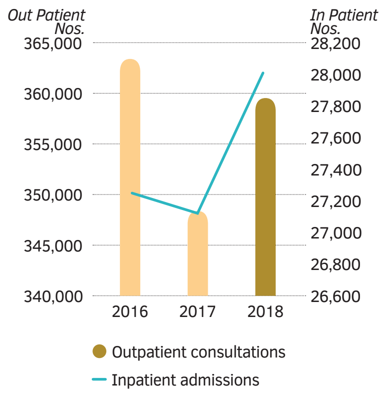
Our Commitment to Improve Customer Experience and Satisfaction

At Lanka Hospitals we provide care that is 'patient and family centred'. We continue to focus on consistently enhancing the patient experience by building stronger co-ordination, communication and instilling compassion among individual caregivers and teams. 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.

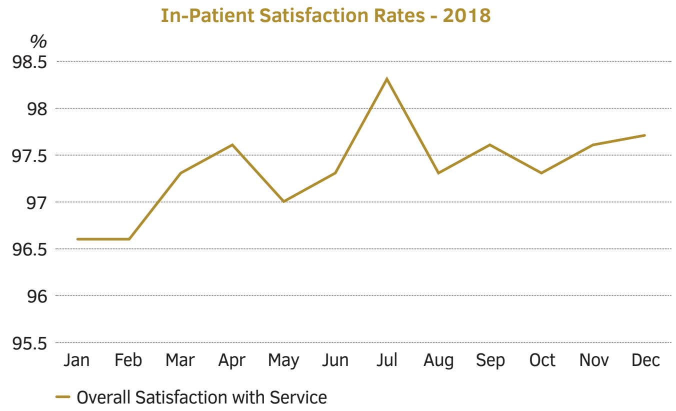
Lanka Hospitals caters to both local and international patients of varied demographic characteristics. During the year, total patient admissions and consultations increased by a respective 3% and 3% during the year. A dedicated 'International Patient Care Centre' provides personalised care for international patients. As a MTQUA accredited healthcare facility, Lanka Hospitals provides each individual international patient with an appropriate interdisciplinary plan of action, seamless clinical logistics, a comprehensive patient and family education plan and clear communication with the patient's payer.

Patient feedback: Patient feedback is critical in learning about patients' experience and identifying service gaps and means of driving further improvement. Lanka Hospitals has a structured mechanism in place to obtain customer feedback; all inpatients are given the opportunity to submit feedback at the time of discharge.

Customer Relationships



Capital Management



If the patient is unable to provide feedback at that time, a web link is provided so that feedback can be submitted electronically. Outpatients are also provided the opportunity of providing feedback. During the year we have increased efficiencies in our complaint handling process by separating medical and non-medical complaints. The feedback form tracks multiple aspects of a customer's experience including the admission procedure, housekeeping, attitude and quality of medical staff including nurses, quality and taste of food and beverages. Overall patient satisfaction levels were high throughout most part of the year and averaged 97.35%. Satisfaction rates are analysed and monitored at least monthly by management and actioned as appropriate.

The widespread use of social media has compounded the challenge of maintaining brand reputation as negative messages from dissatisfied customers can spread instantly, sharply impacting brand image. Proactively responding to these reviews and understanding the cause of customer dissatisfaction requires increased resources.

Marketing and Labelling *[GRI 417-1/ 417-2]*

External marketing communications including advertisements and hoardings are approved by the GCEO, ensuring the integrity and credibility of information. Communications with patients comply 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 of any product/service labelling or marketing communication regulations or laws.

Customer Privacy *[GRI 418-1]*

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 on customer privacy breaches received 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. During the year there were no substantiated complaints regarding the breach of customer privacy. *[GRI 418-1]*

Caring for Our Patients in a Safe Environment *[GRI 416-2]*

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 in guiding 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. (Please refer page 112 on Patient Safety in the Clinical Governance Report for further details).

An unwavering Commitment to Quality

Lanka Hospitals is one of Sri Lanka's most accredited private hospitals and the recipient of numerous awards. International accreditation ensures that world class quality standards are maintained. Meanwhile 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 GCEO 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. (Please refer page 112 on Quality in the Clinical Governance Report for further details).

Incident Week at Lanka Hospitals

As we strive towards clinical excellence, we consistently encourage employees to report incidents, enabling us to improve processes, minimise errors and overcome shortcomings. Although we promote a blame free culture it has been challenging to instil the practice of incident reporting among staff. During the year an 'Incident Week' was held to raise awareness of the importance of incident reporting. While awards for the teams with the highest number of incidents reported and quizzes motivated staff to participate, several programs were also held to educate staff on what an 'incident' is and the importance of reporting.

Supplier Relationships

[GRI 414-1, 308-1]

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 582 suppliers during the year and strive to maintain a balance between quality and value of goods purchased. The Group adheres 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.

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.

Medical Equipment	Imported mainly through manufacturers' local agents and tests runs are conducted prior to commissioning. The agents are engaged when requiring after-sales services and exercising warranties
Pharmaceuticals	Purchases of pharmaceuticals approved by the National Medicines Regulatory Authority exclusively from local agents guaranteeing authenticity
Food and Beverage	Procured only from SLAS certified organisations

Capital Management

Supplier Assessment Framework

Financial Strength and Stability	Quality	Ethics
Financial position	Policy on product/service quality	Discrimination
Liquidity	Quality assurance/control mechanisms	Environmental practices
Debt levels Profitability	Quality certifications	Honesty and Fairness
		Child labour Health and safety

Assessment of Our Suppliers

[GRI 204-1, 414-2]

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 2018, the Group had 582 registered suppliers, comprising 582 local suppliers. All these suppliers had been screened for environmental and social practices.

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.

Brand and Reputation

Lanka Hospitals is amongst Sri Lanka's most well reputed and respected healthcare brands. In 2018, Lanka Hospitals was ranked within the 75 most valuable brands in Sri Lanka with an estimated brand value of Rs. 588 Mn in 2018[1], while in the healthcare sector it 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. 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

Corporate Social Responsibility

Our contribution to society as a responsible corporate citizen helped us build a special relationship with the communities we serve. In 2018, skills development, medical camps and donations were the key areas of focus for CSR activities.

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. Students are attracted from all over the island. In 2018, total student intake was 46, of which 29 were from regions outside the Western Province.

Medical Camps

We conducted several medical camps during the year to benefit vulnerable communities and to promote the concept of a healthy lifestyle. Our employees, including medical officers, nurses and assistants volunteered their time and effort for these initiatives. The medical camps conducted during the year included,

- Medical screening for retired police officers and family members at Police Park: 2000 participants
- Medical screening at Nelum Pokuna to mark International Youth Day, exceeded 1000 local and foreign participants
- Medical screening at Enterprise Sri Lanka/Vision 2025 at Moneragala along with a session on health education and created awareness of Lanka Hospital's facilities relating to the heart center, men's wellness center and IVF center
- Medical screening at St. Benedict's Church at Rathmalana: 400 participants
- Medical screening at Malabe: 100 participants
- St. Anthony's Boys Home, Minuwangoda, periodical medical check-up and vision tests for 15 boys
- Heart walk at Lanka Hospitals which included a medical check-up followed by the walk at the car park, 100 participants

Donations

Lanka Hospitals also provides donations and/or distributes goods to communities on a needs-based approach. This year we celebrated Worlds Children's Day at Pannalgama Maha Vidyalaya, Ampara. Uniforms, bags and shoes were donated to all students of the school. We also refurbished the science laboratory donating materials required for its functioning, repaired all the toilets and painted the whole school. During the year Lanka Hospitals made donations amounting to Rs. 3.39 Million.

100 Free Cataract Surgeries

Lanka Hospitals in partnership with the Association for Sri Lanka China Social and Cultural Cooperation, China's AIDI Eye Hospital and the Sichuan Lion's Club in China performed 100 free cataract surgeries to deserving individuals during the year. The Hospital provided all facilities, equipment and consumables required for the surgeries which were conducted by a number of Chinese eye surgeon with the support of our team. In selecting the patients, the Hospital called for registrations and selection was carried out giving preference to the underprivileged communities.

Capital Management

Expertise and Innovation

In a knowledge-intensive industry such as healthcare, organisational expertise and tacit knowledge are strategic resources that enable operators to compete effectively. This expertise is nurtured through attracting and retaining high-calibre employees across all disciplines supported by the latest medical technologies.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

4 QUALITY EDUCATION

A Culture of Innovation and Collaboration

Organisational tacit Knowledge

Value Creation in 2018

Investment in Medical Technology:
Rs. 209 Million

Investment in Training:
Rs. 15.05 Million (+33%)

Quality Improvement Programmes:
14

New Proceedures Introduced:
49

Highlights

- Product and process innovation
- Reaccreditation of MTQUA
- Driving process efficiencies in Diagnostics
- Streamlining drug issuance process in the Pharmacy resulting in significant improvements in prescription clearing time

Challenges

- High cost of accreditations
- High employee turnover at lower levels adversely affect the diffusion of organisational capital

Way Forward

- Re-accreditation of College of American Pathologists (CAP)
- Introduce hyperbaric wound treatment and stem cell treatments
- Optimising existing space to enhance capacity

Our Expertise

The extensive range of clinical services we offer and the host of local and international accreditations we comply with have enabled us to nurture a unique base of tacit knowledge. Managing both internal and external knowledge is essential in providing the best possible healthcare, driving towards operational excellence and achieving innovation and the Group's knowledge sharing is facilitated through on-the-job and structured training programmes as well as employee engagement initiatives. The following accreditations/certifications have contributed towards enhancing the Group's knowledge base, contributing towards sharpening our competitive edge. (Please refer to page 23 for a full list of certifications)

Patient safety program	Departmental level inputs, measures and benchmarks to ensure the highest standards of quality and patienty safety
Emergency preparedness	Clearly defined disaster plan for any emergency situation
Fire safety program	Ensuring the safety of patients, visitors and facilities in the event of fire
Hazardous material management program	Provides information, guidelines and procedures for the purchasing, storage, use, and disposal of hazardous materials at Lanka Hospitals.
Infection control	Structured mechanism whereby the infection prevention and control activities are streamlined, governed, improved and monitored in order to reduce the risks of healthcare associated infections in patients and healthcare workers.
Radiation safety program	Identifying locations where radiation is used to ensure patient safety, environmental safety and personal radiation protection.

- Joint Commission International (JCI) Accreditation (Version 6)
- CAP Accreditation for the Diagnostics arm
- ISO 22000: 2005 (Food Safety Management)
- ISO 14001: Environmental Management Systems

Safety Culture

As a healthcare provider the safety of our patients and employees is paramount. 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. Key aspects of the Group's safety culture are presented alongside;

Capital Management

Innovation

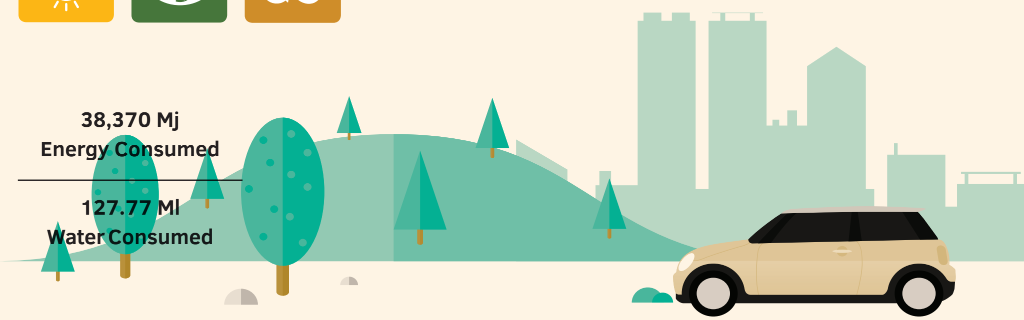
At Lanka Hospitals we are committed towards creating an organisational culture that embraces innovation and collaboration. While adoption of the latest advances in clinical and medical technology have paved way for innovating our offering, we encourage employees to pursue process innovation and quality improvements through creative thinking and departmental level projects. Employees are given the opportunity to express and operationalise their ideas and while interdisciplinary teamwork is also encouraged in driving continuous improvement.

Key product/process innovations carried out during the year include,

Product/service innovations	Process innovation/Quality improvements
• Launched minimally invasive spine surgery • Introduced the men's wellness centre • Introduced 49 new procedures	• Streamlined the complaint handling process • Strengthened the incident reporting/monitoring mechanism in driving towards clinical excellence • Launch of 14 quality improvement projects across the organisation • Process improvements in the Pharmacy enabling the reduction of prescription clearing time from 30 minutes to 8 minutes and improved accuracy

Environmental Commitment

As a responsible corporate citizen Lanka Hospitals committed to providing healthcare services in a sustainable manner with minimum effect on the environment. Accordingly, we drive concerted efforts to conserve energy and water, dispose of hazardous waste in a responsible manner and to reduce carbon emissions in line with international best practices.



Value Creation in 2018

Increase in Energy Intensity:
0.4%

Increase in Water Consumption:
1%

Water Discharge:
127.75 Mega litres (Ml)

Increase in Carbon Intensity:
3%

Highlights

- The first Energy audit at Lanka Hospitals was conducted by the University of Moratuwa which identified areas for energy saving without compromising service quality

Challenges

- Conservation of energy and water while maintaining our premise of excellence in service deliverance.

Way Forward

- Recommendations of the energy audit conducted by University of Moratuwa will continue to be implemented and energy savings are anticipated as a result in the medium term.

Capital Management

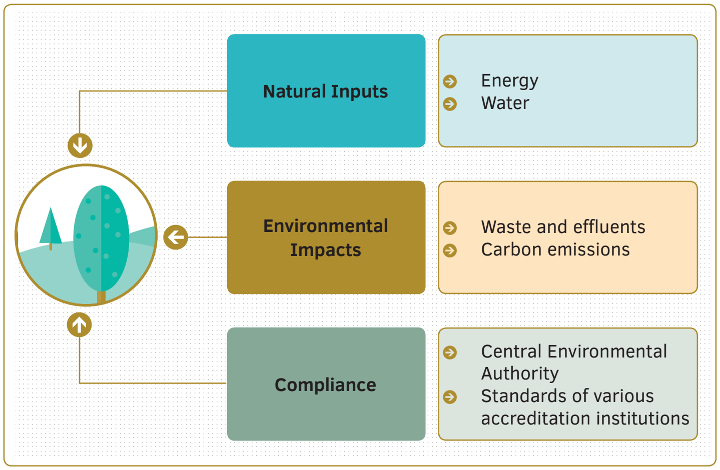
Statement of Environmental Performance

Natural Capital		2018	2017	Y-O-Y %
Energy consumption	Mj	38,370	37,009	4
Energy intensity	J/Inpatients	1,370	1,365	0
Water usage	Ml	127.77	126.99	1
Water discharged	Ml	127.75	109.50	17
Solid waste	MTs	29.77	27.43	9
Medical waste	MTs	103.89	101.67	2
Carbon footprint	tCO2e	6,048	5,680	6
Emission intensity	KgCO2e/Inpatients	216	209	3
Instances of environmental non-compliance	No.	0	0	-

Management Approach

As a healthcare provider the direct environmental impact of our operations are relatively low. However, as a responsible corporate citizen we are committed to conducting business in a sustainable manner with minimum adverse effects on the environment. Lanka Hospitals endeavours is many ways to conserve energy and water, dispose of hazardous waste in a responsible manner and to reduce carbon emissions in line with international best practices. We have also adopted the precautionary approach for decision making pertaining to capacity expansions, new product development and major capex investments.

Lanka Hospitals is compliant with ISO 14001 – an environmental management system that helps to identify, manage, monitor and control environmental issues in a holistic manner. It considers all environmental issues relevant to our operations, such as air pollution, water and sewage issues, waste management, resource use and efficiency. We recognise the need to drive continuous improvement of our system and approach to environmental concerns and have given prominence to environmental management in our strategic planning process.



During the year, there were no instances of non-compliance or penalties imposed on Lanka Hospitals for contravention of environmental regulations or guidelines. *[GRI 307-1]*

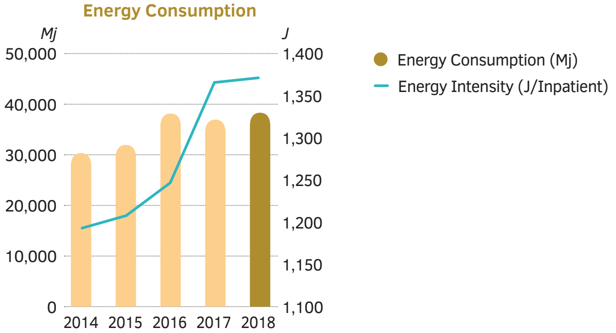
Natural Inputs

Energy *[GRI 302-1/302-3]*

Our energy requirements are fulfilled entirely through the national grid. Electricity remains the main contributor to our carbon footprint. During the year Lanka Hospital's energy consumption increased by 4% to 38,370 Mj due to capacity expansion. Energy intensity (defined as energy usage per inpatient) increased by 0.4% to 1,370 J. Key energy initiatives during the year are,

- Usage of LED lighting solutions for all new projects and theatre lighting
- Creating awareness of energy conservation among employees
- Implementation of recommendations relating to saving energy based on the energy audit conducted by the University of Moratuwa

	2018	2017	2016	2015	2014
Energy Consumption (Mj)	38,370	37,009	33,983	32,098	30,477
Energy Intensity (J/Inpatient)	1,370	1,365	1,247	1,209	1,194



Energy Audit – May 2018

Conducted by the Department of Electrical Engineering, University of Moratuwa

Objective: Overall energy cost reductions through energy monitoring and energy improvement measures without affecting service quality

The energy audit commenced by a familiarizing of the Lanka Hospital processes relating to energy and energy converting equipment. Thereafter specific areas or energy sub-systems were studied and measurements taken to identify potential energy efficient improvements. Discussion with Lanka Hospitals engineering and non-engineering staff followed, with recommendations developed and presented, to the Lanka Hospitals Management and Engineering staff.

Key recommendations based on the audit were for the following areas:
- Energy Supply System, Energy Accounting and Management Practices
- Electricity Supply and Demand Management
- Chillers and the Cooling System
- Chilled Water Distribution and Air Handling Units
- Thermal Energy Use and the Compressed Air System

Water

Water is essential for Lanka Hospitals' operations and its usage is monitored closely. Consumption of water increased by 0.6% to 127.77 Ml during the year. Various measures are 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 controlling the increase of water consumption during the year.

Waste and Effluents *[GRI 306-1]*

The main types of solid waste generated through our operations include 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 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.

