


LANKA HOSPITALS

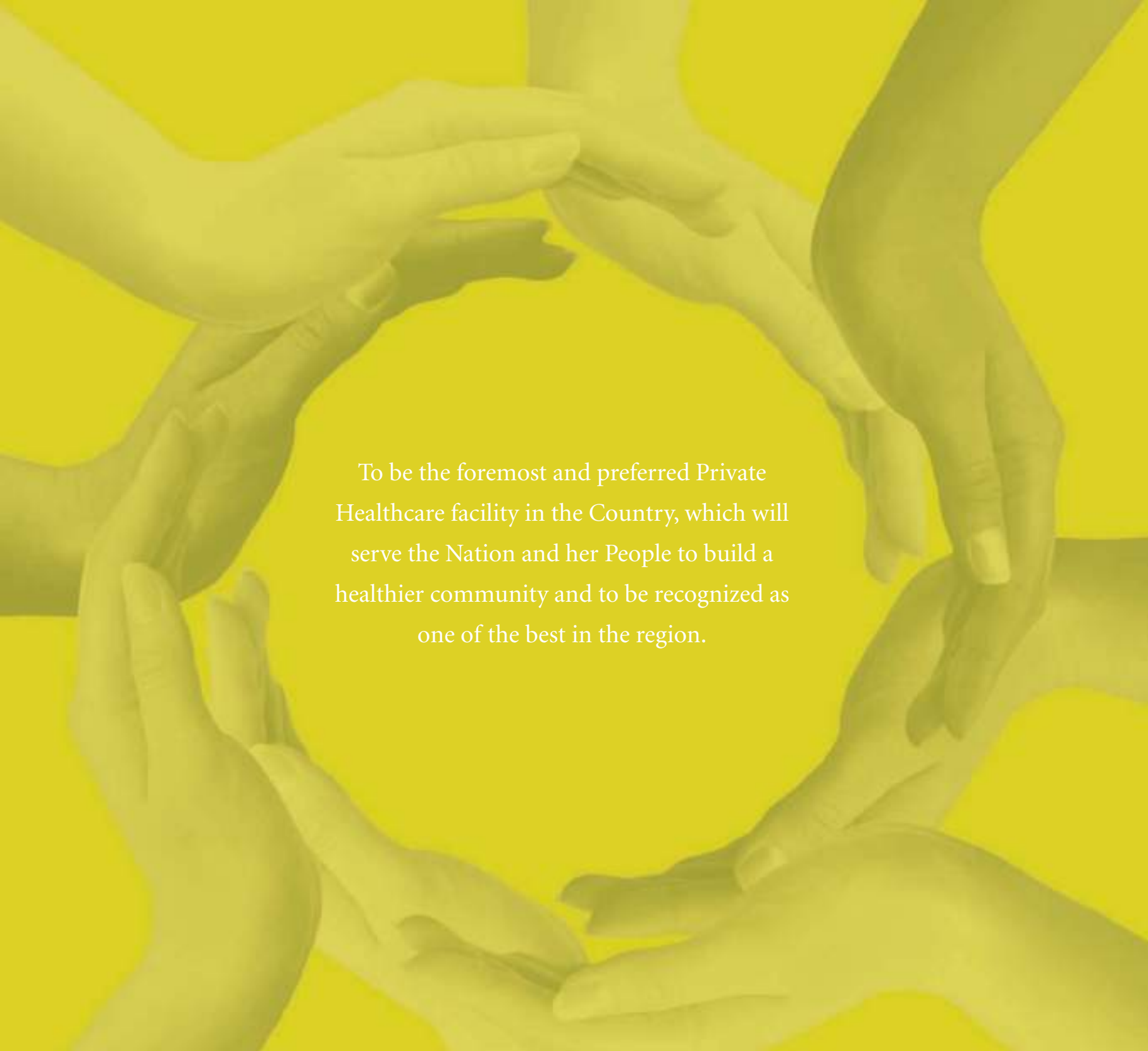
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Annual Report
31st December 2009

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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 and to be recognized as one of the best in the region.



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



OUR PROMISE

We believe that every person has the right to be treated with the utmost respect and consideration. Therefore at The Lanka Hospitals Corporation PLC, we care about our patients, we care about their families, who are anxious and concerned. We care about our colleagues and how we as a team provide the best care to our patients.

Because we care, we will be sincere, compassionate and sensitive.

To make a difference in lives we touch!

FIVE YEAR SUMMARY

(Figures in Sri Lankan Rupees)

	2009 (9 months)**	2008/09	2007/08	2006/07	2005/06
Turnover	1,777,370,507	2,469,606,111	1,924,684,272	1,811,897,031	1,831,791,243
Profit/(Loss) before interest & tax	24,692,113	108,877,414	(87,313,564)	33,701,930	184,462,035
Profit/(Loss) after tax	7,243,970	41,126,810	(286,357,381)	(173,493,266)	6,837,118
Total assets	2,731,414,156	2,737,686,192	2,954,057,223	2,949,618,335	2,501,422,089
Net assets (Total Equity excluding debt)	2,007,591,301	2,000,347,331	1,954,425,163	1,243,142,649	1,043,253,255
Earnings/(Deficit) per share	0.04	0.18	(1.53)	(1.00)	0.04
Annual Revenue Growth	(28.03)	28.31	6.22	(1.09)	10.56
Net assets per share	8.97	8.94	8.74	7.94	6.66
Net cash flow from Operating activities	135,405,161	310,074,763	(48,033,439)	23,742,670	63,661,158

* Note : In arriving the Profit/(Loss) before interest & tax, depreciation on the following asset categories has been charged at the rates given below.

Asset category	Up to 2005/06	From 2006/07
Medical equipment	6.62%	10%
Other equipment	6.14%	10%

** The company changed its balance sheet date from 31st March to 31st December.



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MANAGEMENT REPORTS

CHAIRMAN'S STATEMENT



It is with great pleasure that I present to you the Annual Report and the Audited Financial Statements for the financial period 2009. I am confident that our shareholders will be pleased with the encouraging operational and financial performance of Lanka Hospitals during the period under review, despite the many structural changes and challenges faced by the Hospital during the period under review.

Your Company in the financial period 2009 demonstrated resilience and remarkable agility in moving towards the strategic vision for Lanka Hospitals. As I pointedly noted in my statement last year, the vision for your Company mirrors the bold vision of H.E the President for our motherland.

As I write this statement, a year is drawing to a close to the day that our nation was saved from the clutches of terror. Now under the leadership

of H.E the President, we as a nation have harnessed our resources, and in our inimitable spirit set upon the task of making Sri Lanka the miracle of Asia. Three decades of conflict ravaged our nation bringing to the fore degradation on both social and economic fronts. Recovery from a crisis of this magnitude, will no doubt, be protracted. Yet, able vision, leadership and the collective collaboration of every Sri Lankan towards a unitary goal, will I am confident, be the path to our nation's future prosperity.

Over the past financial period, Lanka Hospitals has pursued its strategic objectives with vigour and in recognition of the need to be a catalyst in positioning Sri Lanka as a competitive nation on par with international standards. Your Company has been in the forefront, acting as an agent of change, challenging Sri Lanka's healthcare industry to meet the expectations of the international community in service and

infrastructure standards. Lanka Hospitals seeks to be the benchmark for the entirety of Sri Lanka's medical infrastructure and seeks to convincingly position itself at the pinnacle of healthcare provision. To this effect, our medium term goal is to be recognized as the best healthcare solutions provider in the South Asian region.

I am pleased to note that in the period 2009 Lanka Hospitals undertook a number of strategic initiatives aimed towards positioning it as a hospital and a corporate that is truly world-class. To this end, your Company pursued a multi-pronged strategy aimed at realizing four core pillars; best medical care, best customer care, process enhancements across functions, and affordability. Investments were made into medical and technological infrastructure with the objective of establishing centres of excellence in medical specialization in the areas of cardiology, nephrology, surgical specialties, mother and baby care, and fertility. In the long term, further development of this strategy of specialization will assist towards your Company's strategic growth, enabling it to ably differentiate its product and service offer and by providing it the necessary impetus to compete in the global marketplace.

I am confident that you, our shareholders, will agree that Lanka Hospitals in the medium term needs to be an icon of Sri Lanka's economic and industrial maturity. Thus, it is only pertinent that it should contribute in a manner in which the national benefit is pervasive. As a world-class healthcare provider, the role of Lanka Hospitals in propagating high standard healthcare across the nation with the added value of affordability is critical. In this light, it is the vision of your Board to cascade the Company's service offer through a

chain of hospitals with the intention of provisioning superior healthcare to a wider target audience at value for money.

Our shareholders will indeed be happy to note that in the financial period 2009, Lanka Hospital's achievements have been many. Effective and focused strategies to contain financial and operational digress paid dividend; investments into resources placed the Hospital on the path to accelerated recovery, and will positively impact the bottom-line enabling us to drive shareholder value in the future. The re-launch and branding exercise garnered greater brand acceptance and empathy, thus re-positioning our offer.

In conclusion, allow me, to reiterate the assurance of commitment that I extended in the previous year. As is evident from the progress we have made so far, our strength of commitment and dedication towards your Company is unwavering. I, as your Chairman commit my full capacity towards garnering international recognition and acceptance for Lanka Hospitals as a centre of excellence in healthcare. This alone, I believe, is the key to the long-term sustainability of your Company.

Sincere appreciations are due to my Board of Directors, the employees and of course to you our shareholders for being the pillar of strength and support that has sustained the challenging journey so far.

(Sgd.)

Gotabaya Rajapaksa

Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW



The period 2009 has been, I strongly believe, a period that has tested the tenacity of Lanka Hospitals. Braving a multitude of challenges both at the internal and external fronts, the Hospital has through the astute vision of our Chairman and the able direction of the Board of Directors and the senior management team weathered the storms to sustain both financially and operationally. By strategically re-grouping resources, the Company has paved a new vision, identity and direction, all of which will in the future assist towards catalyzing a remarkable transformation for not only Lanka Hospitals but also the Sri Lankan healthcare industry in the long term.

Industry Overview

The demand for healthcare from an industry perspective was indicative of an upward trend during the period. The private hospital industry remained highly concentrated and continued to portray oligopolistic market characteristics.

The city hospitals continued to dominate the private healthcare sector with four key players garnering the bulk of the market shares. However, majority of the city hospitals were unable to effectively differentiate their service offering and continued to target and cater to all segments with similar value propositions. In the short to medium term, the healthcare industry is expected to witness intensified rivalry due to the impending entry of new players and the enhancement of infrastructure by existing players.

Nevertheless, Lanka Hospitals amidst many challenges was able to consolidate its position paving the way for future growth and improved performance. It is evident by our impressive 2010 Q1 results already published.

Strategic Intent for the year

In recognition of the need to precipitate the implementation of critical strategies aimed at realizing the vision for and the full potential of Lanka

Hospitals, the strategic intent for the year largely revolved around the need to calibrate the service offer in a bid to achieve performance optimization whilst also creating a sound foundation for future growth. As such, the key strategic priorities for the year were to:

- create a positive perception for the Hospital by repositioning it and re-launching under a new brand, moving away from the international brand franchise of Apollo Hospitals.
- effectively differentiate the service offer from that of the competition in a bid to create its own market space in the near future.
- consolidate our position as the premier in tertiary care by focusing on the centers of excellence, which has set a benchmark on medical superiority in selected areas.
- make world-class healthcare facilities and medical services available to a larger segment of society to an extent that our services would provide absolute value for money.

Financial Performance for the year

The returns during the 09 months of the financial period (April 09 – December 09) fell below expectations largely due to a multitude of uncertainties in the first half of the year which decelerated the pace of growth leading only to a marginal expansion of the revenue structure. However, strong performance has been demonstrated in published financial results of post balance sheet period with an impressive recording of the highest quarterly profit since the Hospital's inception in 2002. We strongly believe that is an indicative outcome of the new strategic implementations under the able direction of the Chairman and the Board of Directors.

The Company posted a Net Profit of Rs.7.2 million during the 09 months period from April to December 2009. Operational Profit for the same period stood at Rs.24.7 million after investing in excess of Rs.28.9 million as re-branding expenses.

Recording the highest ever quarterly profit since the establishment of the Company in the post balance sheet quarter and in continuing to retain this momentum to date, is a clear indication of the acceptance of the new brand "Lanka Hospitals" by our stakeholders.

Operational Review

During the period under review, Lanka Hospitals implemented a series of critical initiatives under the purview of its new strategic plan for the Company. These operational initiatives will pave the way for greater growth in the future, by establishing core processes and in enabling the Hospital to reposition and differentiate its offer effectively in the marketplace.

Driven by the need to create a positive perception of Lanka Hospitals amongst a larger target market, the Hospital undertook what can be termed as a high risk-high return strategy during the period. With the Apollo Hospitals brand franchise coming up for renewal during the year, a concerted decision was made by the Board and the Management to reposition the Hospital under a new brand name. A brand is a valuable asset, communicating a clear set of values to its stakeholders. Re-branding, by definition changing that identity, must be seen as a serious strategic decision, requiring careful planning. The possible risks associated with moving away from an internationally accepted, established brand was needless to say high, however, the consensus remained on the need for an independent and fully owned brand. Thus, in November 2009, the Hospital was re-branded under its corporate name "Lanka Hospitals". Post-campaign research indicates a positive acceptance of the brand and also demonstrates that the re-branding exercise has led to the creation of greater brand affinities across a broader target market. The re-branding exercise, due to its Sri Lankan identity, will enable Lanka Hospitals to effectively meet its strategic objectives towards gaining access to a larger Sri Lankan audience whilst at the same time establishing and maintaining an international persona through service provision.

The operational focus during the period remained on promise and service delivery (people oriented) as well as benchmarked best practices (process oriented). A key priority therefore, was the need to lay the foundations for operational success by way of establishing fundamental service guidelines, systems, protocols and controls for core components of the business's drivers. Customer service, patient care and medical services were further revamped during the year through a continuous and intensive process analysis aimed at enhancing service excellence.

CHIEF EXECUTIVE OFFICER'S REVIEW (CONTD.)

The overall operational model adopted for Lanka Hospitals during the period emanated from the recognition of a compelling business proposition as an outcome of:

- a strong brand name
- operating on a mix resident/ visiting doctor model
- provision of superior medical care with compassion in a patient-centred, family-focused environment coupled with personalized care.

In pursuing a strategy focused on specialization (tertiary care) as opposed to general care, the Hospital identified seven key pillars with the objective of creating its own market-space. These centres of excellence are expected to effectively differentiate the service offer from that of the competition whilst also positioning the Hospital as the leader in specialist healthcare. By offering a total solution under one roof, the centres are expected to lead in each area of specialization. During the year four out of the seven centres were re-launched after extensive investments were made into re-equipping and resource allocation. Centres for Cardiac (Heart Centre), Renal Care, Mother & Baby and Fertility underwent a rigorous evaluation and re-organisation process prior to their re-launch.

New resources were allocated for surgical specialty including the latest medical technology, enhancements to the theater facilities and process improvements to further strengthen the integrity of the surgical facilities of the hospital. A decision was taken to invest into the latest flat panel Cath Lab for the Cardiology department. With the latest technology in place, it will benefit specialist doctors and patients from across the nation. A culture of quality consciousness was embedded into the very core of the Hospital due to untiring efforts of the medical team and the team providing other support services. One of our remarkable achievements during the period was the certification of the laboratory services of Lanka Hospitals in compliance with ISO 15189. Lanka Hospitals remains the only ISO accredited hospital laboratory in Sri Lanka, thus proving that our processes, accuracy and the methodologies adopted rank far superior other hospital laboratory services in the country. Registration with the Randox International Quality Assessment Scheme (RIQAS), an international External Quality Assurance scheme used by 7000 laboratories worldwide, was also

extended during the year, thus collectively assuring the Hospitals customers the benefits of accuracy and confidence.

The new model for emergency triage proposed in the financial year 2008, was rolled out during this financial period. In doing so, the Hospital benchmarked against some of the best emergency departments in the world. During the year, further efforts were made towards improving the facilities of the Emergency unit whilst also increasing efficiencies in recognition of the criticality of emergency care.

The Lanka Hospitals Health-Cheq unit operated with greater vigor during the period. With a broader spectrum of Health-Check services on offer, the operating unit garnered greater business and a larger client base and was considered a preferred service amongst users due to its customer-centric service.

