

From a father's quiet dependability, a mother's limitless care, the technological adeptness of today's young man, and the sophistication of a young woman...

A FAMILY OF REASONS



LANKA
HOSPITALS

සුවසේ සැලසුම • CARING CURING • பராமரித்தல் குணமாக்கல்

Annual Report 2011

Our Vision

To be the foremost and preferred Private Healthcare facility in the country, which will serve the nation and her people to build a healthier community and to be recognized as one of the best in the region.

Our Mission

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!

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A FAMILY OF REASONS

Lanka Hospitals. Representing the best characteristics of a close and loving family to every patient we serve. From a father's quiet dependability, a mother's limitless care and concern, the skill, expertise and technological adeptness of today's young man, together with the sophistication and elegance of a young woman...we can offer it all.

Like a family, we will draw together to help, to heal and above all to care for each and every person who comes through our door. That is our pledge and our pride.

Welcome to the Lanka Hospital family.



DEPENDABLE LIKE A FATHER

With a love that is always reliable your father is the rock in which you take refuge; likewise Lanka Hospitals considers the best medical care and a dependable environment to be the ideal cure and this is why we are your most trusted choice for healthcare.



LIKE A MOTHER WHO CARES

A mother never fails to love and care; likewise Lanka Hospitals provides you with the most caring and dedicated medical care, curing you with a love that is warm and passionate.



TECHNOLOGY IS OUR SON

A son is at all times a modernist, hopeful, futuristic and up-to-date with the latest technology; likewise Lanka Hospitals offers state-of-the-art machinery and the most advanced medical solutions, curing you with the latest technology.



A DAUGHTER OF THE FINER THINGS IN LIFE

A daughter is a perfectionist, concerned with the luxuries in life; likewise Lanka Hospitals offers personalised comfort in medical care pampering you with the passionate care from the moment you enter until the moment you leave.

FINANCIAL HIGHLIGHTS

Five Year Summary

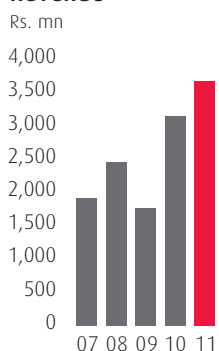
	2011 vs 2010 Change %	2011 Rs.	2010 Rs.	2009 (9 Months)* Rs.	2008/09 Rs.	2007/08 Rs.
Revenue	17	3,680,174,329	3,156,022,682	1,777,370,507	2,469,606,111	1,924,684,272
Profit/(Loss) before interest & tax	23	341,012,425	277,298,829	24,692,113	108,877,414	(87,313,564)
Profit for the year	52	438,101,612	289,143,723	7,243,970	41,126,810	(286,357,381)
Total Assets	10	4,008,926,466	3,655,399,477	2,731,414,156	2,737,686,192	2,954,057,223
Net Assets	22	3,343,570,054	2,730,002,259	2,007,591,301	2,000,347,331	1,954,425,163
Earnings/(Deficit) Per Share***	52	1.96	1.29	0.04	0.18	(1.53)
Net Assets per share	22	14.94	12.20	8.97	8.94	8.74
Annual revenue growth %**		16.61	33.18	(4.04)	28.31	6.22
Net cash flow from operating activities		521,872,749	415,578,722	135,405,161	310,074,763	(48,033,439)

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

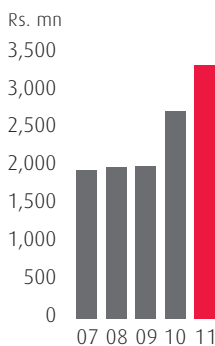
** In arriving at annual revenue growth in 2010, revenue for 9 months has been extrapolated for comparison purposes.

*** Annualised earnings per share for the period ended 31st December 2009.

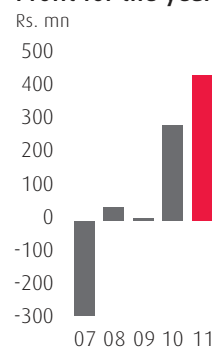
Revenue



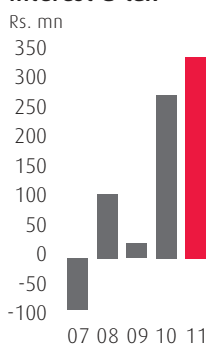
Net Assets



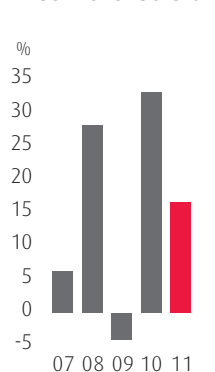
Profit for the year



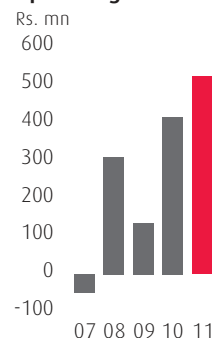
Profit/(Loss) before interest & tax



Annual Revenue Growth



Net cash flow from operating activities



CHAIRMAN'S STATEMENT



"We set out on a great journey in 2009, and have kept pace in realizing our vision "to be the best in Asia". Today, as I write this statement, I am more than confident that this vision is indeed one that is realisable."

Dear Shareholders,
I am sure you will be pleased to note that Lanka Hospitals has continued to advance towards its strategic vision with great momentum and consistency. In two fruitful years, we have accomplished a gamut of feats, all of which have cumulatively contributed towards greater growth in revenue and profitability. In light of these accomplishments and performance, it gives me great pleasure as your Chairman, to present the Audited Financial Statements and the Annual Report of Lanka Hospitals PLC for the financial year 2011.

We set out on a great journey in 2009, and have kept pace in realizing our vision "to be the best in Asia". Today, as I write this statement, I am more than confident that this vision is indeed one that is realisable. Our systematic approach towards the realisation of strategic objectives can be credited for our journey so far. As we strive to become a force of reckoning in the sphere of global healthcare, it seems more and more evident that Lanka Hospitals is setting the benchmark and establishing industry standards for Sri Lanka's healthcare industry.

But excellence comes at cost. Infrastructure development and advancements in our products and services have been the outcome of astute yet sizeable investments. These investments have been driven beyond mere commercial motives, and have largely been influenced by their positive outcome on society and the industry as a whole. I am sure our shareholders and stakeholders will agree with the view that as a leader in the healthcare industry, it is imperative that we maintain our standards alongside global developments in medical technology. As such, I am confident that we have furthered our position as a trendsetter for Sri Lanka's healthcare industry. In the meanwhile, I must emphasize that despite the high cost of investment, Lanka Hospitals PLC in the year

2011, continued to perform commendably, demonstrating higher revenues and profitability from that of the previous financial year.

As we look back over the past two financial years, the evidence of strategic change is strong. From establishment of administrative standards to the creation of a culture of care as well as refined advancements to the business model through the development of medical products such as our centres of excellence in fertility, cardiac care, surgical and renal care have all significantly shaped the product offer, enhancing its appeal whilst notching the quality of service and standards to new realms. The continued pursuance of a multi-pronged strategy aimed at realizing four core pillars; best medical care, best customer care, process enhancements across functions, and affordability has accelerated its journey towards becoming a hospital and a corporate that is truly world-class. Price restructuring in the past two years has enabled the Company to effectively cater to the healthcare needs of Sri Lankans across a spectrum of demographics. Encouragingly, these alterations to the business model have precipitated profitability, ensuring a win-win for both our shareholders and stakeholders including our customers.

Our shareholders will also be pleased to note that Lanka Hospitals is becoming a preferred choice amongst not only Sri Lankans but also international medical tourists. In addition, we have also noted a behavioural change amongst customers who previously sought international expertise for healthcare. A large proportion of patients who otherwise relied on the services of healthcare institutions in the region are now patrons of your Hospital.

As we move forward with resolute, our onus is to constantly identify market gaps and to proactively design products and services to best suite these. In the immediate periphery are plans to offer quaternary medical care through a range of super-specialty centres. It seems pertinent here, to make mention of

CHAIRMAN'S STATEMENT (CONTD.)

His Excellency the President Mahinda Rajapakse's vision to develop Sri Lanka's healthcare system to be world-class. At Lanka Hospitals, we strongly believe that we are aiding towards the realisation of this vision. We continue to constantly enhance our knowledge base through interactions with global leaders in healthcare thereby absorbing global best practices. Through strategic alliances, Lanka Hospitals has created streamlined avenues for knowledge transfer and sharing of best practices with some of the most recognised global healthcare providers. International accreditations and global partnerships are a key source of inspiration to change, evolve and grow. In the immediate future, our intention is to share our best practices with the rest of the industry in a bid to foster greater knowledge share, solidarity and partnership.

I must take this opportunity to reiterate that the Government of Sri Lanka remains passionate and committed towards its stake in Lanka Hospitals PLC and views its interest in your Company as strategic and long-term. Lanka Hospitals remains critical to the GoSL for many reasons; primarily its ability to provide world-class medical care whilst balancing the equation of affordability; and the role it plays in uplifting the general standard of living of our citizens.

In conclusion, allow me, to reiterate the assurance of commitment that I extended in previous years. 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.



Gotabaya Rajapaksa RWP RSP psc
Chairman

08th May 2012

CHIEF EXECUTIVE OFFICER'S REVIEW



“Our progressive management approach that focuses on step-wise achievement of strategic objectives, has been the cornerstone to the strategic turnaround of Lanka Hospitals’ over the last two years, and I believe it will continue to define our growth trajectory in the years ahead. ”

Performance Snapshot

The financial year 2011 has been a year in which we have made great strides towards accomplishing our vision to be a world-class healthcare provider. Indeed, I am extremely proud of our successes and achievements towards the realisation of many of our objectives this financial year, and of our ability to provide a world-class service to Sri Lankans from across the nation.

As a corporate, our vision is to be the “Best in Asia”. In the past three financial years, Lanka Hospitals has made headway in shifting its market position from a “follower” to a “leader” in many critical operational, medical and service sectors. However, despite the Company’s global outlook, and the international standards we maintain, it remains very much an entity with a concerted focus on augmenting the overall quality of health care for Sri Lankans from all walks of life.

Despite challenging economic conditions especially during the final two quarters of the financial year, I am happy to report that the performance of Lanka Hospitals has been commendable. As a result, Lanka Hospitals posted impressive returns during the financial year, demonstrating a revenue growth of 17% and a growth in profitability of 52%. The Hospital posted higher revenue intensity with the ratio of income from our centres of excellence demonstrating marked impact. The cumulation of operational and financial efficiencies implemented during 2009 and 2010 merged to deliver greater financial return in 2011.

During the financial year, Lanka Hospitals PLC recorded a turnover of Rs. 3,680 million against Rs. 3,156 million in the previous year. Net profit rose to Rs.438 million as opposed to Rs. 289 million in 2010. Operational profit for the same period stood at Rs.341 million. Especially in light of this exceptional financial performance in 2011,

I am extremely proud to note that Lanka Hospitals continued to be the most cost effective city hospital serving a larger cross section of society.

Strategic initiatives aimed at revenue growth, implemented during the previous financial year as well as in the first quarter of this reporting period, translated into realistic enablers of revenue enlargement for the Hospital. I am more than confident that we will continue to benefit from these initiatives, whilst enhancing our momentum of growth through the implementation of new development initiatives in the medium term. Our progressive management approach that focuses on step-wise achievement of strategic objectives, has been the cornerstone to the strategic turnaround of Lanka Hospitals’ over the last two years, and I believe it will continue to define our growth trajectory in the years ahead.

It seems perceptible that if Lanka Hospitals continues on this path of financial and operational achievement - by focusing on quality initiatives and accreditations, and the enhancement of the scope and the spectrum of medical solutions - it will indeed, be amongst the Region’s best in the provision of healthcare. It is a vision that our Chairman and the Board of Directors are focused on realizing, and an adventure that our employees have eagerly embarked on.

Operational Scenario

The healthcare industry in size remained unchanged, with no new major players entering the market. However, Sri Lanka’s healthcare industry evolved during the year with many players opting for the adoption of new technology for diagnostics as well as for treatment purposes. As a result, all major players endeavoured to keep abreast of changing medical technology in the global sphere.

CHIEF EXECUTIVE OFFICER'S REVIEW (CONTD.)

As in the past, the healthcare industry remained highly competitive in 2011 and continued to demonstrate classic attributes of an oligopolistic market structure. However, key players strived to differentiate the product and service offer, in a bid to build brand loyalty amongst patients. Notably, the impact of the overseas healthcare providers on the local healthcare industry is on the decline. Industry players such as Lanka Hospitals, witnessed a marked increase in the demand for specialist healthcare such as fertility and renal care, especially by segments of patients who have otherwise depended on the services of international healthcare providers.

Strategic Intent in 2011

Lanka Hospitals in 2011 firmly consolidated itself in the marketplace as a leader in many important areas. Through a strategy of value differentiation coupled with advanced clinical services, the hospital transformed itself as an aggressive market-trendsetter. During the year, the Hospital furthered its value proposition to customers to create a paradigm shift in the nation's medical care. These initiatives towards making world-class healthcare affordable and accessible to every Sri Lankan has further strengthened Lanka Hospitals' position as one of the nation's most sought - after healthcare providers.

The key strategic intent during the financial year was to essentially derive higher revenue intensity. Towards this end, the Hospital undertook a number of strategic initiatives to drive revenue whilst also deriving efficiencies.

Significant investment into further development of surgical sub-specialties was focal in 2011, with the intention of readying Lanka Hospitals to actively undertake quaternary care and to be considered a referral centre for surgical care in the Region. From an operational perspective, investment in to surgical was deemed as a core in enlarging the revenue intensity, given that in the area of surgery value per bed is significantly higher. From a reputation perspective, the investments are also expected to lead the way in enhancing confidence in Lanka Hospitals amongst customers as well as consultants. As a result, during the year, a range of surgical services were commissioned including a dedicated surgical ward, a surgical ICU, a new surgical OPD, and in future an investment into a state of the art operating theatre for neuro-surgery and orthopedics. Yet we were astute to the fact that physical infrastructure alone was insufficient to create a 360° impact in achieving excellence, and embarked on intensive training and development for our caregivers. We remain one of the few hospitals in Sri Lanka to have a dedicated nursing team with specialist pre and post operative surgical skills. In addition, investments have been made to enhance Lanka Hospitals' existing facilities for cardiac surgery through the development of a dedicated angio lobby for this specialty. This initiative is expected to immensely benefit our patients as admission to the hospital is no longer a necessity when the need arises for Angiograms and other minor cardiac procedures. Thus, this investment allows for a wide array of simple cardiac procedures to be conducted as

an outpatient procedure and will assist towards decreasing the financial burden of healthcare for our customers. These investments have already started to indicate the promise of significant returns, and we are hopeful that in the coming financial year, we will witness a sharpening of revenue intensity as a direct outcome of these strategic initiatives.

As a premier private healthcare provider in Sri Lanka, Lanka Hospitals has firmly positioned itself as a provider of affordable and accessible world-class healthcare to all Sri Lankans. Over the past two financial years, we have continually offered value to our customers and have been instrumental in redefining the value proposition for the healthcare industry. In 2011, we took this offer of value, affordability and accessibility a notch higher through the introduction of over 50 surgical packages, thus eliminating the uncertainty of treatment cost that otherwise causes stress and concern for patients. These 50 surgical packages give control to patients and their families to choose financial options that best suit them, whilst also ensuring that they receive the very best of services in healthcare. As a direct outcome, we have witnessed a perceptible shift in customer patronage, with growing numbers of customers shifting from state sector healthcare to Lanka Hospitals, with the assurance of predetermined costs for surgeries. In this respect, we feel that we have not only benefited from this strategic initiative but have also assisted the state sector by lessening the burden on public healthcare.

Laboratory & Diagnostic services remained another key area of focus during the financial year. At Lanka Hospitals' we witnessed commendable growth in laboratory services and as experienced over the past two consecutive years, once again laboratory services recorded a commendable growth of 25% in 2011, reinforcing our drive for revenue intensity. During the year, given the strategic importance of laboratory services and diagnostics to the Hospital's core services, we invested towards the infusion of new technology, training and development, and the establishment of strategic partnerships with external pathological laboratories.

Our focus on the development of Lanka Hospital's Lab & Diagnostic Services however, goes beyond the conventional drive for commercial gain and borders significantly on the evolving socio-demographic issues pertaining to the health of nation. We are more than cognizant of the fact that Sri Lanka's healthcare system is already burdened with the rapid increase of non-communicable diseases such as diabetes, schematic heart disease, liver disease and cancer arising from lifestyle changes. At Lanka Hospitals, we feel that it is our duty to join hands with the Government of Sri Lanka to assist towards controlling this trend. Towards this end, Lanka Hospitals will be investing in the establishment of the most up to date and the largest laboratory referral centre, with a capability of catering to almost 90% of Sri Lanka's laboratory testing requirements. In addition, the Hospital will also establish a network of regional laboratories across Sri Lanka in a bid to be more accessible to rural Sri Lankans. We strongly feel that by

strengthening our Lab & Diagnostic services to be the gold standard nationally, we will be imparting not only a service but also gifting the nation and guiding it towards good health.