[GRI 303-4, 306-1, 306-2]

	2018	2017	2016
Water discharge - municipality sewerage, drainage lines (Ml)	127.75	109.50	108.04
Plastic cans recycled (tonnes)	8.45	6.53	3.50
Cardboard and paper recycled (tonnes)	21.32	20.89	24.60
Dialysis cans recycled (Nos)	5,028	5,165	6,579
Medical waste (tonnes)	103.89	101.67	96.43

Capital Management

Carbon Footprint *[GRI 305-2, 305-4]*

Emissions are measured using the 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,

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

During the year, the Group's total carbon footprint increased by 6%, while the emission intensity factor (defined as carbon footprint/inpatients) increased by 3%.

	2018	2017	2016	2015	2014
Operations owned or controlled by the organisation (kg) Fuel combustion and company owned vehicles	749,072	661,770	725,086	639,639	637,488
From purchased/acquired electricity (kg)	5,298,574	5,018,685	4,785,061	4,639,187	4,325,114

Independent Assurance Report to The Lanka Hospitals Corporation PLC

KPMG
(Chartered Accountants)
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Independent Assurance Report to The Lanka Hospitals Corporation PLC

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 2018. The Sustainability Indicators are included in The Lanka Hospital Corporation PLC's Integrated Annual Report for the year ended 31 December 2018 (the "Report").

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

Assured Sustainability Indicators	Integrated Annual Report Page
Performance Highlights - Financial Capital	06

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

Limited Assurance Sustainability Indicators	Integrated Annual Report Page
Performance Highlights	07-09
Information provided on following capitals	
Financial Capital	55-57
Manufactured Capital	58-60
Human Capital	62-67
Social and Relationship Capital	68-73
Intellectual Capital	74-76
Natural Capital	77-80

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 2018 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 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 2018, 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.

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.

Independent Assurance Report to The Lanka Hospitals Corporation PLC

KPMG

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 control 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 control 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:

- 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;
- enquiries of management to gain an understanding of the Company's processes for determining material issues for the Company's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Indicators;
- 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;
- 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;
- reading the Limited Assurance Sustainability Indicators presented in the Report to

KPMG

determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of the Company;

- 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

25th February 2019

GRI Content Index Tool

GRI Standard	Disclosure	Page number	Omission
GRI 101: Foundation			
General Disclosures			
GRI 102: General Disclosures	102-1 Name of Organisation	179	-
	102-2 Activities, brands, products and services	49	-
	102-3 Location of headquarters	179	-
	102-4 Location of operations	179	-
	102-5 Ownership and legal form	179	-
	102-6 Markets served	48	-
	102-7 Scale of the organisation	6-8	-
	102-8 Information on employees and other workers	61	-
	102-9 Supply chain	71	-
	102-10 Significant changes to the organisation and supply chain	48-51	-
	102-11 Precautionary principle	44	-
	102-12 External initiatives	98	-
	102-13 Membership of associations	70	-
	102-14 Statement from senior decision maker	12-15	-
	102-16 Values, principles, norms and standards of behaviour	100-106	-
	102-18 Governance Structure	99	-
	102-40 List of stakeholder groups	31-33	-
	102-41 Collective bargaining agreements	-	-
	102-42 Identifying and selecting stakeholders	32-34	-
	102-43 Approach to stakeholder engagement	34-38	-
	102-44 Key topics and concerns raised	34-38	-
	102-45 Entities included in the consolidated financial statements	115	-
	102-46 Defining report content and topic boundary	3	-
	102-47 Material topics	35-38	-
	102-48 Restatement of information	3	-
	102-49 Changes in reporting	3	-
	102-50 Reporting period	3	-
	102-51 Date of most recent report	3	-
	102-52 Reporting cycle	3	-

GRI Standard	Disclosure	Page number	Omission
	102-53 Contact point for questions regarding Report	3	-
	102-54 Claims of reporting in accordance with GRI Standards	3	-
	102-55 GRI context index	84-87	-
	102-56 External assurance	81-83	-
Material Topics			
200 - Economic			
Economic Performance			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	35-38	-
	103-2 The Management Approach and its components	35-38	-
	103-2 Evaluation of the Management Approach	35-38	-
GRI 201: Economic Performance	201-1 Direct economic value generated and distributed	177	-
300 - Environmental			
Energy			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	35-38	-
	103-2 The Management Approach and its components	35-38	-
	103-2 Evaluation of the Management Approach	35-38	-
GRI 302: Energy	302-1 Energy consumption within the organisation	78	-
	302-3 Energy intensity	78	-
Water & Effluents			
	303-4 Water discharge	79	
	303-5 Water consumption	79	
Emissions			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	35-38	-
	103-2 The Management Approach and its components	35-38	-
	103-2 Evaluation of the Management Approach	35-38	-
GRI 305 Emissions:	305-2 Energy indirect (Scope 2) GHG emissions	80	-
	305-4 GHG emissions intensity	80	-
Effluents and Waste			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	35-38	-
	103-2 The Management Approach and its components	35-38	-

GRI Content Index Tool

GRI Standard	Disclosure	Page number	Omission
	103-2 Evaluation of the Management Approach	35-38	-
GRI 306: Effluents and Waste	306-1 Water discharge by quality and destination	79	-
	306-2 Waste by type and disposal method	79	-
Environmental Compliance			
	307-1 Non-compliance with environmental laws and regulations	78	-
Supplier enviromental Assessment			
	308-1 New suppliers that were screened using environmental criteria	71	-
400 - Social			
Employment			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	35-38	-
	103-2 The Management Approach and its components	35-38	-
	103-2 Evaluation of the Management Approach	35-38	-
GRI 401: Employment	401-1 New employee hires and turnover	63 & 67	-
	401-3 Parental leave	66-67	-
Occupational Health and Safety			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	35-38	-
	103-2 The Management Approach and its components	35-38	-
	103-2 Evaluation of the Management Approach	35-38	-
GRI 403: Occupational Health and Safety	403-1 Occupational health and safety management system	66	-
	403-9 Work related injuries	66	-
Training and Education			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	35-38	-
	103-2 The Management Approach and its components	35-38	-
	103-2 Evaluation of the Management Approach	35-38	-
GRI 404: Training and education	404-1 Average hours of training per year per employee	65	-
	404-2 Programs for upgrading employee skills and transition assistance programmes	65	-
	404-3 Percentage of employees receiving regular performance and career development reviews	65	-

GRI Standard	Disclosure	Page number	Omission
Diversity and Equal Opportunity			
GRI 405: Diversity and equal opportunity	405-2 Ratio of basic salary and remuneration of women to men	66	-
Local Communities			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	35-38	-
	103-2 The Management Approach and its components	35-38	-
	103-2 Evaluation of the Management Approach	35-38	-
GRI 413: Local communities	413-1 Operations with local community engagement, impact assessments and development programmes	72-73	-
Supplier Social Assessment			
GRI 414: Supplier Social Assessment	414-1 New suppliers that were screened using social criteria	71	-
Customer Health and Safety			
GRI 416: Customer health and safety	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	70	-
Marketing and Labelling			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	35-38	-
	103-2 The Management Approach and its components	35-38	-
	103-2 Evaluation of the Management Approach	35-38	-
GRI 417: Marketing and labelling	417-1 Requirements for product and service information and labelling	70	-
	417-2 Incidents of non-compliance concerning product and service information and labelling	70	-
	417-3 Incidents of non-compliance concerning marketing communications	70	-
Customer Privacy			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	35-38	-
	103-2 The Management Approach and its components	35-38	-
	103-2 Evaluation of the Management Approach	35-38	-
GRI 418: Customer Privacy	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	70	-

Board of Directors

From Left to Right :-
Dr. Sarath Paranavitane *(Chairman)*, Ven. Thiniyawala Palitha Thero, Mr. Asendra Siriwardena, Mr. Keerthi Kotagama, Mr. Daljit Singh

From Left to Right :-
Mr. Jayantha Munasinghe, Mrs. Umashanthiee Rajamantri, Mr. Saadi Wadood, Mr. Thanuja Weeratne, Dr. Anil Abeywickrama, Mr. Rajiv Puri

Profiles of the Board of Directors

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 a 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. 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) and is an Attorney-at-law. He is a practising lawyer. He has also completed a Diploma Course in Mass Communication from the Sri Lanka Foundation.

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 Director / CEO of Hector Kobbakaduwa Agrarian Research and Training institute, Chairman Galoya Plantations (Private) Limited, Director National Food Promotion Board and Board Member of Business Management Education Board of NIBM, Council Member of Colombo School of Business Management, Board Member CSR Sri Lanka and Member of the Steering Committee on Food Security of National Science Foundation of Sri Lanka.

Former Executive Director SLIC, Chairman Janatha Estate Development Board, Working Director RDA and Chairman Managaguma Road Construction (Pvt) Limited

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 Organisations. 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. 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 healthcare 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.

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 Group, Aitken Spence Group 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.

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 and other Corporates. 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.

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.

Profiles of the Board of Directors

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 Midware 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.

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. Rajiv Puri

Non Independent Non-Executive Director
Appointed in August 2018

Other Appointments:
Head of the Risk and Audit function at Fortis Healthcare Limited, India

Skills and experience:
Certified Cost Management professional with over 25 years of experience in risk and control governance, internal audit, internal controls and process re-engineering. As a risk consultant, he has worked in risk advisory works advising clients across industries and geographies in implementing governance, risk management, internal audit and control assessment practices. He has played an instrumental role in multiple projects assisting organisations in executive internal audit strategy and developing sustainable internal audit and control assurance functions. He is an active speaker on professional internal audit forums.

Mr. Senura Abeywardena

Independent Non-Executive Director
Appointed in May 2018

Skills and Experience:
Mr. Senura Abeywardena is a civil litigation lawyer and provides advisory services to start-ups and mid tier companies across a range of industries such as Information Technology, Digital Content Aggregation, Tourism and Tea. He holds a Masters Degree in Law from the University of Colombo and a BA.LL.B (Hons) Degree from the National Law School of India University, Bangalore. He resigned from his position on 19th October 2018.

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. He resigned from his position on 28th August 2018.

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. He resigned from his position on 9th May 2018.

Exco Members

Dr. Prasad Medawatte
Group Chief Executive Officer

Mr. Badrajith Siriwardana
Group Chief Financial Officer

Mr. Sanjeewa Serasinghe
Group Chief Human Resource Officer

Mr. Kanishka Kulasekera
Group Chief Information Officer

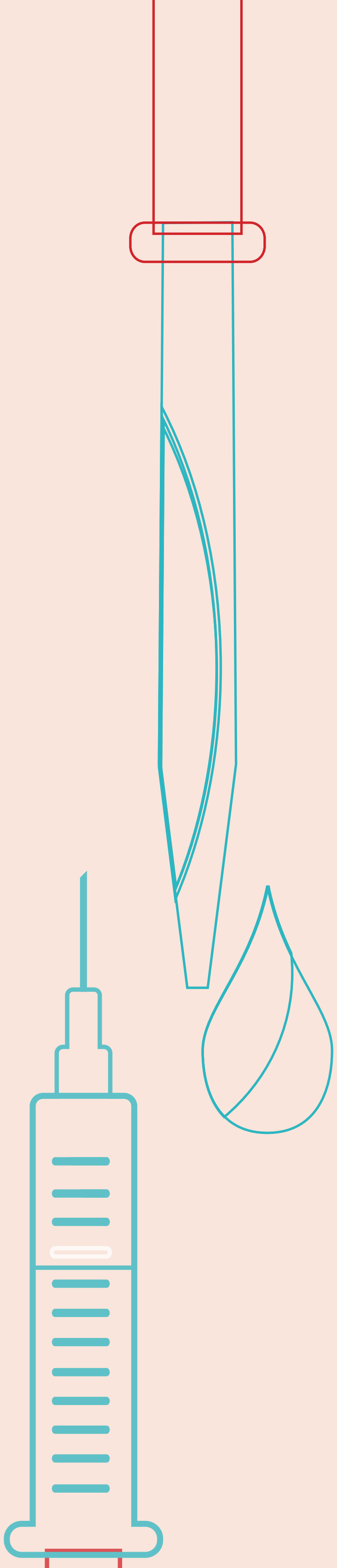
Dr. Wimal Karandagoda
Director Medical Services

Mr. Pradeep Edward
Chief Executive Officer
Lanka Hospitals Diagnostics Private Limited

Dr. G.C.S. Galagoda
Head of Laboratories
Lanka Hospitals Diagnostics Private Limited

Mr. Nimal Ratnayake
Group Chief Marketing Officer

Dr. Deepthi Karunatilleke
Deputy Director Medical Services



The Mastery of *Patient* Care

Our patients are at the heart of everything we do and we treat them with kindness, empathy and the highest standards of clinical care.

28,012

Inpatients

359,576

Outpatients


1.5 kg

Corporate Governance

At Lanka Hospitals the sustainable creation of value is underpinned on robust and effective governance practices and we are committed to upholding the highest standards of integrity, transparency and accountability in maintaining the trust of our stakeholders. 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.

The Group's governance framework has been designed to address long-term and short-term outcomes to manage expectations of its' diverse stakeholder groups. The framework is based on several external and internal steering instruments;

External instruments	Internal standards and principles
Companies Act No. 7 of 2007	Articles of Association
Continuing listing requirements of the Colombo Stock Exchange	Board and Sub-Committees Charter
Code of Best Practice on Corporate Governance (2017) issued jointly by SEC and CA Sri Lanka	Code of Ethics
Private Medical Institutions Act No.21 of 2006	Comprehensive policy framework
Integrated Reporting Framework issued by the International Integrating Reporting Council (IIRC)	Integrated Risk Management Framework
GRI Standards for Sustainability reporting issued by the Global Reporting Initiative	

Governance mechanisms

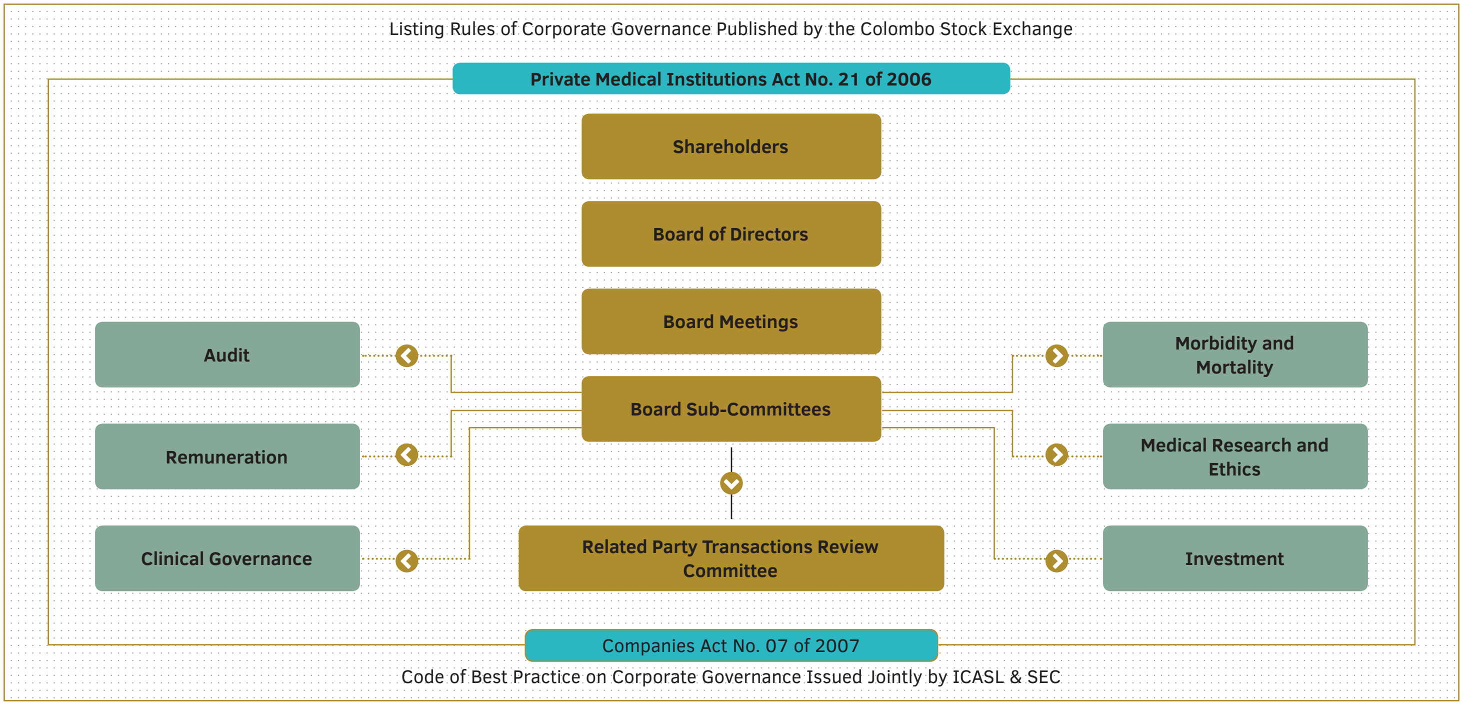
Stakeholder Engagement	Certifications and Accreditations	People Management
Quaity Management	IT Governance	Investor Relations

Highlights of 2018

- **Mr. Ranjan Mohan Wijesinghe**
  (Resigned on 09.05.2018)
- **Mr. Senura Dasith Abeywardena**
  Appointed on 10.05.2018
  (Resigned on 19.10.2018)
- **Mr. Kalyana Sundaram Srivastava**
  (Resigned on 28.08.2018)
- **Mr. Rajiv Puri**
  Appointed on 30.08.2018

Governance Structure

A well-defined governance structure comprising of multi-level governance bodies, specific roles and responsibilities and clear reporting lines ensure accountability across the organisation. 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.



Corporate Governance

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

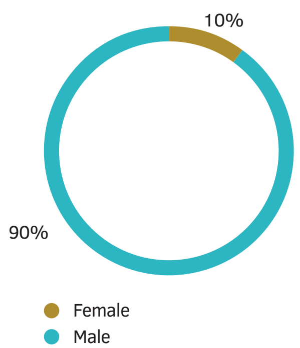
Committee	Responsibilities	Composition
Board level committees		
Audit	Review the financial reporting process, internal controls and audit function to ensure the integrity of the Financial Statements	Four Independent Non-Executive Directors
Remuneration	Assist the Board in the establishment of remuneration 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	Four 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	• Review the morbidity pattern of patients and deaths that occurred in the hospital within a month • Involve a multidisciplinary team in a critical analysis of the systems and processes leading to such outcome of medical care • Recommend improvements to the processes and systems • Monitor action taken regarding these recommendations and the results	Two Independent Non-Executive Directors
Medical Research and Ethics	• Review Research proposals submitted to the hospital and approval of the same • Review and guide the hospital regarding issues of ethical nature • 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 of Directors

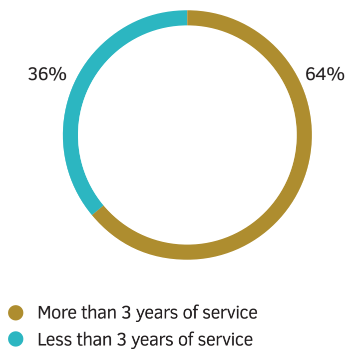
Board Composition

Lanka Hospital's Board of Directors are its apex governing body and are ultimately responsible for delivering sustainable shareholder value. As at end-December 2018, our Board comprises of Eleven (11) Directors, all of whom operate in Non-executive capacity while Nine (9) are Independent Directors. The profiles of all directors are given on pages 88 to 93 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.