Currently, Lanka Hospitals is in a leadership position due to the cumulative outcomes of sound infrastructure combined with a responsible and experienced pool of specialist doctors. The Hospital is characterized by the high number of specialist resident doctors both foreign and local who are available on call 24/7. However, in a bid to increase the pool of specialist doctors available for consultation and thereby offer greater choice to our customers, Lanka Hospitals invited some of the eminent specialist doctors to practice with us. These invitations were cordially accepted and as a result a stronger resident/visiting doctor model has indicated perceptible growth in OPD consultations during the period under review.

Lanka Hospitals continues to map its current business processes, constantly striving to identify areas to improve, analyze and re-engineer. In doing so, it simultaneously seeks to embody a total customer care culture across the organization with intensive and continuous training extended to the entire staff.

This financial period has proved from an operational and financial perspective to be one of successes due largely to the Hospitals' ability to consolidate its position despite internal and external challenges. The Hospital during the first and second quarter of the financial period 2009 experienced a change in its ownership structure. However, seamless change and the focused vision of the new Board and Management have

enabled us to rise above adversities to work towards the Hospitals corporate objectives, for the greater good of all stakeholders.

Future Outlook

In looking to the future, Lanka Hospital's business model will remain one wherein the Hospital will continue to offer high quality, personalized medical care at value for money and with greater accessibility. It is expected that intensive and focused international marketing efforts will garner greater returns from the areas of cosmetic, dental and elective surgeries. To further establish itself in the international market, the Hospital will look to collaborate with a range of travel and tourism partners to widely market itself for medical tourism. Towards this end, in the upcoming financial year, the Lanka Hospitals brand will be launched in Maldives.

Nursing resources and the lack of expertise in the field remains a growing challenge for the industry. To overcome this, Lanka Hospitals plans to re - launch its Nursing School, the educational arm of Lanka Hospitals, with the first of a series of initiatives aimed at elevating the reputation and credibility of nursing as a career.

In leveraging the hospitals positioning as a centre of excellence, in the upcoming financial year and indeed in the medium term, the focus will lie predominantly in pursuing a strategy that furthers specialization. As such, Lanka Hospitals will optimize presently under utilized space on its 7th floor to increase capacity to serve the growing demand.

The intention for the long term is to establish a chain of hospitals under the Lanka Hospitals brand in selected areas across the nation to make

quality medical care affordable to a larger segment of society living outside Colombo. Lanka Hospitals is poised to become the preferred brand for not only medical care but what we refer to as our distinctive advantage – hospitality medical care – arising from an array of service-based fundamentals that make Lanka Hospitals unique in comparison with the competition. As an early adapter of medical technology we have kept abreast of global technological changes and invested accordingly, thus pitching our service offer on par with global international healthcare brands. The culmination of excellence in customer care, intensive training and development together with specialist acumen will no doubt place us in good stead for future success. In that context, I am confident that Lanka Hospitals will in the medium term offer to its many stakeholders a healthcare experience that has to date not been experienced in Sri Lanka before.

In summary, I must note my appreciation to our Chairman who has envisioned a strategy of promise for not only Lanka Hospitals but also for the nation and her people, to the esteemed Board of Directors who have collectively given sound direction and guidance to achieve that vision and of course to the Lanka Hospitals team that has worked relentlessly to realize our corporate objectives. We remain firmly committed to our customers and to our shareholders.

(Sgd.)

Lakith Peiris

Chief Executive Officer

MEDICAL DIRECTOR'S STATEMENT



The 09 months period ended December 2009 has been a period of great operational accomplishment for Lanka Hospitals. It has been a period in which critical and fundamental enhancements were undertaken in a bid to elevate the Hospital's current service levels whilst considering the future needs for strategic expansion of products and services.

Driven by a two-fold strategy that aimed towards enhancing the overall confidence amongst patients as well as the consultant community, Lanka Hospitals focused on initiatives aimed towards creating a friendly and caring service atmosphere that is based on an ethos of quality consciousness. This strategy was largely achieved during the financial period through the development of a pervasive culture of quality, greater sense of team spirit and through the establishment of effective linkages between clinical and non-clinical areas.

The Hospital's portfolio of consultants grew during the period as an outcome of a concerted effort to provide greater choice and specialization to the customer base, whilst retaining its well

accomplished and acclaimed consultants who have served at Lanka Hospitals in the past.

The restructuring of core units such as Emergency, Mother & Baby Care, Cardiology, Renal care and Fertility centre further strengthened the Hospital's service proposition whilst enhancing its image as a specialist and comprehensive healthcare provider. This was further complimented through reinforcement of nursing care, through a quantity enlargement of the cadre underpinned by skill and experience as pre-requisites mandatories for employment.

In the upcoming financial year, the core of the operational efforts will focus upon the progressive development of strategies embarked upon during the year under review. Quality improvements through good housekeeping practices will support the Hospital's quest for sustainable and Zero incident operations whilst also serving as a foundation for quality accreditation. It is expected that through the implementation of systems to better accommodate customer

grievances and suggestions through greater customer interaction processes, the Hospital will be better equipped to formulate more responsive care for patients.

Through technology enhancements and upgrades to the cardiac centre, surgical department, renal care and emergency, the Hospital will continue to establish leadership in medical care and position itself as a centre of excellence within the region.

During this financial period, we have proven our capability to rein-in resources and perform exceptionally from an operational perspective. In the years ahead, these capabilities will transform to core competencies, giving Lanka Hospitals the edge to be an international centre of repute for healthcare.

(Sgd.)

Dr. Wimal Karandagoda

Director Medical Services



Mr. Gotabaya Rajapaksa
Chairman
Independent Director



Dr. Nalaka Godahewa
Non Independent Director



Mr. Pradeep Kariyawasam
Non Independent Director upto 24th May 2010



Dr. B. Kaluarachchi
Independent Director



Dr. Ajith Amarasinghe
Non Independent Director



Mr. B.A.C. Fernando
Independent Director



Dr. S. S. L. Perera
Independent Director



**Major General (Dr.) Sanjeewa Heman
Munasinghe**
Independent Director



Mr. Asoka Nissanka Pathirane
Independent Director



Prof. Dayasiri Fernando
Independent Director appointed to the Board
on 30th October 2009



Mr. A.M.M. de Alwis
Non-Independent Director appointed to the
Board on 24th May 2010



Dr. T.R.C. Ruberu
Independent Director appointed to the Board
on 24th May 2010

Not in picture - Dr. H.A.P.Kahandaliyanage Independent Director from 30th October 2009 to 24th May 2010 and Mrs. R.S. Cabraal Independent Director appointed to the Board on 24th May 2010

Mr. Gotabaya Rajapaksa RWP RSP psc MSc

Mr. Gotabaya Rajapaksa is the Secretary to the Ministry of Defence, assumed duties on 25th November 2005. Prior to this appointment, he was the Unix System Administrator of Loyola Law School at Los Angeles, USA.

A career soldier, Mr. Rajapaksa joined the Sri Lanka Army in 1971, spent twenty years in service and held the appointment of Deputy Commandant of Sir John Kotelawala Defense University in 1991 and as a Lieutenant Colonel was Coordinating Officer of Welioya area from 1990 to 1991. Prior to that, he was the Coordinating Officer of Matale District and the Commanding Officer of the 1st Battalion, Gajaba Regiment from 1989 to 1990. He has also held numerous other positions in the Sri Lanka Army such as Instructor, Adjutant and Staff officer to the operations officer commanding contingents.

During his military career, Mr. Gotabaya Rajapaksa has been awarded the President's Commendation letter by former President J. R. Jayewardena and medals for valour in combat such as Rana Wickrama Padakkama and Rana Sura Padakkama (on two occasions) – by former Presidents R. Premadasa and D.B. Wijetunga. He has also received a commendation from the Commander of the Army for his bravery in action.

He has commanded many anti-terrorist operations in the North and East in different capacities. Among them was his Command of the 1st Battalion of the Gajaba Regiment in the important Vadamarachchi Operation in 1987 and Operation Thrividabalaya in 1990 respectively, to rescue Jaffna peninsula and the Jaffna Fort from terrorist control.

Hailing from the village of Weeraketiya in the South of Sri Lanka, he had his education at the respected educational institution, Ananda College, Colombo. He completed his basic officer cadet training at prestigious Military Academy at Diyatalawa, and proceeded to Pakistan to complete the Young Officers' Course at Rawalpindi and later the mid career course at Quetta. He has also undergone advanced training in Counter Insurgency and Jungle Warfare at Assam, India. Later in his career, Mr. Rajapaksa graduated in advanced Infantry Training from Infantry School Fort Benning, USA.

As a staff officer, Mr. Rajapaksa completed his Staff Course at the Defence Services Staff College in Wellington, India in 1983. He obtained his Masters degree in Defense Studies from the University of Madras in 1983. He has also obtained a Postgraduate degree in Information Technology from the University of Colombo in 1992.

Mr. Gotabaya Rajapaksa and his wife Ioma have an adult son; he is brother of the present President of the country Mahinda Rajapaksa and the son of parliamentarian and former Deputy Speaker of Parliament, the late Mr. D. A. Rajapaksa.

Dr. Nalaka Godahewa

Dr. Nalaka Godahewa is a Director of Seylan Bank PLC, CSC Kandia (Pvt) Ltd., and Urban Development Authority. His previous work assignments include Director/CEO positions at some of Sri Lanka's leading corporate institutions including Sri Lanka Insurance, Unilever Ceylon, Suntel and MAS Holdings. Dr. Godahewa is academically and professionally qualified in the multiple fields of Engineering, Marketing and Finance. He holds a PhD from the University of South Australia, a BSc (Hons) degree in Electronics and Telecommunication Engineering from the University of Moratuwa, and an MBA from the University of Sri Jayewardenepura. He is also a Chartered Management Accountant (UK), a Certified Management Accountant (Aus) and a Chartered Marketer (UK). Dr. Godahewa is currently the President of the Sri Lanka Branch of the Institute of Certified Management Accountants of Australia and also the Honorary President of the Global Marketing Network. He also functions as the Chairman of the Association of Licensed Bunker Operators of Sri Lanka.

Mr. Pradeep Kariyawasam

Mr. Pradeep Kariyawasam is the present Chairman of National Savings Bank. Mr. Kariyawasam is a senior corporate figure with over fifteen years of experience at Chief Executive and General Manager level at Unimo Enterprises, United Motors Lanka Ltd and Browns Group of Companies respectively. His extensive experience in marketing and sales management encompasses a cross section of large corporate conglomerates. Mr. Kariyawasam has also functioned as a respected consultant in business management and project management. He holds a certificate in marketing from CIM (UK).

Dr. B. Kaluarachchi

Dr. B. Kaluarachchi holds a MBBS degree from the University of Ceylon, Faculty of Medicine, Colombo and served as a Medical Officer at several Government Hospitals in Sri Lanka. He currently serves on the board of Bank of Ceylon. He has been a Medical Officer for leading hotels in Colombo, several international airlines, several embassies and high Commissions located in Sri Lanka while serving as Consultant to several multinational companies. Dr. Kaluarachchi has undergone Post Graduate Training and has worked in leading National Health Service

Hospitals in the United Kingdom. He was a founder Director of Asiri Hospitals PLC. Presently Dr. B. Kaluarachchi is the President of the Ceylon Association for the Prevention of Tuberculosis, the President of the Ruhunu Cultural Institution and a Member on the Board of management of Colombo Y.M.B.A. He is presently the Chairman of Hotels Colombo Ltd and is a Council Member of the University of Visual & Performing Arts. Dr. Kaluarachchi is also a Director of Merchant Credit of Sri Lanka Limited.

Dr. Ajith Amarasinghe

Dr. Ajith Amarasinghe graduated from Colombo Medical Faculty in 1993. He has obtained DCH and MD from Post Graduate Institute of Medicine of University of Colombo. He trained in general and community pediatrics in Sri Lanka and U.K. and obtained MRCP and MRCPC in the UK. Dr. Amarasinghe worked as the Consultant Paediatrician and Medical Superintendent at the Base Hospital in Hambantota before joining Apollo Hospitals Colombo at its inception. He served as a council member of Sri Lanka Medical Association and was on the editorial committee of the Sri Lanka Journal of Child Health. He is a member of the Medical Advisory Committee and Chairman of the Ethics Committee Apollo Hospitals Colombo since 2003. Currently he is reading for MBA-Healthcare Sciences (Manipal University - India).

Mr. B.A.C. Fernando

Mr. B.A.C. Fernando is the General Manager of Bank of Ceylon. He possesses 40 years experience in Banking. He has a Bachelor of Arts degree and a Masters Degree in Business Administration. He is a fellow member of the Institute of Bankers of Sri Lanka and is also a Director of the Institute. Mr. B.A.C. Fernando has undergone extensive local and overseas training in Banking and Management. He is a Director in many subsidiaries and associate companies of the Bank of Ceylon.

Dr. S. S. L. Perera

Dr. S. S. L. Perera is a Consultant Neurosurgeon and is an advisor to H.E. the President Mahinda Rajapaksa.

He was formerly the Head of the Department of Neurosurgery at the Colombo National Hospital. Dr. Perera is widely credited with spearheading the transformation of neurosurgical services in Sri Lanka to international standards and has pioneered the establishment of surgical programmes for Epilepsy and Parkinsons Disease in the country. He spearheaded the establishment of the Neuro Trauma Centre in the National Hospital which is the biggest Neuro Trauma Centre in

Asia. He is a visiting lecturer and Examiner of undergraduates at the Medical Faculties of Colombo and Peradeniya and also a postgraduate trainer/supervisor for Senior Registrars and Registrars in Neurosurgery. Dr. Perera holds an MBBS and MS Surgery from the University of Colombo and is a Fellow of the Royal College of Surgeons in Edinburgh and in Glasgow, United Kingdom.

Major General (Dr.) Sanjeewa Heman Munasinghe RWP RSP USP

Major General (Dr.) Sanjeewa Herman Munasinghe is a Consultant Radiologist at the Military Hospital, Colombo and is the Medical Advisor to Commander of Sri Lanka Army. Major General Munasinghe holds an MBBS Sri Lanka and MD (Radiology) Sri Lanka. He has served on the Executive Committee of the Asian Musculoskeletal Society and is a life member of the Sri Lanka Medical Association, The College of Radiologist of Sri Lanka, The College of Medical Administrators of Sri Lanka and The Radiologist Society of North America.

Mr. Asoka Nissanka Pathirane

Mr. Asoka Pathirane is a Hotelier with extensive experience in the sales, operations, marketing, food and beverage functions at the Hilton and Hyatt chains. Mr. Pathirane is also serving Sri Lanka Cricket in an honorary capacity, as Media Manager and Secretary of the National Development Centre. He holds a BA (Hons) in media studies from London, and is a graduate of the Ceylon Hotel School. Mr. Pathirane is an associate member of the Sri Lanka Institute of Marketing and a member of the Hotel and Catering International Management Association, United Kingdom. He is currently working as the Operations Manager (NCP) in Sri Lanka Cricket.

Prof. Dayasiri Fernando

Professor Dayasiri Fernando is the Commissioner of Public Service Commission. He holds a MBBS degree from University of Colombo, has been awarded Gold medal for Operative Surgery. He is academically qualified with FRCS (Edin) & FRCS (Eng) from University of London, awarded with the honorary fellowship for postgraduate. He has served as a Consultant surgeon and Member of several Universities and Institutes. He has been awarded with International and National awards related to health. He has been lecturing in several Sri Lankan universities and in a London university. He is qualified and experienced in serving as an examiner for Sri Lankan universities. He has contributed in Journals & Papers related to health.

Dr. H.A.P. Kahandaliyanage

Dr. H.A.P. Kahandaliyanage was the Secretary to the Ministry of Healthcare & Nutrition, Sri Lanka and the Administrative Head and Chief Accounting Officer of the Ministry and also the Principal Advisor to the Minister of Health on all matters of Health policy and administration.

Since beginning his career in 1978 as a young medical officer, Dr. Kahandaliyanage has proven his ability as an able Medical Administrator with wide experience in different areas of the health service, rising rapidly through the ranks to finally function as the Director General of Health Services from 2002-2007. He did his postgraduate studies in Public Health and has been specially trained overseas in Health Management. He is a fellow of the College of Medical Administrators of Sri Lanka.

In his long and illustrious careers Dr. Kahandaliyanage has actively participated and contributed to many National and International organizations, bodies, conferences, workshops and committees.

He has been instrumental in developing many policies in the health sector in Sri Lanka and has contributed immensely to the development & strengthening of the Health System in Sri Lanka.