The Hospital's Centres of Excellence continued to perform admirably during the year, delivering exceptional clinical achievements. Our Renal Care centre continued to conduct the highest number of dialyses as well as transplants in the country and in 2011 successfully completed the center's 300th kidney transplant. The Heart Centre posted commendable performance and will benefit from the introduction of a very unique model in the near future, broadening the scope of cardiac surgery from what is currently being performed in Sri Lanka. The Fertility centre remains the No. 1 IVF centre in Sri Lanka and has become a well recognised centre for assisted re-production in Sri Lanka and the South Asian region. Over the last two and a half years, the Fertility centre has recorded 520 pregnancies and 275 live births; the centre continues to maintain success rates that are on par with best fertility clinics across the world. During the year Lanka Hospitals became the 1st private hospital to perform a live liver transplant in the private sector of Sri Lanka. Our latest addition to the Centres of Excellence, as I noted previously, is the Surgical centre. We will continue to invest into all of the Centres of Excellence with the intention of making each one of these specialty centres the best in the Region.

Operational and Process Refinement

From an operational and process management perspective, 2011 was a year of further operational refinement. Whilst in the past financial year an all-encompassing business re-engineering initiative was successfully undertaken, in the period under review we further enhanced the operational process through the development and refinement of the Hospital's value chain. Stemming from our mid term goal to achieve service and operational excellence – with the intention to give every one of our customers a positive experience that surpasses the service ethos of Sri Lankan healthcare institutions, in a bid to position Lanka Hospitals with the very best global healthcare providers – we undertook pervasive training and development based value refinements. As such, training and development was focused on every conceivable point of customer interaction leading to recorded service improvements in twelve core service-weighted processes such as admission, discharge, and house-keeping by benchmarking against some of the most efficient healthcare institutions in the world.

In pursuing service excellence, Lanka Hospitals in 2011 embraced a new concept in Training & Development termed TC3 (Total Customer Care Culture designed by Dr. Nalaka Godahewa- Chairman Sri Lanka Tourism & Director Lanka Hospitals) in a bid to embrace a culture of quality and care. The TC3 programme was effectively utilised during the period under review to reinforce positive values, to enhance effectiveness in three very important areas; namely people, processes, and resources. As such, a total of 825 employees – including all Management, underwent a total of 6,600 hours of TC3 training.

With this intention of inculcating a culture of passion amongst every employee for the provision of passionate care at every level of the service offer, Lanka Hospitals undertook a comprehensive and intensive HRD programme in 2011. During 2011 Lanka Hospitals focused on further improving the best practices in the area of human resources management, in recognition of the fact that our people remain key to our future successes and are a core component of our business model. A total of 87 training programmes amounting to 23,548 hours of training in medical and non-medical areas, is ample proof of the Hospital's commitment towards elevation of standards and the need for excellence in medical and non-medical care. Similarly, in the area of people management, Lanka Hospitals recognises its responsibility to shareholders and is perceptive of the need to operate efficiently not only as a hospital entity but also as a blue-chip business venture. As such, it remains one of the few hospitals in Sri Lanka to adopt performance management practices with the embedding of performance culture as a core management focus. Through the application of 360° appraisals, Balanced Scorecard techniques and through the use of Key Performance Indicators, Lanka Hospitals has utilised performance management practice as the crux to its operational efficiency and has allowed for the gelling of the organisation's focus on clinical care with the exceptional operational performance.

In the year under review, Lanka Hospitals continued to implement the Balanced Scorecard, a comprehensive performance management system and a strategic management tool to enhance the operational efficiency of the organisation. The system ensures the alignment of all components of the organisation towards pre-determined performance targets and is evaluated against key performance indicators.

Numerous development work in the non-clinical areas lent greater support to the achievement of enhanced service standards. The refurbishment of the Hospital's catering kitchen to meet world-class industrial kitchen standards has enabled Lanka Hospitals not only to deliver better meals to patients but also to do so with greater efficiencies. Moreover, the investment into refurbishment paid immediate results with the Hospital nominated to be awarded 5 out of 5 Crowns for food hygiene. We look forward to receiving this recognition formally in 2012. The 5 Crowns award will further re-affirm our food hygiene, quality and the preparation techniques as on par with internationally recognized standards. Lanka Hospitals in 2011 also embarked on the rigorous exercise of obtaining ISO 22000-2005 certification through the adoption of a food safety management system which we believe is an effort that will deliver returns in the immediate future. Further Lanka Hospitals was successful in achieving Halal-certification for food hygiene during the year and became the only hospital in Sri Lanka to be Halal certified.

Governance & Risk Management

The crux of our corporate philosophy is built on mutual respect, transparency and governance and we believe that these are the

CHIEF EXECUTIVE OFFICER'S REVIEW (CONTD.)

fundamentals in earning respect from stakeholders. As a service oriented organisation we have laid strong focus on service excellence. We recognise that our stakeholders are many, from customers; employees; medical practitioners; suppliers; the community and of course shareholders. Across all of these segments we have endeavoured to have constructive stakeholder dialogue in a bid to achieve mutual respect, be transparent and enhance our governance processes.

As an organisation that has the highest responsibility – that of the care of our patients – we are more than aware of the need for good governance in safeguarding the interests of all our stakeholders. In the arena of risk management, Lanka Hospitals remained committed to the design and implementation of a robust Enterprise Risk Management (ERM) system that has the ability to identify all business and healthcare related risks, giving capability to develop a framework to manage them in an efficient and effective manner. During 2011 the organization carried out a comprehensive enterprise risk management survey through risk audits in conjunction with a team of external risk consultants. At present the organization is in the process of developing an efficient structure to manage all types of risks efficiently with patient safety and business continuity in mind. Committees such as ERM, Patient Safety, Infection Control and Credentials play an important role in our risk management structure.

Sustainability

We believe that sustainability is an integral aspect of our business. By embedding and aligning sustainable practices in to our operational process, we look to sustain not only the commercial viability of the business but also to safeguard the interests of our stakeholders. Sustainability underscores our commitment to offer affordable yet superior healthcare services in a facility seen by many as one of the best health care infrastructures in Asia. The organization's focus on excelling in multiple areas such as service, operations, clinical expertise and quality ensures long term sustainability in terms of competitive advantage, quality health care delivery, satisfactory returns to shareholders, customer satisfaction, and our contribution to society as a whole. The Hospitals environmental friendly medical waste management systems have earned great appreciation by regulators and assessors. Our parent crafting seminars for "parents to be" and elderly care awareness seminars conducted every month as a part of our CSR strategy have been received with great enthusiasm.

Recognition

I am extremely pleased to note that during the period under review, RAM Ratings Lanka assigned long- and short-term corporate credit ratings of A+ and P1 to Lanka Hospitals with the long-term rating having a stable outlook. RAM Ratings in their full rating report for Lanka Hospitals noted, "Ratings are upheld by the Hospital's strong financial

profile, liquidity, ongoing state support and the positive outlook for the private healthcare industry".

Notably, Lanka Hospitals was nominated to receive five out of five crowns for excellence in hygienic practices in storing, preparing and serving under the 'Crowns for Food Hygiene' scheme launched by the Ind-Expo Certification, a joint venture between the Ceylon National Chamber of Industries (CNCI) and the National Chamber of Exporters (NCE). Lanka Hospitals was the very first healthcare service provider to have acquired the Crown certification in 2010 with the award of three crowns. However, in the year under review, Lanka Hospitals was re-assessed and was nominated for 5 Crowns largely due to state of the art catering facilities that have been recognised to be on par or better than the best five star hotels in the hospitality industry. Similarly, in the area of food acceptability, and in respect of our customers of Islamic faith, Lanka Hospitals conformed to the requirements of Halal Certification, and continues to be the only healthcare provider in Sri Lanka to do so.

For the National Quality Award to be held in 2012, Lanka Hospitals has been nominated for a merit award in the large-scale category and was the only healthcare provider to be awarded a merit on completion of the audit.

Lanka Hospitals retained its position amongst Sri Lanka's Top 100 Corporates in the "LMD Most Respected" during the year while Brand Finance recognized Lanka Hospitals to be amongst the Top 50 Most Valuable Brands in Sri Lanka.

Future Outlook

Going forward, Lanka Hospitals will objectively look to enhance its position both in the domestic as well as global healthcare arena by laying emphasis on attracting international patients to Sri Lanka. With a vision to become the "Best in Asia", the Hospital will continue to undergo transformations in terms of facilities, service and operational efficiency whilst garnering strategic partnerships with both local and overseas partners.

In terms of clinical infrastructure, we will expand our services through the commissioning of a series of super-specialty centres. These will enable patients to seek specialist care for a range of ailments that are at present not fully catered for in a concerted manner in the Sri Lankan healthcare industry.

Focus will also be placed on enhancing the Hospital's capacities both in terms of the number of beds as well as core facilities such as operating theatres, in the medium term.

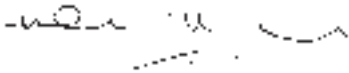
We envision an opportunity to grow Sri Lanka's medical and wellness tourism product by twinning Lanka Hospital's world-class healthcare

offer with Sri Lanka's globally acclaimed tourism potential. In moving forward, Lanka Hospitals plans to put in place a strategic drive towards the enlargement of revenue from medical tourism and is actively engaged in yielding returns from this segment, as a core revenue driver for the medium term.

ICT will play a dominant role in how we define our position in the framework of healthcare operations in Sri Lanka, and assist us to pitch ourselves on par with the global best. Towards this end, Lanka Hospitals will initially introduce its latest version of HIS (Hospital Information System) which is rated as one of the best in the world, capable of giving Lanka Hospitals a competitive advantage. This initiative will deliver value through enhanced operational efficiencies. Essentially, the intention will be to create a value based health care system.

Appreciation

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 entire 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 family that has worked relentlessly to realize our corporate objectives. We remain firmly committed to our shareholders and stakeholders.



Lakith Peiris

Chief Executive Officer

08th May 2012

MEDICAL DIRECTOR'S STATEMENT



“We witnessed a steady growth in patronage of the Hospitals services by patients, whilst the Hospital’s portfolio of “best in class” doctors and consultants has further enlarged significantly in the year under review.”

2011 has been a year of operational consolidation for us at Lanka Hospitals. We have continued to improve on the processes and practices that we instituted over the last two years and I am pleased to note that the Hospital has registered commendably high operational efficiencies as a result. We will continue to invest into further optimising these processes, fine-tuning them where necessary and refining areas that have not been focused on, in the immediate future.

During the financial year, we placed great emphasis on further strengthening our base of medical consultants and professional, in a bid to gear ourselves for greater growth. In addition, we view this as a core strategy in building resources and capacities as we move confidently towards our vision “To be the Best in Asia”. We witnessed a steady growth in patronage of the Hospital’s services by patients, whilst the Hospital’s portfolio of “best in class” doctors and consultants has grown significantly in the year under review.

Likewise, we enhanced our infrastructure and strengthened the Hospital’s medical support to systematically enhance patient care and safety. Towards this end, in 2011, we invested into an array of pre and post surgical care giving services including the commissioning of a Surgical Intensive Care Unit, the establishment of a dedicated surgical ward with specific technology and care giving – through specialist surgical care nursing, as well as investment into state of the art technology and the enlargement of surgical infrastructure such as the addition of operating theatres for general surgery, neurology and orthopedics. We also further refined our emergency services during the year and invested into the enhancement of resources in the area of cardiology. I am confident that Technology upgrades in diagnostics, radiology and imaging will, lead to the greater capability of our medical teams.

As in the past years, one of our primary areas of focus remained progressing our philosophy of “compassionate care, quality and safety”. Towards this end, we continued to institute measures to further strengthen patient care. In light of this, an initiative to restructure the medical and nursing management was undertaken during the year under review. The onus of the programme was to further strengthen ward management through the appointment of nursing personnel who are qualified in both the areas of management and nursing. We also enforced greater coordination in the area of nursing, placing nursing staff based upon the skill requirements for each of the Hospital’s different core medical departments. This re-engineered nursing structure, we are confident, will deliver value to patient care, as specialist resources are centralized to complement specific requirements.

We firmly believe that in the quest for excellence, the need to consistently pursue progress is an imperative. It is in view of this, that at Lanka Hospitals, our coherent and consistent strategy of continuous development plays a pivotal role in how we chart our progress to the future. A planned, ongoing, nursing development programme is conducted at our nursing centre and fulfills the dual needs of nursing management – from training and development of nursing and medical skills to organizational development. In 2011 we guided all our care givers through rigorous training and development in cross functional areas, thereby pushing our Key Performance Indicators (KPI’s) to new levels of achievements across the board, but specifically in the areas of emergency care, ward management and infection prevention. I am confident that at Lanka Hospitals, we have one of the best healthcare teams and in going forward we will strive to better their capacities and expertise to mould an outstanding group of medical professionals. Lanka Hospitals also continued to be the only private sector healthcare provider to employ fully qualified nursing and physiotherapy graduates from the University of Jayawardenapura and University of Peradeniya.

We also attuned our services during the year to better serve the family, thus offering a range of varied healthcare services to suit from infancy to elderly care. As a community initiative, we commenced two regular awareness and education programmes. "Parent Crafting", directed at parents to be, creates greater awareness on newborn and toddler health whilst "60+" focuses on the health issues that arise from advanced age and the required care to maintain good health.

During the year quality improvements through good housekeeping practices supported the Hospital's quest for sustainable and incident free operations whilst also serving as a foundation for quality accreditation and as such, Lanka Hospitals has morphed its product and service offer pushing its standards to new thresholds in the Sri Lankan healthcare industry. The continued application of quality precepts such as 5S and quality circles has consistently supported the achievement of the Hospital's operational objectives. It is indeed commendable that Lanka Hospitals is considered as a successful practical case for further study by not only our counterparts in Sri Lanka, but also in the global healthcare industry. Recognized as a centre of knowledge for quality management, Lanka Hospitals in 2011 attracted 3 international training programmes under the Asia Africa Knowledge Co-creation Programme focused on Total Quality Management (TQM) in healthcare services.

During this financial period, we have proven our capability to consistently progress, developing our service offer whilst performing 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.



Dr. Wimal Karandagoda

Director Medical Services

08th May 2012

BOARD OF DIRECTORS



From Left to Right - Dr. Gamini Wickremasinghe, Dr. Nalaka Godahewa, Mr. Gotabaya Rajapaksha, Mr. A.M. De Alwis



From Left to Right - Dr. T.R.C. Ruberu, Dr. Bandula Wijesiriwardena, Prof. Dayasiri Fernando, Mr. P.A. Lionel
Not in the Picture - Mrs. Roshini Cabraal, Mr. Malvinder Mohan Singh, Mr. Shivinder Mohan Singh, Mr. Sunil Godhwani

BOARD OF DIRECTORS (CONTD.)

Mr. Gotabaya Rajapaksa RWP RSP psc MSc **SECRETARY TO THE MINISTRY OF DEFENCE**

Mr. Gotabaya Rajapaksa is the Secretary to the Ministry of Defence & Urban Development, having assumed office in November 2005. In this capacity he guided the Sri Lankan Armed Forces to victory against the separatist terrorism of the Liberation Tigers of Tamil Eelam (LTTE), thereby ending the conflict that had riven Sri Lanka for three long decades. Since the end of the war, his portfolio of responsibilities has been expanded to include oversight of urban development in Sri Lanka. He has been the Chairman of Lanka Hospitals since August 2009.

The son of former Deputy Speaker of Parliament Hon. D. A. Rajapaksa, Mr. Gotabaya Rajapaksa studied at Ananda College, Colombo, before joining the Sri Lanka Army in 1971. He underwent officer cadet training at the prestigious Military Academy at Diyatalawa, and subsequently completed the Young Officers Course at Rawalpindi and the Mid-Career Course at Quetta, Pakistan. Mr. Rajapaksa completed his Staff Course at the Defence Services Staff College in Wellington, India, in 1983, and obtained his Masters Degree in Defence Studies from the University of Madras in the same year. He underwent advanced training in Counter Insurgency and Jungle Warfare at Assam, India, and graduated in Advanced Infantry Training from the Infantry School at Fort Benning, USA later in his career.

During his time in the Army, Mr. Rajapaksa commanded many anti-terrorist operations in the North and East of Sri Lanka at crucial times during the conflict. Amongst these, his command of the 1st Battalion of the Gajaba Regiment in the vital Vadamarachchi Operation in 1987, and his participation in Operation Thirividhabalaya in 1990 to rescue the Jaffna Peninsular from terrorist control are particularly noteworthy. Mr. Rajapaksa was Coordinating Officer of the Matale District and Commanding Officer of the 1st Battalion, Gajaba Regiment from 1989 to 1990. He then served as the Coordinating Officer of the Welioya area from 1990 to 1991, and was subsequently appointed the Deputy Commandant of Sir John Kotelawala Defence University in 1991.

During his military career, Mr. Gotabaya Rajapaksa received a commendation from the Commander of the Army for his bravery in action. He was also awarded the President's Commendation letter by former President J R Jayewardene and decorated with the Rana Wickrama Padakkama and the Rana Sura Padakkama medals for valour in combat by former Presidents R Premadasa and D B Wijetunga.

Following a successful career of twenty years in the Sri Lanka Army, Mr. Rajapaksa obtained a Masters Degree in Information Technology from the University of Colombo. He subsequently worked as the Unix System Administrator of the prestigious Loyola Law School in the United States of America. He returned to Sri Lanka to take up his appointment as the Secretary to the Ministry of Defence, following the election of his brother, His Excellency Mahinda Rajapaksa, as the President of Sri Lanka.