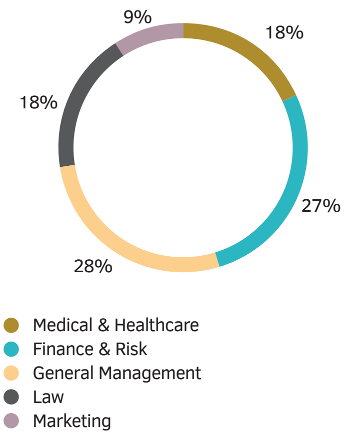
Board Composition



Years of Continuous Service



Board Skills



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,

- Providing direction for Group's medium and long-term strategy and review and approval of the same
- Ensuring the adequacy and effectiveness of the Group's internal controls and risk management practices
- Formulating policy frameworks to ensure compliance with relevant statutory requirements and industry best practices
- Ensuring that key management personnel and the management team have the required skills, experience and knowledge to implement strategy

Board Changes

During the year, 2 new directors were appointed to the Board while 3 directors stepped down from their positions (including 1 who was appointed during the year). Appointments of new directors are promptly communicated to the CSE and shareholders through press releases after obtaining approval from the regulator. 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, 3 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:

- Mr. Daljit Singh
- Mr. Jayantha Munasinghe
- Mr. Saadi Wadood

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.

Board Independence

Independence of the Directors have been determined in accordance with the Continuing Listing Rules of the CSE and all 9 independent, non-executive Board members have submitted signed declarations of their independence.

Corporate Governance

Name of Director/Capacity	Shareholding	Management/ Director[1]	Material Business Relationship[2]	Employee of Company[3]	Family Member of Director or CEO	Years of Continuous Service
Non-Executive Independent Directors						
(1) Dr. Sarath Paranavitane	None	Director	None	None	None	4
(2) Ven. Thiniyawala Palitha Thero	None	Director	None	None	None	4
(3) Dr. Anil Abeywickrama	None	Director	None	None	None	4
(4) Mrs. Umashanthiee Rajamantri	None	Director	None	None	None	4
(5) Mr. Asendra Siriwardena	None	Director	None	None	None	4
(6) Mr. Thanuja Weeratne	None	Director	None	None	None	3
(7) Mr. Jayantha Munasinghe	None	Director	None	None	None	2
(8) Mr. Saadi Wadood	None	Director	None	None	None	2
(9) Mr. Keerthi Kotagama	None	Director	None	None	None	2
(10) Mr. Mohan Wijesinghe (Resigned on 09.05.2018)	None	Director	None	None	None	2
(11) Mr. Senura Abeywardena (Appointed on 10.05.2018/ Resigned on 19.10.2018)	None	Director	None	None	None	-
Non-Executive Non-Independent Directors						
(12) Mr. Daljit Singh or his Alternate Mr. Anurag Kalra	None	Director	Note 1	None	None	5
(13) Mr. K.S. Srivastava or his Alternate Mr. M A Gore (Resigned on 28.08.2018)	None	Director	Note 1	None	None	4
(14) Mr. Rajiv Puri or his Alternate Mr. M.A. Gore (Appointed on 30.08.2018)	None	Director	Note 1	None	None	-

Note 01 - Appointed by Fortis Global Healthcare Holdings Pte Ltd. which has shareholding of 28.66%.

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

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

[3] Employed by Company two years immediately preceding appointment

Board Procedures

All Directors have access to the Group's Company Secretary, Messrs Business Intelligence (Pvt) Limited, 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 regazrd.

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 Activities

Key areas of focus in 2018

Regular updates

- Financial reports on performance, financial stability and capital position
- Reports from Sub-Committee chairpersons
- Risk performance updates

Strategy

- Introduce new policies to achieve Company Vision & Mission
- Strengthening the internal control of the organisation
- Identify new business opportunities and take action to implement

Financial matters

- 2019 budget
- 2018 performance review
- Dividend approval
- Funding and liquidity plans
- Policy frameworks

Risk Management

- Review and approval of the risk management framework
- Clinical risk management
- Cybersecurity

Board meetings and attendance

The Board meets at least on a monthly basis and convened 12 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. The Board sub-committees convened 15 times in total during the year. 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.

Corporate Governance

Attendance and Board and Sub Committee Meetings in 2018

Director	Board Meeting	Audit Committee	Remuneration Committee	Related party transactions Committee
Dr. Sarath Paranavitane	12/12	N/A	N/A	N/A
Ven. Thiniyawala Palitha Thero	12/12	N/A	N/A	N/A
Mr. Daljit Singh or his Alternate Mr. Anurag Kalra	7/12	N/A	N/A	N/A
Mr. K.S. Srivastava or his Alternate Mr. M A Gore	5/7	N/A	N/A	N/A
Dr. Anil Abeywickrama	1/12	1/7	N/A	0/4
Mrs. Umashanthiee Rajamantri	12/12	N/A	N/A	N/A
Mr. Asendra Siriwardena	12/12	7/7	8/8	4/4
Mr. Thanuja Weeratne	12/12	N/A	8/8	N/A
Mr. Jayantha Munasinghe	12/12	7/7	8/8	4/4
Mr. Keerthi Kotagama	12/12	1/1	N/A	2/2
Mr. Saadi Wadood	12/12	N/A	N/A	N/A
Mr. Mohan Wijesinghe	4/4	N/A	N/A	N/A
Mr. Senura Abeywardena	4/5	1/1	N/A	N/A
Mr. Rajiv Puri or his Alternate Mr. M.A. Gore	2/5	N/A	N/A	N/A

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;

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

Board appraisal

The Board sets financial and non-financial targets for the GCEO at the commencement of each financial year, in line with the hospital's strategic objectives of the year. The GCEO'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 GCEO. 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 88 to 93 of this Report. Please refer the Remuneration Committee Report on page 122 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 166 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;

- 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.
- Directors of the Board, including Chairmen of Audit, Remuneration and Related Party Review Committees are available to clarify any points raised by the shareholders.
- 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, advertisements and press. There were no transactions which would materially affect the company performance or assets nor any major related party transactions other than those disclosed on pages 166 to 167 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 2018 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.

- The Annual Report of the Board of Directors on the Affairs of the Company on pages 115 to 119 of this Report contains the declarations prescribed by the Code
- The Statement of Directors' Responsibility is given on page 120 of this Report.
- The Directors' Statement on Internal Controls is given on page 121 of this Report.
- The Independent Auditor's Report on pages 128 to 131 of this Report.

In addition, the Management Discussion and Analysis as set out from pages 24 to 80 of this Report, includes the following information specified in the Code of Best Practice

- Industry structure and developments;
- Opportunities and threats;
- Risks and concerns;
- Internal control systems and their adequacy;
- Social and environmental protection activities carried out by the Company;
- Financial performance;
- Material developments in human resource/industrial relations and
- 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 121 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 4 Non Executive Independent Directors and information regarding its activities is provided in the Audit Committee Report on page 124. 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

Corporate Governance

the relevant regulations of the Colombo Stock Exchange. The Group CEO, Group CFO, Group Head of Internal Audit are invited to attend Committee meetings.

The Auditor General is the Company's external auditors. The external auditors have not provided any non-audited related services to the Group during the year. 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 wrong doings 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.

Cybersecurity

The Group has made considerable investments in strengthening its IT infrastructure and has deployed technical controls to mitigate cyber risks such as fire walls, virus guards and anti-malware solutions. It is also currently in the process of formulating a Cybersecurity policy, which will be formally adopted over the short to medium term.

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.

Environmental, Social and Governance Reporting (ESG)

The Group's Integrated Annual Report is based on the principles prescribed by the Integrated Reporting Framework published by the International Integrated Reporting Council. For sustainability reporting, we have also adopted the GRI Standards published by the Global Reporting Initiative. The Group's material topics (refer page 35) take into consideration the Group's economic, social and environmental aspects and form the anchor of the Report. Where ever relevant, the narrative is supported by comprehensive non-financial information related to the Group's social and environmental impacts. We have also obtained external assurance on our sustainability reporting. Key social and environmental factors discussed, and the page references are listed below;

Environmental Factors	
Sustainable use of resources (energy and water)	Pages 77-80
Emissions and climate change	Pages 77-80
Effective management of waste	Pages 77-80
Social Factors	
Customer relationships	Pages 68-73
Labour practices	Pages 62-77
Community engagement	Pages 68-73

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 11 Directors as at 31 December 2018, 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 9 Independent Non-Executive Directors as of 31st December 2018, 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 88 to 93 & 117 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 88 to 93 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 122 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 2018, the Remuneration Committee comprises three Independent Non Executive Directors and as of the date Annual Report the composition has remains unchanged.

Corporate Governance

Rule No.	Subject	Requirement	Compliance Status	Details
	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.
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 122 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 122.
		A statement of remuneration policy.	Complied with	Please refer to page 122.
		Aggregate remuneration paid to Executive and Non- Executive Directors.	Complied with	Please refer to page 166.
7.10.6	Audit Committee	A listed company shall have an Audit Committee.	Complied with	Please refer to pages 124-125.
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 2018 and as of the date of the Annual Report, the Audit Committee comprised four 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. 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 124.

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 pages 124 to 125.
		The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination.	Complied with	Please refer to the Audit Committee Report on pages 124 to 125.
		A report by the Audit Committee setting out the manner of compliance of the functions set out in section 7.10 of the listing rules.	Complied with	Please refer to the Audit Committee Report on pages 124 to 125.

Rule No.	Corporate Governance Principles	Compliance Status	Details
9.2.1 & 9.2.3	Related Party Transaction Review Committee	Complied with	The functions of the committee are stated in related party transactions review committee report on page 123.
9.2.2	Composition of the Related Party Transaction Review Committee	Complied with	Please refer the related party transaction review committee report on page 123.
9.2.4	Related Party Transactions Review Committee Meetings	Complied with	The Committee met four times during the Financial Year 2018.
9.3.1	Immediate Disclosures	Complied with	Company did not have any non recurrent related party transactions which requires immediate disclosures to the Colombo Stock Exchange.
9.3.2 (a)	Disclosure – Non recurrent Related Party Transactions	Complied with	Company did not have any non recurrent related party transactions with aggregate value which exceeds 10% of the equity or 5% of the total assets whichever is lower. Hence no disclosure is required.
9.3.2 (b)	Disclosure – recurrent Related Party Transactions	Complied with	Please refer to pages 166 to 167.
9.3.2 (c)	Report by the Related Party Transaction Review Committee	Complied with	Refer the Related Party Transactions Review Committee report on page 123.
9.3.2 (d)	A declaration by the Board of Directors	Complied with	Please refer to page 123.

Corporate Governance

Rule No.	Requirement	Compliance Status	Details
168(1)(a)	The nature of the business together with any change thereof	Complied with	Please refer pages 115 to 119 of this report.
168(1)(b)	Signed financial statements of the Group and the company	Complied with	Please refer pages 132 to 174 of this report.
168(1)(c)	Auditors' Report on financial statements	Complied with	Please refer pages 128 to 131 of this report.
168(1)(d)	Accounting policies and any changes therein	Complied with	Please refer pages 138 to 174 of this report.
168(1)(e)	Particulars of the entries made in the interests register	Complied with	All directors have made declarations as required by the Section 192(1) and (2) of the Companies Act aforesaid and all related entries were made in the Interest register during the year under review. The Interest Register is available for inspection by shareholders or their authorised representatives as required by Section 119(1) (d) of the Companies Act No.07 of 2007.
168(1)(f)	Remuneration and other benefits paid to Directors of the company	Complied with	Refer note 28.2 to the Financial Statements on page 166
168(1)(g)	Corporate donations made by the company	Complied with	Refer page no 116 of this report.
168(1)(h)	Information on Directorate of the company at the end of accounting period	Complied with	Please refer pages 111 & 176 of this report.
168(1)(i)	Amounts paid/payable to the External auditor as audit fees and fees for other services rendered	Complied with	Refer note 8 to the Financial Statements on page 152.
168(1)(k)	Acknowledgement of the contents of this Report and signatures on behalf	Complied with	Please refer page 3 of this report.

Composition As at 31st Dec 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. Thanuja Weeratne	Independent Non Executive
Mr. Jayantha Munasinghe	Independent Non Executive
Mr. Keerthi Kotagama	Independent Non Executive
Mr. Saadi Wadood	Independent Non Executive
Mr. Rajiv Puri	Non-Independent Non Executive

Composition As at 25th February 2019

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. Thanuja Weeratne	Independent Non Executive
Mr. Jayantha Munasinghe	Independent Non Executive
Mr. Keerthi Kotagama	Independent Non Executive
Mr. Saadi Wadood	Independent Non Executive
Mr. Rajiv Puri	Non-Independent Non Executive

Clinical Governance Review

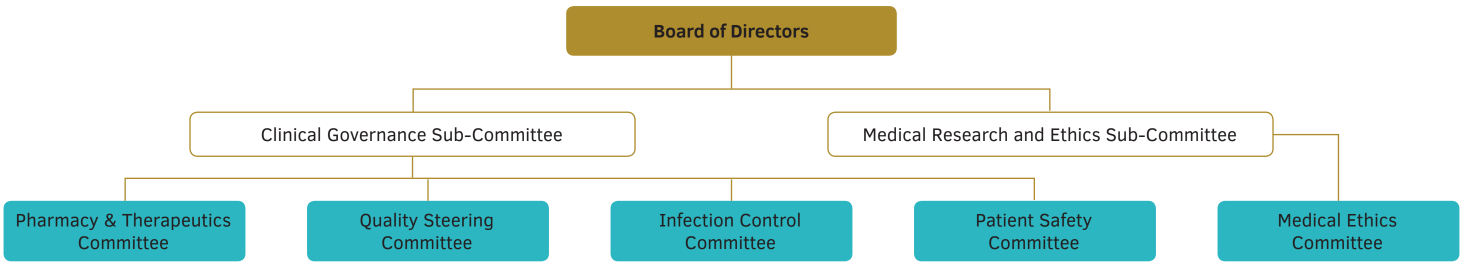
Lanka Hospitals provides a wide range of clinical services across its operating divisions and consistently strives to ensure that these services are efficient, effective, in line with technological advances and result in responsible patient care. The Group's clinical governance framework is underpinned by a systematic approach to measuring and improving clinical performance throughout the organisation.

Lanka Hospitals provides a wide range of clinical services across its operating divisions and consistently strives to ensure that these services are efficient, effective, in line with technological advances and result in responsible patient care. The Group's clinical governance framework is underpinned by a systematic approach to measuring and improving clinical performance throughout the organisation. The framework 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 four executive level committees which are responsible for quality, infection control and patient safety, medication 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.

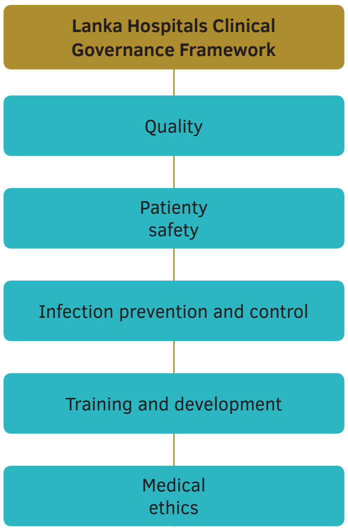
The Group's Clinical Governance framework has been developed to comply with the stringent requirements of numerous international standards and accreditations. These include the 6th edition of the JCI Accreditation, MTQUA, CAP and relevant other standards. A robust policy framework which includes Standard Operating Procedures (SOP), Infection Control Manual, Medication Management Manual and Quality Management policies ensure clear guidelines and protocols are in place to guide operational decisions. During the year all SOPs were reviewed and revised to ensure relevance to emerging conditions and internal developments.



Measuring Clinical Performance

A comprehensive set of clinical performance indicators are collected, analysed and reported on a monthly basis allowing the dedicated Quality Assurance Department to track the performance of the facilities, inform operational decisions and strategy and identify opportunities for enhancing clinical quality. During the year considerable progress was made in improving the underlying structures and processes to facilitate improve clinical performance.

The Clinical Governance Framework is managed through 5 key pillars as graphically illustrated alongside.



Quality

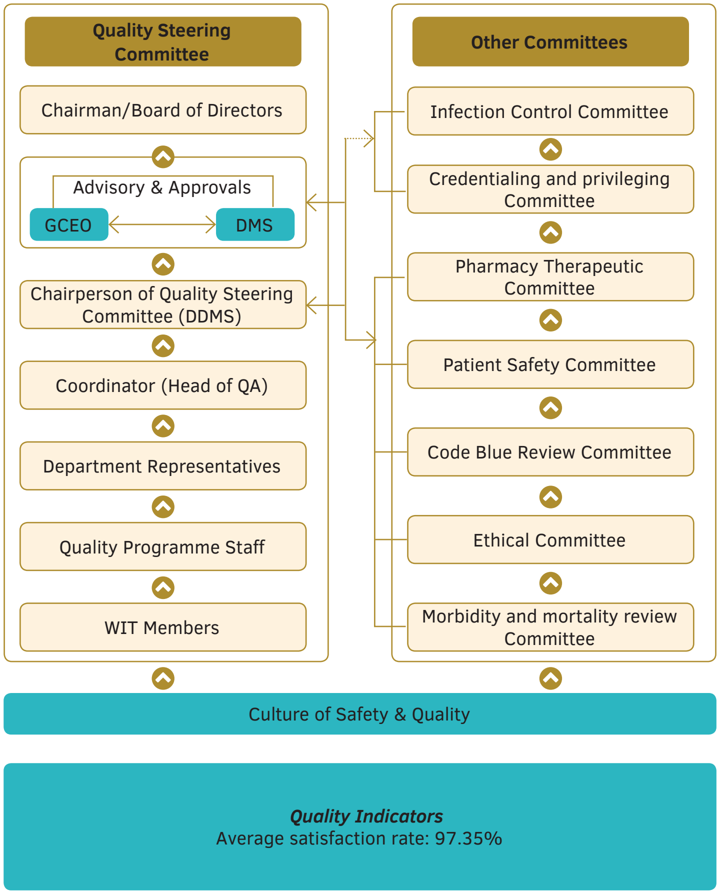
The Hospital's quality standards are founded on the numerous international and local accreditations it has obtained and a dedicated Quality Steering Committee at executive level ensure that all quality standards and implemented and monitored. This Committee is supported by several clinical and patient safety committees. Quality is managed through a list of clinical indicators which are reported monthly to the Board, GCEO and Director of Medical Services. Audits including facility, medical records and patient safety audits are conducted on a regular basis while, quality management training and departmental quality circles have been implemented to nurture a quality-oriented culture within the Organisation.