In recognition of his work he was elevated to the post of Secretary to the Ministry of Healthcare & Nutrition, Sri Lanka, in 2007 and continued up to January 2010.

The profiles of the Directors appointed on 24th May 2010 (subsequent to the period end) are as follows,

Mr. A.M.M. de Alwis

Mr. Mohan De Alwis is the Managing Director and CEO of Sri Lanka Insurance Corporation Ltd. He has wide and varied managerial experience at leading corporate institutions both in Sri Lanka and overseas including Coopers & Lybrand (Botswana), Hayleys PLC, Star Garments Ltd and Smart Shirts Ltd. Mr. De Alwis holds an MBA from the University of Colombo and a Bachelor of Commerce degree from the University of Kelaniya and is a Certified Management Accountant (Aus). He was the Vice Chairman of the Free Trade Zone Manufacturers' Association, Katunayake. He has also served as a Management Consultant in Sri Lanka and has also been associated with the Export

Development Board and the Ministry of Rural Development of Sri Lanka in contributing towards the export market.

Mrs. R.S. Cabraal

Mrs. Roshini Sunethra Cabraal is a Fellow member of the Institute of Chartered Accountants of Sri Lanka and The Society of Certified Management Accountants. Mrs. Cabraal is a Director of Cabraal Consulting Group (Private) Limited, First Western Securities (Private) Limited and a member of Board of management of several educational institutes. She held many positions in leading Institutions such as International Education Systems (Private) Limited, International Infrastructure Development Consortium (Private) Limited, CMS Ladies' College, James Finlays Group, The Finance Company PLC and was also a Consultant at KPMG Ford, Rhodes, Thornton & Co., She is currently working as an independent management consultant.

Dr. T.R.C. Ruberu

Dr. T.R.C. Ruberu is the present Secretary to the Ministry of Health Sri Lanka and the Administrative Head and Chief Accounting Officer of the same Ministry and also the Principal Advisor to the Minister of Health on all matters of Health Policy and Administration.

Dr. Ruberu graduated from the University of Colombo, Faculty of Medicine in 1982, within the second class upper division. Subsequently he specialized in ENT and held appointments as Consultant ENT Surgeon in Ragama, Galle and Colombo National Hospitals. He holds MBBS, MS (ENT) FRCS (England). Subsequently, Dr Ruberu has obtained MBA in healthcare from the University of Manipal, India.

Dr. Ruberu has been an undergraduate and postgraduate lecturer & trainer in ENT and examiner for the MS degree programme. He was a member of the Board of Study in ENT of PGIM and held the post of Chairman until his current appointment. Further, he is a past president of the College of Otorhinolaryngologists of Sri Lanka.

He pioneered the establishment of the Cochlear Implant programme in Sri Lankan hospitals. He has immensely contributed to the field of managing hearing impairments, locally and internationally. His interest in contributing to the development and advancement of health services has given him the opportunity to call the current post of Secretary of Health.



Left to right

Mr. Lakith Peiris (*Chief Executive Officer*)

Mr. Omal R. Kaluarachchi (*Manager – Human Resources*)

Dr. W. Karandagoda (*Director Medical Services*)

Dr. K.T. Iraivan (*Assistant General Manager-Operations*)

Mr. Sampath Hettiarachchi (*Chief Financial Officer*)

Mr. A.C. Jayakody (*Deputy General Manager – Marketing*)



First row sitting (Left to right)

Mr. A.C. Jayakody (*Deputy General Manager – Marketing*)
 Mr. Sampath Hettiarachchi (*Chief Financial Officer*)
 Mr. Lakith Peiris (*Chief Executive Officer*)
 Dr. W. Karandagoda (*Director Medical Services*)
 Dr. K.T. Iraivan (*Assistant General Manager-Operations*)
 Mr. Omal R. Kaluarachchi (*Manager – Human Resources*)

Second row standing (Left to right)

Dr. Rasika Adasuriya (*Medical Registrar – Diagnostics*)
 Ms. Sujeewa P. Subasinghe (*Executive – Facilities*)
 Mr. M.G.M. Irfan (*Biomedical Engineer*)
 Wing Commander B.M.R.K. Chandrasekara
 (*Manager- Security/Transport*)
 Mr. M.R.M. Nizwer (*Manager- Internal Audit*)
 Ms. W.A.S.M.S. Menike Rajapaksha (*Chief Matron*)
 Dr. W.M.S. Rathnapriya (*Medical Superintendent*)
 Ms. S.A. Clarice Wahid (*Administration Assistant*)

Third row standing (Left to right)

Mr. P.V. Ariyathilaka (*Manager – Engineering & Maintenance*)
 Mr. S.D. Dharmarathna (*Manager – Materials*)
 Dr. Akilesh Singh Karan (*Consultant – Haematologist, Head of Laboratory Services*)
 Mr. Neelish C. Katiyar (*Manager- Information Technology*)
 Mr. W.A.D.M. Ranjana Gunathilaka
 (*Assistant Manager – Quality Assurance*)
 Dr. Harsha Goonathilaka (*Assistant Manager – Diagnosis*)
 Mr. N.K. Dharmasiri Silva (*Manager – Catering*)
 Ms. Nuwanthi Gunawardana (*Legal Officer*)
 Ms. Renuka N. Herath (*Manager – Credit*) (*Absent*)



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OPERATIONAL INFORMATION

BUSINESS REVIEW

Economic Outlook for the year

The year 2009 was undoubtedly one of the most important years in Sri Lanka's recent history from a national and economic perspective. Whilst on the global front, the world economy staggered to rise from a dramatic decline - the consequent fallout of the global financial crisis – Sri Lanka emerged from a terrorism crisis dating back over three decades to an opportunity of peace, unity and economic prosperity.

In the latter half of 2009, Sri Lanka's economy gained momentum on the back of growing investor confidence, the latent opportunities for commercial and socio-economic development in the once economically inaccessible north and eastern provinces and the return of business confidence in the economy. This is evident in that during the year Sri Lanka ranked among the Top Ten Fastest Economies, being eighth in the world according to the Economist Intelligence Unit. The Sri Lankan economy in 2009 posted an economic growth of 3.5 percent down from an average of 6 percent over the previous three years due in large to the slow down of the global economy and the exertion on the economy in the first half of the year as the war on terror reached tumultuous stages. Signs of economic recovery were abundant - the annual average inflation declined to a 3.4 percent in December 2009 from 22.6 percent recorded for the same period in 2008, the Colombo Stock Exchange surged to rank as the second-best performing exchange in the world and the Central Bank of Sri Lanka loosed its reins on the monetary policy to reduce interest, incentivising investment. Foreign direct investment during the year rose dramatically and is expected to continue to grow in proportion to global economic recovery.

Industry Overview

Sri Lanka's private healthcare industry is highly concentrated and has over the years evolved in terms of the number of industry players and the size and scope of their operations. Exhibiting characteristics of an oligopolistic market structure - an industry dominated by a small number of large firms, selling identical products, and enacting significant barriers to entry- the private healthcare industry demonstrates common oligopolistic behavior. The industry is highly concentrated with interaction based on price; whilst the type and level of service is the basis on which players compete with each other. Although the demand for hospital care is inelastic, price revisions have

been viewed with caution due to the nature of the industry. The rate of growth of the healthcare sector has also been constrained due to a shortage in human resources and due to the scale of the expansion that is necessitated, driving the bargaining power of medical resource personnel both doctors and nurses up.

The level of rivalry in the industry is expected further aggravate with the entrance of new players in the future. The growth and changes in demographics as well as the opening up of new geographic spheres for operations will increase the interest in the sector.

Over the past five years demand for healthcare has continued to increase, primarily driven by shifts in disease patterns, changing lifestyles and shifting demographics. The competitive environment has intensified with the heightened operations of new players as well as the enhancement of infrastructure and operations of existing healthcare establishments. However, the public sector continue to account for the bulk of the hospital and healthcare infrastructure in the country. Although demand has increased rapidly over the past few years, the failure of public sector to keep up with the demand, has been due to intense demand on the sector in terms of cost management. Due to this the private sector has grown to capitalise on this gap, especially in the dimension of quality of care. Demands of the consumer for non-medical aspects of the care delivery process have been met by the private sector players although not to the best of their abilities.

Despite this private sector growth has been accompanied by low returns on capital. In most cases the returns generated have remained insufficient to cover the cost of funds employed in the business. However the sector shows signs of improvement driven by the efficient use of assets.

Strategic objectives for the year

During the first quarter of 2009, the Company changed hands and came under the purview of the government of Sri Lanka. However, the intention was for the Hospital to retain its private sector operational model, thus continuing to focus on a revenue-based structure. At this juncture, the need for a strategic re-analysis of the business was a necessity and the ensuing outcome of this was the formation of key strategic objectives for the year:

- create a positive perception for the Hospital by repositioning it and re-launching under a new brand, moving away from the international brand franchise of Apollo Hospitals
- effectively differentiate the service offer from that of the competition by identifying and developing key strategic pillars for future growth
- establish and re-position the centres of excellence for specialist care thereby positioning the Hospital as the leader in specialist healthcare
- Make world-class healthcare facilities and medical services available to a larger segment of society to an extent that the Hospitals services would provide absolute value for money.

The nature of the industry and the dire need to establish a differentiator for the hospital led the strategic planning process. As the private hospital industry is highly concentrated and is characterised by oligopolistic competition, industry interaction was based mainly on price (market pricing). Thus, the type and level of service remained a constant with almost all industry players providing like services and mundane customer service. Target audiences fall across socio-economic and demographic groups. With hospitals employing a cautionary pricing strategy due to a scenario of high price elasticity, and the likelihood of patients switching hospitals, the under pricing of services and unwillingness of hospital operators to increase prices at the rate of inflation, have had a negative impact on the margins of all city hospitals. Thus, all industry players have tapped similar targets and offered similar value propositions.

The overall objective of the Company then, was to work towards creating its own market space moving away from the constraints of the oligopolistic environment. With new hospitals entering the industry and the existing ones' increasing capacity, the city hospitals are expected to fiercely compete over a shrinking profit pool by providing similar services with little differentiation. Hence as a long-term strategic initiative, Lanka Hospitals determined value innovation as a strategic differentiation strategy wherein by meeting 'unmet needs' of its target market, it would position itself as a customer centric, service oriented Hospital. In other words, the organisation by understanding and serving

the hidden needs of its target markets looked to successfully meet new benchmarks in service and delivery.

Operational performance review

During the year a complete review of the hospital's strategic intent, corporate objectives and business processes led to the recognition for change in the operational model of the business. As such, the following initiatives were seen as the foundation for the establishment of a more strategic and dynamic way forward for the future growth of the business:

- Re-branding and launching of Lanka Hospitals brand imagery
- Identification and establishment of key strategic pillars
- Measures to improve medical care
- Creation of a strong market orientation wide-wide focused on customer care
- Identification of non-value adding activities to reduce inefficiencies
- Re-engineering of business processes
- Revised pricing structures to enhance value

Re-branding the service offer

With the Apollo brand franchise agreement nearing expiry, it was necessary for the Management to make a collective decision on the future of the brand identity for the hospital. Whilst Apollo as a brand name had in the past allowed the hospital to pitch itself to global markets as a part of the Apollo Group, the brand had fewer positives in the local market where perceptions of high cost, non-Sri Lankan identity and being less in tune with local healthcare needs existed. The extension of the brand contract placed the hospital with the option of investing the brand franchise fee into a re-branding exercise such that the return on investment would be establishment of a fully owned, Sri Lankan brand identity. This strategy seemed prudent in the context of the need to re-launch the hospital and its service offer in the minds of the targets in a more conclusive and concerted manner. The ability to utilise the funds allocated to the brand franchise extension, then allowed the hospital to garner greater benefit in the form of addressing key perceptual concerns plaguing the hospital whilst simultaneously

BUSINESS REVIEW (CONTD.)

creating greater awareness on the new imagery and brand identity for Lanka Hospitals.

In doing so, the management reviewed the hospital's target audience and determined its composition to be:

- SEC B, C who believe in private medical care
- SEC A and A+
- Expatriate community
- International clients who look for cost effective health care solutions especially for elective surgery and procedures not covered by insurance in their countries
- In bound tourists who have already chosen Sri Lanka as a holiday destination

As a first stage prior to the development of the new identity, the management undertook an intensive and invasive assessment of the hospital's service offer to determine the meaning of the brand, its associations and consumer expectations so as to garner insight to what the hospital and its brand meant to the target audience. As an outcome of this research the hospital was able to formulate a new brand positioning statement incorporating the core values of exceptional medical care, patient centricity, service orientation, excellence in infrastructure and affordability through value creation. The positioning for the brand Lanka Hospitals therefore stands as:

“The hospital that provides exceptional and compassionate superior medical care and personalized attention to every patient, in a patient-centered, family-focused, safe and luxurious environment – Value for money”.

In November 2009, the hospital was officially rebranded as Lanka Hospitals in line with the corporate brand. A new brand identity in the form of a new logo and payoff was launched via an integrated communications campaign through above the line and below the line media. Redesigning of all collateral material, merchandising, point of sale material, uniforms as well as the interior of the hospital in terms of visitor interaction areas were carried out to create a consistent and professional brand identity.

Review of Key Strategic Pillars

The business re-engineering process brought to focus the dire need for the identification and establishment of core drivers of business growth. In this respect, the Management identified seven core areas of business as the value drivers of the Hospital. These seven pillars will be developed in accordance with the hospitals overall 5-year strategic plan and will be instrumental in fulfilling the qualitative and quantitative objectives of the corporate plan.

The Hospital in the past has been a forerunner in the provision of specialist care in cardiology, renal care as well as mother and baby care. However, a customer survey conducted during the year demonstrated a higher degree of awareness of the hospitals “softer” services such as general medical care and other customer service factors. Thus in a bid to reposition Lanka Hospitals as a specialist healthcare provider – a proposition the Management feels will further reinforce the level of expertise of the Hospital and its allied services – four centres of excellence have been earmarked as focal to the achievement of business growth. During the year, this strategy was implemented successfully, with investments made into the re-launch of Heart centre, Renal Care centre, Fertility Centre and Mother & baby Centre. These Centres were allocated fresh resources and invested into in terms of medical technology and are capable of providing superior medical solutions.

In taking the Centres of Excellence proposition forward, a dedicated Renal Intensive Care Unit (ICU) was launched in 2008 aimed at improving the quality of service to Renal Transplant patients. This was further compounded by the addition of new dialysis machines to the unit and strengthening of the renal transplant program in 2009. All of which augmented the existing renal care services during the year.

The popularity of the Heart Centre was further augmented during the year due to the introduction of fixed price packages whilst the Fertility centre commissioned in 2008 proved to be not only one of the most modern centres for fertility treatment in Sri Lanka but also the most successful with a success rate of 42 percent (Controlled Ovarian Hyperstimulation - COH cycle) and 80 babies born within a span of 18 months and more than 234 pregnancies recorded as of date.

The surgical department, as a strategic pillar, was redeployed during the financial year with greater resources aimed at increasing the capacity

utilisation of the Hospital's existing theatres. Investment into new technology and instrumentation, enhancement of the pool of specialist surgeons, and the restructuring of the available theatre resources were made and are expected to grow the revenue from this pillar in the medium term.

It was also accepted during the year, that for business growth to be fully achieved, strengthening the existing resident/visiting doctor business model was imperative. As such, Lanka Hospitals acknowledged the need to meet customer expectations and thereby invited a range of top Sri Lankan specialist consultants attached to the state sector to serve at the Hospital as visiting doctors. This twin strategy of resident plus visiting doctor model is expected to enhance the financial performance of the Hospital and has already made a perceptible impact on revenues for the year under review as demonstrated by a volume growth in OPD consultations.

The Diagnostics and Laboratory Services were restructured during the year. The introduction of a new portfolio of laboratory tests enabled Lanka Hospitals to enhance its Diagnostics functions and to pitch its services on par with competing private hospitals, a few of whom have built a reputation for diagnostics and Laboratory services. Reporting formats for tests were also changed in order to be on par with industry norms.

The introduction of visiting consultants to Microbiology, Biochemistry, and Histopathology laboratories further enhanced the operations and reputation of diagnostics during the year. The introduction of a 24-hour Sample Collection service for OPD and in-patients enabled the Hospital to achieve quicker turn around in diagnosis and treatment.