Dr. Nalaka Godahewa

Dr. Nalaka Godahewa is the Chairman of Sri Lanka Tourism Development Authority. He has been a member of the Board of Lanka Hospitals since August 2009. 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 Jayawardenepura. He is also a Chartered Management Accountant (UK), a Certified Management Accountant (Aus) and a Chartered Marketer (UK). Dr. Godahewa is 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 is the Chairman of Divasa Finance Limited and Colombo Land & Development Company PLC. He also serves on the boards of Urban Development Authority, Sri Lanka Handicrafts Board and Sri Lankan Catering (Pvt) Ltd as an independent director.

Mr. A. M. Mohan De Alwis

Mr. Mohan De Alwis is the Managing Director and Chief Executive Officer of Sri Lanka Insurance Corporation Limited and has wide and diversified managerial experience in leading corporate institutions both in Sri Lanka and overseas including Coopers & Lybrand, Hayleys PLC, Star Garments Limited and Smart Shirts Limited. He was the Vice Chairman of the Free Trade Zone Manufacturers' Association, Katunayake, and also served as a Management Consultant in Sri Lanka. He was appointed to the Board of Lanka Hospitals on 24th May 2010.

Mr. De Alwis holds a Bachelor of Commerce degree from the University of Kelaniya, an MBA from the University of Colombo and is a Certified Management Accountant (Australia). He has well over 31 years of experience in the mercantile sector.

He is the Chairman of Ceylon Asset Management Co. (Pvt) Limited and the Executive Director of Litro Gas Lanka Ltd and Litro Gas Terminal Lanka (Pvt) Limited, and also the Director of Seylan Bank PLC, Management Services Rakshana (Pvt) Limited, Ceybank Asset Management Company Limited, E-Channelling PLC., Sri Lanka Insurance Corporation Private Limited, Sri Lanka Insurance Resorts & Spas (Pvt) Limited, Taprobane Hotels & Spa (Pvt) Ltd, Helanco Hotels & Spa (Pvt) Ltd, Sinolanka Hotels & Spa (Pvt) Ltd, and Canwill Holdings (Pvt) Ltd.

Vidyajothy Professor Dayasiri Fernando

Professor Dayasiri Fernando is the Chairman of the Public Service Commission. He was the former Dean and the founder Professor of Surgery of the Faculty of Medical Sciences, of the University of Sri Jayawardenapura. He was also a Member of the Counsel and Senate of the University. He has acted for the Vice Chancellor on many occasions.

He was appointed to the Board of Lanka Hospitals on 30th October 2009.

He graduated MBBS from the University of Colombo with Honors and was awarded the Gold Medal for Operative Surgery. He qualified as a Surgeon obtaining both FRCS (England) and FRCS (Edinburgh). He further qualified as a Gastroenterology Surgeon being awarded the Smith & Nephew Fellowship from London and pioneered the establishment of Gastroenterology and G.I Endoscopy as a specialty in Sri Lanka.

As an academic he has trained many surgeons and was an examiner at the MD (Surgery) and MBBS examinations of all the universities of Sri Lanka. He was served on many academic bodies both locally and internationally including the Governing Councils of Gastroenterology and GI Endoscopy of the Asia Pacific Region. He was the President of the College of Surgeons of Sri Lanka in 1998 and was the Founder President of the Sri Lanka Society of Gastroenterology. He was a member of the Sri Lanka Medical Council from 2007-2010. He is a member of the Board of Governors of St. Thomas' College.

For his contribution to Medicine, he was awarded Honorary Fellowships by the College of Surgeons of Sri Lanka, College of Physicians and the College of General Practitioners. He has served on many Presidential Commissions, including the Public Service Commission and the Public Service Salaries Commission and was awarded national honours, both "Vidyajyothy" and "Vishwapasadini".

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. He was appointed to the Board of Lanka Hospitals on 24th May 2010. 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 the Ragama and Galle and Colombo National Hospitals. He holds an 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 and 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.

Mrs. Roshini Cabraal

Mrs. Roshini Cabraal is a Fellow of the Institute of Chartered Accountants of Sri Lanka and a Fellow of the Society of Certified Management Accountants of Sri Lanka. She was appointed to the Board of Lanka Hospitals on 24th May 2010. She has over 29 years experience in Financial Management and Financial Consultancy Services. Her professional career started at James Finlay & Co (Colombo) Ltd where she was involved in financial aspects of the Insurance Division and other subsidiaries. She had a six year career at KPMG Ford Rhodes Thornton & Co as a Management Consultant. She was also Head of Finance at International Infrastructure Development Consortium (Pvt) Ltd and International Education Systems (Pvt) Ltd and thereafter Head of the Consultancy Division of Capital Reach Holdings (Pvt) Ltd. She currently works as an independent management consultant.

Dr. Gamini Wickramasinghe

Dr. Gamini Wickramasinghe is the present Chairman of Bank of Ceylon and Chairman of Property Development PLC. He was appointed to the Board of Lanka Hospitals on 1st July 2010. He holds a Masters Degree in System Analysis from the University of Aston, Birmingham, UK and a Doctorate in Business Administration (DBA) from the Manchester Metropolitan University, UK. He is a Fellow of the Chartered Management Institute (FCMI) UK, and a Fellow of the British Computer Society (FBCS). He has over a decade of extensive senior level experience obtained in the United Kingdom and Belgium, and has returned to Sri Lanka in 1983 and founded the Informatics Group of Companies one of the largest software development houses in the country, where he currently functions as Chairman.

Mr. P. A. Lionel

Mr. P.A. Lionel is a career banker and currently serves as Deputy General Manager (International Treasury and Investment) at Bank of Ceylon. He was appointed to the Board of Lanka Hospitals on 1st July 2010. Counting over 27 years experience in banking and financial services, Mr Lionel has specialized in the areas of Treasury, International Operations and Investments and has been involved in managing Liquidity, Assets and Liabilities, fund raising activities, Risk Management in relation to Treasury and Cross Border funding. Additionally, he has a flair for developing and marketing Treasury Products. He held the position of CEO of the Primary Dealer Unit of the Bank and headed the Treasury and Investment Unit. He received broad exposure and extensive training in Treasury Management and Dealing activities in London from 1988 to 1989. He served as Head of Treasury at the BOC Branch in Karachi.

BOARD OF DIRECTORS (CONTD.)

He is a Non-Executive Director on the Board of Property Development (Private) Limited since 2009 and Primary Dealer Association since 2007. He is also a Director of the Governing Board of the Institute of Bankers Sri Lanka (IBSL) and presently the First Vice President of the Sri Lanka Forex Association.

Mr. Lionel obtained his Bachelor of Arts degree from the University of Colombo, Sri Lanka in 1980.

Mr. Malvinder Mohan Singh

Mr. Malvinder Mohan Singh has significant business interests in the Healthcare, Financial Services and Insurance sectors. He is Group Chairman of Fortis Healthcare (India) Limited, a leading healthcare player in India and the Asia Pacific. He was appointed to the Board of Lanka Hospitals on 24th March 2011. He is spearheading the creation of the first integrated pan Asian healthcare delivery model. Previously, he was Chairman, MD and CEO of Ranbaxy Laboratories. He was instrumental in the coming together of Ranbaxy and Daiichi Sankyo, to create the fifteenth largest pharmaceutical company in the world – a move seen as a game-changer by industry experts.

Mr. Singh has interests in the Financial Services and Insurance sectors through Religare Enterprises, India's fastest growing, integrated financial services company with over 10,000 employees and a presence in 12 countries across Asia, Africa, Middle East, Europe and the Americas. He remains committed to building upon these businesses, using a strategic combination of organic growth and strategic acquisitions, to ensure a strong presence in the global arena.

He was member of the Young Global Leaders initiative of the World Economic Forum, in the first batch starting 2005, for a period of six years. He is a member of the Board of Visitors at the Fuqua School of Business (Duke University, USA) and the Board of the Indian Council for Research on International Economic Relations (ICRIER). A graduate in Economics, he earned his MBA from the Fuqua School of Business, Duke University, USA.

Mr. Shivinder Mohan Singh

Mr. Shivinder Mohan Singh is Executive Vice Chairman at Fortis Healthcare Limited, a leading, integrated healthcare delivery provider in the Pan Asia-Pacific region. He is also one of the principal promoters of Religare Enterprises Limited, Super Religare Laboratories Limited, Fortis Clinical Research Limited and serves as a Director on the Board of Religare Technologies Limited. He was appointed to the Board of Lanka Hospitals on 24th March 2011. He was one of the key promoters of Ranbaxy Laboratories and served as Director on the Board of the pharmaceutical major.

An alumnus of Doon School and an Honours Graduate in Mathematics from St. Stephens College, Delhi, Shivinder has done his MBA with

specialization in health sector management from the Duke University Business School, USA. He has been Chairperson of the Health Services Committee of FICCI (Federation of Indian Chambers of Commerce and Industry) and Board Member of NABH (National Accreditation Board for Hospital and Healthcare Providers). Presently, he is Chairperson of FICCI Young Leaders, Board member of IBPN (Indo British Partnership Network) and Chair of the Healthcare Committee of UKTI (UK Trade & Investment). Shivinder is also on the National Board of Advisors for AIESEC, a global, non-political and independent, not-for-profit organization run by students and graduates from institutions of higher education.

Mr. Sunil Godhwani

Mr. Sunil Godhwani is the Chairman and Managing Director, Religare Enterprises Limited (REL). He is a man with a vision to create a global business of excellence, and he is the inspiration to all as he spearheads the company's management and global operations; strategizing and directing it through its next phase of growth. He was appointed to the Board of Lanka Hospitals on 24th March 2011.

Mr. Sunil has given strategic direction to Religare's growth since his joining in 2001. He brings to the company strong leadership skills, vigor and a passion for excellence. He believes in nurturing a culture that is entrepreneurial, result oriented, customer focused and based on teamwork. He has been instrumental in establishing Religare's vast network and shaping the Company's strategies in India and abroad. He is on a constant lookout for taking the Company to new heights by managing various acquisitions, finding new partners for joint ventures and scouting new avenues for the business. Under his able leadership, Religare Enterprises Limited is India's fastest growing, integrated financial services company with a significant presence in 12 countries across Asia, Africa, Middle East, Europe and the Americas. With over 10,000 employees, Religare serves over a million investors ranging from corporate clients to high net worth individuals.

Mr. Sunil has a diverse and wide- ranging experience of over two decades in managing large scale businesses. He also serves as Director on the Boards of Religare Technova Limited, Super Religare Laboratories Limited, Religare Macquarie Wealth Management Limited, AEGON Religare Life Insurance Company Limited, Religare Voyages Limited, Parkway Holdings, Fortis Healthcare Limited and other subsidiaries/ Group companies of Religare. He holds a B.Sc Degree in Chemical Engineering and an M.Sc in Industrial Engineering and Finance from Polytechnic Institute of New York. A powerful orator and a great motivator, Mr. Sunil has been awarded with many awards and accolades. Recently he has been awarded "India Business Leader of the Year" award at the Global Indian Business Meeting hosted by Horasis, in Madrid, Spain and "CEO of the Year" award, at CEO CLUBS INTERNATIONAL Awards.

Dr. Bandula Wijesiriwardena

Dr. Bandula Wijesiriwardena is a consultant physician in internal medicine. He holds MBBS (Colombo), MD (Colombo), and MRCP (UK) degrees. After a distinguished career in the government service of over 33 years of which 24 years as a consultant, he left the ministry of health to work full time in the private sector. Now he works as a consultant physician in internal medicine at Lanka Hospitals and Durdans Hospital; two of the leading hospitals in the country. Having worked in many parts of the country, he is widely experienced. He has taught many undergraduates from the faculties of medicine, Ragama, Sri Jayawardenapura and Colombo and trained postgraduates from the Postgraduate Institute of medicine (PGIM), Colombo. He held many positions at the PGIM; chief examiner selection examination for MD (Medicine), chief examiner for MD (medicine), chairman, MCQ core group, member, AAAED (academic affairs, accreditation, examinations and discipline) committee. He was the president of the Ceylon College of Physicians in 2005. Dr Wijesiriwardena pioneered the introduction of Clinical Practice Guidelines through the Ceylon College Of Physicians, the use of which became island wide with the subsequent involvement of ministry of health. He was able to continue an active academic career while working as a busy physician both in the state and private sectors. He has many publications to his credit in both national and international peer reviewed journals. Dr Wijesiriwardena received a Presidential award for his clinical research in 2000. In recognition of his contribution to the field of medicine, Dr Wijesiriwardena was awarded Honorary Fellowships by The Ceylon College of Physicians, Royal Australasian College of Physicians and Colleges of Medicine of South Africa. He is also a Fellow of the American College of Physicians. Dr Wijesiriwardena was appointed to the Board of Lanka Hospitals on 27th February 2012.

Mr. Vishal Bali

(Alternate Director to Mr. Malvinder Mohan Singh)

Mr. Vishal Bali is the CEO for Singapore based Fortis Healthcare International which is the global foray of Fortis Healthcare having healthcare delivery assets across 6 countries in Asia and Australia. Prior to his current assignment Vishal was the CEO for Fortis Hospitals, India and earlier to that CEO for Wockhardt Hospitals, India where he spent 19 years and established a pan India network of super speciality hospitals. He was appointed to the Board of Lanka Hospitals as an Alternate Director on 24th March 2011.

His expertise in management analysis and successfully integrating healthcare strategy, operations and management through Information technology has set industry benchmarks. Vishal completed his Bachelors in Science and Masters in Business Administration from Bombay University and completed an advanced programme in hospital management from Boston. He sits on the board of Dentalcorp, Australia and is an invited member of the Strategic Initiatives group of Joint Commission International, US and on the Global Agenda Healthcare Council of the World Economic Forum. His keen interest

in education and globalisation of healthcare takes him to leading Healthcare Education Institutes and Business Schools in India and abroad. Vishal is the recipient of the Indian Healthcare Leader of the year by express healthcare for his role in shaping the growth of the healthcare sector in India. He is an active member of various Industry bodies and is a globally recognised industry public speaker.

Mr. Balinder Singh Dhillon

(Alternate Director to Mr. Shivinder Mohan Singh)

Mr. Balinder Singh Dhillon is an Executive Director with the Fortis Healthcare Group. He serves on various boards including, as a Non-Executive Director of Fortis Healthcare (India) Limited, a company listed on the Bombay Stock Exchange and the National Stock Exchange of India. Having worked as counsel in practice and with corporate houses such as Hindustan Unilever Limited and INTRIA Items Inc., (a wholly owned subsidiary of CIBC Bank, Canada), he has more than 20 years of experience in corporate law, governance, risk management, and strategic planning and implementation. He was appointed to the Board of Lanka Hospitals as an Alternate Director on 24th March 2011.

Mr. Balinder has in the past been associated with corporate boards including those of Ranbaxy Laboratories Ltd, an India listed multi-billion dollar multinational pharmaceutical company and Parkway Holdings Ltd, a Singapore listed healthcare services company.

Mr. Balinder graduated from the Punjab University and is a member of the Institute of Company Secretaries of India and the Bar Council of India. He holds a Master of Laws degree from McGill University, Canada. As a member of the Law Society of Upper Canada, he completed his accreditation under a Certificate of Qualification equivalent to a Graduate of Law through the Law Faculty, University of Toronto, Canada.

Dr. Amit Varma

(Alternate Director to Mr. Sunil Godhwani)

Dr. Amit Varma currently operates as President Health Care, Religare Enterprises and Director, Critical Care Medicine, Fortis Escorts group of Hospitals, India. He was appointed to the Board of Lanka Hospitals as an Alternate Director on 24th March 2011. Having completed his MBBS and MD from University of Delhi, Dr. Varma further completed his residency from the State University of New York and went on to pursue fellowships in critical care at the University of Pittsburgh Medical Center, and sub specialized in cardiac critical care at the Cleveland Clinic. Alongside this, he also attended courses for an Executive MBA at the University of Chicago.

Dr. Varma joined Fortis Healthcare and continues to perform multiple administrative and clinical roles. He currently runs the integrated critical care services for Fortis Healthcare ICU network, which today

BOARD OF DIRECTORS (CONTD.)

comprises of a strong three-Hundred beds and helps in formulation of Medical Strategy.

At Religare from 2009, Dr. Varma is actively engaged in all healthcare initiatives of the company, playing an advisory and steering role, overlooking and further initiating all healthcare related businesses, providing medical expertise, insight and credibility in all healthcare related verticals such as Health Insurance venture, Healthcare IT, Super Religare Labs and Religare Wellness. He also sits on the Board and Investment committee of the 125\$ million Milestone Religare Private Equity fund.