Key quality related initiatives carried out during the year were;

- Organisation-wide Quality Week comprising engagement initiatives such as quiz competitions, kaizen suggestions and quality improvement projects where Departments presented their own ideas for quality enhancement.
- Streamlined the complaint handling process with a clearly defined mechanism for recording and responding to complaints
- Reviewed and revised clinical policies and procedures

As presented alongside, the Hospital's quality indicators were satisfactory during the year. Meanwhile, in 2018, 9 teams from Lanka Hospitals participated at the National Convention for Quality and Productivity winning 5 gold awards, 1 silver awards and 1 bronze award. A team from Lanka Hospitals was also selected to represent Sri Lanka at the International Convention for Quality and Productivity held in Singapore.

The Quality Committee Structure and its relationship with other committees



Clinical Governance Review

Patient Safety

A patient safety culture is well established in all operating divisions with safety indicators monitored on an ongoing basis and checklists introduced across all operations in accordance with the guidelines of 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. During the year, we strengthened the Hospital's Incident reporting/ monitoring mechanism with numerous initiatives directed towards nurturing a blame-free, self-reporting culture fostering accountability. Mechanisms were also put in place to identify the root cause of each reported incident with the objective of distinguishing between process problems or negligence.

Patient identification	A minimum of two patient identifiers are used throughout the Hospital to ensure correct identification prior to any treatment/procedure.
Effective communication	Systematic methods to ensure patient information is communicated effectively during shift changes and during treatment
Improve safety of high-alert medifications	High-alert medications are clearly marked using identification tags and employees coming in contact with such medicines are specially trained on handling, storage and transportation.
Ensure correct sight, procedure and surgery	Comprehensive surgical checklists and timeouts
Reduce the risk of healthcare associated infections	Stringent guidelines on handwashing to ensure good hand hygiene including the implementation and communication of 5 moments and 7 steps of handwashing.
Reduce the risk of patient harm resulting from falls	Patients are assessed for the risk of fall and adequate measures are taken to ensure safety. Sign boards and level change indicators are in place to reduce risk of falls in the facility.

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 of handwashing as prescribed by WHO. During the year, our infection rates were well within prescribed limits, a reflection of good infection control and patient safety standards.

Training and Development

In an industry such as ours, the importance of continuously upskilling employees cannot be over stated and we consistently strive to enhance our service delivery by engaging employees in ongoing training and development initiatives. The nursing staff undergo on-the-job training and specialised trainings provided by the LH Training Division. Key training interventions carried out during the year are given below, please refer to page 62 for further information on employee training and development;

Key Training programmes carried out during the year

- Leadership Development - Management Development Programme - PIM
- Neuro Linguistic Programming Residential workshop for Mangers
- Residential workshop on NLP for Assistant Mangers and Nursing Heads
- Senior Executives and Nursing In Charges Out Bound Residential workshop
- Out Bound Training for General category Employees
- Personal Grooming and Dress Sense for Front liners
- Customer Service Excellence for Front Liners
- English Vocabulary Improvement Programme for Front Office Staff
- Workshop on Performance Management System-Building performance Culture
- Microsoft Advanced Excel for Beginners

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 31 December 2018 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. In August 2018 LHC was transferred from the Main Board of the CSE to the Watch List. 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 25th February 2019.

2. Review of Business

2.1 Vision, Mission and Corporate Conduct

LHC's Vision and Mission are given on pages 4 & 5. 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 and the 'Management Discussion and Analysis' on pages 16 to 80 provide an overall assessment on the operational performance and financial position of LHC and its subsidiary, and the status of affairs together with important events that took place during the year in detail as required by the Section 168 of the Companies Act No. 07 of 2007.

2.2.1 Principal Activities of The Lanka Hospitals Corporation PLC

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

2.2.2 Principal Activities of Lanka Hospitals Diagnostics (Private) Limited

Lanka Hospitals Diagnostics (Private) Limited - a fully owned subsidiary of The Lanka Hospitals Corporation PLC incorporated on 06th February 2013 and gained Section 17 BOI approval. The commercial operation of the company commenced in July 2014. The principal activity of the company is 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 720 collection centres in the main cities.

2.3 Financial Statements of LHC and its Subsidiary

The Audited Financial Statements of the company together with the consolidated financial statements of the Group are appearing on pages 127 to 174.

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 120.

2.5 Auditors' Report

The Auditor General as the Auditor performed the audit on the Consolidated Financial Statements for the year ended 31 December 2018 and the Auditors' Report issued thereon is given on pages 128 to 131 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 176. The Interests Register is available for inspection by Shareholders or

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

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 31 December 2018, are given in Note 28.2 to the Financial Statements on page 166.

2.9 Corporate Donations by the Company

During the year, the Company made donations amounting to Rs. 3.39 Mn.

3. Revenue and Profitability

The Revenue of the Group for 2018 was Rs. 7.08 Bn (Rs. 6.38 Bn in 2017), while LHC's revenue was Rs. 5.76 Bn (Rs. 5.23 Bn in 2017). The profit after tax of the Group stood at Rs. 870 Mn (Rs. 581 Mn in 2017), while LHC's profit after tax was Rs. 826 Mn (Rs. 530 Mn in 2017).

4. Dividends and Reserves

4.1 Dividends on Ordinary Shares

The dividend of Rs. 1/= per share for the year ending 31st December 2017 was paid on 19th March 2018. 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 2017 was Rs. 223,732,169 and dividend of Rs. 1/- per share for the year 2018 was paid on 14 th December 2018 for Rs. 223,732,169 out of profit earn during the year. 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 dividend. The Statement of Solvency of the Auditors was obtained in respect of the said 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 135 to 136 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 Note 12 to 15 on pages 156 to 159 to the Financial Statements respectively. Capital expenditure approved and contracted for are given in Note 30 to the Financial Statements on pages 168 to 169.

6. Market Value of Freehold Properties

The land of the Company was revalued by professionally qualified independent valuers as at 31 December 2018 and brought into the Financial Statements. The Directors are of the opinion that the revalued amounts are not in excess of the current market values of such properties. The details of freehold properties owned by the Company are given in Note 12.2.1 to the Financial Statements on page 157.

7. Stated Capital

The Stated Capital as at 31st December 2018 was Rs. 2,671,543,090/- comprising of 223,732,169 ordinary voting shares (Rs. 2,671,543,090/- as at 31st December 2017 comprising of 223,732,169 ordinary voting shares).

8. Share Information

Information relating to earnings, dividend, net assets and market value per share is given in the 'Financial Highlights' on pages 6 & 176.

9. Major Shareholdings

Details of the top twenty Shareholders, percentages of their respective holdings and percentage holding of the public are given in the Section on 'Investor Relations' on pages 175 & 177.

10. Distribution Schedule for Shareholdings

Information on the distribution of Shareholdings and the respective percentages are given in the Section on 'Investor Relations' on page 177.

11. Minimum Public Holding

In August 2018 LHC was transferred from the Main Board of the CSE to the Watch List due to the failure to comply with Listing Rule 7.13-Minimum Public Holding. As a state-owned enterprise the Board of Directors/ Company has limited control over its shareholding structure; however, the Board has made representations to the Chairman of Sri Lanka Insurance Corporation Ltd which is the major shareholder. Cabinet approval has already been obtained and SLIC is currently in the process of seeking a strategic investor (public institution) to divest 3.27% of the shareholding.

12. Directors

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

12.1.1 List of Directors

The Board of Directors of the Company as at 31 December 2018 consisted of Eleven Directors (Twelve Directors as at 31 December 2017) 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 88 to 93.

Names of the Directors of the Company as at the end of 2018, 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. Umashanthiee Rajamantri	Independent Non-Executive Director
Mr. Asendra Siriwardena	Independent Non-Executive Director
Mr. Rajiv Puri	Non Independent Non-Executive Director
Mr. Thanuja Weeratne	Independent Non-Executive Director
Mr. Jayantha Munasinghe	Independent Non-Executive Director
Mr. Saadi Wadood	Independent Non-Executive Director
Mr. Keerthi Kotagama	Independent Non-Executive Director
Mr. Meghraj Gore	(Alternate Director to Mr. Rajiv Puri) Non Independent Non-Executive Director
Mr. Anurag Kalra	(Alternate Director to Mr. Daljit Singh) Non Independent Non-Executive Director

12.1.2 Directors Holding Office in Lanka Hospital Diagnostics (Private) Limited as at 31st December 2018

Name of the Director
Dr. Sarath Paranavitane
Ven. Thiniyawala Palitha Thero
Prof. Dilani Lokuhetty
Mr. Asendra Siriwardena
Dr. Anil Abeywickrama
Mr. Thanuja Weeratne
Mr. Jayantha Munasinge

12.1.3 New Appointments and Resignations

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

Name of Director	Appointments	Resignation
Mr. Mohan Wijesinghe	-	09.05.2018
Mr. Rajiv Puri	30.08.2018	-
Mr. Senura Abeywardena	10.05.2018	19.10.2018
Mr. Kalyana Srivastava	-	28.08.2018
Mr. Meghraj Arvindrao Gore(Alternate Director to Mr. K Srivastava)	-	28.08.2018
Mr. Meghraj Arvindrao Gore (Alternate Director to Mr. Rajiv Puri)	30.08.2018	-
Mr. Ravi Sachdev (Alternate Director to Mr. Daljit Singh)	-	02.02.2018
Mr. Anurag Kalra (Alternate Director to Mr. Daljit Singh)	02.02.2018	-

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

12.1.4 Recommendations for Re-election

12.1.4 .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. Rajiv Puri who was appointed to the Board subsequent to last Annual General Meeting offer himselves for re-election as Director of the Company at this Annual General Meeting.

12.1.4 .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, Mr. Daljit Singh, Mr. Jayantha Munasinge and Mr. Saadi Wadood are subject to retire by rotation and being eligible offer themselves for re-election.

12.1.5 Details of Directors attendance at Directors' meetings are presented on page 104 under Corporate Governance.

12.1.6 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 Transaction Review Committee Report.

12.2 . Disclosure of Directors' Dealing in Shares as at 31st December 2018

Name of Director	No. of Shares
Dr. Sarath Paranavitane	Nil
Mr. Daljit Singh	Nil
Ven. Thiniyawala Palitha Thero	Nil
Mr. Rajiv Puri	Nil
Mr. Thanuja Weeratne	Nil
Dr. Anil Abeywickrama	Nil
Mrs. Umashanthiee Rajamantri	Nil
Mr. Asendra Siriwardena	Nil
Mr. Jayantha Munasinghe	Nil
Mr. Saadi Wadood	Nil
Mr. Keerthi Kotagama	Nil
Mr. Anurag Kalra (Alternate Director to Mr. Daljit Singh)	Nil
Mr. Meghraj Arvindrao Gore (Alternate Director to Mr. Rajiv Puri)	Nil

12.3 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 166 to 167 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 2018 are given in Note 8 to the Financial Statements on page 152.

13. 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.

14. 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.

15. 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.

16. 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 169.

17. Appointment of Auditors
Appoint The Auditor General as the Auditor for the ensuing financial year in compliance with Article 154 of the 19th Amendment to the Constitution being the Auditors for Company's Subsidiary company Lanka Hospitals Diagnostics (Private) Limited.

18. 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.

19. 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.

20. Contingent Liabilities
Details with regard to the contingent liabilities are given in note 29 to the financial statements on page 168.

21. Annual General Meeting
The Annual General Meeting of the Company will be held on 24th May 2019 at 2.00 p.m. 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,

25th February 2019

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 31st December 2018, 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 25th February 2019 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 2018, 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 and The National Audit act no. 19 of 2018, the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC).

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

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

The Directors confirm that to the best of their knowledge, all 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,

25th February 2019

Directors' Statement on Internal Controls

The following 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 is responsible for maintaining a sound system of internal controls to safeguard shareholder's 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. This process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board.

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 to obtain reasonable assurance that proper systems of internal controls are in place:

- Instituted various committees to assist the Board in ensuring the effectiveness of Company's operations and the operations are in accordance with the corporate strategies and annual budget.
- 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. The minutes of the Audit Committee meetings are tabled at the Board meetings.
- The adoption of new Sri Lanka Accounting Standards comprising LKAS and SLFRS, 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 objective 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

25th February 2019

The Board Remuneration Committee Report

Committee Composition

Mr. Asendra Siriwardena
(NED/IND) Chairman

Mr. Thanuja Weeratne
(NED/IND)

Mr. Jayantha Munasinghe
(NED/IND)

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

No changes to Committee during the year

Meeting Attendance

Director	Attendance
Mr. A. Siriwardena	8/8
Mr. T. Weeratne	8/8
Mr. N.J. Munasinghe	8/8

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

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 During the Year

The Remuneration Committee met 8 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 104 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.

On behalf of the Committee;

Asendra Siriwardena
Chairman – Remuneration Committee

25th February 2019

The Board Related Party Transactions Review Committee Report

Committee Composition

Mr. Jayantha Munasinghe
(NED/ IND) – Chairman

Mr. Asendra Siriwardana
(NED/ IND)

Dr. Anil Abeywickrama
(NED/ IND)

Mr. Keerthi Kotagama
(NED/ IND)

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

Meeting Attendance

Director	Attendance
Mr. J. Munasinghe	4/4
Mr. A. Siriwardana	4/4
Dr. A. Abeywickrama	0/4
Mr. K. Kotagama	2/2

The skill composition of the Independent Non-Executive Directors who represent the Board Related Party Transactions Review Committee are in line with the recommendations of the Code of Best Practice on Related Party Transactions issued by the CSE and ICASL 2017. The Directors who represented the Committee are set out along-side; their profiles are given on pages 88 to 93 of this Report.

Mandate and Responsibilities

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

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

Policies and Procedures

The members of the Board of Directors of the Company have been identified as Key Management Person. In accordance with the Related Party Transaction Policy, the declarations are obtained from each Key Management Personnel of the Company for the purpose of identifying parties related to them. Based on the information furnished in these declarations, the Company retrieves data on related party transactions from the database of the Company.

Related Party Transactions during the Year

During the year 2018, the Related Party Transactions & Policy was further reviewed and discussed. The Committee met 4 times during the year. Attendance at Committee meetings is given on page 104 of this Annual Report.

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

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

During the financial year 2018, 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.

The activities, findings and recommendations of the Committee are communicated in adequate detail to the Board regularly. During the year there were no non- recurrent or recurrent related party transactions that exceeded the respective thresholds mentioned in the Listing Rules requiring disclosure in the Annual Report. Details of other related party transactions entered into by the Company during the year is disclosed in Note 28 to the Financial Statements.

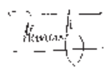
New Appointments to the Committee

Mr. Keerthi Kotagama has been appointed to the Committee during the year.

Declaration

A declaration by the Board of Directors in the Annual Report as a negative statement to the effect that no related party transaction falling within the ambit of the rule 9.3.2 of Listing Rules of the Colombo Stock Exchange was entered into by the Company during the year, is given in the Annual Report of the Board of Directors on pages 115 to 119. All other related party transactions that could be classified as related party transactions in terms of LKAS 24-'Related Party Disclosures', are given in Note 28 to the Financial Statements.

On behalf of the Committee;



Jayantha Munasinghe
Chairman - Related Party Transactions Review Committee
25th February 2019

Board Audit Committee Report

Committee Composition

Mr. Jayantha Munasinghe - *(NED/IND) Chairman*

Mr. Asendra Siriwardena *(NED/IND)*

Dr. Anil Abeywickrama *(NED/IND)*

Mr. Keerthi Kotagama *(NED/IND)*

Mr. Senura Abeywardena *(NED/IND)* *(Resigned on 19th October 2018)*

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

Meeting Attendance

Director	Attendance
Mr. N.J. Munasinghe	7/7
Mr. A. Siriwardena	7/7
Dr. A. Abeywickrama	1/7
Mr. K. Kotagama	1/1
Mr. S. D. Abeywardena	1/1

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

Mandate and Responsibilities

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,

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

Activities During the Year

The Committee convened 7 times during the financial year ending 31st December 2018 and the proceedings of these meetings were regularly reported to the Board of Directors in adequate detail. Attendance at the Committee meetings is set out alongside. Key areas of focus included the following;

Reporting of financial performance and position

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

Internal Controls and Risk Management

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

Internal Audit

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

External Audit

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

Ethics and good governance

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

On behalf of the Committee;

Jayantha Munasinghe
Chairman - Audit Committee

25th February 2019

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 2018 are prepared and presented in compliance with the requirements of the following.

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka.
- Companies Act No. 07 of 2007;
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
- Listing Rules of the Colombo Stock Exchange; and
- 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.

We confirm that the significant accounting policies used in the preparation of the Financial Statements are appropriate and 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.

We have also taken sufficient care in installing systems of internal control and accounting records, to safeguard assets, and to prevent and detect frauds as well as other irregularities. These have been reviewed, evaluated and updated on an ongoing basis. 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 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.

The Financial Statements were audited by independent external auditors, The Auditor General the independent external auditors. Their report is given on pages 128 to 131 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 confirm that,
- The Company and its subsidiary have complied with all applicable laws, regulations and prudential requirements,
- There are no material non compliances; and
- There are no 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

25th February 2019

Financial Reports

Financial Calendar 2018 and Proposed Financial Calendar 2019

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

	2018 Submitted on	2019 to be Submitted on or Before
For the 3 months ended 31st March (unaudited)	14th May 2018	15th May 2019
For the 3 and 6 months ended 30th June (unaudited)	14th August 2018	15th August 2019
For the 3 and 9 months ended 30th September (unaudited)	8th November 2018	15th November 2019
For the 3 months and year ended 31st December (unaudited)	27th February 2019	28th February 2020

Independent Auditors' Report

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No. COM/LHC/FA/2018/01

ඔබේ අංකය / உமது இல. / Your No.

දිනය / திகதி / Date 29 March 2019

The Chairman
The Lanka Hospitals Corporation PLC

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

1. Financial Statements

1.1 Opinion

The audit of the financial statements of The Lanka Hospital Corporation PLC,(" the Company"), and the consolidated financial statements of the Company and its subsidiary (" Group"), which comprise the statement of financial position as at 31 December 2018 and the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Key Audit Matters

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

- **Revenue recognition** – Refer to Note 3.13 – accounting policy and Note 5 to the Financial Statements. The Revenue of the Group for the year ended 31st December 2018 was Rs. 7,077 Mn.