Diagnostics also complied with requirements of ISO 15189 and obtained Medical and Clinical Laboratory accreditation during the year under review and became the only hospital laboratory in Sri Lanka to be accredited with ISO 15189.

The Emergency Department at Lanka Hospitals is considered to be the best in terms of placement in the minds of the general public. The Unit was restructured with the introduction of new protocols aimed at improving the overall quality of clinical services. The introduction of Emergency Triage (observation and prioritising patient care) improved

the quality of services and reduced the delays in attending to critical emergencies as an essential function in Emergency Departments, where many patients may present simultaneously. Focus was also laid on training and development of doctors and nurses on emergency related clinical work as well as on customer care, soft skills and the importance of compassionate care.

The restructuring of the Health Cheq services allowed for more dynamic leadership of the unit and for greater efficiency in the overall operations. The introduction of new consultants to this service has yielded a scenario of greater efficiency in the system of reviews. Evidently, the re-design of Health Cheq packages to suit the requirements of customers has resulted in a greater demand for the service.

The non-medical pillar has proved to be a core competency of the Hospital and is a key strength of Lanka Hospitals. Both loyal customers of Lanka Hospitals and occasional customers who shift between hospitals appreciate the non-medical facilities of the hospitals. Cleanliness, food and beverage, in-patient room facilities, the serene surroundings, parking, pharmacy and customer care are considered to be better compared to competitor city hospitals. The objective is to continue to improve these facilities and the efficiencies in these areas on an on-going basis. The management recognises that non-medical aspects of care are as equally important as medical care. Based on the premise that Hospitals need to focus on meeting the expectations of the customers with respect to convenience, communication and information, freedoms of choice, dignified treatment Lanka Hospitals seeks to differentiate its product and service offer through the effective augmentation of the non-medical pillar in tandem with strategies to enhance its specialist medical care.

Business Process Re-engineering

Lanka Hospitals during 2009 mapped all of its business processes, in a bid to identify areas to improve, analyse and re-engineer in line with its overall customer centric model. This has enabled the Hospital to measure performance and control by bench marking some of the best practices in the region. The hospital will launch its TC3 training in a bid to establish a 'total customer care culture' across the organisation. In doing so, the organisation will train all staff in the near future.

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The Hospital embarked on this exercise as a joint assignment of quality control, Human Resource, Finance and Information Technology. The objective was to re-design the processes of Lanka Hospitals in such a way that they enhance customer satisfaction during every customer/employee interaction. In doing so, the Hospital will effectively eliminate non-value creating activities across the value chain.

Lanka Hospitals plans to upgrade its information system as a part of its winning strategy. The planned Hospital Information System will assist in the effective and efficient management of the hospital for informed decision-making, improve utilization of resources and enable high level of efficiency.

Making healthcare affordable

It is the strategic intention of Lanka Hospitals to create a scenario of affordable healthcare. As such during the year under review Lanka hospitals focused on a market pricing strategy whereby the hospital pitched its price levels slightly less than that of on par with the competition despite its service offerings being superior to that of the competition. Lanka Hospitals will continue to be an affordable and cost effective hospital in a bid to becoming the national healthcare provider in the private sector.

Customer Service notched to the next level

A dedicated customer care team was appointed and designated the task of enhancing customer services across the entire spectrum of the hospital service offer. The customer care team acts as a one-point contact for the corporate sector, undertakes VIP facilitation, and conducts feedback analysis and initiates prompt action on feedback received.

In furthering the customer service philosophy at Lanka Hospitals' during the year under review, a customer satisfaction survey was initiated in an effort to obtain feedback in a consistent manner.

To enhance the service offer, the hospital identified and head hunted new specialist doctors, introduced on-site medical check-ups for the corporate sector, and introduced a network of franchise sample collection centers easily accessible points across the country.

At Lanka Hospitals in addition to resident medical staff - a large number of highly specialised and qualified medical professionals - visiting consultants who are specialists in key areas of healthcare complement the resource portfolio. An enlargement of the consultant portfolio has strengthened and heightened the existing level of treatment, investigations and procedures – both medical and surgical that the hospital has on offer. The knowledge and expertise that these consultants have brought with them have also enhanced the image of Lanka Hospitals, pitching it as primary healthcare provider in Sri Lanka.

It also has served to build confidence in patients who whilst looking for specialized medical treatment for complex surgeries from the in-house and visiting foreign specialists feel comfortable that they can have the services of their local consultant/s for future referrals. Thus the expectations of patients are met – leading to a satisfactory degree of success as envisaged during the year under review.

Quality Control

At Lanka Hospitals we stand committed to clinical protocols, highest degree of care of patients, patient and family education on the nature of the illness and the delivery of service. The commitment to maintain standards and raise the bar in medical care extends from all patient care professionals and the senior management, and transcends down to each and every employee in the organisation. Assured by accreditation standards, patients are provided world-class treatment through its experienced medical and nursing staff, standards of hygiene to post-treatment recovery – all of which are exceptional.

The Quality Assurance Department has a scheme to reward employees through system called 'Make a difference' which is linked to patient feedback, and high performers are recognised for their contribution in making Lanka Hospitals a sought after healthcare centre.

In 2009, we instituted a formal feed back referral system for handling patient grievances on a daily basis. Continuous education of staff on the concepts of quality, adoption of work improvement teams/ quality circles and the Japanese 5 S house keeping practices as well as protocols and procedures have become a part of the quality culture at Lanka Hospitals.

Intensive focus on Housekeeping & Infection Control

The hospital undertook a concerted drive to instill the fundamental practices for good hospital housekeeping during the year. Introduction of house keeping manual in keeping with infection control guidelines and introduction of protocols for effectively maintaining a sanitized hospital environment is the focus a series of ongoing training and educational programmes for all employees of the hospital. The infection control program is dedicated to the proactive prevention and control of nosocomial infections.

The aim of the Infection Control Program is dissemination of information, surveillance activities, investigation, prevention and control.

Educational Services to meet future demand

The school of nursing continued its educational programs in 2009 for 100 students, 21 nurses completed and passed out of the School in April 2010.

The School of Nursing follows the curriculum set by the Ministry of Health covering both theory and practical training. The practical training is based on the simulation models in the demonstration rooms and practical clinical training at the hospital, with daily interaction with patients. The course is conducted over a period of three years and the medium of instruction is English. The Nursing School comprises of the nursing principal, who is both internationally and government qualified, and four government qualified tutors, some of whom have international certifications in some specialties. Together they teach all vital areas of nursing to our students. The Nursing School issues a Diploma in General Nursing.

The hospital provides an ideal clinical training environment for specialized training programmes, as it is recognised as a tertiary care hospital, equipped with all the clinical facilities. All nursing students have experience of general and specialized nursing care such as:

- Medical Intensive Care Unit
- Cardiothoracic Intensive Care Unit or Coronary Care Unit
- Renal Intensive Care Unit and Haemo dialysis
- Neonatal Intensive Care Unit
- Operation Theater nursing
- Emergency care

This is a critical aspect allowing the trained nurses to then be placed according to the needs of the hospital as they have the knowledge and experience in the specialized areas. Lanka Hospitals plans to develop its Nursing School to international levels by including specialties, thus developing a career path for its trained nurses to obtain diplomas and eventually the BSc in Nursing and paramedical care. To this end, the School is also pursuing an affiliation with an international university as a provider of the qualification thus bringing in greater credibility to the qualification. An internship programme is also under consideration whereby nursing students will be afforded the facility to intern in international healthcare facilities of repute, such that they garner expertise and experience from the very best, thereby instilling in them the required levels of exposure to meet best practices.

The Company continued its programs in providing practical clinical training to nurses attached to outside institutions this year too. The course has attracted several batches of nurses from the Maldives who followed the training programmes conducted by the education division of Lanka Hospitals.

Lanka Hospitals is in the process of establishing a training department providing practical clinical training for medical, paramedical and nursing personnel and conduct training on healthcare quality management for the staff of local and foreign hospitals. This hospital is a study center for quality management practices.

For the period ended 31st December 2009

The Board of Directors have pleasure in presenting the Annual Report for the 09 months ended 31st December 2009 on the affairs of the Company prepared in terms of the provisions of the Companies Act No.7 of 2007.

These were approved by the Directors on 24th May 2010.

The details set out herein provide the pertinent information pursuant to the provisions of the Companies Act No.07 of 2007, the Listing Rules of the Colombo Stock Exchange.

General

The Company was incorporated on 06th October 1997 as a private limited liability company and thereafter converted to a public entity in 2001. Apollo Hospitals Enterprise Limited of India held substantial shareholding in the Company until 2006.

In August 2006, Sri Lanka Insurance Corporation Limited having acquired 36% of the shares of the company, made a mandatory offer to the shareholders of the company to purchase the balance 64% shares in terms with the Rule 31(1) of the Takeovers & Mergers Code 1995. Accordingly Apollo Hospitals Enterprise Limited accepted the offer made by Sri Lanka Insurance Corporation Limited and sold its entire shares to Sri Lanka Insurance Corporation Limited. Today Sri Lanka Insurance Corporation Limited holds 54.61% shareholding in the Company. After the change of ownership of the company to Sri Lanka Insurance Corporation Limited and its management nominees, company entered into an agreement with Apollo Hospitals Enterprise Limited to use the brand name “Apollo” and to enjoy the technical support to The Lanka Hospitals Corporation PLC.

Since the change of ownership of the parent company i.e Sri Lanka Insurance Corporation Limited in 2009, the new Board of Directors were appointed to The Lanka Hospitals Corporation PLC. With the guidance of new Board of Directors the company embarked on a new strategic direction. In 2009 November, the Company terminated the Licensing and Support Services Agreement between The Lanka Hospitals Corporation PLC and Apollo Hospitals Enterprises Limited upon its expiration. Today The Lanka Hospitals Corporation PLC stands on its own with its strong brand name “Lanka Hospitals” .

Nature of the business and principal activity of the Company

The principal activity of the Company is to provide world class healthcare at reasonable cost. With the present Board of Directors of the Company, is committed to improve the health services offered to patients at a relatively competitive and affordable cost to needy people. The Hospital has attracted many star class Doctors, invested in state-of-the-art technology and improved the quality controls across all the departments within the hospital.

Review of Operations and Financial Highlights

The Financial Statements which include the income statements, balance sheets, statement of changes in equity, cash flow statements and the notes to the financial statements of the company for the 09 months ended 31st December 2009 are set out on pages 44-65 of the Annual Report.

Business Review

The Chairman’s Review and the CEO’s Review form an integral part of this Report and provide a true and fair review of the performance of the company during the 09 months ended 31st December 2009.

Company Results

The eighth year of operation has shown Revenue of Rs.1,777.3 million with a Net Profit of Rs.7.2 million for a period of 09 months, ended on 31st December 2009.

Particulars	9 months ended 31/12/2009	Year ended 31/03/2009
Turnover	1,777,370,507	2,469,606,111
Earnings before Interest, Depreciation, Amortization & Taxation (EBIDTA)	173,023,878	307,715,117
Interest	10,583,091	50,630,432
Earnings before Depreciation, Amortization & Taxation (EBDTA)	169,493,111	270,650,374
Depreciation	145,487,381	195,039,856
Profit/(Loss) After Tax (PAT)	7,243,970	41,126,810

Independent Auditors’ Report

The Report of the Auditors on the Financial Statements of the Company is given on page 43.

Accounting Policies

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 48 - 53 of the Annual Report. There were no changes in the accounting policies adopted in the previous year.

However the company changed its balance sheet date from 31st March to 31st December, in order to align its financial statements with that of the parent company, Sri Lanka Insurance Corporation Limited.

Directors as at 31st December 2009

The Board of Directors of The Lanka Hospital Corporation PLC comprised 11 members as at 31st December 2009 and all of them served as Non- Executive Directors.

The names of the Directors who held office during the period under review are as follows:

Mr. Gotabaya Rajapaksa - Chairman
Mr. Pradeep Kariyawasam
Dr. Nalaka Godahewa
Dr. S. S. L. Perera
Dr. Ajith Amarasinghe
Mr. Asoka Nissanka Pathirane
Major General (Dr.) Sanjeewa Heman Munasinghe
Mr. B. A. C. Fernando
Dr. B. Kaluarachchi
Prof. D. P. A. Fernando (Appointed to the Board on 30th October 2009)
Dr. H. A. P. Kahandaliyange (Appointed to the Board on 30th October 2009)

Sri Lanka Insurance Corporation Limited withdrew the nominations of Dr H A P Kahandaliyanage and Mr Pradeep Kariyawasam on the Board of The Lanka Hospitals Corporation PLC on 24th May 2010 and made following new nominations to the Board of Directors of The Lanka Hospitals Corporation PLC.

Dr. T.R.C. Ruberu
Mr. A. M. Mohan de Alwis
Mrs. Roshini Sunethra Cabraal

Brief profile of the above Directors is given on page 16 - 19 of the Annual Report.

As advised by Property Development PLC their nominee, Dr. B. Kaluarachchi who was on the Board during the year, will not stand for re-election at this Annual General Meeting of the Company.

Another shareholder has deposited a resolution to move at the Annual General Meeting to elect Prof. D.P.A. Fernando who has attained at the age of 70 as a Director of the company until the conclusion of the next Annual General Meeting of the Company.

Interest Registers

In terms with the Companies Act No.07 of 2007, the Company maintained an Interest Register and the entries have been made therein. Interest Register is deemed to form part and parcel of this Annual Report and is available for inspection upon request. All related party transactions during the period are recorded in the register.

The Board of Directors has duly disclosed their directorships in related companies and share dealing with the company and related companies at board meetings.

The related party transactions and Directors' interests in contracts and proposed contracts with the company are also disclosed in Note 35 to the Financial Statements.

Remuneration of Directors

The details of the board meeting sitting fees paid to the Board of Directors during the year under review is given in page 64.

Auditors

The Financial Statements for the 09 months period ended 31st December 2009 were audited by Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants.

The fees paid to auditors are disclosed in Note 28 to the Financial Statements.

As far as the Directors are aware, the Auditors do not have any relationship (other than that of an auditor) with the company other than those disclosed above. The auditors also do not have any interest in the Company. They confirm that they are independent in accordance with the Code of Ethics of the Institute of Chartered Accountants of Sri Lanka.

The Auditors have expressed their willingness to continue in office and are recommended for re-appointment, at a remuneration to be decided by the Board of Directors.

Stated Capital

The Stated Capital of the Company as at 31st December 2009 was Rs.2,671,543,090/-

Direct and indirect shareholdings of the Directors during the year were as follows:

Directors' shareholdings in the company as at 31st December 2009 are given below.

	No of shares	Holding %
Mr. Gotabaya Rajapaksa	-	-
Mr. Pradeep Kariyawasam	-	-
Dr. Nalaka Godahewa	5,900	0.002
Dr. S. S. L. Perera	-	-
Dr. Ajith Amarasinghe	-	-
Mr. Asoka Nissanka Pathirane	-	-
Major General (Dr.) Sanjeewa Heman Munasinghe	-	-
Mr. B.A.C. Fernando	-	-
Dr. B. Kaluarachchi	-	-
Prof. D.P.A. Fernando	-	-
Dr. H.A.P. Kahandaliyange	-	-

Shareholding

There were 7,900 registered shareholders as at 31st December 2009. The distribution of shareholding as at 31st December 2009 is given on page 66.

Public Holding

A percentage of 16.80 of the issued shares of the Company are held by the public as at end of the financial period.

Major Shareholdings

The names of the twenty largest shareholders, the number of shares held and the percentage held are given on page 67 of the Annual Report. The distribution schedule of the shareholders and public holding are found in page 67 of the Annual Report.

Stock Market Information

An ordinary share of the Company was quoted on the Colombo Stock Exchange at Rs.19/- as at 31st December 2009. (31st December 2008 - Rs.12/-) Information relating to earnings, dividends, net assets and market value per share is given in page 66 in the "Shareholders Information Section".

Property Plant & Equipment

The Company has spent Rs.19.9 million on capital expenditure during the year under review. The movements in property, plant and equipment during the year are set out in Note 11 to the Financial Statement.

Contributions to Charity

The sum of contributions made to charities by the company during the financial year ended 31st December 2009 was Rs.417,750/- (2008/2009- Rs.258,660/-)

Statutory Payments

To the best of their knowledge and belief, the Directors are satisfied that all statutory payments in relation to the Government and to the Employees have been settled to date or are provided for in the books of the company.

Dividend

The Directors do not recommend a dividend for the financial period ended 31st December 2009.