Dr. Ajith Amarasinghe

Dr. Ajith Amarasinghe who is a Consultant Paediatrician graduated from Faculty of Medicine University of Colombo and did post graduate training in Paediatrics and Community Paediatrics in Sri Lanka and United Kingdom. He was appointed to the Board of Lanka Hospitals in August 2009 and served as a member in the Board up to 21st March 2011. He obtained a Diploma in Child Health and MD in Paediatrics from Post Graduate Institute of Medicine University of Colombo. He obtained MRCP and MRCPCH from UK. He served as Consultant Paediatrician and Medical Superintendent, Base Hospital Hambantota before joining then Apollo Hospitals at its inception. He was on the editorial board of the Sri Lanka Journal of Paediatrics and is a member of ethics committee of Sri Lanka Medical Association. He also obtained MBA in Health Care from Manipal University and completed a post graduate training program in Asthma and Allergy at Christian Medical College Vellore and holds a Diploma in Asthma Allergy. Recently he established a fully fledged allergy clinic in Lanka Hospitals which is the first of its kind in Sri Lanka.

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 appointed to the Board of Lanka Hospitals in August 2009 and served as Board member up to 7th March 2011. 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.

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. He was appointed to the Board of Lanka Hospitals in August 2009 and served as a member of the Board up to 7th March 2011. 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) of Sri Lanka Cricket.

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 the Commander of Sri Lanka Army. He was appointed to the Board of Lanka Hospitals in August 2009 and served as a member in the Board up to 7th March 2011. 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.

STRATEGIC COMMITTEE



From Left to Right - Mr. Lakith Peiris (Chief Executive Officer), Mr. A.C. Jayakody (Deputy General Manager-Marketing), Mr. Sampath Hettiarachchi (Chief Financial Officer) Mr. P. V. Sapumal Nishantha Jayatissa (Assistant General Manager-ICT), Dr. K.T. Iraivan (Assistant General Manager-Operations), Dr. W. Karandagoda (Director Medical Services),

MANAGEMENT TEAM



Left to right

1. Mr. Lakith Peiris (Chief Executive Officer)
2. Dr. Akilesh Singh Karan (Consultant – Haematologist, Head of Laboratory Services)
3. Mr. N. K. Dharmasiri Silva (Manager - Catering)
4. Dr. Harsha Goonathilaka (Assistant Manager – Diagnosis)
5. Dr. Niroshini Ganegoda (HOD – Kidney care centre, Coordinator Renal Transplant)
6. Ms. Sujeewa P. Subasinghe (Assistant Manager – Facilities)
7. Ms. S. A. Clarice Wahid (Confidential Secretary to CEO)
8. Dr. K. T. Iraivan (Assistant General Manager – Operations)
9. Mr. Dunstan B. de. S. Ginige (Senior Manager – Facilities)
10. Mr. M. R. M. Nizwer (Manager – Internal Audit)
11. Mr. W. A. D. M. Ranjana Gunathilaka (Manager – Quality Assurance)
12. Commander H. U. Silva (Manager – Project)
13. Mr. A. C. Jayakody (Deputy General Manager – Marketing)
14. Mr. Sampath Hettiarachchi (Chief Financial Officer)
15. Mr. Michael Carlyle Ranathunga (Senior Executive – Facilities)
16. Mr. P. V. Sapumal Nishantha Jayatissa (Assistant General Manager – ICT)
17. Mr. P. V. Ariyathilaka (Manager – Engineering & Maintenance)
18. Mr. Sarath A Vidanagamage (Assistant Manager – Administration)
19. Wing Commander B. M. R. K. Chandrasekara (Manager – Security, Communication & Transport)
20. Ms. G. Numica de Silva (Assistant Manager – Human Resources)
21. Ms. Nuwanthi Gunawardana (Manager – Legal)
22. Ms. W. A. S. M. S. Menike Rajapaksha (Chief Matron)
23. Dr. W. Karandagoda (Director Medical Services)
24. Ms. Renuka Nilanthi Herath (Manager – Credit)
25. Mr. M. G. M. Irfan (Biomedical Engineer)
26. Dr. W. M. S. Rathnapriya (Medical Superintendent)
27. Dr. Lasantha Karunasekara (HOD – Surgical ICU)
28. Dr. Rasika Adasuriya (In charge – Infection Control)
29. Mr. Amitha H Kodithuwakku (Manager – Operations)

MANAGEMENT DISCUSSION & ANALYSIS

DEPENDABLE HEALTHCARE PROVISION



Confident outlook
Dependable performance
Strong results

Sri Lanka's economy bucks the global trend

The pervasive effects of the persisting and worsening global economic downturn had limited impact on Sri Lanka's economic performance in 2011. Though hardly insulated from the global trends and pressures, Sri Lanka commendably mitigated the impact through sound monetary and fiscal policy adjustments and was largely shielded by the dominance of India and China, as they led the region on a positive growth trajectory.

The Sri Lankan economy witnessed accelerated growth in 2011 with a GDP expansion of 8.3 percent, the second consecutive year of over 8 percent growth. With strong macroeconomic fundamentals, appropriate and timely monetary policies in place, and investments made in the pre-conflict years of 2008/2009

- The gift of life**
Our team of experts performed their 300th renal transplant, a specialization that has given the gift of life to our patients.
- Bouncing babies**
This year, our fertility centre proudly marked the 275th milestone in our journey to deliver the joy of a child to families, via assisted reproductive technologies.
- Breaking boundaries**
Lanka Hospitals became the very first private sector health care facility in the country to perform a liver transplant, a demanding procedure that requires extraordinary technical skill and expertise.

With a love that is always reliable your father is the rock in which you take refuge; likewise Lanka Hospitals considers the best medical care and a dependable environment to be the ideal cure and this is why we are your most trusted choice for healthcare.

Confident
Dependable
Strong

yielding returns, Sri Lanka continued to demonstrate a positive economic trend with the likelihood of maintaining the momentum in the medium term.

International confidence in the nation was on the rise as Foreign Direct Investment into Sri Lanka in 2011 exceeded USD 1 billion for the first time and the nation's fourth international sovereign bond, issued in July 2011, was oversubscribed by 7.5 times. GDP per capita is estimated to have reached USD 2,830 during the year and is forecasted to rise to USD 4,000 by 2016, a trend that places Sri Lanka well on its projected path for poverty alleviation.

Growing disposable incomes as per capita income increases will hold good for the private healthcare industry. The migration of customers to private healthcare as incomes increase and services of the private sector become affordable to middle income earners, the burden on public healthcare will decrease. This will allow the public sector to invest in infrastructure development and technology enhancements, thereby further strengthening the nation's healthcare resources.

Healthcare remains a national priority, shifts in demand

With Sri Lanka's shift to a middle income economy, evidence suggests a growing shift in the nation's healthcare needs. Sri Lanka grapples with emerging health challenges, like changing lifestyles with income growth, the rise of non-communicable diseases and an ageing population.

The Health Master Plan (2007-2016) for Sri Lanka estimates the total health expenditure as a percentage of GDP by 2015 to be 4.5 – 5% as a moderate projection with the likelihood of it rising to as much as 6.7%. This is based on various assumptions and

projections. However, it appears that the emerging burden of non communicable diseases and the ageing population have not been adequately factored in this determination. As a result, going forward, it seems imperative that healthcare will remain a key priority for Sri Lanka as well as an area demanding higher investment and expenditure.

Sri Lanka has had an impressive record of health care provision over the past several decades with model accomplishments in health outcomes compared to similar developing countries. Successes of the Government's numerous initiatives to strengthen and support the healthcare system have borne impressive health outcomes for the nation including good maternal and child health, efficient management of communicable diseases and the achievement of long life-expectancy. Nevertheless, economic empowerment and changes in social-demography have served to shift the focus of present day healthcare needs with the healthcare industry (both public sector and private sector) gearing towards impending the rapid escalation of these new healthcare challenges.

Improving economic status and urbanization have cumulatively generated changes in the portfolio of healthcare solutions demanded from the healthcare industry. Changing lifestyles, the preference towards consuming more fast food and unhealthy diets, the tendency for consumption of more alcohol and tobacco, living in polluted environments, and trauma due to occupational exposure, are drivers of enhanced health risks. Consequently, the industry will need to inject greater financial resources to meet this rising demand for healthcare solutions to combat non-communicable diseases.

- **Crowning achievement**

Our kitchens and catering facilities were nominated for 5 Crowns under the Crowns for Food Hygiene Scheme, the highest recognition granted to establishments maintaining international best practices in food quality and hygiene excellence.

- **Quality recognised**

Lanka Hospitals was the only hospital nominated for a merit award in the large scale category at the 2011 National Quality Awards.

- **Meals that are delicious, nutritious and safe**

Lanka Hospitals is the only hospital in Sri Lanka nominated for ISO 22000-2005 accreditation for food safety management systems.

- **Rock Solid**

The company became the only hospital in Sri Lanka to be rated A+ by RAM Ratings, a reflection of its strong financial profile and high liquidity.

Sri Lanka is also experiencing a demographic transition, reflected in the increased population of those aged 60-plus. Population forecasts predict a doubling of the country's ageing population by 2040 (24.4%) compared to 2010 (12.1%) as life expectancy increases (due to improved island-wide preventive and curative health services) and fertility rates decline rapidly. Accordingly, the heightened fiscal cost for long-term care of this ageing population is an emerging challenge for the nation as well as for the healthcare industry.

National health research indicates that non-communicable diseases such as cardiovascular disease, diabetes, cancer, asthma/chronic obstructive disease, and mental illness are on the rise. Research has also indicated that currently over 90% of the nation's 'disease burden' is placed on the control and treatment of non-communicable diseases whilst only 10% is placed on curative treatment for infectious disease and preventive treatment for maternal and child healthcare. Diabetes and asthma are also on the rise: 10% and 15%-20% respectively, per 10,000 people.

The challenge for Sri Lanka's healthcare industry in the medium term therefore, will be to determine sustainable solutions to the emerging gaps/disparities in health outcomes with regard to non-

communicable diseases and elderly care. The industry therefore requires sufficient investment in healthcare focused specifically to meet these emerging healthcare burdens and to avoid resultant socio-economic consequences such as a contraction in the productive workforce of the nation, and the rising fiscal costs for long-term care in the case of the ageing population.

In 2011, much like in previous years, the private healthcare industry remained extremely competitive. As a market structure, the industry displayed oligopolistic characteristics, and the size and structure of the industry remained the same as in 2010. Whilst in the past two years, a concerted approach to enhance capacity by industry participants was evident, in 2011 the industry trend however was to enhance the technology – both from perspectives of diagnostics for preventive and curative purposes as well as to enhance business efficiency. These strategies remain the base for each institution's focus for market skimming, niche positioning and pricing.

High growth potential for private sector healthcare remains in the untapped opportunities in the Northern and Eastern provinces. Similarly, as a consequence of sustained peace, Sri Lanka has rebounded as a tourism destination. In the context of healthcare,

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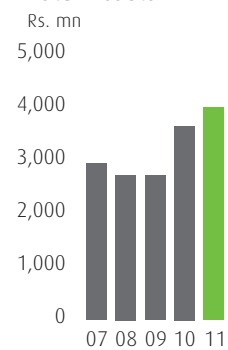
DEPENDABLE HEALTHCARE PROVISION



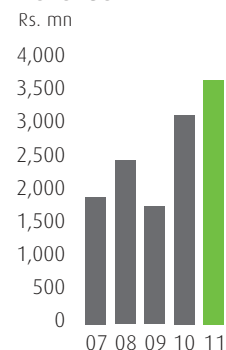
Confident
Dependable
Strong

MANAGEMENT DISCUSSION & ANALYSIS

Total Assets



Revenue



a great opportunity lies in terms of the potential for Sri Lanka's healthcare industry to garner greater returns from medical and wellness tourism. The growing trend towards accreditation as an avenue for third party endorsement of private healthcare institutions is expected to assist and uplift the overall image of the sector in the global marketplace, thus facilitating the strategy for market expansion through medical tourism.

Sri Lanka's private healthcare industry, however, must remain cognizant of the growing strength and capability of the national healthcare system. The role and development of public healthcare must not be overlooked in reviewing the industry's prospects for the future. Whilst presently the private sector healthcare entities are privy to negligible competition from the state sector, the fact

remains that developments and initiatives towards capacity and infrastructure enhancements in national healthcare can jeopardize the overwhelming franchise of the private sector operators.

Delivering Dependable Healthcare – the strategies

Lanka Hospitals in 2011 persisted towards delivering excellence and dependable healthcare. The strategic focus during the year was essentially to consolidate its position in the market whilst perceptively identifying and optimising on opportunities for future growth. As such Lanka Hospitals during the year under review placed emphasis on the following as key strategic intentions for the year:

2011 was a year of significant profitability and progress for Lanka Hospitals. We successfully reached Rs. 438 Mn in profits in line with our strategy to build a stronger value added model and serve our patients as well as our shareholders better..."



1. Evolution of the product and service mix to meet the changing needs of healthcare

With a focus on delivering dependable healthcare solutions, Lanka Hospitals in 2011 pioneered a number of services to direct attention, educate and manage the issues arising from non communicable diseases. In realisation of the fact that Sri Lanka lacks a structured approach/programme to manage non communicable disease -unlike its very successful programme to stem communicable disease – Lanka Hospitals developed a range of healthcare packages that were directed aggressively to the corporate sector to motivate both the private and public sector institutions to conduct pre and post employment checks on potential and existing employees. The focus of the programme was essentially to offer preventive as well as palliative care.

As a responsible healthcare provider, Lanka Hospitals initiated a series of comprehensive awareness programmes to educate people on the benefits of healthy living. The target market for this programme was essentially opinion leaders who themselves have the power to persuade and create change in others, precipitating an improvement in the quality of life. As such health talks were conducted at schools and in selected organization in the corporate sector. Students were identified as primary influences to decision-making for family health care.

Additionally, Lanka Hospitals launched two very specific medical programmes under its corporate social responsibility strategy (further information with regard to this is available in the CSR section on page 36). Firstly, the Hospital introduced a programme to enhance the quality of life of Sri Lanka's senior citizens through the introduction of "60+". Secondly, the Hospital introduced "Parent Crafting" with the objective of adding value to the development of newborns by infusing greater knowledge on parenting to new mothers and fathers to be. The Hospital formulated these strategies over and above its commercial expectations, with the intention to do good beyond the profit function.

Lanka Hospitals was also the first private hospital to introduce the latest technology during the year for bone density scanning in Sri Lanka focusing on geriatric care. This is an indication of the Hospital's focus on providing dependable care for the elderly. DEXA scanning is currently the most widely used method across the globe to measure bone mineral density. DEXA scanning more precisely documents small changes in bone mass and is also more flexible since it can be used to examine both the spine and the extremities. A scan of the spine, hip or the total body requires only one, two or four minutes respectively and is far less expensive than other alternatives. It also exposes the patient to less radiation and is more sensitive and accurate at measuring subtle changes in bone density over time or in response to drug therapy.

MANAGEMENT DISCUSSION & ANALYSIS

Additionally, the hospital in 2011 introduced a special healthcheck package for senior citizens offered at concessionary prices.

Through the adoption of a concerted strategy to target non-communicable disease and to manage the growing healthcare needs of an ageing population, Lanka Hospitals aims to be an industry leader, particularly in the private sector, to assist the nation to better cope with the changing socio-demographics and consequent changes in healthcare needs.

In evolving the product mix, Lanka Hospitals during the year recognised the growing need for affordable neurological care and as such invested towards the provision of superior yet affordable neurological care to patients from all walks of life. Efforts towards enhancing the offer of neurological care have been well appreciated by both the medical fraternity as well as patients from across the country.

2. Increased accessibility to world-class healthcare, affordability reviewed

High accessibility to private sector healthcare has been the norm amongst patients who are of sound socio-economic circumstances and is a pervasive trend in most healthcare systems around the world. However in Sri Lanka, the associated increase in the costs for health by the patient, is inherently regressive, and has created a scenario of inequity and social exclusion in availing quality health care services despite the availability of a robust public sector healthcare system, due to over demand.

In 2011, Lanka Hospitals furthered its proposition of value and enhanced accessibility to a broader target audience with a strategic view to create a scenario of affordable healthcare. As such during the year under review, Lanka hospitals focused on a value based pricing strategy whereby the hospital pitched its price levels by offering the best value despite its service offering being superior to that of the competition. Benchmarked against the best in the region, Lanka Hospitals continues to place a superior product on offer without losing its vision to cater to a greater cross-section of society through accessible healthcare.

Towards this end, the Hospital in 2011 offered over 50 surgical packages with predetermined cost structures. This strategy has demonstrated high returns during the year and has served as the key catalyst in attracting a broader spectrum of patients to Lanka Hospitals. There has been an evident migration of middle income earners who have sought

the Hospital's services with the assurance of affordable yet quality healthcare, especially for surgical purposes. Going forward, this strategy of value and affordability will be key in enhancing the profitability and the income yield through optimisation of capacities. Lanka Hospitals will continue to be an affordable and cost effective hospital in a bid to become the national healthcare provider in the private sector.

3. Centralizing resources to focus on and drive high yield products and services

One of the key challenges for the private sector healthcare industry is degradation of margins due to price sensitivity. Given that Sri Lanka's private healthcare industry is highly concentrated and exhibits 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. As a result 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, in the past, due to the nature of the industry.

Differentiation through service offer has been one key strategy for price skimming which is widely adopted by the four largest players. However, industry players are still unable to keep ahead due to inflation, investment costs of technology upgrades and the rising costs of professional fees for the consultant community. Hospitals fail in most circumstances to yield a ROI on technological investments before the technology itself become obsolete.