Risk Description	My Response
The Group's revenue generated from its healthcare services is disclosed in Note 5 together with the related accounting policy in 3.13. I considered revenue as a focus area due to the complexity of the pricing structure, its high volume, determination of appropriateness of gross or net basis of revenue recognition in certain arrangements, and reliance on IT controls.	My audit procedures included the following, among others; • I carried out audit procedures over revenue measurement by testing on a sample basis, transactional level pricing and applicable documentary evidence. • I discussed with management regarding the contractual arrangements where consultant medical personnel are involved, and tested on a sample basis the appropriateness of the recognition of revenue on a gross or net basis. • I obtained an understanding about the key IT and manual controls over the occurrence of revenue and tested the same on a sample basis. • I performed specific audit procedures over cash collection related to revenue covering a sample of locations where the Group's business is carried out. • I assessed the adequacy of the disclosures made in Note 5 in the financial statement.

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

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- **Carrying value of inventories** – Refer to Note 3.8– accounting policy and Note 17 to the Financial Statements

The Group carried inventories of Rs. 369 Mn as at December 31, 2018, at the lower of cost or net realisable value.

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

- **Recoverability of Trade and Other Receivables** – Refer to Note 3.3.1 – accounting policy and Note 18 to the Financial Statements.

The Group's trade and other receivables as at 31 December 2018 was Rs. 726 Mn.

Risk Description	My Response
Assessment of recoverability of the Group's trade receivables involves based on management judgement. The historical payment patterns and other information relating to the creditworthiness of customers. Inherent subjectivity is involved in making judgements in relation to credit risk exposures to determine the recoverability of trade receivables.	My audit procedures included – • Testing the Group's credit control procedures, including the controls around credit terms, and reviewing the payment history and financial information pertaining to the customers. • Testing the receipt of cash after the year end relating to 31 December 2018 balances; and • Testing the adequacy of the Group's impairment provisions against trade receivables by assessing the judgements made and the historical trading experience with the relevant customers. • Assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the impairment provision.

1.4 Other Information

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

1.5 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management

Independent Auditors' Report

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determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Group is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Group.

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

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

2. Report on Other Legal and Regulatory Requirements

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

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

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

- to state that any member of the governing body of the Company has any direct or indirect interest in any contract into by the Company which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018 ;
- to state that the Company has not complied with any applicable written law, general and special directions issued by the governing body of the Company as per the requirement of the section 12 (f) of the National Audit Act, No. 19 of 2018, except for;

Reference to law/ direction	Description
Rule 7.13.1.(a) of the Colombo Stock Exchange (CSE) Listing Rules	Not Complied with minimum Public Holding Requirement of 20 percent

- to state that the Company has not performed according to its powers, functions and duties as per the requirement of the section 12 (g) of the National Audit Act, No. 19 of 2018;
- to state that the resources of the Company had not been procured and utilised economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of the section 12 (h) of the National Audit Act, No. 19 of 2018.

H.M. Gamini Wijesinghe
Auditor General

Income Statement

For the year ended 31st December,	Note	Group 2018 Rs.	Group 2017 Rs.	Company 2018 Rs.	Company 2017 Rs.
Revenue from contract with customers	5	7,076,596,016	6,382,058,005	5,763,022,537	5,225,553,083
Cost of services		(3,965,858,956)	(3,519,256,941)	(3,340,942,686)	(2,936,767,520)
Gross profit		3,110,737,060	2,862,801,064	2,422,079,851	2,288,785,563
Other income	6	59,006,927	51,981,337	272,250,671	161,467,842
Administrative expenses		(1,873,612,940)	(1,549,695,351)	(1,487,731,334)	(1,232,813,576)
Other operating expenses		(653,191,686)	(636,519,186)	(573,514,395)	(539,116,222)
Change in fair value of investment property		-	-	(500,000)	14,000,000
Finance income	7	479,172,877	193,479,536	423,476,847	142,552,626
Profit before taxation	8	1,122,112,238	922,047,400	1,056,061,640	834,876,233
Income tax expense	9	(252,052,954)	(341,197,506)	(229,594,180)	(304,604,482)
Profit for the year		870,059,284	580,849,894	826,467,460	530,271,751
Attributable to:					
Equity holders of the company		870,059,284	580,849,894	826,467,460	530,271,751
Earnings per share	10	3.89	2.60	3.69	2.37

Notes from pages 138 to 174 form an integral part of these Financial Statements. Figures in brackets indicate deductions.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December,	Note	Group 2018 Rs.	Group 2017 Rs.	Company 2018 Rs.	Company 2017 Rs.
Profit for the year		870,059,284	580,849,894	826,467,460	530,271,751
Other comprehensive income					
Items that will not be reclassified to profit t or loss:					
Surplus on revaluation of land & buildings	23	9,000,000	145,407,587	9,000,000	127,310,159
Actuarial gains / (losses) on defined benefit obligations	24	4,365,086	(7,853,157)	3,958,221	(6,768,430)
Deferred tax on surplus of revaluation	23	-	(52,553,043)	-	(47,485,763)
Effect on deferred tax due to rate change	23	-	(268,566,978)	-	(262,660,577)
Tax on other comprehensive income	25	(1,222,224)	2,198,884	(1,108,302)	1,895,160
Other comprehensive income/(expense) for the year, (net of tax)		12,142,862	(181,366,707)	11,849,919	(187,709,451)
Total comprehensive income for the year		882,202,146	399,483,187	838,317,379	342,562,300
Attributable to:					
Equity holders of the parent		882,202,146	399,483,187	838,317,379	342,562,300

Notes from pages 138 to 174 form an integral part of these Financial Statements. Figures in brackets indicate deductions.

Statement of Financial Position

As at 31st December,	Note	Group 2018 Rs.	Group 2017 Rs.	Company 2018 Rs.	Company 2017 Rs.
ASSETS					
Non-current assets					
Property, plant and equipment	12	4,489,065,687	4,520,192,810	4,089,284,845	4,126,645,770
Intangible assets	13	93,890,734	95,520,181	66,992,808	64,919,468
Investment property	14	-	-	123,500,000	124,000,000
Advance lease premium	15	217,032,083	203,169,008	217,032,083	203,169,008
Investment in subsidiary	16	-	-	414,000,020	414,000,020
		4,799,988,504	4,818,881,999	4,910,809,756	4,932,734,266
Current assets					
Inventories	17	369,185,426	294,734,245	285,751,630	229,990,892
Trade and other receivables	18	725,848,269	551,484,152	631,336,828	493,872,919
Amounts due from related companies	19	5,022,039	6,763,000	47,753,546	143,226,342
Economic Service Charge recoverable		256,632	2,763,657	-	-
Other financial assets	20	2,673,761,224	2,225,856,177	2,328,761,223	1,767,813,585
Cash and cash equivalents	21	375,496,168	249,420,585	363,730,682	247,730,886
		4,149,569,758	3,331,021,816	3,657,333,909	2,882,634,624
Total assets		8,949,558,262	8,149,903,815	8,568,143,665	7,815,368,890
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	1,028,709,128	1,066,204,888	962,019,491	996,747,320
Retained earnings		2,754,511,426	2,282,277,858	2,404,221,191	1,978,640,321
Total equity		6,454,763,644	6,020,025,836	6,037,783,772	5,646,930,731
Non-current liabilities					
Employee benefit obligations	24	188,595,352	166,551,295	168,761,834	150,614,830
Deferred tax liabilities	25	1,004,320,030	998,190,212	946,651,460	948,697,360
		1,192,915,382	1,164,741,507	1,115,413,294	1,099,312,190
Current liabilities					
Amounts due to related companies	26	6,360,773	23,481,174	4,769,075	4,769,075
Trade and other payables	27	797,186,652	669,823,897	930,390,463	797,415,984
Income tax payable		166,523,415	38,458,806	164,032,545	33,568,315
Bank overdraft	21	331,808,396	233,372,595	315,754,516	233,372,595
		1,301,879,236	965,136,472	1,414,946,599	1,069,125,969
Total liabilities		2,494,794,618	2,129,877,979	2,530,359,893	2,168,438,159
Total equity and liabilities		8,949,558,262	8,149,903,815	8,568,143,665	7,815,368,890

Notes from pages 138 to 174 form an integral part of these Financial Statements. Figures in brackets indicate deductions.
It is certified that the Financial Statements have been prepared in compliance with the requirements of 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

25th February 2019
Colombo

Consolidated Statement of Changes in Equity

Consolidated	Stated capital Rs.	Revaluation reserve Rs.	Retained earnings Rs.	Total equity Rs.
Balance as at 1st January, 2017	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 & depreciation of revalued buildings	-	(52,553,043)	-	(52,553,043)
Transactions with owners recorded directly 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
Total comprehensive income for the year				
Profit for the year	**-**	**-**	**870,059,284**	**870,059,284**
Other comprehensive income	**-**	**-**	**3,142,862**	**3,142,862**
Surplus on revaluation of land	**-**	**9,000,000**	**-**	**9,000,000**
Depreciation transfer on surplus on revaluation of buildings	**-**	**(46,495,759)**	**46,495,759**	**-**
Transactions with owners recorded directly in equity				
Dividend			**(447,464,338)**	**(447,464,338)**
Balance as at 31st December, 2018	**2,671,543,090**	**1,028,709,128**	**2,754,511,426**	**6,454,763,644**

Notes from pages 138 to 174 form an integral part of these Financial Statements. Figures in brackets indicate deductions.

Statement of Changes in Equity

Company	Stated capital Rs.	Revaluation reserve Rs.	Retained earnings Rs.	Total equity Rs.
Balance as at 1st January, 2017	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	-	(262,660,577)	-	(262,660,577)
Deferred tax impact on revalued land & depreciation of revalued buildings	-	(47,485,763)	-	(47,485,763)
Transactions with owners recorded directly 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
Total comprehensive for the year				
Profit for the year	**-**	**-**	**826,467,460**	**826,467,460**
Other comprehensive income	**-**	**-**	**2,849,919**	**2,849,919**
Surplus on revaluation of Land	**-**	**9,000,000**	**-**	**9,000,000**
Depreciation transfer on surplus on revaluation of buildings	**-**	**(43,727,829)**	**43,727,829**	**-**
Transactions with owners recorded directly in equity				
Dividend	**-**	**-**	**(447,464,338)**	**(447,464,338)**
Balance as at 31st December, 2018	**2,671,543,090**	**962,019,491**	**2,404,221,191**	**6,037,783,772**
Dividend per share - 2018 (Note - 11)				2.00
Dividend per share - 2017 (Note - 11)				1.00

Notes from pages 138 to 174 form an integral part of these Financial Statements. Figures in brackets indicate deductions.

Statement of Cash Flows

For the year ended 31st December,	Group 2018 Rs.	Group 2017 Rs.	Company 2018 Rs.	Company 2017 Rs.
Cash flow from operating activities				
Profit before taxation	1,122,112,238	922,047,400	1,056,061,640	834,876,233
Adjustments for:				
Interest income	(192,025,904)	(149,075,593)	(136,237,886)	(99,154,194)
Dividend income	-	-	(207,000,010)	(103,500,005)
Depreciation on property, plant and equipment	393,125,625	363,205,269	352,096,485	327,248,405
Amortisation of intangible assets	21,129,810	13,012,958	13,379,857	6,988,879
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	-	-	500,000	(14,000,000)
Provision for retiring gratuity	42,986,239	37,521,697	38,196,050	33,186,288
Impairment reversal of provision on inventory	(1,797,526)	(4,459,786)	(1,024,404)	(4,459,786)
Impairment loss / (reversal of provision) on trade receivables	(1,271,788)	6,860,976	(1,271,788)	6,860,976
(Gain)/loss on disposal of property, plant and equipment	4,554,083	(1,923,968)	4,554,083	(1,923,968)
Operating cash flows before working capital changes	1,393,496,249	1,191,872,424	1,123,937,499	990,806,300
(Increase)/decrease in inventories	(72,653,655)	28,594,832	(54,736,334)	41,095,670
Increase in trade and other receivables	(132,692,998)	(57,798,913)	(97,327,834)	(45,222,779)
Increase/(decrease) in amounts due from related companies	1,740,960	(3,195,283)	95,472,796	(42,369,875)
Increase/(decrease) in trade and other payables	127,362,755	16,198,076	132,974,479	(20,536,462)
Decrease in amounts due to related companies	(17,120,401)	(754,436)	-	-
	1,300,132,910	1,174,916,700	1,200,320,606	923,772,854
Cash generated from operations				
Retiring gratuity paid	(16,577,095)	(12,436,234)	(16,090,825)	(9,007,889)
Income tax paid	(119,080,751)	(86,172,722)	(102,284,152)	(75,920,043)
Net cash inflow from operating activities	1,164,475,064	1,076,307,744	1,081,945,629	838,844,922
Cash flows from investing activities				
Acquisition of property, plant and equipment	(332,470,483)	(645,110,439)	(285,207,542)	(609,449,167)
Expenditure incurred on capital work in progress	(30,979,206)	(12,267,617)	(30,979,206)	(12,267,617)
Purchase of intangible assets	(19,500,363)	(48,209,040)	(15,453,197)	(39,312,195)
Proceeds from disposal of property, plant and equipment	5,897,104	4,190,852	5,897,105	4,190,852
Advance lease premium paid	(18,546,548)	(18,546,548)	(18,546,548)	(18,546,548)
Interest income received	154,133,599	148,980,131	97,373,599	99,551,691
Dividend income received	-	-	207,000,010	103,500,005
Investment in other financial assets	(447,905,047)	(197,302,910)	(560,947,638)	(59,260,318)
Net cash generated from (used in) investing activities	(689,370,944)	(768,265,571)	(600,863,417)	(531,593,297)
Cash flows from financing activities				
Dividend paid	(447,464,338)	(223,732,169)	(447,464,338)	(223,732,169)
Net cash outflow from (used in) financing activities	(447,464,338)	(223,732,169)	(447,464,338)	(223,732,169)
Net increase in cash and cash equivalents	27,639,782	84,310,003	33,617,875	83,519,456
Cash and cash equivalent at the beginning of the year	16,047,990	(68,262,013)	14,358,291	(69,161,165)
Cash and cash equivalent at the end of the period (Note A)	43,687,772	16,047,990	47,976,166	14,358,291
Note A- Analysis of cash and cash equivalents				
Favourable balances				
Cash in hand and at bank	169,487,954	115,362,723	167,722,468	113,673,024
Short term investments	206,008,214	134,057,862	196,008,214	134,057,862
	375,496,168	249,420,585	363,730,682	247,730,886
Unfavourable balances				
Bank overdrafts	(331,808,396)	(233,372,595)	(315,754,516)	(233,372,595)
Cash and cash equivalents	43,687,772	16,047,990	47,976,166	14,358,291

Notes from pages 138 to 174 form an integral part of these Financial Statements. Figures 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 2018 comprise the financial statements of Company and its subsidiary (together referred to as the "Group")

1.3 Date of authorisation for issue

The financial statements were authorised for issue by the Company's Board of Directors on 25th February 2019.

1.4 Principle activities and nature of operations

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

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

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 market for the asset or liability, or in the absence of a principal market in the most advantageous market that is accessible by the Group for the asset or liability

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

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

2.5.2 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 team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer.

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

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

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

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

2.6 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.

2.7 Comparative information

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

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

Notes to the Financial Statements

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.

3.1.2 Subsidiary

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

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

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

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

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

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

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

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

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

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

3.2 Foreign currencies

3.2.1 Foreign currency transactions

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.

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

3.3 Financial instruments

Initial recognition and subsequent measurement

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

3.3.1 Financial assets

3.3.1.1 Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under SLFRS 15. Refer to the accounting policies in section 3.13, Revenue from contracts with customers.

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

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

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

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

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

3.3.1.1.1 Financial assets at amortised cost (debt instruments)

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows And
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

3.3.1.1.2 Financial assets at fair value through OCI (debt instruments)

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

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

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

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

3.3.1.1.3 Financial assets designated at fair value through OCI (equity instruments)

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

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

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

3.3.1.1.4 Financial assets at fair value through profit or loss

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

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

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

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

3.3.1.2 Impairment of financial assets - after 1st January 2018

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

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

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

Impairment of financial assets – before 1st January 2018

A financial asset not carried at fair value through profit or loss was assessed at each reporting date to determine whether there is objective evidence that is impaired. A financial asset was considered impaired if, there was 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.

3.3.1.3 Derecognition of financial assets

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

- The rights to receive cash flows from the asset have expired Or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

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

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

3.3.2 Financial liabilities

3.3.2.1 Recognition and measurement

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

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

3.3.2.2 Derecognition of financial liabilities

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

3.3.3 Offsetting of financial instruments

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

3.3.4 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.

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.

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

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

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:

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.

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 de-recognition 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.

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

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

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.

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.

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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.

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.

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

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

Reversals of impairment losses are recognised in the income statement.

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

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a 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 exgratia in the short term, if the Group has a present legal or constructive obligation to pay this amount as a result of past service rendered by the employee, and the obligation can be measured reliably.

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.

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 from Contracts with Customers

The Group is in the business of providing healthcare and laboratory services. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, except for the agency services explained below in 3.13.1.b, because it typically controls the goods or services before transferring them to the customer.

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

3.13.1 Hospital revenue

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

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

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

- Prime responsibility to provide consultation services to the

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

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

(i) Variable consideration

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

- Rights of return

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

(ii) Significant financing component

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

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 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

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

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

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

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

3.15.2 Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

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.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

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 Statements of cash flows

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

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

Cash and cash equivalents:

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

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 29 and 30 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 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.

4.1 New and amended standards and interpretations

The Group applied SLFRS 9 and SLFRS 15 for the first time.

SLFRS 15:

The group adopted SLFRS 15 using the full retrospective method

Notes to the Financial Statements

of adoption. This change has no material impact on the Company's results and financial position and therefore comparative information has not been restated.

SLFRS 9:
For the purpose of classification of financial assets the assessment of the group's business model was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of SLFRS 9 did not have a material impact on the Group's results and financial position, therefore the Group has not restated comparative information for prior periods. Given below are the changes in the classification of Group's financial assets.

Financial Asset	**Category**	
	LKAS 39 (before 1 January 2018)	**SLFRS 9 (1 January 2018 onwards)**
Trade and other receivables	Loans & Receivables*	Financial Assets at amortised cost
Amounts due from related Companies	Loans & Receivables*	Financial Assets at amortised cost
Other financial assets - fixed deposits	Loans & Receivables*	Financial Assets at amortised cost

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

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

Several other amendments and interpretations of Sri Lanka accounting standards apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

4.2 New and amended standards issued but not effective as at the reporting date

The Institute of Chartered Accountants of Sri Lanka has issued the following standard which becomes effective for annual periods beginning after the current financial year. Accordingly this standard has not been applied in preparing these financial statements. The Company is currently in the process of evaluating the potential effect of adoption of this standard on its financial statements. Such impact has not been quantified as at the reporting date. The Company will be adopting this standard when it becomes effective.