Debentures

There were no debentures issued in the year ended 31st December 2009.

Going Concern

After considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the Corporate Governance Code, the Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Financial Statements.

Contingent Liabilities and Capital Commitment

The Contingent liabilities and capital commitment made on account of capital expenditure as at 31st December 2009 are given in Note 31 & 33 respectively to the Financial Statements.

Post Balance Sheet Events

There are no significant events that have occurred after the balance sheet date which would have any material effect on the Company that require adjustments to or disclosure in financial statements, to be decided by the Board of Directors.

Corporate Governance

The Board of Directors had been guided by the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and the Listing Rules of Colombo Stock Exchange. An Audit Committee and a Remuneration Committee functions as Board Sub Committees with Directors who possess the requisite qualifications and experience.

Audit Committee

Dr. Nalaka Godahewa
Dr. B. Kaluarachchi

Remuneration Committee

Mr. P. Kariyawasam
Mr. A.N. Pathirane
Mr. B.A.C. Fernando

Detailed Audit Committee Report and Remuneration Committee Report are given on page 39 - 40 of the Annual Report.

Annual General Meeting

The Annual General Meeting of the Company will be held on Wednesday 30th June 2010 at 3.00 pm at Dr. Prathap C Reddy Auditorium, The Lanka Hospitals Corporation PLC, No.578, Elvitigala Mawatha, Colombo 5

The Notice of the Annual General Meeting, setting out the business which will be transacted that appears on page 68 of this Annual Report.

By order of the Board of Directors of The Lanka Hospitals Corporation PLC.

(Sgd.)

Mr Gotabaya Rajapakse
Chairman

(Sgd.)

Dr. Nalaka Godahewa
Director

(Sgd.)

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

24th May 2010

The responsibility of the Directors in relation to the Financial Statements is set out in the following statement. The responsibility of the Auditors, in relation to the financial statements, is set out in the report of the Auditors at page 43 of the Annual Report.

As per the Companies Act No.07 of 2007, the Directors are required to prepare financial statements for each financial year giving a true and fair view of the state of affairs of the company as at the end of the financial year.

The directors are of the view that in preparing financial statements, disclosed on pages from 44 to 65.

- a) appropriate accounting policies have been 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 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 Board of Directors has taken reasonable steps to safeguard the assets of the Company. In this regard, the Directors have instituted an effective and comprehensive system of internal controls comprising of internal checks, internal audits and financial reviews to prevent and detect frauds and other irregularities.

The Directors are confident that they have discharged their responsibility as set out in the statement. The Directors also confirm that to the best of their knowledge, all statutory payments payable by the Company as at the Balance Sheet date have been paid or where necessary provided.

By Order of the Board,

(Sgd.)

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

24th May 2010

It is the policy of the Group to manage its affairs in accordance with appropriate standards for good corporate governance.

The company adheres to the Code of Best Practices on matters relating to the financial aspect of corporate governance issued by the Institute of Chartered Accountants of Sri Lanka and Colombo Stock Exchange all times.

In terms with the section 7.10 of the Listing Rules of the Colombo Stock Exchange, The Lanka Hospitals Corporation PLC complied with the relevant provisions under Corporate Governance. Level of compliance is enumerated in the table below.

Board of Directors																									
	<p>The names of the Directors of the Company who held office in the company as at the date of the Annual Report are set out on Page 16 - 19. All the Board members are non Executive Directors.</p> <p>The Board of Directors are responsible for ensuring that the company is placed in the right direction and acknowledge their responsibility to provide quality healthcare service. Directors are equipped with a balance of skills and experience appropriate to run a profitable and quality healthcare service.</p> <p>The Director Medical Services is responsible for maintaining the world class healthcare services whilst the Chief Executive Officer is responsible for financial performance and administration in the non medical segment of the company.</p> <p>The Board meets at regular monthly intervals and convened 04 Board meetings during the 09 months period from 1st April 2009 to 31st December 2009. Directors who held office until 31st December 2009, were appointed to the Board in August 2009 and attendance of Directors at Board meetings since August to December 2009 is given below.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">No of meetings attended</th> </tr> </thead> <tbody> <tr> <td>Mr. Gotabaya Rajapaksa</td> <td style="text-align: center;">02</td> </tr> <tr> <td>Mr. Pradeep Kariyawasam</td> <td style="text-align: center;">03</td> </tr> <tr> <td>Dr. Nalaka Godahewa</td> <td style="text-align: center;">02</td> </tr> <tr> <td>Dr. S.S.L. Perera</td> <td style="text-align: center;">03</td> </tr> <tr> <td>Dr. Ajith Amarasinghe</td> <td style="text-align: center;">03</td> </tr> <tr> <td>Mr. Asoka Nissanka Pathirane</td> <td style="text-align: center;">03</td> </tr> <tr> <td>Major General (Dr.) Sanjeewa Heman Munasinghe</td> <td style="text-align: center;">03</td> </tr> <tr> <td>Mr. B.A.C. Fernando</td> <td style="text-align: center;">03</td> </tr> <tr> <td>Dr. B. Kaluarachchi</td> <td style="text-align: center;">03</td> </tr> <tr> <td>Prof. D.P.A. Fernando</td> <td style="text-align: center;">01</td> </tr> <tr> <td>Dr. H.A.P. Kahandaliyanage</td> <td style="text-align: center;">01</td> </tr> </tbody> </table> <p>Prof. D.P.A. Fernando and Dr. H.A.P Kahandaliyanage were appointed to the Board in Oct 2009 and one board meeting was held since their appointment.</p>		No of meetings attended	Mr. Gotabaya Rajapaksa	02	Mr. Pradeep Kariyawasam	03	Dr. Nalaka Godahewa	02	Dr. S.S.L. Perera	03	Dr. Ajith Amarasinghe	03	Mr. Asoka Nissanka Pathirane	03	Major General (Dr.) Sanjeewa Heman Munasinghe	03	Mr. B.A.C. Fernando	03	Dr. B. Kaluarachchi	03	Prof. D.P.A. Fernando	01	Dr. H.A.P. Kahandaliyanage	01
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Dr. B. Kaluarachchi	03																								
Prof. D.P.A. Fernando	01																								
Dr. H.A.P. Kahandaliyanage	01																								

		The Board of Directors deliberate important matters at board discussions such as strategic direction, competitiveness, business plans, investment proposals, financial budgets and its comparison against actual and review key performance indicators. The Board of Directors acknowledged their duty to provide cost effective, high quality worldclass healthcare to all citizens of Sri Lanka.																						
	Rule 7.10.1 of CSE	All the 11 Directors of the Company are Non Executive Directors of the Company.																						
	Rule 7.10.2 of CSE	<p>All the Directors have submitted declaration on their independence or non independence against the specified criteria of the CSE. Based on these declarations the independence or non independence of the Directors is given below.</p> <table border="1"> <tr> <td>Mr. Gotabaya Rajapakse</td> <td>Independent Non Executive Director</td> </tr> <tr> <td>Mr. Pradeep Kariyawasam</td> <td>Non independent Non Executive Director</td> </tr> <tr> <td>Dr. Nalaka Godahewa</td> <td>Non independent Non Executive Director</td> </tr> <tr> <td>Dr. S.S.L. Perera</td> <td>Independent Non Executive Director</td> </tr> <tr> <td>Dr. Ajith Amarasinghe</td> <td>Non Independent Non Executive Director</td> </tr> <tr> <td>Mr. Asoka Nissanka Pathirane</td> <td>Independent Non Executive Director</td> </tr> <tr> <td>Major General (Dr.) Sanjeewa Heman Munasinghe</td> <td>Independent Non Executive Director</td> </tr> <tr> <td>Mr. B.A.C.Fernando</td> <td>Independent Non Executive Director</td> </tr> <tr> <td>Dr. B. Kaluarachchi</td> <td>Independent Non Executive Director</td> </tr> <tr> <td>Prof. D.P.A. Fernando</td> <td>Independent Non Executive Director</td> </tr> <tr> <td>Dr. H.A.P. Kahandaliyange</td> <td>Independent Non Executive Director</td> </tr> </table> <p>Accordingly, there are 8 Independent, Non Executive Directors of the Company.</p>	Mr. Gotabaya Rajapakse	Independent Non Executive Director	Mr. Pradeep Kariyawasam	Non independent Non Executive Director	Dr. Nalaka Godahewa	Non independent Non Executive Director	Dr. S.S.L. Perera	Independent Non Executive Director	Dr. Ajith Amarasinghe	Non Independent Non Executive Director	Mr. Asoka Nissanka Pathirane	Independent Non Executive Director	Major General (Dr.) Sanjeewa Heman Munasinghe	Independent Non Executive Director	Mr. B.A.C.Fernando	Independent Non Executive Director	Dr. B. Kaluarachchi	Independent Non Executive Director	Prof. D.P.A. Fernando	Independent Non Executive Director	Dr. H.A.P. Kahandaliyange	Independent Non Executive Director
Mr. Gotabaya Rajapakse	Independent Non Executive Director																							
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Dr. H.A.P. Kahandaliyange	Independent Non Executive Director																							
	Rule 7.10.3 of CSE	<p>The Board of Directors determines the independence or non-independence of each Non-Executive Director.</p> <p>Brief resume of each Director is given on pages 16 - 19.</p>																						
Appointment of Directors		The Directors are elected by the shareholders of the Company in terms of Articles of Association of the Company. Sri Lanka Insurance Corporation Limited and Property Development PLC, as being shareholders with substantial holding have nominated the Directors to the Board of Directors of the company.																						
Re-election of Directors		Prof. D.P.A. Fernando having attained the age of 70, will be re-elected at the Annual General Meeting of the Company. A Shareholder has deposited a resolution to move at the AGM to re-elect Prof. Fernando.																						

Remuneration Committee	Rule 7.10.5 of CSE	<p>All the members of the remuneration committee are Non Executive Directors. The composition of the Remuneration Committee comprises two Independent Non Executive Directors and one Non Independent Non Executive Director. The members of the Remuneration committee are as follows: Mr. P. Kariyawasam Mr. A.N. Pathirane Mr. B.A.C. Fernando</p> <p>Mr. P. Kariyawasam is the Chairman of the remuneration committee and is a Non Independent Non Executive Director. Both Mr. A.N. Pathirane and Mr. B.A.C Fernando serve as Independent Non Executive Directors.</p> <p>The remuneration committee recommends to the Board remuneration payable to the Chief Executive Officer (CEO) based on the ratings gained in the performance appraisals of the CEO.</p> <p>A report of the remuneration committee which contains the remuneration policy is given on page 40 Aggregate remuneration paid to Non Executive Directors is disclosed in note 35 to the Financial Statements.</p>
Audit Committee	Rule 7.10.6 of CSE	<p>The Audit Committee comprises of an Independent Non Executive Directors and an Non Independent Non Executive Director. The members of the Audit Committee is as follows: Dr. Nalaka Godahewa Dr. B. Kaluarachchi</p> <p>Dr. Godahewa, a Non Executive Director on the Board is a member of the Chartered Institute of Management Accountants UK and Institute of Certified Management Accountants (Aus). He is the Chairman of the Audit committee.</p> <p>Chief Executive Officer and Chief Financial Officer attend the Audit Committee meetings by invitations.</p> <p>Audit Committee is assisted by the Internal Audit team and the senior management to review and control the processes and approval procedures. Internal protocols have been designed to ensure transparency and good governance within the company.</p> <p>A report of the Audit committee is given on page 39.</p>
Relationship with stakeholders		<p>The Board of Directors ensured that the top management team possesses right skills to deliver their best contribution towards the company. The Board has empowered such employees to make operational decisions and also encourage them to make recommendations to the board on areas of strategic importance. The vision, goals and objectives of the company have been formulated and all the employees have been briefed clearly of their specific job to achieve overall results for the company. The Medical staff directly communicate their concerns with the Director Medical Services whilst Non Medical staff refer their matters to the Chief Executive Officer.</p>

		<p>Company maintains sound relationship with regulatory authorities and there the Internal Audit team monitors the compliances with each regulatory authority.</p> <p>The Shareholders have the right to voice their concerns to Board of Directors and exercise their votes at Annual General Meetings/ Extraordinary General Meetings of the company. The notice of such meetings, and relevant documents as required by the Companies Act No.07 of 2007 and Listing Rules of Colombo Stock Exchange are circulated to all the shareholders at least 15 working days prior to the date of the meeting.</p>
	Internal Control	<p>The Board places high priority on internal controls to manage the day-to-day affairs of the company.</p> <p>The Board is responsible for the Company's systems of internal controls and for reviewing its effectiveness. This is ensured and the system is designed to safeguard assets from unauthorized use or disposal and to ensure that proper records are maintained and reliable information is produced including financial, operational, compliance controls and risk management.</p> <p>However, the Board is of the view that the company's system of internal controls provides only reasonable and not absolute assurance that material errors and irregularities are either prevented, detected and corrected within a reasonable time period.</p>
	Disclosure	<p>The Board's policy is to disclose all relevant information to stakeholders, within the bounds of prudent commercial judgment, in addition to preparing the financial statements in accordance with Sri Lanka Accounting Standards, the Companies Act No.07 of 2007 and in conformity with Stock Exchange disclosure requirements.</p>
	Going Concern	<p>The Board of Directors after reviewing the financial position and cash flow of the company is confident that the company has adequate resources to continue in operation for the foreseeable future. Accordingly, the "Going Concern Basis" has been adopted in the preparation of the Financial Statements.</p>
	Compliance Report.	<p>The Directors confirm that to the best of their knowledge all taxes and duties payable by the Company and all contributions, levies and taxes payable on behalf of and in respect of the employees of the company and all other known statutory dues payable as at the Balance Sheet date have been paid or are provided for in the accounts.</p>
	Other information	<p>The Annual Report contains statements from the Board including the responsibilities of the Directors for the preparation of the Financial Statements and the Directors are of the view that they have discharged their responsibilities as set out in this statement. The performance of the company during the year under review and the future prospects of the company are covered in the Chairman's review of operations.</p>

The Audit Committee appointed by Board of Directors comprises of two Non Executive Independent Directors, namely Dr. Nalaka Godahewa (Chairman) and Dr. B. Kaluarachchi.

Their profiles appear on pages 16 - 19.

The Chief Executive Officer and Chief Financial Officer attend meetings on invitation and Internal Audit Manager functions as the Secretary to the Audit Committee. The Committee is governed by the terms of reference as set out in the Audit Committee Charter which is reviewed periodically.

The main objective of the Audit Committee is to assist the Board of Directors to effectively carry out its overall responsibility to the shareholders and all other stake holders in relation to the following areas.

- a) To ensure that a sound financial reporting system is in place, which is well managed In order to provide accurate, appropriate and timely information to Board of Directors, Management, Regulatory Authorities and Shareholders.
- b) To review the adequacy of Internal Control System.
- c) To ensure compliance with Statutory, Regulatory, Corporate Governance requirements and company policies.
- d) To assess major business and financial risks.
- e) The committee evaluates the performance and independence of the internal as well as external audit function.

During the period, the Committee reviewed the internal audit reports in order to strengthen the internal control procedures and the system for monitoring compliance with laws and regulations.

The Committee also assessed the hospital's approach to manage its business and financial risks. The Audit Committee along with the other members of the Board reviewed and approved the interim and annual financial statements.

The Audit Committee has recommended to the Board of Directors that Messrs KPMG Ford, Rhodes, Thornton & Co., (Chartered Accountants) be re-appointed as auditors of the Company for the financial year ending 31st December 2010, subject to the approval of the shareholders at the next Annual General Meeting.

(Sgd.)

Dr. Nalaka Godahewa

Chairman, Audit Committee

Colombo

07th May 2010

The Remuneration Committee, appointed by and responsible to the Board of Directors comprises three Non Executive Directors.

Mr. P. Kariyawasam - Chairperson (NED)

Mr. A.N. Pathirane (IND / NED)

Mr. B.A.C. Fernando (IND / NED)

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

Policy

The Company's remuneration policy aims to attract, motivate and retain management in a highly competitive environment with the appropriate professional, managerial and operational expertise necessary to achieve the objectives of the Company.

The Company's remuneration framework for the CEO and Senior Management is designed to create and enhance value for all stakeholders of the Company and to ensure alignment between the short and long-term interests of the Company and its Senior Management.