Lanka Hospitals' strategic focus in 2011 was therefore to analyse the product mix and derive core areas of revenue generation that deliver high value per patient. As an outcome of this analysis, the Hospital made a strategic decision to further strengthen its surgical department given its ability to deliver a higher revenue yield per patient. The main strategic objective for the year therefore was to enhance pre and post-operative care. As such, during the financial year, the following investments were made towards infrastructure development and resource enhancements in the area of surgical care:

- The commissioning of a dedicated surgical ward to enhance capacity for surgical care.
- The commissioning of a dedicated Surgical Intensive Care Unit (SICU)

- Introduction of new technology from small, high precision instruments to major diagnostic and surgical technology.
- Surgical personnel trained and transformed and are viewed by many as the best surgical care team in the country.
- A dedicated surgical OPD commissioned during the year with centralized professional resources to better facilitate surgical consultations.
- Enlargement of the surgical procedures in focused sub-specialisations.
- Introduction of over 50 pre-designed surgical packages allowed Lanka Hospitals to penetrate to targets in suburban and rural Lanka with an offer of world-class healthcare that is affordable.

The focus on this area of key competence in 2011 has served to place Lanka Hospitals as a referral centre for surgical care by many doctors and smaller hospitals outside of Colombo. Sub-specialisation has been a key success factor for the Hospital in terms of revenue growth and reputation management.

4. Development of centres of excellence for specialist care

During the financial year, Lanka Hospitals continued the development of key strategic pillars identified in the preceding year as specialist centres of excellence. This strategy aims to develop certain core areas of specialisation with a view to establish Lanka Hospitals as the best in Fertility, Cardiac Care, Renal Care, Emergency Services, Diagnostic Services and Mother & Baby Care. Achievement of milestones in all of these specialist centres has demonstratively positioned Lanka Hospitals amongst the best in region in terms of the care given, the technology, and the capabilities of the specialist medical teams. The Centres continued to be allocated fresh resources and invested into in terms of medical technology during the year, thus enhancing their capabilities in providing superior medical solutions. The success of the Hospital's centres of excellence is most significantly demonstrated through clinical success rates. The Hospital's Fertility Centre continues to benchmark its performance against global standards and recorded the highest number of pregnancies and child births in Sri Lanka. The Renal Care centre undertakes the highest number of dialysis procedures in Sri Lanka. In

2011, the Renal Centre recorded its 300th kidney transplant and truly remains a centre of excellence for the Region.

5. Focused strategies for enhancement of service excellence

Improvement of service quality remained a key strategic focus in 2011, given the Hospital's vision to be amongst the best healthcare providers in the Region. As such, the Hospital continued to develop on strategic initiatives undertaken in 2010 towards the achievement of operational excellence. During the year, key processes were analysed, reviewed and revised in a bid to enhance the process management in areas such as admission and discharge. Processes were duly reviewed against KPIs of international healthcare operators of repute and benchmarked against these to ensure operational excellence in key customer interaction points. In addition, focus on quality standards, enhancements to doctor mix plus specialty mix and dedication to the provision of quality care dominated.

6. Pursued a concerted strategy towards international marketing

In 2011 Lanka Hospitals enhanced its drive for an international marketing strategy. The Hospital renewed its efforts towards positioning Lanka Hospitals as a credible and viable medical tourism service provider. During the year, the Hospital successfully signed Memorandums of Understanding with key global medical tour agencies and in the upcoming financial year, Lanka Hospitals forecasts a growth in revenue from international customers. This strategy will serve as a key in enabling Lanka Hospitals to enhance its profitability given the higher contribution to revenue from international markets. The Hospital's existing presence in the Republic of Maldives has precipitated greater demand from the atoll nation.

MANAGEMENT DISCUSSION & ANALYSIS


PASSIONATE CARE



Loving attention
Caring service
Concerned response

- Patients are provided with world-class treatment through its experienced medical and nursing staff.
- 'Total customer care culture' across the organisation.
- Cleanliness, food and beverage, in-patient room facilities, the serene surroundings, pharmacy and customer care are considered by many to be the best amongst private hospitals in Sri Lanka.
- The Hospital's offer of quality patient care has visibly garnered trust not only amongst our customers but also amongst the most reputed medical professionals in Sri Lanka.

The Hospital's philosophy of "compassionate care, quality and safety" is the fulcrum of its operations. The focus of the financial year 2011, from an operational perspective, was in essence to strengthen and reinforce the lessons learned and processes instituted during the previous two financial years. The continued implementation of operational strategies initiated in 2010 realized greater operational accomplishments and efficiencies in the year under review. Thus, in 2011 Lanka Hospitals continued to develop upon best practices, thereby enhancing capacities and efficiencies, whilst pursuing the creation and development of a pervasive culture of quality. This was further enhanced by allowing for the establishment of effective linkages between clinical and non-clinical areas. The Hospital instituted a range of operational strategies aimed at furthering Lanka Hospital's drive for passionate care during the year under review.



A mother never fails to love and care; likewise Lanka Hospitals provides you with the most caring and dedicated medical care, curing you with a love that is warm and passionate.

Loving
Caring
Concerned

1. Zero Incident operations

Lanka Hospitals stands 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 organization. Assured by accreditation standards, patients are provided world-class treatment through its experienced medical and nursing staff, standards of hygiene and post-treatment recovery – all of which are exceptional.

During the year quality improvements through good housekeeping practices supported the Hospital's quest to enhance its efficiency and effectiveness in both the medical and non-medical areas. In the year under review, the commitment to maintain standards and raise the bar in medical care extended across the Lanka Hospitals team; from all patient care professionals and the senior management, transcending down to each and every employee in the organization through the launch of its TC3 training in a bid to establish a 'total customer care culture' across the organization. Continuous education of staff on the concepts of quality, adoption of work improvement teams/ quality circles and the Japanese 5S house keeping practices, Kaizen as well as protocols and procedures have become a part of the quality culture at Lanka Hospitals where productivity and quality improvements are sought with passion. The continued application of such quality precepts consistently supported the achievement of the Hospitals operational objectives in 2011.

2. A drive for service excellence

Through the implementation of systems to better accommodate customer grievances and suggestions through greater customer interaction processes, the Hospital has been better equipped to formulate more responsive care for patients. Similarly, through technology enhancements and upgrades to the cardiac centre, surgical department, renal care and emergency, the Hospital has resolutely established its leadership in medical care and

positioned itself as a local and international centre of excellence. The Hospital's offer of quality patient care has visibly garnered trust not only amongst our customers but also amongst the most reputed medical professionals in Sri Lanka. As a result, we have witnessed a steady growth in patronage of the Hospital's services by patients, whilst the Hospital's portfolio of "best in class" doctors and consultants has enlarged significantly in the year under review.

3. Care that transcends every aspect of the service continuum

Lanka Hospitals continues to maintain passionate care in delivering a service that is uncompromising on quality standards; cleanliness, food and beverage, in-patient room facilities, the serene surroundings, parking, pharmacy and customer care are considered to be the best amongst private hospitals in Sri Lanka by many. Lanka Hospitals is also the first and only hospital in Sri Lanka to be Halal certified. In 2011, Lanka Hospitals followed the process compliance for ISO 22000-2005 through the adoption of Hazard Analysis Critical Control Point or HACCP; a systematic preventive approach to food safety. Full accreditation for ISO 22000 is expected in the upcoming financial year. The Hospital was also nominated for 5 out of 5 Crowns for food hygiene in 2011, whilst having demonstrated its leadership in the area by being the first hospital to achieve the Crowns for food hygiene in 2010.

4. Patient facilitation

A dedicated customer care team is designated to the task of enhancing customer service and facilitation across the entire spectrum of the hospital's service offer. Additionally, 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.

The Hospital also recognises the need to facilitate patients through the offer of support services for financial assistance. Towards this end, Lanka Hospitals continued to partner with the National Insurance Trust Fund to serve as the preferred hospital for Agraphara medical insurance policy holders. Customers who are Agraphara policyholders are better facilitated through a dedicated counter at the Hospital's enquiries area, as are customers who are beneficiaries of the Presidential Fund.

5. Performance management for operational efficiency

Lanka Hospitals in 2011 continued to implement Balanced Scorecard, a comprehensive performance management system and a strategic management tool to enhance the operational efficiency of the organisation. The system ensures the alignment of all components of the organisation towards pre-determined performance targets and is evaluated against key performance indicators.

With the intention of inculcating a culture of passion amongst all employees for the provision of passionate care at every level of the service offer, Lanka Hospitals undertook a comprehensive and intensive HRD programme in 2011. The financial year was one in which Lanka Hospitals focused on implementing best practices in the area of Human Resources, in recognition of the fact that Human Resources remain key to the future successes of the Hospital. With 87 training programmes amounting to 23,548 hours of training in medical and non medical areas, the magnitude of the programme was an indication of the Hospital's commitment towards elevation of standards and the need for excellence in medical and non-medical care. Similarly, in the area of people management, Lanka Hospitals recognises its responsibility to shareholders and is perceptive of the need to operate efficiently not only as a hospital entity but also as a blue-chip business venture. As such, it remains one of the few hospitals in Sri Lanka to adopt performance management practices with the embedding of performance culture as a core management focus. Through the application of 360° appraisals, Balanced Scorecard techniques and through the use of Key Performance Indicators, Lanka Hospitals has utilised performance management practice as the crux to its operational efficiency and has allowed for the gelling of the

organisation's focus on clinical care with exceptional operational performance.

6. Care that impacts the triple bottom line

Operational efficiency enhancements continued to be a critical component of the operational strategy especially with respect to achieving efficiencies in energy consumption. In 2011, Lanka Hospitals continued to effectively constrain the operational costs through the deployment of a variety of efficiency processes and has effectively achieved cost efficient in operations. In the area of energy efficiency and water consumption, Lanka Hospitals has perceptively shaved its impact on the triple bottom line.

7. School of nursing as the foundation for passionate care

Lanka Hospitals School of Nursing continued to offer quality educational programmes in 2011 and continued to be regarded by many of the regulators as the best private nursing school in the country. During the year a total of 35 students passed out as fully-fledged nurses upon completion of the three year nursing course.

The School of Nursing follows the curriculum set by the Ministry of Health covering both theory and practical training whilst the

MANAGEMENT DISCUSSION & ANALYSIS

PASSIONATE CARE



Confident
Dependable
Strong

MANAGEMENT DISCUSSION & ANALYSIS

ethos of compassionate care is ingrained in every participant. 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.

Key Strategic pillars in delivering passionate care

Centre of Excellence: Fertility Centre

The Hospital's Fertility Centre was established in 2008 and has since become the market leader in the provision of fertility care in Sri Lanka. In 2011, the Centre witnessed the birth of its 275th IVF baby and over 520 pregnancies since inception. The Centre maintains the international standard rating of 42% success rate

with regard to In-Vitro Fertilisation (IVF) and Intra Cytoplasmic Sperm Injection (ICSI) treatments, and is the only centre in the country to perform IVF procedures every day of the year. Lanka Hospital's fertility centre today is the most technologically advanced IVF centre in the country.

The Centre has many milestones to its credit. It has performed successful IVFs on patients with tubal blocks, and at the onset of menopause upper age limitations of 50 years and males with low counts of testicular sperms. Sri Lanka's first frozen vitrification embryo IVF baby was born at Lanka Hospital's Fertility Centre. The Centre offers the latest equipment for fertility care and hosts technology that is on par with international standards.

Fertility Centre Service Portfolio

- Sub-fertility Counselling
- Follicular Monitoring Scan
- Semen Analysis (SFA)
- Intrauterine Insemination (IUI)
- In Vitro Fertilisation (IVF)
- Intra Cytoplasmic Sperm Injection (ICSI)
- Testicular Sperm Aspiration (TESA)
- Embryo Freezing
- Semen Freezing

Centre of Excellence: Kidney Care Centre

Lanka Hospitals Kidney Care Centre offers comprehensive

and specialised care for kidney diseases, with dialysis and kidney transplants performed by the best and most respected nephrologists in the country. The Centre has earned a reputation as a centre of excellence in Sri Lanka that not only focuses on maintenance of kidney function but also as a centre that seeks complete cure for patients. It remains the only private hospital in the country to successfully perform transplants on both adults and children.

In 2011, the Kidney Care Centre successfully performed its 300th kidney transplant and remained the only private healthcare facility to undertake the highest number of transplants within the legal parameters during the year. The Kidney Care Centre performs the highest number of renal transplants in the realms of private healthcare and is the only private hospital that continues to

perform successful cadaver transplants. The Centre has the largest private dialysis centre comprising of state-of-the-art dialysis machines.

Kidney Care Centre Service Portfolio

- Haemodialysis
- Peritoneal dialysis
- Adult and paediatric renal transplant
- 12 new dialysis machines
- B/T cell compatibility test
- Sophisticated DTPA facilities (nuclear medicine support)
- CRRT machine for dialysis of heart patients/ critically ill patients
- Counselling for transplant patients and donors
- Budget dialysis packages for Sri Lankans
- Holiday dialysis packages for overseas patients
- Availability of dialysis services 365 days of the year

Centre of Excellence: Heart Centre

Lanka Hospitals' Heart Centre is dedicated to offering the most comprehensive cardiac and cardiothoracic surgical procedures. The Centre has a proven track record of excellent results and unmatched aftercare alongside the added benefit of affordability. The Centre provides the finest in cardio-thoracic care available in Sri Lanka, backed by exceptional, locally and internationally trained cardiologists, cardiac surgeons, cardiac technicians and nurses trained in specialist cardiac care. State of the art technology assists cardiology procedures and diagnostics.

Over the last decade, Lanka Hospitals' Heart Centre has performed more than 50 different types of cardiac surgical procedures with excellent results. It is the only Heart Centre in Sri Lanka to perform the complete range of cardiac and thoracic surgeries for children and adults. Equipped with the latest flat panel catheterization laboratory in the country, the centre is fully equipped to conduct angiograms, stenting procedures and hole in the heart procedures.

The Heart Centre is the only such facility in Sri Lanka capable of providing a complete solution to patients across age groups. The centre has successfully performed heart surgeries on a 7-week-old baby and a 77-year-old adult on the same day, thus demonstrating its capabilities in managing different clinical challenges effectively and successfully. The Centre remains the only facility capable of performing the entire range of all complicated heart surgeries for children and adults, and in 2011 it extended its capabilities in pediatric cardiac care.



“Like a mother, we care for our family of patients most compassionately. For us they come first... Always.”

The Centre is equipped with dedicated facilities and equipment including:

- A state-of-the-art catheterization laboratory or cath lab, with diagnostic imaging equipment
- Technologically advanced cardiac theatres
- Blood bank
- State-of-the-art cardiothoracic ICU (CTICU)
- 10 bed step-down Cardiac ICU
- Individually-focused and expert nursing care
- Patient counseling by Heart Specialists (pre and post-operative) with all day access
- Physiotherapy (pre- and post-operative)
- Rehabilitation

MANAGEMENT DISCUSSION & ANALYSIS

TECHNOLOGY



Tech-savvy expertise
Smart technicians
Innovative solutions

Technology in medical care

Developments in medical technology contribute to the overall success of any medical procedure; and at Lanka Hospitals, constant innovation and development is a defining quality. Lanka Hospitals retains leadership in technology for diagnostic and medical care. It remains amongst the most sophisticated healthcare providers in the provision of state of art medical technology. In 2011, the Hospital invested towards the placement of cutting edge technology to complement a diverse range of medical specialties.

For the first time in Sri Lanka, Lanka Hospitals introduced the soft tissue dental laser to enhance dental care with laser technology. The Laser Treatment machine ensures that patients experience minimum discomfort throughout the procedure and that each patient

We must always be ahead of our time. Like any young man of today, we continually look at technology solutions for improving quality... of care, patient safety, and business processes. That's what being tech-savvy is all about..."

A son is at all times a modernist, hopeful, futuristic and up-to-date with the latest technology; likewise Lanka Hospitals offers state-of-the-art machinery and the most advanced medical solutions, curing you with the latest technology.

Tech-savvy
Smart
Innovative

experiences a comfortable, low anesthetic procedure with lower pain and risk. The new technology also makes it possible for complicated dental treatments to be carried out on an outpatient basis and with minimal risk of infection.

The Hospital's Heart Centre is equipped with the latest flat panel catheterization laboratory in the country for angiograms, stenting procedures and hole in the heart procedures.

Lanka Hospitals' laboratory service also remains the only private hospital lab in the country to have a nuclear medicine unit. Nuclear medicine is the only way to determine the proper functionality of an organ without performing a procedure or surgery. The Hospital is equipped with a state-of-the-art Dual Detector Gamma Camera (SIEMENS-E Cam), a first and only one of its kind in Sri Lanka.

In addition to the above, Lanka Hospitals made substantial investments to acquire the right technology to keep abreast with the latest changes and to be on par with the best hospitals in the region.

ICT as a future enabler

Lanka Hospitals recognises the role of Information Communication Technology (ICT) to improve the quality, safety, and efficiency of its healthcare service. Diffusion of IT in Sri Lanka's healthcare industry remains moderate, although the future application of IT to enhance the service quality is favourable.