- SLFRS 16 Leases - effective for annual periods beginning on or after 01st of January 2019

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet finance leases and off – balance sheet operating leases. Instead there will be a single on balance sheet accounting model that is similar to the current finance lease accounting.

The Group is currently carrying out a preliminary evaluation of the potential impact on its consolidated financial statements resulting from the application of SLFRS 16.

For the year ended 31st December,	Group 2018 Rs.	Group 2017 Rs.	Company 2018 Rs.	Company 2017 Rs.
5. REVENUE FROM CONTRACT WITH CUSTOMERS				
Hospital revenue	5,763,022,537	5,225,553,083	5,763,022,537	5,225,553,083
Laboratory revenue	1,313,573,479	1,156,504,922	-	-
	7,076,596,016	6,382,058,005	5,763,022,537	5,225,553,083

The Effect of applying SLFRS 15 on the groups revenue from contract with customers is described in Note 4.1

For the year ended 31st December,	Group 2018 Rs.	Group 2017 Rs.	Company 2018 Rs.	Company 2017 Rs.
6. OTHER INCOME				
Rent income	15,128,791	13,403,691	21,662,791	19,442,691
Car park income	43,582,055	35,205,912	43,582,055	35,205,912
Sundry income	4,850,164	1,447,766	4,559,898	1,395,266
Gain/(loss) on disposal of property, plant and equipment	(4,554,083)	1,923,968	(4,554,083)	1,923,968
Dividend Income	-	-	207,000,010	103,500,005
	59,006,927	51,981,337	272,250,671	161,467,842
7. FINANCE INCOME				
Interest income from;				
- Call deposit	5,984,315	16,395,675	4,275,082	13,627,887
- Fixed deposits - Sri Lankan Rupees	117,431,892	69,916,107	63,353,108	22,762,497
- Fixed deposits - Foreign Exchange Earners Account (FEEA)	62,193,544	58,376,843	62,193,544	58,376,843
Gain on translation of foreign currency	287,146,973	44,403,943	287,238,961	43,398,431
Gain on Unit Trust	-	2,309,720	-	2,309,720
Short term deposits - Interest Income	6,416,153	2,077,248	6,416,152	2,077,248
	479,172,877	193,479,536	423,476,847	142,552,626

Notes to the Financial Statements

8. PROFIT BEFORE TAX

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

	Group		Company	
For the year ended 31st December,	**2018 Rs.**	**2017 Rs.**	**2018 Rs.**	**2017 Rs.**
Directors' remuneration and fees	21,535,250	23,240,000	14,612,000	16,914,000
Auditors' remuneration				
-Statutory audit	1,580,000	1,220,000	1,100,000	860,000
-Non audit services	-	932,511	-	932,511
Technical service fee	84,216,386	76,321,483	-	-
Amortisation of intangible assets	21,129,810	13,012,958	13,379,857	6,988,879
Impairment loss (reversal of provision) of trade receivables	(1,271,788)	6,860,976	(1,271,788)	6,860,976
Impairment loss (reversal of provision) of inventories	(1,797,526)	(4,459,786)	(1,024,404)	(4,459,786)
Amortisation of advanced lease premium	4,683,472	4,683,472	4,683,472	4,683,472
Legal expenses	1,910,281	4,769,697	1,771,908	4,442,580
Staff cost (note 8.1)	2,057,196,328	1,843,086,770	1,754,874,652	1,587,389,995
Depreciation of property, plant and equipment - Cost of services	186,804,797	171,602,303	171,093,691	157,992,581
Depreciation of property, plant and equipment - Administrative cost	206,320,828	191,602,966	181,002,794	169,255,824

8.1 Staff cost

	Group 2018 Rs.	Group 2017 Rs.	Company 2018 Rs.	Company 2017 Rs.
Staff cost Under Cost of Services				
Salaries and other related costs	766,478,493	752,975,880	751,579,368	739,456,152
Defined contribution plan cost - EPF and ETF	67,728,121	44,367,103	49,514,770	43,339,452
Defined benefit plan cost - Retiring gratuity	18,573,104	14,514,486	15,773,482	12,312,887
	852,779,719	811,857,469	816,867,620	795,108,491
Staff cost Under Administrative Cost				
Salaries and other related costs	1,096,843,130	934,395,303	850,637,470	714,764,963
Defined contribution plan cost - EPF and ETF	83,160,345	73,826,787	64,946,994	56,643,140
Defined benefit plan cost - Retiring gratuity	24,413,134	23,007,211	22,422,569	20,873,401
	1,204,416,609	1,031,229,301	938,007,032	792,281,504
	2,057,196,328	1,843,086,770	1,754,874,652	1,587,389,995
No of employees	1,868	1,784	1,546	1,456

For the year ended 31st December,	Group 2018 Rs.	Group 2017 Rs.	Company 2018 Rs.	Company 2017 Rs.
9. INCOME TAX EXPENSE				
Recognised in Income statement				
Income tax expense				
Taxation on the profit for the year	246,429,609	85,385,717	230,727,689	71,393,025
Under/(over) provision in respect of previous year	715,751	3,137,820	2,020,693	4,821,036
	247,145,360	88,523,537	232,748,382	76,214,061
Deferred tax expense				
Origination of temporary difference	4,907,594	252,673,969	(3,154,202)	228,390,421
	252,052,954	341,197,506	229,594,180	304,604,482
Recognised in Statement of other comprehensive income				
Deferred tax expense on temporary difference	1,222,224	318,921,137	1,108,302	308,251,180
	1,222,224	318,921,137	1,108,302	308,251,180
Tax reconciliation statement				
Profit before taxation	1,122,112,238	922,047,400	1,056,061,640	834,876,233
Consolidation adjustments	211,206,572	121,597,434	-	-
Profit after adjustments	1,333,318,810	1,043,644,834	1,056,061,640	834,876,233
Less : Income not liable for income tax	(262,286,536)	(384,496,107)	(41,107,649)	(225,701,406)
Allowable expenses	(552,070,702)	(515,063,729)	(552,070,702)	(515,063,729)
Income from other sources	(678,044,634)	(143,090,133)	(621,966,351)	(93,116,234)
Add : Disallowable expense	524,858,254	453,141,584	524,858,254	453,141,584
Business income	365,775,193	454,136,449	365,775,193	454,136,449
Add : Income from other sources	678,044,634	143,090,133	621,966,351	93,116,234
	1,043,819,827	597,226,582	987,741,543	547,252,683
Less : Qualifying payments	-	(47,520,769)	-	(47,520,769)
Taxable income	1,043,819,827	549,705,813	987,741,543	499,731,914
Tax on final withholding payment	28,980,001	-	28,980,001	-
Income tax at 12%	12,644,956	51,398,933	12,644,956	51,398,933
Tax on taxable Income at 28%	204,804,651	33,986,784	189,102,732	19,994,092
Taxation on profits for the year	246,429,609	85,385,717	230,727,689	71,393,025

Notes to the Financial Statements

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

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

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

10. BASIC AND DILUTED EARNINGS PER SHARE

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

	Group		Company	
For the year ended 31st December,	**2018 Rs.**	**2017 Rs.**	**2018 Rs.**	**2017 Rs.**
Profit attributable to the shareholders (Rs.)	**870,059,284**	580,849,894	**826,467,460**	530,271,751
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.)	**3.89**	2.60	**3.69**	2.37
11. DIVIDEND PER SHARE				
Dividend (Rs.)	**447,464,338**	223,732,169	**447,464,338**	223,732,169
Number of ordinary shares in issue	**223,732,169**	223,732,169	**223,732,169**	223,732,169
Dividend per share (Rs.)	**2.00**	1.00	**2.00**	1.00

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.	Computer equipment Rs.	Other equipment Rs.	Kitchen equipment Rs.	Medical vehicles Rs.	Motor vehicles -Others Rs.	Capital work in progress Rs.	Total Rs.
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	209,020,352	629,871,028	33,644,534	24,117,956	38,014,961	22,940,256	6,079,557,940
Additions during the year	-	24,004,166	536,027,307	25,065,806	6,401,916	14,965,809	37,637,245	1,008,190	-	-	12,267,617	657,378,057
Revaluation surplus	-	38,804,459	-	-	-	-	-	-	-	-	-	38,804,459
Transfer from capital work in progress	-	4,191,374	9,610,638	-	-	-	11,762,932	-	-	-	(25,564,944)	-
Disposals during the year	-	-	(118,404,375)	-	(165,200)	-	(1,556,775)	-	-		-	(120,126,350)
Balance as at 31st December 2017	55,000,002	2,615,742,935	2,601,187,666	295,486,822	80,067,519	223,986,162	677,714,430	34,652,724	24,117,956	38,014,961	9,642,929	6,655,614,106
Accumulated depreciation												
Balance as at 1st January 2017	-	3,922,694	1,145,476,656	163,306,830	47,777,381	138,268,524	419,319,334	33,319,871	20,365,685	24,921,647	-	1,996,678,623
Charge for the year	-	108,448,470	168,656,951	18,423,018	5,163,090	22,931,680	33,072,983	(434,963)	2,945,352	3,998,688	-	363,205,269
Disposals during - the year	-	-	(116,203,571)	-	(99,120)	-	(1,556,775)	-	-	-	-	(117,859,466)
Transfers during the year	-	(106,603,129)	-	-	-	-	-	-	-	-	-	(106,603,129)
Balance as at 31st December 2017	-	5,768,035	1,197,930,036	181,729,848	52,841,352	161,200,204	450,835,542	32,884,908	23,311,037	28,920,335	-	2,135,421,297
As at 31st December 2017	55,000,002	2,609,974,900	1,403,257,630	113,756,975	27,226,167	62,785,958	226,878,888	1,767,816	806,919	9,094,626	9,642,929	4,520,192,810
Cost or valuation												
Balance as at 1st January 2018	55,000,002	2,615,742,935	2,601,187,666	295,486,822	80,067,519	223,986,162	677,714,430	34,652,724	24,117,956	38,014,961	9,642,929	6,655,614,106
Additions during the year	-	24,992,516	208,742,840	29,693,672	9,267,286	15,728,000	42,872,794	1,173,375	-	-	30,979,206	363,449,689
Revaluation surplus	9,000,000	-	-	-	-	-	-	-	-	-	-	9,000,000
Transfer from capital work in progress	-	2,335,171	-	-	-	-	-	-	-	-	(2,335,171)	-
Disposals during the year	-	-	(17,667,723)	(116,960)	(368,510)	(95,750)	(704,358)	-	-	(5,250,000)	-	(24,203,301)
Balance as at 31st December 2018	64,000,002	2,643,070,622	2,792,262,783	325,063,534	88,966,295	239,618,412	719,882,866	35,826,099	24,117,956	32,764,961	38,286,964	7,003,860,494
Accumulated depreciation												
Balance as at 1st January 2018	-	5,768,035	1,197,930,036	181,729,848	52,841,352	161,200,204	450,835,542	32,884,908	23,311,037	28,920,335	-	2,135,421,297
Charge for the year	-	116,684,807	185,997,878	20,152,555	6,031,077	22,418,259	35,802,873	1,232,566	806,919	3,998,690	-	393,125,625
Disposals during the year	-	-	(7,868,120)	(76,556)	(178,164)	(94,488)	(284,784)	-	-	(5,250,000)	-	(13,752,114)
Balance as at 31st December 2018	-	122,452,842	1,376,059,794	201,805,847	58,694,264	183,523,975	486,353,630	34,117,474	24,117,956	27,669,025	-	2,514,794,807
As at 31st December 2018	**64,000,002**	**2,520,617,780**	**1,416,202,989**	**123,257,689**	**30,272,030**	**56,094,437**	**233,529,235**	**1,708,625**	**-**	**5,095,936**	**38,286,964**	**4,489,065,687**

12.1.1 Property plant and equipment as at 31st December 2018 includes fully depreciated assets having a gross carrying amount (cost) of Rs. 1.46 Bn (2017 - 1.42 Bn) that are still in use.

Notes to the Financial Statements

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.	Computer equipment Rs.	Other equipment Rs.	Kitchen equipment Rs.	Medical vehicles Rs.	Motor vehicles -Others Rs.	Capital work in progress Rs.	Total Rs.
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	158,234,545	619,067,738	33,644,534	24,117,956	38,014,961	22,940,256	5,640,210,075
Additions during the year	-	24,004,166	528,248,611	14,667,255	2,504,257	7,599,093	31,417,595	1,008,190	-	-	12,267,617	621,716,784
Revaluation surplus	-	24,804,459	-	-	-	-	-	-	-	-	-	24,804,459
Transfer from capital work in progress	-	4,191,374	9,610,638	-	-	-	11,762,932	-	-	-	(25,564,944)	-
Disposals during the year	-	-	(118,404,375)	-	(165,200)	-	(1,556,775)	-	-	-	-	(120,126,350)
Balance as at 31st December 2017	55,000,002	2,420,000,000	2,456,471,044	249,292,956	52,887,266	165,833,638	660,691,490	34,652,724	24,117,956	38,014,961	9,642,929	6,166,604,968
Accumulated depreciation												
Balance as at 1st January 2017	-	-	1,117,097,007	154,843,228	42,860,627	122,437,856	417,230,038	33,319,871	20,365,685	24,921,647	-	1,933,075,959
Charge for the year	-	102,505,700	155,047,229	13,819,444	2,630,855	15,536,381	31,199,720	(434,963)	2,945,352	3,998,688	-	327,248,405
Disposals during the year	-	-	(116,203,571)	-	(99,120)	-	(1,556,775)	-	-	-	-	(117,859,466)
Transfers on revaluation during the year	-	(102,505,700)	-	-	-	-	-	-	-	-	-	(102,505,700)
Balance as at 31st December 2017	-	-	1,155,940,665	168,662,672	45,392,362	137,974,237	446,872,983	32,884,908	23,311,037	28,920,335	-	2,039,959,198
Carrying amounts												
As at 31st December 2017	55,000,002	2,420,000,000	1,300,530,379	80,630,284	7,494,904	27,859,402	213,818,507	1,767,816	806,919	9,094,626	9,642,929	4,126,645,770
Cost or valuation												
Balance as at 1st January 2018	55,000,002	2,420,000,000	2,456,471,044	249,292,956	52,887,266	165,833,638	660,691,490	34,652,724	24,117,956	38,014,961	9,642,929	6,166,604,968
Additions during the year	-	18,741,152	187,191,808	25,504,088	5,445,170	11,650,370	35,501,579	1,173,375	-	-	30,979,206	316,186,748
Revaluation surplus	9,000,000	-	-	-	-	-	-	-	-	-	-	9,000,000
Transfer from capital work in progress	-	2,335,171	-	-	-	-	-	-	-	-	(2,335,171)	-
Disposals during the year	-	-	(17,667,723)	(116,960)	(368,510)	(95,750)	(704,358)	-	-	(5,250,000)	-	(24,203,301)
Balance as at 31st December 2018	64,000,002	2,441,076,322	2,625,995,129	274,680,085	57,963,926	177,388,259	695,488,711	35,826,098	24,117,956	32,764,961	38,286,964	6,467,588,415
Accumulated depreciation												
Balance as at 1st January 2018	-	-	1,155,940,665	168,662,672	45,392,362	137,974,237	446,872,983	32,884,908	23,311,037	28,920,335	-	2,039,959,198
Charge for the year	-	109,937,366	170,286,772	15,338,220	3,118,834	13,480,852	33,896,266	1,232,566	806,919	3,998,690	-	352,096,485
Disposals during the year	-	-	(7,868,120)	(76,556)	(178,164)	(94,489)	(284,784)	-	-	(5,250,000)	-	(13,752,114)
Balance as at 31st December 2018	-	109,937,366	1,318,359,317	183,924,336	48,333,032	151,360,600	480,484,465	34,117,474	24,117,956	27,669,025	-	2,378,303,570
Carrying amounts												
As at 31st December 2018	**64,000,002**	**2,331,138,956**	**1,307,635,812**	**90,755,750**	**9,630,895**	**26,027,658**	**215,004,247**	**1,708,625**	**-**	**5,095,936**	**38,286,964**	**4,089,284,845**

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

Freehold land of the Company was revalued by Mr. A.A.M. Fathihu (FIV), Chartered Valuer in 31st December 2018 on current market value basis.

12.2.1 Freehold land carried at revalued amount

Location	Method of valuation	Effective date of revaluation	Property valuer	Extent	Significant unobservable input	Carrying amount as at 31.12.2018 Rs.	Revaluation surplus Rs.	Carrying amount at cost Rs.
Hathbodiya, Kirula Road, Narahenpita, Colombo 05	Open market value method	31st December 2018	Mr. A A M Fathihu (FIV), Chartered Valuer	10.35 Perches	Estimated price per perch Rs. 3,144,963	32,550,370	26,081,923	6,468,447
Hathbodiya, Kirula Road, Narahenpita, Colombo 05	Open market value method	31st December 2018	Mr. A A M Fathihu (FIV), Chartered Valuer	10 Perches	Estimated price per perch Rs. 3,144,963	31,449,632	25,199,926	6,249,706
				20.35 perches		64,000,002	51,281,849	12,718,153

12.2.2 Building on leasehold land carried at revalued amount

If the buildings on leasehold were measured using cost model the carrying amount would be as follows,

Fair value measurement of buildings on leasehold land has been classified as a level 3 in fair value hierarchy

Location	Method of valuation	Effective date of revaluation	Property valuer	Significant unobservable input	Cost as at 31.12.2018	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. 5,000-12,500	1,651,883,650	274,923,814	1,376,959,836

12.2.3 Property plant and equipment as at 31st December 2018 includes fully depreciated assets having a gross carrying amount (cost) of Rs. 1.46 Bn (2017 - 1.42 Bn) that are still in use.

Notes to the Financial Statements

12.2.4 Capital work in progress

As at 31st December,	Balance as at 1.1.2018 Rs.	Additions during the year Rs.	Transfers during the year Rs.	Balance as at 31.12.2018 Rs.
Buildings on leasehold land	9,642,929	30,979,206	(2,335,171)	38,286,964
	9,642,929	30,979,206	(2,335,171)	38,286,964

	Group		Company	
As at 31st December,	**2018 Rs.**	**2017 Rs.**	**2018 Rs.**	**2017 Rs.**
13. INTANGIBLE ASSET				
Cost				
Balance at the beginning of the year	131,593,279	83,384,239	82,783,201	43,471,006
Additions during the year	19,500,363	48,209,040	15,453,197	39,312,195
Balance as at the end of the year	151,093,642	131,593,279	98,236,398	82,783,201
Accumulated amortisation				
Balance at the beginning of the year	36,073,098	23,060,140	17,863,733	10,874,854
Amortisation charge for the year	21,129,810	13,012,958	13,379,857	6,988,879
Balance as at the end of the year	57,202,908	36,073,098	31,243,590	17,863,733
Carrying amount	93,890,734	95,520,181	66,992,808	64,919,468

Intangible assets inclued software used by the Group

	Group 2018 Rs.	Group 2017 Rs.	Company 2018 Rs.	Company 2017 Rs.
14. INVESTMENT PROPERTY				
Balance at the beginning of the year	-	-	124,000,000	110,000,000
Change in fair value	-	-	(500,000)	14,000,000
Balance as at the end of the year	-	-	123,500,000	124,000,000

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

14. INVESTMENT PROPERTY CONTD.

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	123,500,000	31st December 2018

Income on Investment property for the year ended 31st December,	Group 2018 Rs.	Group 2017 Rs.	Company 2018 Rs.	Company 2017 Rs.
Rental income	-	-	6,534,000	6,039,000

As at 31st December 2018,the fair value of the investment property is based on valuation performed by Mr. A.A.M. Fathihu (FIV), Chartered Valuer, an accredited independent valuer who has appropriate experience in valuation of properties. The valuation is based on current replacement cost method.