Scope

The Committee reviews all significant changes in salary structures and terms and conditions relating to staff at senior managerial level. In this decision making process, necessary information and recommendations are obtained from the CEO and Human Resources Manager. The Committee recommends to the Board of Directors the remuneration packages and annual increments and bonuses of the CEO and members of the Corporate Management. The annual salary increments and the bonuses for the total Hospital staff are also subjected to the approval of the Remuneration Committee.

The CEO who is responsible for the overall management of the Company attends all meetings by invitation and participates in the deliberations except when his own performance and compensation package is discussed.

Recruitment / promotions of staff at senior management level are also determined based on the proposals submitted by Human Resources Manager and on the recommendations of the CEO. When necessary, interviews are held to assess the core competencies of the proposed applicant.

Fees

All Non Executive Directors receive a fee for attendance at Board meetings and serving on sub-committees, special committees and / or subsidiary boards. They do not receive any performance or incentive payments.

The total remuneration to Directors is shown in Note 35 on page 64.

Meetings

The Committee met twice during 2009. A report of the decisions approved and recommended to the Board by the Committee is circulated and affirmed by the Board of Directors.

All three members of the Committee have attended to both meetings held during the period.

Professional Advice

The Committee has the authority to seek external professional advice on matters within its purview.

Committee Evaluation

Self-assessment by Committee members was complied with at the commencement of 2009.

(Sgd.)

Pradeep Kariyawasam

Chairman

Remuneration Committee

Colombo, Sri Lanka

07th May 2010



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● Income statement	45
● Statement of changes in equity	46
● Cash flow statement	47
● Notes to the financial statement	48



FINANCIAL INFORMATION

INDEPENDENT AUDITORS' REPORT



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

Tel : +94 - 11 242 6426
+94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
+94 - 11 230 7345
Internet : www.lk.kpmg.com

TO THE MEMBERS OF THE LANKA HOSPITALS CORPORATION PLC

Report on the Financial Statements

We have audited the accompanying financial statements of The Lanka Hospitals Corporation PLC as at December 31, 2009, which comprise the balance sheet as at that date and the income statement, statement of changes in equity and cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 44 to 65 of the Annual Report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also

includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the period ended December 31, 2009 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2009 and its profit and cash flows for the period then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151 (2) of the Companies Act No. 07 of 2007.

Chartered Accountants
Colombo.

24th May 2010

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A. N. Fernando FCA
Ms. M. P. Perera FCA
T. J. S. Rajakarier FCA
Ms. S. M. B. Jayasekara ACA

S. Sirikanathan FCA
P. Y. S. Perera FCA
W. W. J. C. Perera FCA
W. K. D. C. Abeyrathne ACA

M. R. Mihular FCA
C. P. Jayatilake FCA
Ms. S. Joseph ACA
S. T. D. L. Perera ACA

BALANCE SHEET

As at,

	Note	31/12/2009 Rs.	31/03/2009 Rs.
ASSETS			
Non Current Assets			
Property, plant & equipment	11	2,262,434,150	2,387,784,266
Advance lease premium	12	88,751,790	92,264,393
		2,351,185,940	2,480,048,659
Current Assets			
Inventories	13	57,119,635	58,074,213
Trade & other receivables	14	135,591,872	92,049,485
Amounts due from related parties	15	860,994	140,000
Cash and cash equivalents		186,655,715	107,373,835
		380,228,216	257,637,533
Total Assets		2,731,414,156	2,737,686,192
EQUITY AND LIABILITIES			
Equity			
Stated capital	16	2,671,543,090	2,671,543,090
Revaluation reserve	17	320,296,805	330,592,173
Accumulated loss		(984,248,594)	(1,001,787,932)
		2,007,591,301	2,000,347,331
Non Current Liabilities			
Defined benefit obligations	18	20,392,787	17,488,360
Government grants	19	221,157	885,375
Interest bearing borrowings	20	22,589,998	45,179,998
Deferred tax liabilities	21	350,698,002	341,234,637
Total Non current liabilities		393,901,944	404,788,370
Current Liabilities			
Interest bearing borrowings	20	30,120,000	30,120,000
Amounts due to related parties	22	3,863,626	4,165,011
Trade & other payables	23	246,128,486	227,058,169
Income tax payable		42,373	36,613
Bank overdraft (secured)		49,766,426	71,170,698
Total current liabilities		329,920,911	332,550,491
Total Liabilities		723,822,855	737,338,861
Total Equity & Liabilities		2,731,414,156	2,737,686,192

The Accounting Policies and Notes form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

I certify that the above Financial Statements comply with the requirements of the Companies Act No. 07 of 2007

(Sgd.)

Sampath Hettiarachchi

Chief Financial Officer

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

Approved and signed for and on behalf of the Board.

(Sgd.)

Mr. Gotabaya Rajapaksa

Chairman

(Sgd.)

Dr. Nalaka Godahewa

Director

Colombo
24th May 2010

INCOME STATEMENT

	Note	9 months ended 31/12/2009 Rs.	Year ended 31/03/2009 Rs.
Revenue	24	1,777,370,507	2,469,606,111
Cost of services		(994,594,300)	(1,335,610,198)
		782,776,207	1,133,995,913
Other income	25	1,054,037	1,650,695
Staff costs	26	(340,139,476)	(434,193,480)
Depreciation on property, plant & equipment		(77,875,370)	(107,272,043)
Re-branding expenses		(28,996,110)	-
Other operating expenses		(312,127,175)	(485,303,672)
Net finance cost	27	(3,534,767)	(37,064,743)
Profit before Tax	28	21,157,346	71,812,671
Income tax expense	29	(13,913,376)	(30,685,862)
Profit for the period		7,243,970	41,126,810
Earnings per share (Annualised)	30	0.04	0.18

The Accounting Policies and Notes form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

STATEMENT OF CHANGES IN EQUITY

	Stated Capital Rs.	Revaluation Reserve Rs.	Accumulated Loss Rs.	Total Rs.
Balance as at 1st April 2008	2,671,543,090	340,887,541	(1,058,005,468)	1,954,425,163
Effect of change in accounting policy due to adoption of SLAS 16 (Revised)	-	-	4,795,358	4,795,358
	2,671,543,090	340,887,541	(1,053,210,110)	1,959,220,521
Profit for the year	-	-	41,126,810	41,126,810
Realisation of Revaluation Surplus (Note 17)	-	(10,295,368)	10,295,368	-
Balance as at 31st March 2009	2,671,543,090	330,592,173	(1,001,787,932)	2,000,347,331
Profit for the period	-	-	7,243,970	7,243,970
Realisation of Revaluation Surplus (Note 17)	-	(10,295,368)	10,295,368	-
Balance as at 31st December 2009	2,671,543,090	320,296,805	(984,248,594)	2,007,591,301

Revaluation reserve represents the surplus on revaluation of Buildings on Leasehold land .

The Accounting Policies and Notes form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

CASH FLOW STATEMENT

	9 months ended 31/12/2009 Rs.	Year ended 31/03/2009 Rs.
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before Tax	21,157,346	71,812,671
Adjustments for :		
Interest expense	9,954,246	46,498,867
Interest income	(8,008,254)	(10,889,747)
Depreciation on property, plant & equipment	145,487,381	195,039,856
Amortisation of Government Grants	(664,220)	(885,626)
Amortisation of Advance Lease Premium	3,512,604	4,683,472
Provision for Retiring Gratuity	4,559,915	6,088,845
Provision for Inventories	1,435,900	(6,950,959)
Provision for bad & doubtful debts	1,345,404	(3,060,693)
Operating Profit before Working Capital Changes	178,780,322	302,336,687
(Increase)/Decrease in Inventories	(481,322)	(427,763)
(Increase)/Decrease in Trade & other receivables	(39,372,538)	(739,446)
(Increase)/Decrease in Amounts due from related companies	(6,236,247)	(678,020)
Increase/(Decrease) in Amounts due to related companies	(301,385)	16,508,656
Increase/(Decrease) in Trade and other payables	19,070,317	47,555,027
Cash generated from Operating Activities	151,459,147	364,555,142
Interest paid	(9,954,246)	(46,498,867)
Income tax paid	(4,444,252)	(6,290,368)
Defined Benefit Plan Costs paid	(1,655,488)	(1,691,143)
Net Cash Flow from/(used in) Operating Activities	135,405,161	310,074,764
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant & equipment	(20,137,264)	(69,224,602)
Advance Lease premium paid	-	(18,546,551)
Interest received	8,008,254	10,889,747
Net Cash Flow used in Investing Activities	(12,129,010)	(76,881,406)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of NDB loan	(7,500,000)	(77,100,000)
Term Loan repaid	-	(1,036,378)
Syndicate loan repaid	(15,090,000)	(153,876,250)
Redemption of debentures	-	(100,000,000)
Net Cash flow used in Financing Activities	(22,590,000)	(332,012,628)
Net Decrease in Cash and Cash Equivalents	100,686,151	(98,819,270)
Cash and Cash Equivalents at the beginning of the period	36,203,138	135,022,407
Cash and Cash Equivalents at the end of the period (Note A)	136,889,289	36,203,137
Note A		
Cash & Cash Equivalents at the end of the Period		
Cash at Bank and in Hand	186,655,715	107,373,835
Bank Overdraft	(49,766,426)	(71,170,698)
	136,889,289	36,203,137

The Accounting Policies and Notes form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

NOTES TO THE FINANCIAL STATEMENTS

REPORTING ENTITY

The Lanka Hospitals Corporation PLC is a limited liability Company incorporated and domiciled in Sri Lanka. The registered office of the Company and principal place of business is located at No.578, Elvitigala Mawatha, Colombo-5, Sri Lanka.

Principal Activities and Nature of Operations

During the year, the principal activity of the Company were providing health care services.

Parent Enterprise and Ultimate Parent Enterprise

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

Number of Employees

The number of employees of the Company at the end of the period was 952 (31st March 2009 – 920).

Date of Authorisation of Issue

The financial statements for the period ended 31st December 2009 were authorized for issue in accordance with a resolution of the Board of Directors on 24th May 2010.

1. BASIS OF PREPARATION

1.1 Statement of compliance

The financial statements have been prepared in accordance with the Sri Lanka Accounting Standards (SLAS), issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the requirements of the Companies Act No.7 of 2007 and Sri Lanka Accounting and Auditing Standards Act No 15 of 1995.

1.2 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis except that certain items of Property, Plant & Equipment which are measured/ stated at fair value as explained in the respective notes to the Financial Statements.

1.3 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees which is the functional currency of the Company.

1.4 Use of Estimates and judgments

The preparation of Financial Statements in conformity with SLAS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates and judgmental decisions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if revision affects both current and future periods.

Information about significant areas of estimation uncertainty & critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes;

- Note 18 - Defined benefit obligations.
- Note 31 - Contingent liabilities

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied by the Company. Certain comparative amounts have been reclassified to conform to the current year's presentation.

The Directors have made an assessment of the Company's ability to continue as a going concern in the foreseeable future, and they do not foresee a need for liquidation or cessation of operations.

2.1 Foreign Currency Translation

Transactions arising in foreign currencies are translated into Sri Lankan Rupees at the rate of exchange prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Sri Lankan Rupees at the exchange rate prevailing at that date. Non monetary items that are measured in terms of historical cost in a foreign currency are re-translated using the exchange rates as at the dates of the initial transactions. Foreign exchange differences arising on translation are recognised in profit and loss.

3. ASSETS AND BASES OF THEIR VALUATION

Assets classified as current assets on the Balance Sheet are cash and bank balances and those which are expected to be realised in cash during the normal operating cycle of the Company's business or within one year from the Balance Sheet date, whichever is shorter.

3.1 Property, Plant and Equipment

Items of Property, Plant & Equipment are measured at cost or valuation less accumulated depreciation and accumulated impairment losses.

3.1.1 Cost

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

Expenditure incurred for the purpose of acquiring, extending or improving asset of a permanent nature by means of which to carry on the business or to increase the earning capacity of the business has been treated as capital expenditure.

3.2 Revaluation

A revaluation of buildings is done when there is a substantial distinction between the fair value (market value) and the carrying amount of the buildings and is undertaken by professionally qualified valuers. Increase in the carrying amount on revaluation is credited to the revaluation surplus reserve in the shareholders equity. Decrease that offset previous increases of the same individual assets are charged against revaluation surplus reserve directly in equity. All other decreases are expensed in profit and loss.

3.3 Impairment of Assets

The carrying amount of the Company's non-financial assets other than inventories are reviewed at each reporting date to determine whether there is an indication of impairment. If any such indication exists, or when annual impairment testing for an asset is required, then the assets recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of the value in use and 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. In determining fair value less costs to sell, an appropriate valuation model is used.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit and loss. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.4 De-recognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal of or when no future economic benefits are expected from its use or disposal. Gains and losses on derecognition of the asset are determined by comparing the proceeds from disposal with the carrying amount of Property, Plant & Equipment and are recognised net within 'Other Income' in the profit and loss.

3.5 Depreciation

3.5.1 Depreciation is recognised in profit and loss on a straight line basis over the estimated useful lives of items of each part of an item of property, plant & equipment.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

The estimated useful lives are as follows.

• Motor Vehicle	4 years
• Furniture & Fittings	10 years
• Office Equipment	10 years
• Computers	10 years
• Other Equipment	10 years
• Medical Equipment	10 years
• Medical Vehicles	4 years
• Kitchen Equipment	3 years

Depreciation for buildings on leasehold land is calculated to write off the cost over the useful lives of 40 years.

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 and the date that the asset is derecognised.

3.5.2 Depreciation methods, useful lives and residual values are reassessed at the reporting date.

3.6 Leases **Operating Lease**

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the leased term are classified as operating leases. Rentals paid under operating leases are recognised as an expense over the lease term. Premiums paid are carried forward and amortised over the entire lease period.

3.7 Inventories

Inventories are measured at the lower of cost and net realizable value after making due allowance for obsolete & slow moving items. Stocks items which are identified as non-saleable are written off against the revenue as and when those are identified. Net realisable value is the estimated selling price in the ordinary course of the business less the estimated selling expenses. The first in first out (FIFO) basis is arrived at the cost of inventories.

3.8 Trade and Other Receivables

Receivables are stated at the amount that they are estimated to realise, net of provision for bad and doubtful debts.

Other receivables and dues from related parties are recognised at cost, less provision for bad and doubtful receivables.

3.9 Cash and Cash Equivalents

3.9.1 Cash and Cash Equivalents are defined as cash in hand, demand deposits and short term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of change in value.

4. LIABILITIES AND PROVISIONS

Liabilities classified as Current Liabilities in the Balance Sheet are those, which will fall due for payment on demand or within one year from the reporting date.

Non current Liabilities are those balances that fall due for payment later than one year from the reporting date.

All known liabilities have been accounted for in preparing the Financial Statements.

4.1 Trade and Other Payables

Trade and Other payables are stated at their cost.

4.2 Provisions

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

4.3 Retirement Benefit Obligations

4.3.1 Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays a fixed contribution to a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Provident and

Trust Funds covering all employees are recognised as an expense in profit and loss as incurred.

4.3.2 Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the financial statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date. The defined benefit obligation is calculated by a Qualified Actuary as at the reporting date using the Projected Unit Credit (PUC) method as recommended by Sri Lanka Accounting Standard No. 16 (revised 2006) "Employee Benefits". The Company expects to carry out actuarial valuation once in every two years.

The actuarial valuation involves making assumptions about discount rate, salary increment rate and balance service period of employees. Due to the long-term nature of the plans such estimates are subject to significant uncertainty.

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.

5. INCOME STATEMENT

5.1 Revenue Recognition

Revenue is recognised to the extent that is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised.

5.1.1 Rendering of Hospital Services

Revenue from rendering of hospital service is recognised in the accounting period in which the service are rendered and performed.

5.1.2 Sales of Goods (Pharmaceuticals)

Revenue from the sale of goods is recognised at the point of invoicing.

5.1.3 Interest Income

Interest Income is recognised on an accrual basis unless collectibility is in doubt.

5.1.4 Rental Income

Rental Income is recognised on accrued basis.

5.1.5 Other Income

Other Income is recognised on an accrual basis.

5.2 Expenditure Recognition

Expenses are recognised in profit and loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business, and in maintaining the capital assets in a state of efficiency, has been charged in arriving at the profit/(loss) for the year.

For the purpose of presentation of the Income Statement, the Directors are of the opinion that the function of expenses method presents fairly the elements of the Company's performance and hence such presentation method is adopted.

5.2.1 Net Finance Cost

Finance income comprises interest income on funds invested, dividend income and gain on translation of foreign currency.