In 2011, Lanka Hospitals further invested towards the full implementation of a Healthcare Information System (HIS) with upgrading existing modules and adding of a number of new operational modules. The intention is to use ICT to create a value based healthcare system that supports value addition to the service and customer care of the Hospital.

We must always be ahead of our time. Like any young man of today, we continually look at technology solutions for improving quality... of care, patient safety, and business processes. That's what being tech-savvy is all about..."



The implementation of a Decision Support System (DSS) was also undertaken in 2011, and will facilitate Management Decision-making through a more robust provision of critical information.



“World class cuisine and stylish rooms and suites...our accommodation is five-star as are our catering and housekeeping services.”

We believe that when a patient is in a hospital environment, the special touches can make all the difference to their mood and healing. To add to the comfort of their stay, we arrange little extras such as daily newspapers, magazines and any special dietary requirements.

We welcome visitors around the clock. While room facilities may vary, one thing is constant. All patients are under constant care and attention of fully trained and qualified nursing staff who have years of training in each area of medical specialisation. They are just a touch of a button away, round-the-clock through the Hospital's remote summoning device. In-patients receive 24-hour supervision of resident medical officers and are also under the constant care of ward and resident doctors.

The Hospital's accommodation options are impressive and are on par with the best hospitals in the world. It offers accommodation along a continuum of options that take affordability and luxury into account. At the extreme end is the General Ward that is shared among 6 patients with each ward equipped with air conditioning, an individual telephone and shared televisions and toilet facilities. Twin Share Rooms are modest yet comfortable with all necessary amenities shared between two individual beds. The room has ample space and is equipped with air-conditioning, a television, individual phone lines and shared toilet facilities. Deluxe Rooms provide greater privacy for patient's whilst also being luxuriously comfortable. With all the prerequisite amenities, the Deluxe Room also includes supplementary facilities for the patient's family and friends and is fitted with air conditioning, an individual television set and phone, an attached toilet, as well as an attendant's bed. The Super Deluxe Room is designed to make a patients stay at Lanka Hospitals as comfortable as possible, with all the luxuries that are enjoyed at home. The Super Deluxe Room include air conditioning, a television and telephone, an attached toilet, attendant's sofa and a refrigerator.

The Hospital's premium rooms are designed with ample space. The 480sq ft Premium Room provides the facilities that are needed to make a visit as comfortable and relaxed as possible. The room is fully air conditioned with an attached toilet, individual TV and phone line. A sofa and refrigerator allow maximum comfort for visiting family and friends including a private visitor's lounge in every room. For patients staying at our Orchid Suite, they just might think they are on holiday in five star comfort. This Suite has



MANAGEMENT DISCUSSION & ANALYSIS

THE FINER THINGS IN LIFE



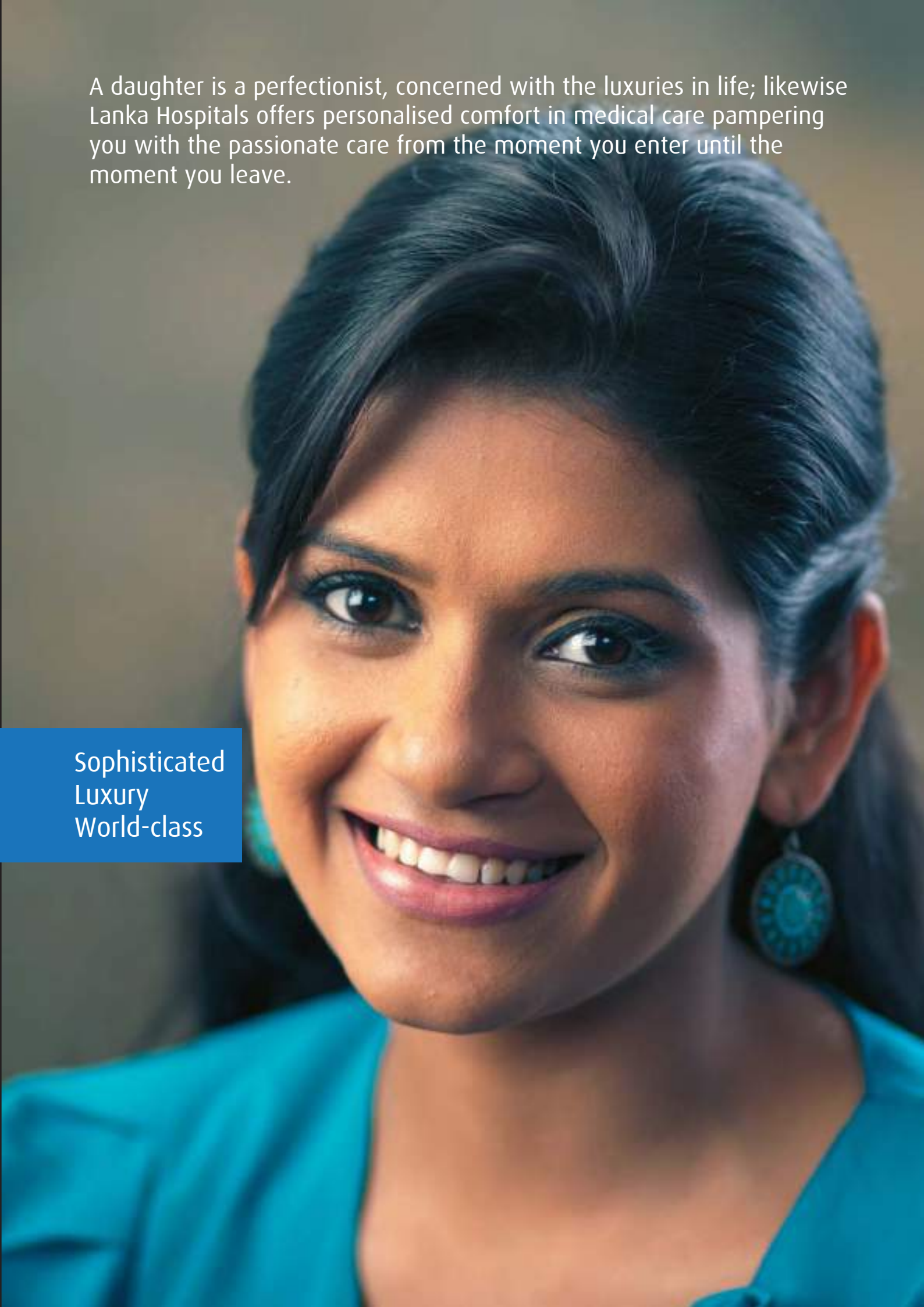
Sophisticated accommodation
Luxury for all
World-class cuisine

all the amenities of a top class hotel, with space and facilities for the patient and their visitors. Fully serviced with air conditioning, television and phone, attached toilet and refrigerator, the Orchid Suite also has an adjoining visitor's room with all the comforts. As the name suggests, the Royal Suite comes with the luxuries of royalty and is unmatched in the healthcare industry in Sri Lanka. It offers facilities and service standards that supersede most luxurious five star presidential suites available in the hospitality sector. It is fully appointed with air-conditioning, television and phone lines, two attached toilets, a refrigerator and the finest furniture fittings and soft linen, offers personalized service and pays great attention to detail.

The Hospital has built a reputation around its catering and Lanka Hospitals' meals prove that hospital food can in fact be tantalizing. The Hospital's hard-earned reputation as a provider of delicious meals, means that both our patients and their loved ones can enjoy gastronomical delights prepared by highly qualified and experienced chefs. All our meals are carefully prepared in a modern kitchen using the freshest ingredients. Selected menu items are on offer between 6am to 10pm and sumptuous yet healthy ala carte meals are available to order at any time of the day. Visitors to our Hospital also have the convenience of the Touching Taste Café which serves meals from 7am to 10pm. The café has open air seating, and offers a variety of delectable meals.

A daughter is a perfectionist, concerned with the luxuries in life; likewise Lanka Hospitals offers personalised comfort in medical care pampering you with the passionate care from the moment you enter until the moment you leave.

Sophisticated
Luxury
World-class



CORPORATE SOCIAL RESPONSIBILITY

As a responsible corporate citizen, Lanka Hospitals in 2011 strategically aligned its corporate objectives with broader societal objectives. As such the Hospital operated with duality of focus, driven to deliver not only the commercial aspects but also to meet changing societal needs in the realm of healthcare. As the foremost private sector healthcare provider in Sri Lanka and given its association with the Government of Sri Lanka, Lanka Hospitals during the year aligned its CSR focus towards creating greater public awareness on the need for a healthy community. The Hospital recognises that the long-term economic viability of the nation depends on the productivity of its people, and as such made headway into changing behaviour, and extending assistance to provide information for good health.

At Lanka Hospitals the belief is that sustainability is an integral aspect of the business. By embedding and aligning sustainable practice to its operational process, the Hospital looks to sustain not only the commercial viability of the business but also to safeguard the interests of customers, employees, suppliers, the community, environment and shareholders. This is underscored by the Hospital's commitment to ensuring affordable yet excellent healthcare through the best in medical treatment and facilities to the hundreds of thousands of patients who seek treatment and healing.

Parent Crafting: Holding the hands of parents to be

Lanka Hospitals understands that preparing for a baby is a wonderful, enriching experience that can also be rather daunting for new parents. As a passionate caregiver, the Hospital in 2011 introduced a novel educational programme aimed at enhancing knowledge of new parents to be, through the provision of information from pre natal to post natal care of both mother and baby. The intention of the Hospital has been to utilise the programme as a conduit to change perceptions regarding parenthood and role of each parent in the healthcare and development of the baby. In addition, the programme serves to create a sound platform in enhancing the health of mothers and babies.

The programme is held free of charge for new parents and new parents in the making. It's held every last Sunday of the each month. Structurally the Parent Crafting programme consists of components that address both psychological as well as technical aspects of parents from addressing attitudinal requirements, mother's health and nutritional awareness, physical exercise during and after pregnancy as well as the overall health and development of the baby. The programme has been extremely successful in changing the role of the father in parenting; by effectively garnering support from the father in the early days of post natal. Issues such as post natal depression and dealing with changes in both the mother's as well the father's lives has been openly discussed, facilitating greater empathy towards parenthood and the changes it entails.

The programme also provides a comprehensive cover of matters relating to breast-feeding, nutritional needs of baby at varying stages of development, weaning and introduction to solid foods as well as healthcare issues such as immunization. Through the programme parents are able to have interactive discussions with Gynaecologists & Paediatricians.

60+ Caring for Senior Citizens

In 2011, Lanka Hospitals introduced a special healthcare package for customers over the age of 60 with the intention of providing elderly care through pre-emptive diagnosis and management of issues arising from old age. Thus, in celebration of International Elders day, Lanka Hospitals offered a special health check package for all Senior Citizens.

Ageing is a natural process that requires preparation for social, psychological and physical challenges. As the human body ages it becomes more susceptible to diseases.

The 60+ elderly care programme provides knowledge on the biological and physiological changes associated with ageing, the social and emotional changes that occur as a consequence and better explores the common problems related to ageing as well as giving insight to female age-related conditions.

The 60+ elderly care programme explores each participant's nutrition patterns, exercise regimes, medication, rest and sleep patterns as well the assessment of risk factors and their management especially in the areas of obesity, diabetes, arthritis, bone fracture and heart disease.

The programme and the healthcare package resonates Lanka Hospital's move towards meeting the changing needs of healthcare in Sri Lanka.



Sri Lanka also experiencing a demographic transition, reflected in the increased population of those aged 60-plus. Population forecasts predict a doubling of the country's ageing population by 2040 (24.4%) compared to 2010 (12.1%) as life expectancy increases (due to improved island-wide preventive and curative health services) and fertility rates decline rapidly.

Flood Relief Programme for Eastern province

The onslaught of heavy rains during the first two months of the year 2011 created widespread disaster in the Eastern province of Sri Lanka. To assist those afflicted by the floods, Lanka Hospitals through the Wellness Club put in place a flood relief fund. With each employee of the Hospital contributing a day's wage, the Hospital accumulated Rs. 794,753 monies that were put to good use through the purchase of dry rations and medicine.



CORPORATE GOVERNANCE

1. The Corporate Governance Philosophy of Lanka Hospitals

The Lanka Hospitals governance system and organizational culture are enriched with values such as integrity, fairness, accountability, transparency, and consistency. Hence these values are treated with utmost respect in all our acts. The main purpose of Corporate Governance at Lanka Hospitals is to enhance the effectiveness and efficiency of the Board and the Management, which will help to deliver long term results, creating a sustainable organization, while fulfilling our promises to all our stakeholders.

The hospital provides its health care services and carries out its business, in accordance with the letter and spirit of different corporate governance principles and best practices as enumerated in various Corporate Governance codes and guidelines. Hence this will enable the hospital to position itself as a socially responsible corporate citizen and to become a well-governed city hospital in the private healthcare industry.

2. Statement of Compliance

We declare that the below practices are adopted and practiced by Lanka Hospitals, in order to comply with the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL), and the Securities and Exchange Commission (SEC) of Sri Lanka and also the Listing Rules on Corporate Governance published by the Colombo Stock Exchange (CSE).

3. Code of Best Practice on Corporate Governance

The Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL), and the Securities and Exchange Commission (SEC) of Sri Lanka in 2008 highlights the following key areas for effective corporate governance.

- A. The Board of Directors
- B. Director's Remunerations
- C. Relations with Shareholders
- D. Accountability and Audit
- E. Institutional Investors
- F. Other Investors

The extent of our adherence to the Code of Best Practice on Corporate Governance issued jointly by the ICASL and SEC can be furnished as follows:

A. The Board of Directors

Composition of the Board and Attendance at Board Meetings

The Lanka Hospitals Board of Directors comprises of 11 Directors as at 31st December 2011. All the Directors are Non Executive Directors, of which 6 Directors are Independent and 5 Directors are Non- Independent. As at the Date of the Annual Report, the Board comprises of 12 Non-Executive Directors, with 7 Independent and 5 Non- Independent Directors. Changes to the Board during the accounting period and the subsequent changes after the accounting period are more fully explained in the table 'composition of the Board of Directors' on page 41. The

names of the Directors who held office in the company during the accounting year and as at the date of the Annual Report and their profiles are set out on pages 14 to 18.

The Board meets at regular intervals and conducted 7 Board meetings during the 12 month period from 1st January 2011 to 31st December 2011. Details of the attendance at Board Meetings are furnished on page 41.

Responsibilities of the Board

The Board of Directors is 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 high quality health care service.

Further the Board is responsible to;

- Maximize share holder value
- Formulate, implement, and monitor the company's Corporate Strategy
- Approve annual budget and evaluate the performance against the budget and Key Performance Indicators.
- Approve interim financial statements before it is published.
- Ensure that effective systems are in place to safeguard the integrity of information, internal controls, and risk management.
- Sanction major investments/ projects in accordance with the given criteria and parameters.
- Ensure compliance with laws, regulations and ethical standards.
- Ensure effective remuneration policies are in place to enhance employee commitment and motivation.
- Fulfill other board functions/ responsibilities which are vital, given the scale, nature, and complexity of the matter concerned

Company Secretary

The service and advice of the Company Secretary is made available to Directors where necessary. The company secretary is responsible to keep the Board informed with new laws, regulations, and other requirements coming into effect which are relevant to them as individual directors and collectively to the Board.

Chairman and Chief Executive Officer

There are two key tasks at the top of every public company – conducting of the business of the Board, and facilitating executive responsibility for management of the Company's business. Lanka Hospitals has a clear division of responsibilities at the head of the company, i.e. the post of Chairman and Chief Executive Officer are held by two different

individuals. This will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.

Chairman's Role

The chairman is responsible for the efficient conduct of Board proceedings and to ensure, inter-alia, that:

- The effective participation of all Non- Executive Directors is secured;
- All Directors are encouraged to effectively contribute, for the benefit of the company;
- The views of the Directors on issues under consideration are ascertained; and
- The board is in complete control of the company's affairs and alert to its obligations to all shareholders and other stakeholders.

Financial Acumen

The Board includes Senior Chartered / Management Accountants, who possess the necessary financial acumen and knowledge, to offer guidance to the Board on matters of finance. One of them serves as the Chairman of the Audit Committee.

Board Balance

There are 11 Directors of the company as at 31st December 2011 and all of them are Non- Executive Directors (NEDs). Out of these Non- Executive Directors 6 Directors are independent; i.e. those Directors are independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment. This is well above the minimum requirement prescribed by this code which is two Non-Executive Directors or Non- Executive Directors equivalent to one third of the total number of NEDs, whichever is higher. Each Non- Executive Director has submitted a signed and dated declaration of his/her independence or non- independence against the specified criteria set out in the code.

Supply of Information

The Directors are provided with timely information such as monthly financial statements, minutes of review meetings and other performance reports which are necessary to discharge their duties. All the necessary documents required for Board Meetings are provided in advance for the effective conduct of Board proceedings.

Disclosure of information in respect of Directors

The details of the Board of Directors are provided on pages 14 to 18. Further the following information in relation to Directors is disclosed in the annual report.

The profiles of all Board members are provided on pages 14 to 18.

Details of related party transactions are provided on page 70.

The composition of the Board and Board Sub Committees, and attendance at Board Meetings are provided on pages 39 to 41.