There has been no impairment of investment property which requires a provision as at the reporting date.
The fair value measurement of the investment property has been classified as a Level 3 in the fair value hierarchy

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

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

As at 31st December,	Group 2018 Rs.	Group 2017 Rs.	Company 2018 Rs.	Company 2017 Rs.
15. ADVANCE LEASE PREMIUM				
Balance at the beginning of the year	203,169,008	189,305,932	203,169,008	189,305,932
Premium paid during the year	18,546,548	18,546,548	18,546,548	18,546,548
Amortisation during the year	(4,683,472)	(4,683,472)	(4,683,472)	(4,683,472)
Balance as at the end of the year	217,032,083	203,169,008	217,032,083	203,169,008

Notes to the Financial Statements

15. ADVANCE LEASE PREMIUM (CONTD.)

The Company has entered into a 99 years lease agreement with the Urban Development Authority in 1999. In terms of this agreement a sum of Rs 18,546,522 per annum should be paid by the Company till 2025, and the final premium payment of Rs 9,273,274 should be paid in 2026. As at 31 December 2018 a sum of Rs 140 Mn is payable by 2026. (31 December 2017 - Rs 158 Mn).

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

	Group		Company	
As at 31st December,	**2018 Rs.**	**2017 Rs.**	**2018 Rs.**	**2017 Rs.**
16. INVESTMENT IN SUBSIDIARY				
Lanka Hospitals Diagnostics (Pvt) Ltd				
Balance at the beginning of the year (41,400,002 shares)	-	-	414,000,020	414,000,020
Balance as at the end of the year (41,400,002 shares)	-	-	414,000,020	414,000,020
17. INVENTORIES				
Medical items	351,058,259	280,547,430	267,624,463	215,030,954
Non medical items	9,445,250	8,633,255	9,445,250	8,633,255
Engineering stocks	4,127,336	4,229,029	4,127,336	4,229,029
Food and beverages	5,204,329	3,771,806	5,204,329	3,771,806
	369,835,175	297,181,520	286,401,378	231,665,044
Less; Impairment of inventories	(649,748)	(2,447,274)	(649,748)	(1,674,152)
	369,185,426	294,734,245	285,751,630	229,990,892
18. TRADE AND OTHER RECEIVABLES				
Trade receivables (Note 18.1)	457,810,519	371,376,046	394,176,371	344,075,551
Impairment loss on trade receivables	(28,087,959)	(29,359,747)	(28,087,959)	(29,359,747)
	429,722,560	342,016,299	366,088,413	314,715,804
Deposits and prepayments	120,590,714	88,266,631	101,206,278	70,862,861
Advances and other receivables	101,091,177	84,649,710	95,132,900	78,249,304
Interest income receivable	74,443,818	36,551,512	68,909,238	30,044,950
	725,848,269	551,484,152	631,336,828	493,872,919
18.1 Trade receivables				
Trade receivable - Sri Lanka Insurance Corporation Limited	25,695,062	31,250,339	22,436,233	27,941,521
Trade receivable - Other debtors	368,893,394	286,108,490	308,518,075	262,116,813
Patients not yet discharged	63,222,063	54,017,217	63,222,063	54,017,217
	457,810,519	371,376,046	394,176,371	344,075,551

As at 31st December,	Group 2018 Rs.	Group 2017 Rs.	Company 2018 Rs.	Company 2017 Rs.
19. AMOUNTS DUE FROM RELATED COMPANIES				
Sri Lanka Insurance Corporation Limited	5,022,039	6,763,000	5,022,039	6,763,000
Lanka Hospitlas Diagnostics (Pvt) Ltd	-	-	42,731,507	136,463,342
	5,022,039	6,763,000	47,753,546	143,226,342
20. OTHER FINANCIAL ASSETS				
Fixed deposits- Foreign Exchange Earners Account (FEEA)	1,728,588,712	1,242,813,585	1,728,588,712	1,242,813,585
Fixed deposits- Sri Lankan Rupees	945,172,512	983,042,592	600,172,511	525,000,000
	2,673,761,224	2,225,856,177	2,328,761,223	1,767,813,585
21. CASH AND CASH EQUIVALENTS				
Favourable balances				
Repo Investment	206,008,214	134,057,862	196,008,214	134,057,862
Cash in hand and at bank	169,487,954	115,362,723	167,722,468	113,673,024
	375,496,168	249,420,585	363,730,682	247,730,886
Unfavourable balances				
Bank overdraft	(331,808,396)	(233,372,595)	(315,754,516)	(233,372,595)
Cash and cash equivalents for the purpose of statement of cash flows	43,687,772	16,047,990	47,976,166	14,358,291
22. STATED CAPITAL				
Issued and fully paid				
223,732,169 Ordinary shares	2,671,543,090	2,671,543,090	2,671,543,090	2,671,543,090

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

Notes to the Financial Statements

As at 31st December,	Group 2018 Rs.	Group 2017 Rs.	Company 2018 Rs.	Company 2017 Rs.
23. REEVALUATION RESERVE				
Balance at the beginning of the year	1,066,204,888	1,284,777,893	996,747,320	1,220,128,576
Surplus on revaluation of land & buildings	9,000,000	145,407,587	9,000,000	127,310,159
Effect on deferred tax due to rate change	-	(268,566,978)	-	(262,660,577)
Depreciation transfer on revaluation of buildings	(46,495,760)	(42,860,570)	(43,727,829)	(40,545,075)
Deferred tax on surplus of revaluation	-	(52,553,043)	-	(47,485,763)
Balance as at the end of the year	1,028,709,128	1,066,204,888	962,019,491	996,747,320

The revaluation reserve relates to the revaluation of Buildings on leasehold land and Freehold land.

24. RETIREMENT BENEFIT OBLIGATIONS

24.1 Description of the post employment defined benefit plan

A defined benefit plan is a 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,	Group 2018 Rs.	Group 2017 Rs.	Company 2018 Rs.	Company 2017 Rs.
24.2 Movement in defined benefit obligations				
Balance as at 1st January	166,551,295	133,612,675	150,614,830	119,668,001
Included in Income statement				
Current service cost	24,665,596	22,824,303	21,628,419	20,022,808
Interest cost	18,320,642	14,697,394	16,567,631	13,163,480
	42,986,238	37,521,697	38,196,050	33,186,288
Included in other comprehensive income				
Actuarial (gain)/ loss recognised	(4,365,086)	7,853,157	(3,958,221)	6,768,430
	(4,365,086)	7,853,157	(3,958,221)	6,768,430
Other				
Contributions paid by the employer	(16,577,095)	(12,436,234)	(16,090,825)	(9,007,889)
	(16,577,095)	(12,436,234)	(16,090,825)	(9,007,889)
Balance at 31st December	188,595,352	166,551,295	168,761,834	150,614,830

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 actuarial valuation has been carried out by Actuarial & Management Consultants (Pvt) Ltd. The following key assumptions were made in arriving the above figure.

	Group		Company	
As at 31st December,	**2018**	**2017**	**2018**	**2017**

24.3 Actuarial assumptions

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

Discount rate	11.50%	11.00%	11.50%	11.00%
Future salary growth	10%	10%	10%	10%
Retirement age	60 Years	60 Years	60 Years	60 Years

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.

	Group		Company	
As at 31st December,	**2018**	**2017**	**2018**	**2017**
Change in:	+1%	+1%	+1%	+1%
	Rs.	**Rs.**	**Rs.**	**Rs.**
Discount rate	(12,175,299)	(9,213,153)	(10,859,675)	(7,787,847)
Future salary growth	14,817,651	11,128,302	13,216,293	9,391,627

	Group		Company	
As at 31st December,	**2018**	**2017**	**2018**	**2017**
Change in:	-1%	-1%	-1%	-1%
	Rs.	**Rs.**	**Rs.**	**Rs.**
Discount rate	13,868,557	10,348,772	12,368,629	8,715,695
Future salary growth	(13,211,252)	(10,043,585)	(11,784,992)	(8,530,393)

Notes to the Financial Statements

25. DEFERRED TAX LIABILITIES

25.1 Group

25.1.1 Recognised deferred tax assets and liabilities

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

	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)

25. DEFERRED TAX LIABILITIES

25.2 Company

25.2.1 Recognised deferred tax assets and liabilities

	Net Balance as at 1st January 2018 Rs.	Recognised in profit or loss Rs.	Recognised in OCI Rs.	Net balance at 31st December 2018 Rs.	Deferred tax liability Rs.	Deferred tax asset Rs.
Property, plant and equipment	972,553,040	372,285	-	972,925,325	972,925,325	-
Investment property	11,729,200	(140,000)	-	11,589,200	11,589,200	-
Employee benefits	(42,172,152)	(6,189,463)	1,108,302	(47,253,313)	-	(47,253,313)
Intangible assets	7,257,023	2,202,492	-	9,459,515	9,459,515	-
Impairment loss on inventory	1,251,323	(964,490)	-	286,833	286,833	
Impairment loss on trade receivables	(1,921,073)	1,564,973	-	(356,101)	-	(356,101)
	948,697,360	(3,154,202)	1,108,302	946,651,460	994,260,873	(47,609,414)

	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)

	Group		Company	
As at 31st December,	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
26. AMOUNTS DUE TO RELATED COMPANIES				
Sri Lanka Insurance Corporation Limited	4,769,075	4,769,075	4,769,075	4,769,075
Super Religare Laboratories Limited - SRL	1,591,698	18,712,099	-	-
	6,360,773	23,481,174	4,769,075	4,769,075

Notes to the Financial Statements

As at 31st December,	Group 2018 Rs.	Group 2017 Rs.	Company 2018 Rs.	Company 2017 Rs.
27. TRADE AND OTHER PAYABLES				
Trade payables (Note 27.1)	280,476,574	283,842,595	482,587,447	450,535,353
Other payables				
- Accrued expenses	167,148,832	97,217,862	161,530,647	92,436,862
- Advance received	46,901,188	70,423,489	46,901,188	70,133,224
- Economic Service Charge payable	3,596,693	306,237	-	-
- Withholding tax payable	41,576,384	1,965,259	12,389,327	39,919
- Other payables	257,486,981	216,068,455	226,981,854	184,270,627
	797,186,652	669,823,897	930,390,463	797,415,984
27.1 Trade payables				
Trade payables - Lanka Hopsitals Diagnostics (Pvt) Ltd	-	-	303,312,467	219,354,552
Trade payables - Other creditors	280,476,574	283,842,595	179,274,980	231,180,801
	280,476,574	283,842,595	482,587,447	450,535,353

28. RELATED PARTY TRANSACTIONS

28.1 Identification of 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 for Key Management Personnel of the Company for the year ended 31st December 2018 amounted to Rs. 14,612,000/- (2017 - Rs. 16,914,000/-) and the professional fee earned from providing professional services to the company by key management personnel amounted to Rs. 5,038,200/- (2017- Rs. 5,927,296/-), while the compensation for Key Management Personnel of the group for the year ended 31st December 2018 amounted to Rs. 21,535,250/- (2017 - Rs. 23,240,000/-).

28.3 Recurrent Related Party Transactions

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

28.4 Non-Recurrent Related Party Transactions

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

28.5 TRANSACTIONS DURING THE YEAR

Company	Relationship	Details of Transactions	Transactions during the year (Rs.)	Balance as at 31st December 2018 (Payable)/ Receivable (Rs.)	Balance as at 31st December 2017 (Payable)/ Receivable (Rs.)
Sri Lanka Insurance Corporation Limited	Parent Company	Services provided	129,200,723	**22,436,233**	27,941,521
		Amount received	(134,706,011)		
		Premiums paid for the insurance policy on fire, vehicle,professional indemnity, staff insurance, general insurance and vehicle hiring charges	34,731,080	**(4,769,075)**	(4,769,075)
		Amounts Paid	(34,731,080)		
		Services provided by the company including Auditorium hiring and food and beverage services other medical services	17,689,370	**5,022,039**	6,763,000
		Amounts Received	(19,430,332)		
Lanka Hospitals Diagnostics (Private) Limited	Subsidiary Company	Reimbursement of expenses and the rent income received/ receivable by the Company	57,731,790	**42,731,507**	136,463,342
		Amounts Received	(151,463,625)		
		Services provided	(695,421,257)	**(303,312,467)**	(219,354,552)
		Amounts Paid	611,463,342		-
Super Religare Laboratories Limited	Subsidiary Company of Fortis Global Healthcare Holdings Pte Limited who owns 28.66% of The Lanka Hospitals Corporation PLC shares	Technical services provided to Lanka Hospitals Diagnostics (Private) Limited	(78,886,576)	**(1,591,698)**	(18,712,099)
		Amounts Paid	96,006,977		

Notes to the Financial Statements

29. CONTINGENT LIABILITIES

Pending litigations against The Lanka Hospitals Corporation PLC with a maximum liability of Rs. 222 Mn exist as at the reporting date. Based on the information currently available company has been adviced by its legal council that it is not probable the ultimate resolution of such legal procedures would not likely have a material adverse effect on the result of the operations, financial position or liquidity of the company. Accordingly, no provision for any liability has been made in these financial statements in this respect.

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

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 - Group	2018 Rs.	2017 Rs.
Approximate amount approved but not contracted for	-	-
Approximate amount contracted for but not incurred	139,099,110	157,645,658

As at 31st December - Company	2018 Rs.	2017 Rs.
Approximate amount approved but not contracted for	-	-
Approximate amount contracted for but not incurred	139,099,110	157,645,658

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:

	Group/Company	
As at 31st December,	**2018 Rs.**	**2017 Rs.**
Within one year	**18,546,548**	18,546,548
One year to five years	**74,186,192**	74,186,192
After 5 years	**46,366,370**	64,912,918

31. EVENTS OCCURRING AFTER THE REPORTING DATE

No circumstances have arisen since the reporting date, which require adjustments to or disclosure in the Financial Statements.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

32.1 Financial risk factors

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

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

32.2 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. 1,728,588,712/- (USD 9,565,000) . 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.

Notes to the Financial Statements

32.1 Market risk management contd.

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

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

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

The table below summarises financial liabilities of the company.

	Group		Company	
As at 31st December,	**2018 Rs.**	**2017 Rs.**	**2018 Rs.**	**2017 Rs.**
Cash in hand and at bank	**375,496,168**	249,420,585	**363,730,682**	247,730,886
Trade and other receivables within 30 days	**239,840,891**	129,482,016	**138,166,164**	102,181,521
Short term deposits	**2,673,761,224**	2,225,856,177	**2,328,761,223**	1,767,813,585
Total liquid assets	**3,289,098,283**	2,604,758,778	**2,830,658,069**	2,117,725,992
Less;				
Bank overdraft	**331,808,396**	233,372,595	**315,754,516**	233,372,595
Trade payables on demand	**280,476,574**	283,842,595	**482,587,447**	450,535,353
Other payables on demand	**516,710,078**	385,675,065	**447,803,016**	346,880,631
Total demand liabilities	**1,128,995,048**	902,890,255	**1,246,144,979**	1,030,788,579
Excess/short liquidity through operating cycle	**2,160,103,235**	1,701,868,523	**1,584,513,090**	1,086,937,413

32.3 Credit risk management

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

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

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

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

Notes to the Financial Statements

32.3 Credit risk management contd.

As at 31st December,	Group				Company			
	2018 Exposure		2017 Exposure		2018 Exposure		2017 Exposure	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Trade and other receivables	**725,848,269**	**19%**	551,484,152	18%	**631,336,828**	**19%**	493,872,919	19%
Other financial assets	**2,673,761,224**	**71%**	2,225,856,177	74%	**2,328,761,223**	**70%**	1,767,813,585	71%
Cash and cash equivalents	**375,496,168**	**10%**	249,420,585	8%	**363,730,682**	**11%**	247,730,886	10%
Total	**3,775,105,661**	**100%**	3,026,760,914	100%	**3,323,828,733**	**100%**	2,509,417,390	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.

33. 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 organisation from achieving its long term objectives.

33.1 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.