Financing expenses comprises interest payable on borrowings and loss on translation of foreign currency. The interest expense component of finance lease payments is recognised in profit and loss using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

5.2.2 Taxation

In accordance with the powers conferred by the Board of Investment of Sri Lanka under Section 17 of the BOI Law No 4 of 1978, the profits arising from business operation of the hospital are exempt from income tax for a period of 12 years commencing from 2002.

5.2.3 Deferred Taxation

Deferred tax is recognized using the Balance Sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

5.2.4 Borrowing Costs

Borrowing Costs are recognized as an expense in the period in which they are incurred, except to the extent where borrowing costs are directly attributable to the acquisition, construction or production of Property, Plant & Equipment, that takes a substantial period of time to get ready for its intended use or sale and are capitalised as part of that asset during the period of construction/development.

5.2.5 Post Balance Sheet Events

All material events occurring after the reporting date have been considered and where appropriate, adjustments to or disclosures have been made in the respective notes to the Financial Statements.

5.2.6 Government Grants

Government grants received to compensate the Company for the cost of an asset is recognised in the Balance Sheet as deferred income when there is a reasonable assurance that it will be received and that the Company will comply with the conditions attached to it. Grants so deferred are recognised in profit and loss as income on a systematic basis over the useful life of the asset.

6. SEGMENTAL INFORMATION

A Segment is a distinguishable component of an enterprise that is engaged in either providing related products or services (Business Segment) or in providing products or services with in 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 Company.

7. EARNINGS PER SHARE

The Company 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.

8. CASH FLOW STATEMENTS

The Cash Flow Statement has been prepared using the “Indirect Method” in accordance with Sri Lanka Accounting Standard 9, “Cash Flow Statements”. Cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts.

Interest paid is classified as operating cash flows, while interest received is classified as investing cash flows, for the purpose of presentation of the Cash Flow Statement, reported based on the indirect method.

9. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The Institute of Chartered Accountants of Sri Lanka has issued the following two new standards, which become effective for annual periods beginning on or after 01st January 2011.

Accordingly these Standards have not been applied in preparing these financial statements as they are not effective for the period ended 31st December 2009.

- Sri Lanka Accounting Standard 44 – Financial Instruments : Presentation (SLAS 44)
- Sri Lanka Accounting Standard 45 – Financial Instruments : Recognition and Measurement (SLAS 45)

The Company is currently in the process of evaluating the potential effect of these Standards. However, the impact of the above requirements has not been quantified as at the reporting date.

10. DIRECTORS RESPONSIBILITY STATEMENT

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

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

11 PROPERTY PLANT & EQUIPMENT

11.1 Cost/ Valuation	Balance As at 01/04/09 Rs.	Additions Rs.	Balance As at 31/12/09 Rs.
Buildings on Leasehold Land	1,848,668,979	-	1,848,668,979
Medical Equipment	904,274,138	3,441,193	907,715,331
Furniture & Fittings	113,243,607	11,219,911	124,463,518
Office Equipment	29,725,977	690,861	30,416,838
Computers	54,953,580	429,525	55,383,105
Other Equipment	343,623,845	4,030,119	347,653,964
Kitchen Equipment	1,883,237	126,404	2,009,641
Medical Vehicles	8,901,926	-	8,901,926
Motor Vehicles	3,465,900	-	3,465,900
	3,308,741,189	19,938,013	3,328,679,202
11.2 Depreciation	Balance As at 01/04/09 Rs.	Charge for the year Rs.	Balance As at 31/12/09 Rs.
Buildings on Leasehold Land	126,524,897	34,939,844	161,464,741
Medical Equipment	477,776,013	67,611,310	545,387,323
Furniture and Fittings	60,795,841	8,511,462	69,307,303
Office Equipment	16,937,079	2,243,671	19,180,750
Computers	41,641,231	6,196,812	47,838,043
Other Equipment	184,236,245	25,504,793	209,741,038
Kitchen Equipment	677,790	479,489	1,157,279
Medical Vehicles	8,901,926	-	8,901,926
Motor Vehicles	3,465,900	-	3,465,900
	920,956,922	145,487,381	1,066,444,303
Capital work-in-progress			199,251
11.3 Net Book Value as at,		31/12/2009 Rs.	31/03/2009 Rs.
At Cost/ Cost incurred since last revaluation		2,262,434,150	2,387,784,266
Total carrying amount of property, plant & equipment		2,262,434,150	2,387,784,266

11.4 Depreciation on property, plant & equipment	31/12/2009 Rs.	31/03/2009 Rs.
Classified under Cost of services	67,612,011	87,767,813
Classified under Depreciation of property plant & equipment	77,875,370	107,272,043
	145,487,381	195,039,856

11.5 The land and building were revalued during the year 2006/07 by Messrs A.A.M Fathihu - F.I.V (Sri Lanka) Incorporated Valuer. Only the surplus on revaluation relating to the building amounting to Rs.548,200,910/- was incorporated in the Financial Statements from its effective date which is 14th October 2006. Such assets were valued on an open market value for existing use basis, the surplus arising from the revaluation was transferred to the revaluation reserve.

The carrying amount of revalued amounts assets that would have been included in the financial statements had the assets been carried at cost less depreciation is as follows

	Cost Rs.	Depreciation if assets were carried at cost Rs.	Cumulative net carrying amount Rs.
Building on lease hold land	1,423,309,986	215,769,451	1,207,540,535

11.6 During the financial period, the Company acquired property, plant & equipment to the aggregate value of Rs 19,938,013/- (31/3/2009 - Rs.69,224,602/-), the consideration for which was settled by cash.

12 ADVANCE LEASE PREMIUM

	31/12/2009 Rs.	31/03/2009 Rs.
Balance at the beginning of the period	92,264,394	78,401,315
Premium paid during the period	-	18,546,551
Amortised during the period	(3,512,604)	(4,683,472)
Balance at the end of the period	88,751,790	92,264,393

The Company has entered into a 99-year lease agreement with the Urban Development Authority. In terms of this agreement Rs.463.7 Mn is to be paid between the period 1999-2026.

Premiums paid on each installment is carried forward and amortised over the 99-year period, in accordance with the said agreement. Premium with regard the lease land is due on 1st January of each year.

This lease hold land was revalued on 14th October 2007 by Messrs A.A.M.Fathihu – F.I.V. (Sri Lanka) Incorporated valuer amounting to Rs.1,320,276,000/-, and this is not incorporated in this financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

13 INVENTORIES

	31/12/2009 Rs.	31/03/2009 Rs.
Main stores	16,843,804	9,643,661
OT stores	13,633,661	9,880,742
Cath Lab	1,520,891	2,426,365
Pharmacy	26,306,295	38,074,733
Engineering stores	2,202,172	-
	60,506,823	60,025,501
Provision for inventories	(3,387,188)	(1,951,288)
	57,119,635	58,074,213

14 TRADE & OTHER RECEIVABLES

Trade Receivables		
Trade Receivables -Related Parties		
Sri Lanka Insurance Corporation Limited	10,359,430	4,844,177
Trade Receivables - Others	97,004,161	95,976,055
Provision for bad & doubtful debts	(27,444,539)	(26,099,135)
Total Trade Receivables	79,919,052	74,721,097
Deposits and prepayments	42,742,615	10,643,099
Advances & other receivables	12,930,205	6,685,289
Total Trade & Other Receivables	135,591,872	92,049,485

15 AMOUNTS DUE FROM RELATED PARTIES

Sri Lanka Insurance Corporation Limited	860,994	140,000
	860,994	140,000

16 STATED CAPITAL

Issued and Fully paid - Ordinary shares		
Balance at the beginning of the period		
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.

17 REVALUATION RESERVE

	31/12/2009 Rs.	31/03/2009 Rs.
Balance as at the beginning of the period	330,592,173	340,887,541
Transfer of surplus during the period	(10,295,368)	(10,295,368)
Balance as at the end of the period	320,296,805	330,592,173

Transfer of surplus during the period represents the difference arising on depreciation value of the revalued Leasehold building, against the depreciation calculated on its original cost.

18 DEFINED BENEFIT OBLIGATIONS

Balance at the beginning of the period	17,488,360	20,468,132
Effect of change in accounting policy due to adoption of SLAS 16 (Revised 2006)	-	(7,377,474)
Revised balance at the beginning of the period	17,488,360	13,090,658
Current service cost	4,185,952	3,855,799
Interest cost	1,732,114	1,379,974
Actuarial (gain)/loss	(1,358,151)	853,072
Payments made (including benefits paid) during the period	(1,655,488)	(1,691,143)
Balance at the end of the period	20,392,787	17,488,360
<i>Expenses recognised in the Income Statement</i>		
Staff costs	4,559,915	6,088,845

The Company has adopted SLAS 16 (Revised 2006) - 'Employee Benefits', which is applied prospectively from April 1, 2008.

SLAS 16 (Revised 2006) 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 obligation and the current service cost. This requires an entity to determine variables and financial variables that will influence the current and prior periods and to make estimates about demographic variables and financial variables that will influence the cost of the benefits. The actuarial valuation was carried out by a professionally qualified firm of actuaries, Messrs Actuarial and Management Consultants (Pvt) Ltd. The following key assumptions were made in arriving at the above figure.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

The key assumptions used by the actuary include the following as at the reporting date;

- | | |
|--------------------------------------|----------|
| (i) Rate of interest- | 12% p.a. |
| (ii) Salary increment rate | |
| Salary denoted in SL rupees- | 12% p.a. |
| Salary denoted in INR rupees and USD | 5% p.a. |
| (iii) Retirement age | 55 yrs |

The Company's defined benefit obligation would have been Rs 32,148,672 as at the reporting date had their retirement benefit obligation been calculated as per the requirements of the Payment of Gratuity Act No.12 of 1983.

19 GOVERNMENT GRANTS

	31/12/2009 Rs.	31/03/2009 Rs.
Balance at the beginning of the period	885,375	1,771,001
Amortised during the period	(664,218)	(885,626)
Balance at the end of the period	221,157	885,375

The company has received government grant in respect of a machinery in the year 2004, and it has been accounted for in accordance with SLAS - 24. "Accounting for Government Grants and Disclosure of Government Assistance".

20 INTEREST BEARING BORROWINGS

	31/12/2009 Rs.	31/03/2009 Rs.
Syndicate Loan (Note 20.1)	35,209,998	50,299,998
NDB Loan (Note 20.2)	17,500,000	25,000,000
State Bank of India (Note 20.3)	-	-
	52,709,998	75,299,998
Amount payable within one year	30,120,000	30,120,000
Amount payable after one year	22,589,998	45,179,998

20.1 Syndicate Loan

Hatton National Bank PLC 20.1 A	17,500,000	25,000,000
National Development Bank PLC 20.1 B	8,854,999	12,649,999
Seylan Bank PLC 20.1 C	8,854,999	12,649,999
	35,209,998	50,299,998
20.1 A Hatton National Bank PLC		
Balance at the Beginning of the period	25,000,000	102,088,750
Payment made during the period	(7,500,000)	(77,088,750)
Balance at the end of the period	17,500,000	25,000,000

	31/12/2009 Rs.	31/03/2009 Rs.
20.1 B National Development Bank PLC		
Balance at the Beginning of the period	12,649,999	51,043,749
Payment made during the period	(3,795,000)	(38,393,750)
Balance at the end of the period	8,854,999	12,649,999
20.1 C Seylan Bank PLC		
Balance at the Beginning of the period	12,649,999	51,043,749
Payment made during the period	(3,795,000)	(38,393,750)
Balance at the end of the period	8,854,999	12,649,999

20.1.1 Repayments

The syndicate loan is repayable in 32 consecutive quarterly installments from November 2003.

20.1.2 Interest Rate

The interest rate payable by the Company is computed at the interest rate of the one year weighted average treasury bills rate prevailing immediately prior to each interest review period plus 6% per annum. However, in the event of making the payment regularly and punctually, a rebate of 3% per annum is applicable to this interest rate.

20.1.3 Security

Security of the above syndicate Loan provided were as follows.

Partial Guarantee

Partial guarantee is provided by the International Finance Corporation in terms of the partial syndicate loan guarantee agreement to the maximum value of Rs.230,000,000/- for the principal amount excluding interest, penalty interest, late payment charges and all other charges payable on the principal amount.

Non Guaranteed portion of the syndicate loan

The non guaranteed portion of the syndicate will be subject to the following security.

- A primary concurrent mortgage over the moveable and immovable assets of the Company.
- An assignment of the project documents (other than the investment agreement)
- A secondary mortgage over the stock in trade, book debts and receivables.

20.2 Soft Loan

	31/12/2009 Rs.	31/03/2009 Rs.
<i>National Development Bank PLC</i>		
Balance at the beginning of the period	25,000,000	102,100,000
Payment made during the period	(7,500,000)	(77,100,000)
Balance at the end of the period	17,500,000	25,000,000

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

20.2.1 Repayments

The principal outstanding shall be repaid over a period of 8 years in 32 consecutive quarterly installments from November 2003.

20.2.2 Interest Rate

The interest rate payable by the Company is computed at the interest rate of the simple average one year treasury bills rate prevailing six months immediately prior to each interest review period plus 7% per annum. However, in the event of making the payment regularly and punctually, a rebate of 3% per annum is applicable to this interest rate.

20.2.3 Security

The security provided for the above loan is as follows.

- a) A primary concurrent mortgage over the movable and immovable assets of the Company.
- b) An assignment of the project documents (other than the investment agreement).
- c) A secondary mortgage over all the stock in trade, book debts and other receivables of the company.

20.3 Term Loan

	31/12/2009 Rs.	31/03/2009 Rs.
<i>State Bank of India</i>		
Balance at the beginning of the period	-	1,036,378
Payment made during the period	-	(1,036,378)
Balance at the end of the period	-	-

20.3.1 Repayments

The Term Loan was repaid over a period of 5 years in 60 consecutive monthly installments from October 2003.

20.3.2 Interest Rate

The fixed interest rate payable by the company is 11.50% per annum.

20.3.3 Security

Security is provided over the immovable assets of the company.

21 DEFERRED TAX LIABILITIES

	31/12/2009 Rs.	31/03/2009 Rs.
Balance at the beginning of the period	341,234,637	313,306,315
Effect of change due to the adoption of SLAS 16 (Revised 2006)	-	2,582,116
Revised balance as at 1st April 2008	341,234,637	315,888,431
Original/(Reversal) of temporary differences	9,463,365	25,346,206
Balance at the end of the period	350,698,002	341,234,637

21.1 Analysis of Deferred Tax Liabilities	31/12/2009 Temporary Difference Rs.	31/12/2009 Tax Rs.	2008/2009 Temporary Difference Rs.	2008/2009 Tax Rs.
Property, plant & equipment	474,186,169	165,965,159	444,243,555	155,485,244
Defined Benefit Obligations	(20,392,787)	(7,137,475)	(17,488,360)	(6,120,926)
Revaluation on buildings	548,200,910	191,870,319	548,200,910	191,870,319
	1,001,994,292	350,698,003	974,956,105	341,234,637
22 AMOUNTS DUE TO RELATED COMPANIES				
			31/12/2009 Rs.	31/03/2009 Rs.
Sri Lanka Insurance Corporation Limited			3,863,626	4,165,011
			3,863,626	4,165,011
23 TRADE CREDITORS & OTHER PAYABLES				
Trade payables			118,618,824	128,506,113
Other payables			127,509,662	98,552,056
			246,128,486	227,058,169
24 REVENUE				
			9 months ended 31/12/2009	Year ended 31/03/2009
Hospital Revenue			1,403,282,938	2,215,433,232
Pharmacy Revenue			374,087,569	254,172,879
			1,777,370,507	2,469,606,111
25 OTHER INCOME				
Amortisation of Government Grants			664,220	885,627
Other income			225,000	-
Sundry Income			164,817	765,068
			1,054,037	1,650,695
26 STAFF COSTS				
Salaries, Fees, Wages and other related costs			309,022,367	397,135,774
Defined benefit plan cost - Retirement Gratuity			4,559,915	6,088,845
Defined contribution plan cost - EPF & ETF			26,557,194	30,968,861
			340,139,476	434,193,480
No. of Employees			952	920

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

27 NET FINANCE COST

	9 months ended 31/12/2009 Rs.	Year ended 31/03/2009 Rs.
Finance Cost		
Interest on - Debentures	-	12,479,098
- Bank Overdrafts	-	62,174
- NDB Loan	3,165,389	12,011,969
- Syndicate Loan	6,765,486	21,945,626
Guarantee Fees	628,845	4,007,365
Bank overdraft	23,371	-
Debtenture charges	-	124,200
Total finance cost	10,583,091	50,630,432
Finance Income		
Interest Income from - Call Deposits	(7,556,358)	(8,160,970)
- Fixed Deposits - NRFC	(451,896)	(2,352,246)
- Saving Accounts	-	(376,531)
(Gain)/loss on translation of foreign currencies	959,930	(2,675,942)
Total Finance Income	(7,048,324)	(13,565,689)
Net finance cost	3,534,767	37,064,743

28 PROFIT BEFORE TAX

Profit before tax has been stated after charging all expenses including the following;

Auditors' remuneration		
- Audit services	430,000	400,000
- Non audit services	207,837	274,652
Provision/(Reversal of provision) for doubtful debts	1,345,404	(3,060,693)
Provision/(Reversal of provision) for inventories	1,435,900	(6,950,959)
Legal expenses	3,222,931	4,075,587
Amortisation of advanced lease premium	3,512,604	4,683,472

29 INCOME TAX EXPENSE

In accordance with and subject to the power conferred on the Board of Investment of Sri Lanka, under Section 17 of the BOI Law No. 4 of 1978, the operating profits and income accruing to the Company is exempt from tax for a period of 12 years. However, income tax has been provided at the normal rates of tax on non-trading income.