B. Directors Remunerations

Remuneration Procedure

The company has established a formal, transparent and effective procedure for developing a policy on senior management and executive remuneration. Since all the Directors are Non- Executive Directors, they do not receive any form of remuneration, except for an allowance given for Board attendance. Hence no Director is involved in deciding his/her own remuneration to avoid potential conflict of interest.

Remuneration Committee

The company has set up a remuneration committee and its composition satisfies the requirements specified in this code. All members of the remuneration committee are Non- Executive Directors and out of which there are two Independent Non- Executive Directors and one Non- Independent, Non- Executive Director.

The members of the Remuneration Committee are as follows:

Name	Position	Directorship status
Mr. A. M. Mohan De Alwis	Chairman	Non Independent Non-Executive Director
Dr. Nalaka Godahewa	Member	Independent Non-Executive Director
Mrs Roshini Cabraal	Member	Independent Non-Executive Director

Disclosure of Remuneration

Please refer the 'Remuneration Committee Report' on page 44 for disclosure of the remuneration policy of the hospital and aggregate remuneration paid to Non- Executive Directors.

C. Relations with shareholders

Constructive use of the AGM

The Board uses the AGM to actively communicate with shareholders and encourage their maximum participation. In doing so, Notice of the AGM and summary of procedures governing voting at the AGM are provided in the proxy form, which is circulated to shareholders 15 working days prior to the AGM.

The AGM provides a forum to all shareholders to raise their concerns over the content of the Annual Reports and other important matters related to the hospital. Separate resolutions are proposed for all substantially separate issues and further for the adoption of the Annual Report of the Board of Directors on the affairs of the company, Financial

CORPORATE GOVERNANCE (CONTD.)

Statements for the year, and Report of the Auditors. The Chairman of the Board ensures that the Chairmen of the Remuneration and Audit Committees are available to answer questions at the AGM for matters under their preview.

Major Transactions

There were no major transactions during the year which involved the acquisition, sale or disposition of greater than half of the net value of the company's assets, which would materially alter/vary the net asset base of the company or a transaction which has or is likely to have the effect of the company acquiring obligations and liabilities.

D. Accountability and Audit

Financial Reporting

The Board presents a balanced and understandable assessment of the company's Financial Position, Performance, and Prospects covering interim and other price sensitive public reports, to regulators and statutory authorities. Quarterly and Annual Financial Statements have been prepared in accordance with the Sri Lanka Accounting Standards. Further the company has complied with the reporting requirements of the Securities and Exchange Commission Sri Lanka and Colombo Stock Exchange.

Please refer the "Statement of the Directors" on page 49, setting out their responsibilities for the preparation and presentation of financial statements. And please refer page 51 for the "Auditor's Report" setting out their reporting responsibilities.

The Business Review, covering the strategic initiatives undertaken during the year, company's performance against industry trends, and the future potential and market winning strategies is set out from pages 22 to 35.

Declaration by the Board on the going concern of the Business is furnished on page 47 of the Annual Report of the Board of Directors.

Internal Control

A company's system of internal control has a key role in the management of risks that are significant to the fulfillment of its objectives. Hence the Board is responsible to maintain a sound system of internal control to safeguard shareholder's investments and the hospital's assets. The Internal Controls prevailing at Lanka Hospitals facilitate the effectiveness and efficiency of operations; ensure the reliability of internal and external reporting and assists compliance with laws and regulations.

Further Lanka Hospital has initiated the development of a comprehensive risk management framework which will provide a reasonable assurance, to the management and the Board in identifying and managing possible risks covering the entire hospital. The company has a Medical Credential Committee which scrutinizes the credential of all medical staff who

are contributing to the health care services of the company. Effective financial controls, including the maintenance of proper accounting records, are an important element of internal control. They help ensure that the hospital is not unnecessarily exposed to avoidable financial risks, and ensure that the financial information is reliable and accurate and further contributes to the prevention and detection of fraud.

Audit Committee

The Board needs to have a formal and transparent arrangement, in order to consider the selection and application of accounting policies, financial reporting, and internal control principles and to maintain an appropriate relationship with the hospital's External Auditor. For this purpose an Audit Committee has been established and it consists entirely of Independent Non- Executive Directors.

The members of the Audit Committee are as follows:

Name	Position	Directorship status
Mrs. Roshini Cabraal	Chairperson	Independent Non-Executive Director
Dr. Nalaka Godahewa	Member	Independent Non-Executive Director
Professor Dayasiri Fernando	Member	Independent Non-Executive Director

Mrs. Roshini Cabraal, the Chairperson of the Audit Committee, an Independent Non- Executive Director on the Board, is a Fellow of the Institute of Chartered Accountants of Sri Lanka and a Fellow of the Society of Certified Management Accountants of Sri Lanka.

The Audit committee assists the Board in the preparation, presentation, and adequacy of disclosures in the financial statements according to the Sri Lanka Accounting Standards, and further ensures that the internal controls and risk management procedures of the hospital are adequate to meet the requirements of the Sri Lanka Auditing Standards. The Audit Committee is responsible in making recommendations to the Board pertaining to the appointment, re- appointment, and removal of External Auditors and approves their remuneration and terms of engagement. Further the Audit Committee is responsible to discuss the Audit plan, key audit issues, management responses, and the hospital's audited financial statements and quarterly financial statements.

Please refer page 50 for the Audit Committee Report.

Corporate Governance Disclosures

The Directors of the hospital discloses the hospital's level of adherence to the Code of Best Practices on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL), and the Securities and Exchange Commission (SEC) of Sri Lanka. This report from page 38 to page 43 serves that requirement.

E. Institutional Investors

Shareholder Voting

The hospital maintains a continuous dialog with its shareholders and the AGM plays a vital role in this regard. All Institutional Investors are encouraged to use their votes and to ensure that their voting intentions are translated into practice.

Evaluation of Governance Disclosures

Institutional Investors are encouraged to give due weight for matters relating to the governance arrangements, particularly relating to the structure and composition of the board.

F. Other Investors

Investing/ Divesting Decision

Individual Shareholders who directly invest in shares of the hospital, are encouraged to seek independent advice where necessary and to carry out adequate analysis in their investing and divesting decisions.

Shareholder Voting

Individual Shareholders are encouraged to participate in General Meetings of the hospital and to exercise their voting rights. Adequate notice of meetings is given well in advance in order to obtain their maximum participation.

Composition of the Board of Directors

Composition As at 31st Dec 2011	
Name of the Director	Directorship Status
Mr. Gotabaya Rajapaksa	Independent Non Executive
Dr. Nalaka Godahewa	Independent Non Executive
Mr. Mohan De Alwis	Non- Independent Non Executive
Professor Dayasiri Fernando	Independent Non Executive
Dr. T. R. C. Ruberu	Independent Non Executive
Mrs. Roshini Cabraal	Independent Non Executive
Dr. Gamini Wickramasinghe	Non- Independent Non Executive
Mr. P. A. Lionel	Non- Independent Non Executive
Mr. Malvinder Mohan Singh	Non- Independent Non Executive
Mr. Shivinder Mohan Singh	Non-Independent Non Executive
Mr. Sunil Godhwani	Independent Non Executive
Mr. Vishal Bali	(Alternate Director to Mr Malvinder Mohan Singh)
Mr. Balinder Singh Dhillon	(Alternate Director to Mr Shivinder Mohan Singh)
Dr. Amit Varma	(Alternate Director to Mr Sunil Godhwani)

Directors' Attendance at Meetings

(From 1st January 2011- 31st December 2011)

The Directors' attendance at meetings is outlined in the following table;

Name of the Director	Number of Meetings	Attendance
Mr. Gotabaya Rajapaksa	7	5
Dr. Nalaka Godahewa	7	7
Mr. A. M. Mohan De Alwis	7	5
Professor Dayasiri Fernando	7	7
Dr.T. R. C. Ruberu	7	4
Mrs. Roshini Cabraal	7	6
Dr. Gamini Wickramasinghe	7	6
Mr. P. A. Lionel	7	7
Mr.Malvinder Mohan Singh	6	2
Mr. Shivinder Mohan Singh	6	1
Mr. Sunil Godhwani	6	1
Mr. Vishal Bali (Alternate Director to Mr. Malvinder Mohan Singh)	6	2
Mr. Balinder Singh Dhillon (Alternate Director to Mr. Shivinder Mohan Singh)	6	2
Dr. Amit Varma (Alternate Director to Mr Sunil Godhwani)	6	0
Dr Ajith Amarasinghe	1	1
Dr S.S. L. Perera	1	1
Mr. Asoka Nissanka Pathirane	1	1
Major General (Dr) Sanjeewa Heman Munasinghe	1	0

Composition As at 8th May 2012 (Reporting Date)	
Name of the Director	Directorship Status
Mr. Gotabaya Rajapaksa	Independent Non Executive
Dr. Nalaka Godahewa	Independent Non Executive
Mr. Mohan De Alwis	Non- Independent Non Executive
Professor Dayasiri Fernando	Independent Non Executive
Dr. T. R. C. Ruberu	Independent Non Executive
Mrs. Roshini Cabraal	Independent Non Executive
Dr. Gamini Wickramasinghe	Non- Independent Non Executive
Mr. P. A. Lionel	Non- Independent Non Executive
Mr. Malvinder Mohan Singh	Non- Independent Non Executive
Mr. Shivinder Mohan Singh	Non-Independent Non Executive
Mr. Sunil Godhwani	Independent Non Executive
Mr. Vishal Bali	(Alternate Director to Mr Malvinder Mohan Singh)
Mr. Balinder Singh Dhillon	(Alternate Director to Mr Shivinder Mohan Singh)
Dr. Amit Varma	(Alternate Director to Mr Sunil Godhwani)
Dr. Bandula Wijesiriwardena	Independent Non Executive

CORPORATE
GOVERNANCE (CONTD.)

Compliance with Corporate Governance Rules as per section 7.10 of the Listing Rules of the Colombo Stock Exchange

Rule No.	Subject	Requirement	Compliance Status	Details
7.10.1. (a)	Non- Executive Directors	Two or one third of the Directors, whichever is higher, should be Non- Executive Directors.	Complied with	There are 11 Directors as at 31 December 2011, and 12 Directors as at the date of the Annual Report. All these Directors on the board are Non- Executive Directors.
7.10.2. (a)	Independent Directors	Two or one third of Non- Executive Directors, whichever is higher, should be independent.	Complied with	The board comprises of 6 Independent Non- Executive Directors as at 31st December 2011, and 7 Independent Non- Executive Directors as at the Date of the Annual Report.
7.10.2 (b)	Independent Directors	Each Non- Executive Director should submit a declaration of independence/ Non- Independence in the prescribed format.	Complied with	All the Directors have submitted declarations of Independence/ Non- Independence in the prescribed format.
7.10.3. (a)	Disclosure relating to the Directors	Names of independent Directors should be disclosed in the annual report.	Complied with	Please refer page 41 of this report
7.10.3.(b)	Disclosure relating to the Directors	In the event a Director does not qualify as independent as per rules on corporate governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the annual report.	Complied with	All the Independent Directors satisfy the "criteria of independence" as per rules on corporate governance
7.10.3.(c)	Disclosure relating to the Directors	A brief resume of each Director should be published in the annual report including the areas of expertise.	Complied with	Please refer pages 14 to 18 of this report
7.10.3.(d)	Disclosure relating to the Directors	Provide to the Exchange, a brief resume of any new Director appointed to the board.	Complied with	Brief resumes of all newly appointed Directors have been provided to the Colombo Stock Exchange
7.10.5	Remuneration Committee	A listed company shall have a Remuneration Committee.	Complied with	Please refer page 44 of this report
7.10.5 (a)	The composition of the Remuneration Committee	The Remuneration Committee shall comprise a minimum of two independent Non- Executive Directors or Non- Executive Directors, a majority of whom shall be Independent, whichever is higher.	Complied with	The Remuneration Committee comprises a majority of Independent Non Executive Directors.
	Chairman of the Remuneration Committee	One Non- Executive Director shall be appointed as Chairman of the committee by the Board.	Complied with	Mr. Mohan De Alwis functions as the Chairman of the Committee and he is a Non Executive Director in the Board.
7.10.5 (b)	Functions of the Remuneration Committee	The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and the Executive Directors.	Complied with	Please refer the Scope of the Remuneration Committee on page 44 of this report

Rule No.	Subject	Requirement	Compliance Status	Details
7.10.5 (c)		The annual report shall set out: The names of the Directors that comprise the Remuneration Committee. A statement of remuneration policy. Aggregate remuneration paid to Executive and Non- Executive Directors.	Complied with Complied with Complied with	Please refer the Remuneration Committee Report on page 44. Please refer the Remuneration Committee Report on page 44. Please refer the Remuneration Committee Report on page 44.
7.10.6	Audit Committee	A listed company shall have an Audit Committee.	Complied with	Please refer page 50.
7.10.6 (a)	Composition of the Audit Committee	The Audit Committee shall comprise a minimum of two independent Non-Executive Directors, or Non- Executive Directors, a majority of whom shall be independent whichever is higher. One Non- Executive Director shall be appointed as Chairman of the Audit Committee by the Board. The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings. The Chairman or one member of the Committee should be a member of a recognized professional accounting body.	Complied with Complied with Complied with	The Audit Committee comprises of all Independent Non- Executive Directors. The Chairman of the Audit Committee Mrs. Roshini Cabraal is a Non-Executive Director in the Board. Chief Executive Officer and Chief Financial Officer attend meetings by invitations. Chairman of the Audit Committee is a Fellow of the Institute of Chartered Accountants of Sri Lanka and a Fellow of the Society of Certified Management Accountants of Sri Lanka.
7.10.6 (b)		The Audit Committee shall have functions as set out in section 7.10 of the listing rules.	Complied with	Please refer the Audit Committee Report on page 50.
7.10.6 (c)		The annual report shall set out: The names of the Directors who comprise the Audit Committee. The Audit Committee shall make a determination of the independence of the auditors and disclose the basis for such determination. A report by the Audit Committee setting out the manner of compliance of the functions set out in section 7.10 of the listing rules.	Complied with Complied with Complied with	Please refer the Audit Committee Report on page 50. Please refer the Audit Committee Report on page 50. Please refer the Audit Committee Report on page 50.

REMUNERATION COMMITTEE REPORT

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

Mr. Mohan de Alwis - Chairman (NED)

Dr. Nalaka Godahewa (IND / NED)

Mrs. Roshini Cabral (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 all staff at various levels of the organization. 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. The aggregate of Rs.680,000/- have been paid as allowance for Board attendance during the year under review. They do not receive any performance or incentive payments.

Meetings

The Committee met thrice during 2011. A report of the decisions approved and recommended to the Board by the Committee is circulated and affirmed by the Board of Directors. At least two members of the Committee have attended all three meetings held during the year.

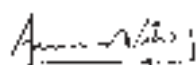
Professional Advice

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 2011.

On behalf of the Committee:



A. M. M. De Alwis

Chairman, Remuneration Committee

08th May 2012

FINANCIAL INFORMATION

“...Lanka Hospitals posted impressive returns during the financial year, demonstrating a revenue growth of 17% and a growth in profitability of 52%. The Hospital posted higher revenue intensity with the ratio of income from our centres of excellence demonstrating marked impact...”

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Annual Report of the Directors

The Board of Directors of The Lanka Hospitals Corporation PLC has pleasure in presenting the Annual Report together with the audited financial statements of the Company for the year ended 31st December 2011.

These audited financial statements were approved by the Board of Directors on 08th May 2012.

Nature of the Business and Principal Activity of the Company

The principal activity of the Company is to provide world class quality healthcare services at an affordable cost.

Review of Operations and Financial Highlights

A review of the Company's business and comprehensive analysis of the financial and operational performance along with the future outlook of the Company in the context of the current economic development process of the country is described in the Chairman's message and the management discussion and analysis section.

The Financial Statements which include the balance sheet, income statement, statement of changes in equity and the notes to the financial statements of the Company for the year ended 31st December 2011 are set out on pages 52 to 70 of the Annual Report.

Operational Results

The Company has recorded a revenue of Rs. 3,680 mn and a profit after tax of Rs. 438 mn for the year 2011.

Responsibilities of Directors for the Financial Statements

The Directors are responsible for the preparation of the Financial Statements so that they present a true and fair view of the state of affairs of the Company. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Companies Act No.07 of 2007, the Sri Lanka Accounting and Auditing Standard Act and the Continuing Listing Rules of the Colombo Stock Exchange.

Independent Auditors' Report

The Report of the Auditors on the Financial Statements of the Company is given on page 51.

Changes in Accounting Policies

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 56 to 60 of the Annual Report. There were no changes from the accounting policies adopted in the previous year.

Property Plant & Equipment

The Company has spent Rs.268 million on capital expenditure during the year under review. The movements in property, plant and equipment

during the year are set out in note no. 08 to the Financial Statements.

Extent, Location & Market value of properties

Land (Leasehold) and buildings of the Company are located at No 578, Elvitigala Mawatha, Colombo-05. Total extent of the land is 6.9022 Acres, out of which 1.6890 Acres are covered by the building. The Land is under an operating lease and the building is owned by the Company. The land and building have been revalued on 31st December 2010. Details of the revaluation, market value and relevant accounting policies are provided in notes no 8.5 and 3 to the financial statements on page 62 and 57 respectively. During the year the Company acquired a freehold land containing in extent of 10.25 perches in Hathbodiya, Kirula Road Narahenpita, Colombo 05 and a further 10 perches land at the same location. Details of lands acquired during the financial year 2011 is provided in note no 8.6 to the financial statements.