34. SEGMENT REPORTING

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

35. 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 2018	Financial assets - amortised cost Rs.	Other financial liabilities Rs.	Non financial asset Rs.	Total carrying amount Rs.	Fair Value Rs.	Fair Value Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Non-financial assets									
Property, plant and equipment									
Freehold land	-	-	55,000,002	55,000,002	55,000,002	-	-	55,000,002	55,000,002
Leasehold building	-	-	2,520,617,780	2,520,617,780	2,520,617,780	-	-	2,520,617,780	2,520,617,780
Total non-financial assets	-	-	2,575,617,782	2,575,617,782	2,575,617,782	-	-	2,575,617,782	2,575,617,782
Financial assets									
Trade and other receivables	725,848,269	-	-	725,848,269	725,848,269	-	-	-	725,848,269
Other financial assets	2,673,761,224	-	-	2,673,761,224	2,673,761,224	-	-	-	2,673,761,224
Cash and cash equivalents	375,496,168	-	-	375,496,168	375,496,168	-	-	-	375,496,168
Total financial assets	3,775,105,661	-	-	3,775,105,661	3,775,105,661	-	-	-	3,775,105,661
Financial liabilities									
Trade and other payables	-	797,186,652	-	797,186,652	797,186,652	-	-	-	797,186,652
Bank overdraft	-	331,808,396	-	331,808,396	331,808,396	-	-	-	331,808,396
Total financial liabilities	-	1,128,995,048	-	1,128,995,048	1,128,995,048	-	-	-	1,128,995,048
As at 31st December 2017									
Non-financial assets									
Property, plant and equipment									
Freehold land	-	-	55,000,002	55,000,002	55,000,002	-	-	55,000,002	55,000,002
Leasehold building	-	-	2,609,974,900	2,609,974,900	2,609,974,900	-	-	2,609,974,900	2,609,974,900
Total non-financial assets	-	-	2,664,974,902	2,664,974,902	2,664,974,902	-	-	2,664,974,902	2,664,974,902
Financial assets									
Trade and other receivables	551,484,152	-	-	551,484,152	551,484,152	-	-	-	551,484,152
Other financial assets	2,225,856,177	-	-	2,225,856,177	2,225,856,177	-	-	-	2,225,856,177
Cash and cash equivalents	249,420,585	-	-	249,420,585	249,420,585	-	-	-	249,420,585
Total financial assets	3,026,760,914	-	-	3,026,760,914	3,026,760,914	-	-	-	3,026,760,914
Financial liabilities									
Trade and other payables	-	669,823,897	-	669,823,897	669,823,897	-	-	-	669,823,897
Bank overdraft	-	233,372,595	-	233,372,595	233,372,595	-	-	-	233,372,595
Total financial liabilities	-	903,196,492	-	903,196,492	903,196,492	-	-	-	903,196,492

Notes to the Financial Statements

35. 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 2018	Financial assets - amortised cost Rs.	Other financial liabilities Rs.	Non financial asset Rs.	Total carrying amount Rs.	Fair Value Rs.	Fair Value Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Non-financial assets									
Property, plant and equipment									
Freehold land	-	-	55,000,002	55,000,002	55,000,002	-	-	55,000,002	55,000,002
Leasehold building	-	-	2,331,138,956	2,331,138,956	2,331,138,956	-	-	2,331,138,956	2,331,138,956
Investment property	-	-	123,500,000	123,500,000	123,500,000	-	-	123,500,000	123,500,000
Total non-financial assets	-	-	2,509,638,958	2,509,638,958	2,509,638,958	-	-	2,509,638,958	2,509,638,958
Financial assets									
Trade and other receivables	631,336,828	-	-	631,336,828	631,336,828	-	-	-	631,336,828
Other financial assets	2,328,761,223	-	-	2,328,761,223	2,328,761,223	-	-	-	2,328,761,223
Cash and cash equivalents	363,730,682	-	-	363,730,682	363,730,682	-	-	-	363,730,682
Total financial assets	3,323,828,733	-	-	3,323,828,733	3,323,828,733	-	-	-	3,323,828,733
Financial liabilities									
Trade and other payables	-	930,390,463	-	930,390,463	930,390,463	-	-	-	930,390,463
Bank overdraft	-	315,754,516	-	315,754,516	315,754,516	-	-	-	315,754,516
Total financial liabilities	-	1,246,144,979	-	1,246,144,979	1,246,144,979	-	-	-	1,246,144,979
As at 31st December 2017									
Non-financial assets									
Property, plant and equipment									
Freehold land	-	-	55,000,002	55,000,002	55,000,002	-	-	55,000,002	55,000,002
Leasehold building	-	-	2,420,000,000	2,420,000,000	2,420,000,000	-	-	2,420,000,000	2,420,000,000
Investment property	-	-	124,000,000	124,000,000	124,000,000	-	-	124,000,000	124,000,000
Total non-financial assets	-	-	2,599,000,002	2,599,000,002	2,599,000,002	-	-	2,599,000,002	2,599,000,002
Financial assets									
Trade and other receivables	493,872,919	-	-	493,872,919	493,872,919	-	-	-	493,872,919
Other financial assets	1,767,813,585	-	-	1,767,813,585	1,767,813,585	-	-	-	1,767,813,585
Cash and cash equivalents	247,730,886	-	-	247,730,886	247,730,886	-	-	-	247,730,886
Total financial assets	2,509,417,389	-	-	2,509,417,389	2,509,417,389	-	-	-	2,509,417,389
Financial liabilities									
Trade and other payables	-	797,415,984	-	797,415,984	797,415,984	-	-	-	797,415,984
Bank overdraft	-	233,372,595	-	233,372,595	233,372,595	-	-	-	233,372,595
Total financial liabilities	-	1,030,788,579	-	1,030,788,579	1,030,788,579	-	-	-	1,030,788,579

Shareholder and Investor Information

Top 20 Shareholding as at 31 December

Shareholder	2018 No of shares	2018 Holding	2017 No of shares	2017 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	2,967,644	1.33%	2,927,210	1.31%
6. Bank of Ceylon A/c Ceybank Century Growth Fund	845,380	0.38%	844,850	0.38%
7. Deutch Bank AG as trustee for Namal Acuity	800,000	0.36%	800,000	0.36%
8. Hatton National Bank PLC - Candor Opportunities Fund	500,000	0.22%	-	-
9. Ceylon Investment PLC A/c # 01	448,000	0.20%	448,000	0.20%
10. Bank of Ceylon No.1 Account	309,949	0.14%	309,949	0.14%
11. Deutch Bank AG as National Equity Fund	300,000	0.13%	300,000	0.13%
12. Ceylon Guardian Investment Trust PLC A/c 01	295,000	0.13%	350,000	0.16%
13. Dr. Mohommed Rafeed Mubarak	274,281	0.12%	-	-
14. Deutch Bank AG as Trustee for Guardian Acuity Equity Fund	249,337	0.11%	249,337	0.11%
15. Sandwave Limited	227,977	0.10%	227,977	0.10%
16. Mrs. Conceicao Aparecida Dos Santos Woodward	220,300	0.10%	220,300	0.10%
17. Mr. Abeysiri Hemapala Munasinghe	179,471	0.08%	179,471	0.08%
18. Sezeka Limited	166,640	0.07%	166,640	0.07%
19. Mr. Surendran Subramaniam	156,104	0.07%	156,104	0.07%
20. Pinacle Trust (Pvt) Ltd	112,922	0.05%	-	-
	215,680,913	96.40%	214,807,746	96.01%

INDIVIDUAL / INSTITUTION AS AT 31 DECEMBER 2018

	No of Shareholders	As %	No of Shares	As %
Individual	7,226	98.34	7,749,534	3.46
Institution	122	1.66	215,982,635	96.54
	7,348	100.00	223,732,169	100.00

RESIDENT / NON-RESIDENT AS AT 31 DECEMBER 2018

	No of Shareholders	As %	No of Shares	As %
Resident	7,320	99.62	158,738,297	70.95
Non-Resident	28	0.38	64,993,872	29.05
	7,348	100.00	223,732,169	100.00

Shareholder and Investor Information

Directors'/Senior Management Shareholdings As At 31 December

		2018		2017	
Board of Directors	**Position**	**No of shares**	**Holding %**	**No of shares**	**Holding %**
Dr. Sarath PARANAVITANE	Chairman	-	-	-	-
Ven. Thiniyawala PALITHA THERO	Director	-	-	-	-
Mr. Daljit SINGH	Director	-	-	-	-
Dr. Anil ABEYWICKRAMA	Director	-	-	-	-
Mrs. Umashanthiee RAJAMANTRI	Director	-	-	-	-
Mr. Asendra SIRIWARDENA	Director	-	-	-	-
Mr. Thanuja WEERATNE	Director	-	-	-	-
Mr. Jayantha MUNASINGHE	Director	-	-	-	-
Mr. Keerthi KOTAGAMA	Director	-	-	-	-
Mr. Saadi WADOOD	Director	-	-	-	-
Mr. Rajiv PURI	Director	-	-	-	-
Mr. Anurag KALRA *(Alternate Director to Mr. Daljit SINGH)*	Director	-	-	-	-
Mr. Meghraj Aravindrao GORE (Alternate Director to Mr. Rajiv PURI)	Director	-	-	-	-
	Director	-	-	-	-
Senior Management					
Dr. Prasad Medawatte	Group Chief Executive Officer	-	-	-	-

		Group		Company	
		2018	**2017**	**2018**	**2017**
Earnings Per Share	Rs.	3.89	2.60	3.69	2.37
Dividend Per Share	Rs.	2.00	1.00	2.00	1.00
Net Assets Value Per Share	Rs.	28.85	26.91	26.99	25.24
Market Value per Ordinary Share					
Highest price	Rs.	-	-	64.00	68.50
Lowest price	Rs.	-	-	39.00	57.00
Closing Price	Rs.	-	-	42.60	62.00
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	2.90	3.15	2.38	2.48

Summary of Share Ranges as at 31 December

Share Range		2018 No of shareholders	2018 No of shares	2018 Holding %	2017 No of shareholders	2017 No of shares	2017 Holding %
1.	1 -1,000	5,991	2,082,147	0.93	5,930	2,104,651	0.94
2.	1001 - 10,000	1,245	3,406,863	1.52	1,263	3,444,346	1.54
3.	10,001 - 100,000	91	2,450,222	1.10	94	2,712,982	1.21
4.	100,001 - 1,000,000	16	5,197,385	2.32	16	4,915,072	2.20
5.	1,000,001 & above	5	210,595,552	94.13	5	210,555,118	94.11
		7,348	223,732,169	100.00	7,308	223,732,169	100.00

Public Shareholding

Public Shareholding as at 31st December 2018 - 16.73% (2017 - 16.73%)
Number of shares as at 31st December 2018 - 37,433,261 (2017 - 37,433,261)
Number of Shareholders as at 31st December 2018 - 7,345 (2017 - 7,305)

Direct Economic Value Generated and Distributed *[GRI 201-1]*

Group	2018 Rs. Mn.	2017 Rs. Mn
Value Created		
Revenue	7,077	6,382
Other income	59	52
Finance income	479	193
Total Value Created	7,615	6,627
Value Distributed		
Cost of materials & Services bought in	4,022	3,620
To the Employees as Remuneration	2,057	1,843
To the Government Revenue	252	85
To Shareholders as Dividend	447	224
Total Value Distributed	6,778	5,772
Total Value Retained	837	855
Total Value Distributed	7,615	6,627
Value Retained Expansion & Growth		
Profit Retained	423	357
Depreciation & Amortisation	414	498
Total Value Retained Expansion & Growth	837	855

Ten Year Financial Summary

	Group					Company				
	Year ended 31 December									
Audited										
In Rs. Mn -	**2018**	2017	2016	2015	2014	2013	2012	2011	2010	2009 9 months
Revenue from contract with customers	**7,077**	6,382	5,886	5,514	4,754	4,072	3,406	2,918	2,518	1,424
Cost of services	**(3,966)**	(3,519)	(3,099)	(2,973)	(2,647)	(2,142)	(1,881)	(1,555)	(1,348)	(784)
Gross profit	**3,111**	2,863	2,787	2,541	2,107	1,930	1,525	1,363	1,170	640
Other operating income	**59**	52	52	36	39	30	25	23	1	1
Administrative & other operating expenses	**(2,527)**	(2,186)	(1,941)	(1,766)	(1,694)	(1,352)	(1,212)	(1,047)	(894)	(616)
Finance income	**479**	193	183	156	70	148	102	42	20	8
Finance cost	**-**	-	-	-	-	-	-	(3)	(8)	(12)
Profit before tax	**1,122**	922	1,081	967	522	756	439	378	289	21
Income tax (expense) / release	**(252)**	(341)	(109)	(107)	(8)	(67)	(53)	59	-	(14)
Profit for the year	**870**	581	972	860	514	689	386	437	289	7
Assets										
Non current assets										
Property, plant and equipment	**4,489**	4,520	4,083	3,650	3,660	3,199	2,817	2,825	2,779	2,262
Intangible asset	**94**	96	60	61	32	6	1	-	-	-
Investment in subsidiary	**-**	-	-	-	-	50	-	-	-	-
Advance lease premium	**217**	203	189	175	162	148	134	120	106	89
	4,800	4,819	4,332	3,886	3,854	3,403	2,952	2,945	2,885	2,351
Current assets										
Inventories	**369**	295	319	272	307	176	149	145	86	57
Trade and other receivables	**726**	554	503	434	472	471	261	245	216	136
Amounts due from related parties	**5**	7	4	6	6	32	4	2	1	1
Income tax Receivable	**-**	-	-	-	34	-	-	-	-	-
Cash and cash equivalents	**3,050**	2475	2,194	1,746	1,000	1,017	1,002	672	468	187
	4,150	3,331	3,020	2,458	1,819	1,696	1,416	1,064	771	381
Total assets	**8,950**	8,150	7,352	6,344	5,673	5,099	4,368	4,009	3,656	2,732
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	**1,029**	1,066	1,284	994	1,028	1,020	858	883	740	320
Retained earning / (loss)	**2,754**	2,282	1,888	1,324	783	367	99	(200)	(682)	(984)
Total equity	**6,455**	6,020	5,844	4,990	4,483	4,059	3,629	3,355	2,730	2,008
Non current liabilities										
Employee benefit obligations	**189**	167	134	119	106	67	52	43	33	20
Borrowings	**-**	-	-	-	-	-	-	-	-	23
Deferred tax liabilities	**1,004**	998	426	347	314	278	231	214	458	351
	1,193	1,165	560	466	420	345	283	257	491	394
Current liabilities										
Borrowings/Bank overdraft	**332**	233	234	179	198	135	111	82	152	80
Amounts due to related parties	**6**	23	24	28	13	4	5	4	5	4
Income tax payable	**167**	39	36	21	-	14	-	-	-	-
Trade and other payables	**797**	670	654	660	559	542	340	311	278	246
	1,302	965	948	888	770	695	456	397	435	330
Total liabilities	**2,495**	2,130	1,508	1,354	1,190	1,040	739	654	926	724
Total equity and liabilities	**8,950**	8,150	7,352	6,344	5,673	5,099	4,368	4,009	3,656	2,732

Corporate Information

Name of the Company
The Lanka Hospitals Corporation PLC

Company Registration No.
PQ 180

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

Board of Directors as at 25th February 2019
Dr. Sarath PARANAVITANE
Ven. Thiniyawala PALITHA THERO
Mr. Daljit SINGH
Dr. Anil ABEYWICKRAMA
Mrs. Umashanthiee RAJAMANTRI
Mr. Asendra SIRIWARDENA
Mr. Thanuja WEERATNE
Mr. Jayantha MUNASINGHE
Mr. Keerthi KOTAGAMA
Mr. Saadi WADOOD
Mr. Rajiv PURI

Board of Directors as at 29th March 2019
Mr. Siddi Mohamed FAROOK - Chairman
Mr. Rajiv PURI
Mrs. R A D U RAJAMANTRI
Mr. W Thanuja WEERATNE
Dr. Anura WIJEWARDANE
Ms. Jayanthi GUNEWARDENA
Ms. Upulangani MALAGAMUWA
Mr. Raju A CHANDIRAM
Mr. Ajith Udaya AMARASEKARA

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Tel : +94 112015900
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Auditors
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Battaramulla,
Sri Lanka.

Bankers
Bank of Ceylon
Hatton National Bank PLC

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Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 20th Annual General Meeting of The Lanka Hospitals Corporation PLC will be held on 24th May 2019 at 2.00pm. 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 2018 together with the Report of the Auditors' thereon.
2. Re-election of the Directors by rotation in terms of Article 85 of the Articles of Association.
   a) Mr. Thanuja Lasitha Weeratne, who retires by rotation and being eligible offers himself for re-election.
   b) Mrs. Umashanthiee Rajamantri who retires by rotation and being eligible offers herself for re-election.
3. Election of Directors appointed to the Board subsequent to the last Annual General Meeting in terms of Article 92 of the Articles of Association.
   a) Mr. Rajiv Puri who was appointed to the Board and being eligible offers himself for re-election.
   b) Mr. Siddi Mohamed Farook who was appointed to the Board and being eligible offers himself for re-election.
   c) Dr. Anura Wijewardene who was appointed to the Board and being eligible offers himself for re-election.
   d) Ms. Jayanthi Gunawardena who was appointed to the Board and being eligible offers herself for re-election.
   e) Ms. Upulangani Malagamuwa who was appointed to the Board and being eligible offers herself for re-election.
   f) Mr. Raju A Chandiram who was appointed to the Board and being eligible offers himself for re-election.
   g) Mr. Ajith Udaya Amarasekara who was appointed to the Board and being eligible offers himself for re-election.
4. To appoint The Auditor General as the Auditor for the ensuing financial year in compliance with Article 154 of the 19th Amendment to the Constitution.
5. To authorize the Directors to determine donations for the year 2019 and up to the date of the next Annual General Meeting.
6. 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, 4th April 2019

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/her)

Mr. Siddi Mohamed Farook	or failing him
Mr. Rajiv Puri	or failing him
Mr. Thanuja Lasitha Weeratne	or failing him
Mrs. Umashanthiee Rajamantri	or failing her
Dr. Anura Wijewardane	or failing him
Ms. Jayanthi Gunewardane	or failing her
Ms. Upulangani Malagamuwa	or failing her
Mr. Raju A Chandiram	or failing him
Mr. Ajith Amarasekara	

as my/our Proxy to represent and speak and vote for me/us** and on my/our behalf at the 20th Annual General Meeting of the Company to be held on 24th May 2019 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 2018 together with the Report of the Auditors' thereon.		
2.	Re-election of the Directors by rotation in terms of Article 85 of the Articles of Association.		
	a) Mr. Thanuja Lasitha Weeratne, who retires by rotation and being eligible offers himself for re-election.		
	b) Mrs. Umashanthiee Rajamantri who retires by rotation and being eligible offers herself for re-election.		
3.	Election of Directors appointed to the Board subsequent to the last Annual General Meeting in terms of Article 92 of the Articles of Association.		
	a) Mr. Rajiv Puri who was appointed to the Board and being eligible offers himself for re-election.		
	b) Mr. Siddi Mohamed Farook who was appointed to the Board and being eligible offers himself for re-election.		
	c) Dr. Anura Wijewardene who was appointed to the Board and being eligible offers himself for re-election.		
	d) Ms. Jayanthi Gunawardena who was appointed to the Board and being eligible offers herself for re-election.		
	e) Ms. Upulangani Malagamuwa who was appointed to the Board and being eligible offers herself for re-election.		
	f) Mr. Raju A Chandiram who was appointed to the Board and being eligible offers himself for re-election.		
	g) Mr. Ajith Udaya Amarasekara who was appointed to the Board and being eligible offers himself for re-election.		
4.	To appoint The Auditor General as the Auditor for the ensuing financial year in compliance with Article 154 of the 19th Amendment to the Constitution.		
5.	To authorise the Directors to determine donations for the year 2019 and up to the date of the next Annual General Meeting.		
6.	Any other business of which due notice has been given.		

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

…………………………………
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 an "x" in the space provided, how your Proxy is to vote on the Resolutions.
If no indication is given, the Proxy in his discretion will vote as he thinks fit.

Form of Proxy

INSTRUCTIONS FOR COMPLETION

1. Kindly perfect the Form of Proxy by filling in legibly your full name, address and the National Identity Card number and by signing in the space provided and filling in the date of signature.
2. A proxy need not be a shareholder of the Company. However the proxy must be above 18 years of age.
3. The completed form of proxy must be deposited at the registered office of the Company Secretaries 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.

No: 578, Elvitigala Mawatha, Narahenpita, Colombo 5, Sri Lanka.