	9 months ended 31/12/2009 Rs.	Year ended 31/03/2009 Rs.
Taxation on non-trading income (Note : 29.1)	3,121,145	3,441,484
Origination & (reversal) of temporary differences	9,463,365	25,346,203
Irrecoverable Economic Service Charge	1,328,866	1,898,175
Income tax expense in income statement	13,913,376	30,685,862

29.1 Reconciliation of the income tax expense

	9 months ended 31/12/2009 Rs.	Year ended 31/03/2009 Rs.
<i>Non-trading income</i>		
Sundry income	164,817	765,068
Other income	225,000	-
Interest Income (Gross)	8,395,953	9,067,744
Taxable Income	8,785,770	9,832,812
Tax rates applicable	35%	35%
Tax expense for the period	3,075,020	3,441,484
Social Responsibility Levy at 1.5%	46,125	-
	3,121,145	3,441,484

30 EARNINGS PER SHARE (ANNUALISED)

Earnings per share is calculated based on the profit for the period divided by the weighted average number of ordinary shares in issue as at the balance sheet date.

	9 months ended 31/12/2009 Rs.	Year ended 31/03/2009 Rs.
Earnings attributable to ordinary shareholders	7,243,970	41,126,810
Annualised earnings attributable to ordinary shareholders	9,658,626	41,126,810
Weighted average number of ordinary shares deemed to be in issue	223,732,169	223,732,169
Basic earnings per share (EPS) (annualized)	0.04	0.18

31 CONTINGENT LIABILITIES

There were no material contingent liabilities outstanding as at the balance sheet date, which require adjustment to or disclosure in the Financial Statements other than following;

The Company was party to legal proceedings incidental to its business. Three (3) cases had been filed in the District Court of Colombo claiming an aggregate sum of Rs.122.5 Mn from the Company. In addition, an application has been filed in the Labour Tribunal claiming a sum of Rs.5 Mn against the Company. The cases had been taken up for trial and the Management is vigorously contesting each case. In each case, the management represented that it was not reasonable to estimate a loss. As a result, no estimated losses were recorded as a charge in the financial statements

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

32 COMPARATIVE INFORMATION

Prior period financial statements have been prepared for a period of 12 months.

33 CAPITAL COMMITMENTS

Capital Expenditure Commitments

There were no material capital commitments as at the balance sheet date, except for the following:

33.1 Commitment on Land Lease

The Company has entered into a 99-year lease agreement with the Urban Development Authority. In terms of this agreement annual lease premiums payable are as follows.

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

Premiums paid on each installment is carried forward and amortised over the 99-year period, in accordance with the said agreement.

From the year 2027 Rs.7,000/- per annum is payable as nominal ground rent for 5 years. Thereafter the said ground rent will be revised every 5 years on the basis of an annual increase no greater than the average weighted deposit rate published by the Central bank of Sri Lanka prevailing at the end of each year or 10% per annum whichever is lower.

33.2 Capital commitment payable for the construction of pharmacies

The company has a capital commitment of Rs.2,122,740 payable for the construction of pharmacies.

34 EVENTS AFTER THE BALANCE SHEET DATE

There were no material events occurring after the balance sheet date as at 31st December 2009 that require adjustments or disclosure in the financial statements.

35 RELATED PARTY TRANSACTIONS

(a) Parent and Ultimate Controlling Party

Ultimate controlling party of the Company is Sri Lanka Insurance Corporation Limited.

(b) Transactions with Key Managements Personnel

Key Management Personnel comprise the Directors of the Company.

(i) Loans to Directors

No loans have been given to the Directors of the Company.

(ii) Key Management Personnel Compensation

During the year under review Rs.300,000/- was incurred on behalf of key management personnel of the Company.

(c) **Transactions with Related Companies**

The Company has related party relationships with its related group companies. The following transactions were carried out with related parties during the period ended 31st December 2009.

The Company carried out transactions in the ordinary course of business at commercial rates with the following Directors/Related entities

Name of the Company	Directors of the Company	Relationship	Nature of Transaction	Transaction Value	Amounts (Paid)/ Received	Outstanding Balance	
				31/12/2009	31/03/2009	31/12/2009	31/03/2009
Period from 01st April 2009 to 31st December 2009				Rs.	Rs.	Rs.	Rs.
Sri Lanka Insurance Corporation Ltd	Dr. Nalaka Godahewa	Parent Company	Services provided by The Lanka Hospitals Corporation PLC	40,410,678	35,035,425	10,359,430	4,984,177
			Mr. Pradeep Kariyawasam	Fee for the insurance policy on Fire, Vehicle, Professional Indemnity, Staff Insurance, General Insurance and vehicle hiring charges	24,046,901	(24,348,285)	(3,863,627)
		Services provided by The Lanka Hospitals Corporation PLC including auditorium hiring and providing food and beverages	915,994	195,000	860,994	140,000	
Period from 01st April 2009 to 04th June 2009				Rs.	Rs.		
Distilleries Company of Sri Lanka PLC	Mr.D.H.S. Jayawardena Mr.C.R. Jansz	Affiliated Company	Services provided by The Lanka Hospitals Corporation PLC	100,716	100,716		
			Services obtained by The Lanka Hospitals Corporation PLC	653,756	(427,901)		

	9 months ended 31st December 2009	Year ended 31st March 2009
Earnings/ (Loss) Per Share	0.04	0.18
Dividend Per Share	N/A	N/A
Net Assets Value Per Share	8.97	8.94
Market Value Per Ordinary Share		
Highest Value during the year	22.75	15.25
Lowest Value during the year	13.75	11.75
Value at the end of the year	19.00	14.75
Gearing Ratio	2.56%	3.76%
Interest Cover	2.49	2.94
Quick Assets Ratio	0.98	0.60

Shareholdings & Distribution as at 31st December 2009

Shareholdings	No. of Shareholders	No. of Shares	%
1-1,000	5,992	2,574,745	1.15
1,001-5,000	1,672	4,010,893	1.79
5,001-10,000	140	992,837	0.44
10,001-50,000	70	1,340,717	0.60
50,001-100,000	8	543,700	0.24
100,001-500,000	10	1,820,628	0.81
500,001-1,000,000	1	515,357	0.23
Over 1,000,000	7	211,933,292	94.73
Total	7,900	223,732,169	100.00

Shareholdings & Distribution as at 31st March 2009

Shareholdings	No. of Shareholders	No. of Shares	%
1-1,000	6,094	2,643,702	1.18
1,001-5,000	1,726	4,109,680	1.84
5,001-10,000	153	1,103,080	0.49
10,001-50,000	69	1,446,130	0.65
50,001-100,000	5	328,300	0.15
100,001-500,000	9	1,626,828	0.73
500,001-1,000,000	1	541,157	0.24
Over 1,000,000	7	211,933,292	94.73
Total	8,064	223,732,169	100.00

Top 20 Shareholdings as at		31st December 2009		31st March 2009	
		No. of Shares	%	No. of Shares	%
1	Sri Lanka Insurance Corporation Ltd-General Fund	91,080,643	40.71	91,080,643	40.71
2	Distilleries Company of Sri Lanka PLC	63,974,015	28.59	63,974,015	28.59
3	Sri Lanka Insurance Corporation Ltd-Life Fund	31,097,350	13.90	31,097,350	13.90
4	Property Development PLC	21,329,000	9.53	21,329,000	9.53
5	Hatton National Bank PLC A/C No 1	2,078,142	0.93	2,078,142	0.93
6	Aegis Fund Management (Pvt) Limited	1,278,428	0.57	1,278,428	0.57
7	Hatton National Bank PLC A/C No 3	1,095,714	0.49	1,095,714	0.49
8	Dr. K. Rajakanthan	515,357	0.24	541,157	0.24
9	Mr. M.M.C.J. Fernandopulle	280,000	0.13	280,000	0.13
10	Dr. D. Rajakanthan	235,957	0.11	235,957	0.11
11	Mr. A.H. Munasinghe	226,371	0.10	226,571	0.10
12	Deutsche Bank AG-NAMAL Amana Equity Fund	200,100	0.09	-	-
13	Seylan Bank PLC	200,000	0.09	200,000	0.09
14	Mr. P. Pitipanaarachchi	165,100	0.07	165,100	0.07
15	Dr. G.S. Gnanasekeram	150,000	0.07	150,000	0.07
16	Mr. L. Samarawickrama	140,000	0.07	125,100	0.06
17	Mr. A.P. Somasiri	120,000	0.05	120,000	0.05
18	Dr. A. Khalil	102,900	0.05	-	-
19	Capital Alliance Holdings Ltd	100,000	0.04	-	-
20	Mr. G.C. Goonetilleke	91,000	0.04	85,000	0.04

Analysis of shareholders

Individuals/Institutions	No. of shareholders	As a %	No. of shares	As a %
Individual	7,807	98.82	10,752,258	4.81
Institution	93	1.18	212,979,911	95.19
TOTAL	7,900	100.00	223,732,169	100.00
Residents	7,878	99.72	223,322,292	99.82
Non-residents	22	0.28	409,877	0.18
TOTAL	7,900	100.00	223,732,169	100.00

Public Shareholding as at 31st December 2009 - 16.80%

No. of Shares 37,580,161

THE LANKA HOSPITALS CORPORATION PLC
(Company Registration No PQ180)
No.578, Elvitigala Mawatha, Narahenpita, Colombo 5
NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Eleventh Annual General Meeting of The Lanka Hospitals Corporation PLC will be held on Wednesday 30th June 2010 at 3.00 p.m. at Dr. Prathap C Reddy Auditorium, The Lanka Hospitals Corporation PLC, No.578, Elvitigala Mawatha, Colombo 5 for the purpose of conducting the following business:

1. To receive and consider the Annual Report and the Financial Statements of the Company for the Nine months ended 31st December 2009 together with the Report of the Auditors' thereon.
2. To re-elect Prof. D. P. A. Fernando as a Director of the Company. Special Notice has been received from a shareholder pursuant to Section 211 of the Companies Act No. 07 of 2007 of the intention to propose the following resolution as an ordinary resolution.

“RESOLVED THAT Prof. D. P. A. Fernando who has reached the age of 70 be and is hereby re-elected as a Director of the Company, and is hereby declared that the age limit of 70 years referred to in Section 210 of the Companies Act No. 07 of 2007 shall not apply to the said Director in accordance with section 211 of the Companies Act No.07 of 2007”.

3. To re-appoint Messrs KPMG Ford Rhodes Thornton & Co, Chartered Accountants, the retiring Auditors and authorize the Directors to fix their remuneration.
4. To authorize the Directors to determine donations for the year 2010 and up to the date of the next Annual General Meeting.
5. To consider any other business of which due notice has been given.

By order of the Board

(Sgd.)

THE LANKA HOSPITALS CORPORATION PLC

Accounting Systems Secretarial Services (Private) Limited

Company Secretaries

Colombo, this 24th May 2010.

Note: A shareholder who is unable to attend the meeting is entitled to appoint a proxy to attend and vote in his/her place. A proxy need not be a member of the Company. A Form of Proxy accompanies this Notice.

I/We
 (NIC No.)
 of
 being a member/members of The Lanka Hospitals Corporation PLC, hereby appoint:
 of
 (or failing him)

Mr. Gotabaya Rajapaksa	of Colombo	(or failing him)
Dr. Nalaka Godahewa	of Mt. Lavinia	(or failing him)
Dr. S.S.L. Perera	of Colombo	(or failing him)
Dr. Ajith Amarasinghe	of Colombo	(or failing him)
Mr. A.N. Pathirane	of Ratmalana	(or failing him)
Major General (Dr.) S. H. Munasinghe	of Nugegoda	(or failing him)
Mr. B.A.C. Fernando	of Colombo	(or failing him)
Prof. D.P.A. Fernando	of Colombo	(or failing him)
Mr. A.M. Mohan de Alwis	of Colombo	(or failing him)
Mrs. Roshini Sunethra Cabraal	of Colombo	(or failing him)
Dr. T.R.C. Ruberu	of Colombo	(or failing him)

As my/our Proxy to represent and speak and vote for me/us* and on my/our behalf at the Eleventh Annual General Meeting of the Company to be held on 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 the Report of the Directors, the Audited Accounts for the Nine months ended 31st December 2009 and the Report of the Auditors.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Prof. D. P.A. Fernando who retires in terms of Section 210 of the Companies Act No.07 of 2007.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-appoint Messrs KPMG Ford Rhodes Thornton & Co., the retiring Auditors and authorize the Directors to fix their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
4. To authorize the Directors to determine donations for the year 2010 and up to the date of the next Annual General Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
In witness my/our* hands this.....day of.....Two Thousand and Ten.	<input type="checkbox"/>	<input type="checkbox"/>

.....
 Signature

Notes:* Instructions as to completion appear overleaf.
 Please indicate with and "x" in the space provided, how your Proxy is to vote on the Resolutions.
 If no indication is given, the Proxy in his discretion will votes as he thinks fit.

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. The completed Form of Proxy should be deposited at the Registrars to shares, National Asset Management Ltd, 2nd Floor, No.73, W. A. D. Ramanayake Mawatha, Colombo 2 on or before 3.00 p.m. 28th June 2010.
3. 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.
4. 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.
5. If the appointer is a company/ Incorporated body this Form must be executed in accordance with the Articles of Association/ Stature.

Name

The Lanka Hospitals Corporation PLC

Company No.

PQ 180

Registered Office

No.578, Elvitigala Mawatha,
Narahenpita, Colombo 05.

Tel: +94 11 5430000 Fax: +94 11 4511199

E-mail: info@lankahospitals.com

Board of Directors

Mr. Gotabaya Rajapaksa

Dr. Nalaka Godahewa

Dr. S.S.L. Perera

Dr. Ajith Amarasinghe

Mr. Asoka Nissanka Pathirane

Mgr. Gen. (Dr.) Sanjeewa Heman Munasinghe

Mr. B.A.C. Fernando

Dr. B. Kaluarachchi

Prof. Dayasiri Fernando

Mr. A.M.M. de Alwis

Dr. T.R.C. Ruberu

Mrs. R.S. Cabraal

Secretaries

M/s. Accounting Systems Secretarial Services
(Private) Limited

Level 4, No. 2, Castle Lane, Colombo 4.

Tel: +94 11 2505152

Auditors

M/s. KPMG Ford, Rhodes, Thornton & Co
(Chartered Accountants)

32A, Mohamed Macan Markar Mawatha,
Colombo 3.

Tel: +94 11 5426426

Registrars to Shares

National Asset Management Limited

2nd Floor, 73, W.A.D. Ramanayake Mawatha,
Colombo 2.

Tel: +94 11 2445911

Bankers

Hatton National Bank PLC

Seylan Bank PLC

NDB Bank PLC

Bank of Ceylon



The Lanka Hospitals
CORPORATION PLC

No.578, Elvitigala Mawatha,
Narahenpita, Colombo 05.

Tel: +94 11 5430000 Fax: +94 11 4511199

E-mail: info@lankahospitals.com

www.lankahospitals.com

C A R I N G - C U R I N G