Reserves

The total reserves and their composition are set out in the statements of changes in equity on page 54.

Major Shareholdings

The names of the twenty largest shareholders, the number of shares held and the percentage held are given on page 71 of the Annual Report. The distribution schedule of the shareholders and public holding are found in page 72 of the Annual Report.

Directors as at 31 December 2011

The Board of Directors of The Lanka Hospitals Corporation PLC comprised 11 members as at 31st December 2011 and all of them served as Non-Executive Directors.

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

Mr. Gotabaya Rajapaksa - Chairman
 Dr. Nalaka Godahewa
 Mr. A. M. M. De Alwis
 Prof. D. P. A. Fernando
 Mr. P. A. Lionel
 Dr. G. W. K. Wickramasinghe
 Dr. T. R. C. Ruberu
 Mrs. R. S. Cabraal
 Mr. Malvinder Mohan Singh- Alternate Director Mr. Vishal Bali
 Mr. Shivinder Mohan Singh- Alternate Director Mr. Balinder Singh Dhillon
 Mr. Sunil Godhwani – Alternate Director Dr. Amit Varma

Directors' Resignations/ Appointments during the Financial Year

Dr. S. S. L. Perera, Mr. A. N. Pathirana and Major General (Dr.) S. H. Munasinghe resigned on 07 March 2011. Dr. Ajith Amarasinghe resigned on 21st March 2011.

Mr. Malvinder Mohan Singh (Alternate Director Mr. Vishal Bali), Mr. Shivinder Mohan Singh (Alternate Director Mr. Balinder Singh Dhillon), Mr. Sunil Godhwani (Alternate Director Dr. Amit Varma) representing Fortis Global Healthcare Holdings Pte Ltd were appointed to the Board on 24th March 2011.

Directors' Appointments after the Financial Year

Dr. Bandula Wijesiriwardena was appointed as a Director of the Company nominated by Sri Lanka Insurance Corporation on 27th February 2012.

Brief profiles of the above Directors are given on pages 14 to 18 of the Annual Report.

Directors standing for Re-election

A shareholder has deposited a resolution to move at the Annual General Meeting to re-elect Prof. D. P. A. Fernando who has attained the age of 72 as a Director of the Company until the conclusion of the next Annual General Meeting of the Company.

Interest Register

In terms of the Companies Act No.07 of 2007, the Company maintained an Interest Register and the entries have been made therein. The 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 Interest Register.

The Board of Directors have duly disclosed their directorships in related companies and share dealings with the Company and related Companies at Board meetings.

The related party transactions and Directors' interest in contracts and proposed contracts with the Company are also disclosed in Note 30 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 are given on page 41 and 44 respectively.

Direct and Indirect shareholdings of the Directors

As at 31st December 2011, none of the Directors held shares in the Company.

Amounts payable to Auditors

The fees payable to auditors for audit and non audit services are disclosed in Note 24 to the Financial Statements.

Auditors' Relationship

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.

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.

Contributions to Charity

The contributions made to charities by the Company during the financial year ended 31st December 2011 was Rs. 214,505/-. (Contributions made to charities by the company during the financial year ended 31 December 2010 was Rs. 73,197/-).

Going Concern

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

Contingent Liabilities

There are no material contingent liabilities as at the balance sheet date.

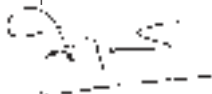
Post Balance Sheet Events

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 the financial statements.

Risk Management

The Company has initiated a comprehensive Enterprise Risk Management Process and details are explained in the CEO's Review on pages 07 to 08.

For and on behalf of the Board of Directors of The Lanka Hospitals Corporation PLC.



Dr. Nalaka Godahewa
Director



A. M. Mohan De Alwis
Director



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

08th May 2012

Annual Report of the Directors

Events subsequent to the date of the Annual Report of the Directors

Dividends

For the first time in the history of the Company the Board of Directors has recommended a final dividend of Rs. 0.50 per share (Amounting to Rs. 111,866,085/-) for the year ended 31st December 2011. Dividends are subject to the shareholders' approval at the Annual General Meeting.

In terms of Section 56(2) of the Companies Act No.07 of 2007, the Board of Directors are satisfied that the Company has passed the requirement of solvency, and solvency certificate of the Auditors has already been obtained.

Appointment of new auditors

To conform to best practices, the Board of Directors took a policy decision to rotate the audit partners every three years and the auditor every five years. Accordingly a resolution proposing appointment of Messrs. PricewaterhouseCoopers Chartered Accountants as auditors of the company for the financial year 2012 and authorising directors to determine their remuneration will be submitted at the Annual General Meeting.

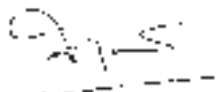
Appreciation

The Board of Directors appreciates the services rendered by the retiring auditors, Messrs KPMG.

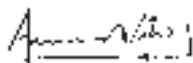
Annual General Meeting

The Annual General Meeting of the Company will be held on 29 June 2012 at 10.30 a. m. at the Dr. Prathap C Reddy Auditorium of The Lanka Hospitals Corporation PLC, No.578, Elvitigala Mawatha, Colombo 5.


For and on behalf of the Board of Directors of The Lanka Hospitals Corporation PLC.



Dr. Nalaka Godahewa
Director



A. M. Mohan De Alwis
Director



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

17th May 2012

Directors' Responsibility for Financial Reporting

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 on page 51 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 52 to 70,

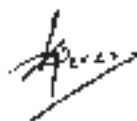
- a) appropriate accounting policies have been selected and applied in a consistent manner and material departures if any have been disclosed and explained.
- b) all applicable accounting standards that are relevant, have been followed.
- c) Judgments and estimates have been made which are reasonable 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, of Directors of The Lanka Hospitals Corporation PLC.



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

08th May 2012

Audit Committee Report

Purpose of the Audit Committee

The primary purpose of the Audit Committee is to assist the function of the Board of Directors in relation to risk assessment, financial reporting and internal controls. This includes,

- Monitoring the quality and integrity of the Company's financial Statements and the financial reporting process in accordance with the Sri Lanka Accounting Standards and other relevant regulations.
- Reviewing the effectiveness of the Company's internal controls and risk management system.
- Reviewing the Company's process for monitoring compliance with laws and regulations.
- Monitoring the effectiveness of the internal audit function.
- Reviewing the independence and performance of the external auditors.

Terms of Reference

The Audit Committee is appointed by and is responsible to the Board of Directors. The Committee is governed by the specific Terms of Reference as set out in the Audit Committee Charter, which is reviewed on an annual basis. The Terms of Reference comply with the listing rules of the Colombo Stock Exchange and Corporate Governance requirements.

Composition of the Audit Committee and meetings

The Audit Committee comprises the following Independent Non-Executive Directors as members.

- | | | |
|-----------------------------|---|-------------|
| 01. Mrs. Roshini S Cabraal | - | Chairperson |
| 02. Dr. Nalaka Godahewa | - | Member |
| 03. Prof. Dayasiri Fernando | - | Member |

The profile of each member is set out on pages 14 to 18 of this Annual Report.

The Head of the Internal Audit Division serves as the Secretary to the Committee. The Chief Executive Officer, Chief Financial Officer and the External Auditors attend Audit Committee meetings by invitation. Other officials of the management are invited to attend on a needs basis.

The Audit Committee held five meetings during the financial year ended 31st December 2011 and the attendance of the members of the Audit Committee was as follows,

Name of Director	No. of meeting attended	Attendance Percentage
Mrs. Roshini S. Cabraal	05	100%
Dr. Nalaka Godahewa	05	100%
Prof. Dayasiri Fernando	04	80%

Summary of principal activities

During the year, the Audit Committee discharged its function and carried out its duties as set out in the Terms of Reference. The following include the key activities carried out by the Audit Committee.

Financial Reporting

The Committee reviewed the Company's quarterly and annual financial statements and the reporting process for reliability, consistency and compliance with the Sri Lanka Accounting standards and other statutory

requirements, prior to recommending the same to the Board for approval. Further, the Committee ensured that measures are initiated by the management to adopt changes in Accounting Standards which will be in effect from 01st January 2012.

Risk Management and Internal Control

The necessity to have a formal Enterprise Risk Management frame work was highlighted at the meetings of the Audit Committee and the Committee reviewed its progress.

The Committee reviewed and monitored the adequacy and effectiveness of internal control systems through reports furnished by the Internal and External Auditors and through additional assurances obtained from external consultants.

Internal Audit

The Internal Audit Division which directly reports to the Audit Committee independently reviews the risks and control processes operated by the management and reports on the extent of compliance with relevant statutory requirements and other laws and regulations. The Audit Committee reviews the effectiveness of the internal audit function and approves the annual audit program presented by the Head of the Internal Audit Division.

During the year the Committee reviewed the findings of the Internal Audit division and their recommendations together with the management responses in an overall effort to improve the control environment. The Committee monitored the implementation of Internal Audit recommendations through follow up reviews.

External Audit

The Committee met with the External Auditors and discussed matters arising from the annual audit and the management letter issued by them.

The Audit Committee has reviewed the type and quantum of non-audit services provided by the external auditors to the company, to ensure that their independence as auditors has not been impaired.

To conform to best practices the Audit Committee recommended to the Board of Directors a rotation of external auditors, as they have been engaged continuously for the last ten years. The Committee evaluated proposals from leading audit firms and a shortlist was submitted to the Board of Directors for their recommendation to the shareholders at the Annual General Meeting, of one to be appointed as the external auditors of the Company for the financial year ending 31.12.2012.

On behalf of the Committee:



Roshini S. Cabraal
Chairperson, Audit Committee

17th May 2012

Independent Auditors' Report



KPMG
 (Chartered Accountants)
 32A, Sri Mohamed Meeran Mulla Mawatha,
 P. O. Box 146,
 Colombo 00300,
 Sri Lanka.

Tel : +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 SHAREHOLDERS OF THE LANKA HOSPITALS CORPORATION PLC

Report on the Financial Statements

We have audited the accompanying financial statements of The Lanka Hospitals Corporation PLC, which comprise the balance sheet as at 31st December 2011, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 52 to 70 of this 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 year ended 31st December 2011 and the financial statements give a true and fair view of the Company's state of affairs as at 31st December 2011 and its profit and cash flows for the year 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

08th May 2012

Balance Sheet

As at 31st December,

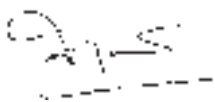
	Note	2011 Rs.	2010 Rs.
ASSETS			
Non current assets			
Property, plant & equipment	8	2,825,238,804	2,778,835,336
Advance lease premium	9	119,990,545	106,127,469
		2,945,229,349	2,884,962,805
Current assets			
Inventories	10	145,190,349	86,451,157
Trade & other receivables	11	245,113,774	215,535,250
Amounts due from related parties	12	1,845,514	707,683
Cash & cash equivalents	13	671,547,480	467,742,582
		1,063,697,117	770,436,672
Total assets		4,008,926,466	3,655,399,477
EQUITY AND LIABILITIES			
Equity			
Stated capital	14	2,671,543,090	2,671,543,090
Revaluation reserve		874,754,059	740,387,916
Retained earnings		(202,727,095)	(681,928,748)
Total equity		3,343,570,054	2,730,002,259
Non current liabilities			
Employee benefits	15	42,721,726	33,011,027
Deferred tax liabilities	16	224,910,605	457,892,610
		267,632,331	490,903,637
Current liabilities			
Interest bearing borrowings	17	-	22,590,000
Amounts due to related parties	18	4,247,497	4,593,014
Trade & other payables	19	311,004,339	277,506,504
Bank overdraft		82,472,245	129,804,063
		397,724,081	434,493,581
Total liabilities		665,356,412	925,397,218
Total equity & liabilities		4,008,926,466	3,655,399,477

I certify that the above financial statements comply with the requirements of the Companies Act No 7 of 2007.

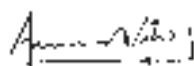


Sampath Hettiarachchi
Chief Financial Officer

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.



Dr. Nalaka Godahewa
Director
Colombo



A. M. M. De Alwis
Director

8th May 2012

The notes on pages 56 to 70 form an integral part of these financial statements.

Figures in brackets indicate deductions.

Income Statement

Year ended 31st December,	Note	2011 Rs.	2010 Rs.
Revenue	20	3,680,174,329	3,156,022,682
Cost of services		(2,030,532,129)	(1,753,920,345)
Other operating income	21	1,649,642,200	1,402,102,337
Staff costs	22	22,884,222	1,021,225
Depreciation on property, plant & equipment		(682,269,348)	(553,147,598)
Other operating expenses		(116,734,519)	(103,608,386)
Net finance income	23	(532,510,130)	(469,068,748)
Profit before income tax	24	38,403,205	12,002,437
Income tax (expense)/release	25	379,415,630	289,301,266
Profit for the year		58,685,982	(157,543)
Basic earnings per share			
From profit for the year excluding effect on changes in tax rate	26	438,101,612	289,143,723
From profit for the year including effect on changes in tax rate	26	1.57	1.12
		1.96	1.29

The notes on pages 56 to 70 form an integral part of these financial statements.

Figures in brackets indicate deductions.

Statement of Changes in Equity

As at 31st December 2011

	Stated capital Rs.	Revaluation reserve Rs.	Retained earnings Rs.	Total Rs.
Balance as at 01st January 2010	2,671,543,090	320,296,805	(984,248,594)	2,007,591,301
Profit for the year	-	-	289,143,723	289,143,723
Surplus on revaluation of building	-	548,462,737	-	548,462,737
Tax effect on surplus on revaluation	-	(153,569,566)	-	(153,569,566)
Effect on change in tax rate	-	38,374,064	-	38,374,064
Realisation of revaluation surplus	-	(11,118,441)	11,118,441	-
Effect on realisation of reserves due to change in tax rate	-	(2,057,682)	2,057,682	-
Balance as at 31st December 2010	2,671,543,090	740,387,916	(681,928,748)	2,730,002,259
Profit for the year	-	-	438,101,612	438,101,612
Effect on change in tax rate	-	175,466,183	-	175,466,183
Realisation of revaluation surplus	-	(29,158,470)	29,158,470	-
Effect on realisation of reserves due to change in tax rate	-	(11,941,571)	11,941,571	-
Balance as at 31st December 2011	2,671,543,090	874,754,059	(202,727,095)	3,343,570,054

The notes on pages 56 to 70 form an integral part of these financial statements.

Figures in brackets indicate deductions.

Revaluation reserve represents the surplus on revaluation of buildings on leasehold land.

Cash Flow Statement

Year ended 31st December,	2011 Rs.	2010 Rs.
Cash flow from operating activities		
Profit before income tax	379,415,630	289,301,266
Adjustments for :		
Interest expense	1,313,185	6,071,312
Interest income	(38,685,530)	(19,186,251)
Depreciation on property, plant & equipment	221,881,547	200,080,616
Loss on disposal of property, plant & equipment	-	13,517,529
Amortisation of government grants	-	(221,157)
Amortisation of advance lease premium	4,683,472	4,683,472
Provision for retiring gratuity	10,935,633	15,382,070
Provision/(reversal of provision) for inventories	449,056	(3,387,188)
Provision/(reversal of provision) for doubtful debts	2,147,113	(10,798,838)
Operating profit before working capital changes	582,140,106	495,442,831
(Increase)/decrease in inventories	(59,188,248)	(25,944,334)
(Increase)/decrease in trade & other receivables	(31,725,638)	(69,144,540)
(Increase)/decrease in amounts due from related Company	(1,137,831)	153,311
Increase/(decrease) in amounts due to related Company	(345,517)	729,388
Increase/(decrease) in trade & other payables	33,497,836	31,378,018
Cash generated from operating activities	523,240,708	432,614,674
Interest paid	(1,313,185)	(6,071,312)
Income tax paid	1,170,160	(8,200,810)
Retiring gratuity paid	(1,224,934)	(2,763,830)
Net cash flow from operating activities	521,872,749	415,578,722
Cash flow from investing activities		
Purchase of property, plant & equipment	(268,285,015)	(181,536,592)
Advance lease premium paid	(18,546,548)	(22,059,151)
Interest income	38,685,530	19,186,251
Net cash flow from investing activities	(248,146,033)	(184,409,492)
Cash flow from financing activities		
Repayment of NDB loan	(7,500,000)	(10,000,000)
Repayment of Syndicate loan	(15,090,000)	(20,120,000)
Net cash flow from financing activities	(22,590,000)	(30,120,000)
Net increase in cash & cash equivalents	251,136,716	201,049,230
Cash & cash equivalents at the beginning of the year	337,938,519	136,889,289
Cash & cash equivalents at the end of the year (Note 13)	589,075,235	337,938,519

The Notes on pages 56 to 70 form an integral part of these financial statements.

Figures in brackets indicate deductions.

Notes to the Financial Statements

REPORTING ENTITY

General

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 was 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 year was 1,210 (31st December 2010 – 1,082).

Date of authorisation of issue

The financial statements for the period ended 31st December 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 08th May 2012.

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 at fair value and retirement benefit obligations which are measured at the present value of the defined benefit plans 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 these estimates.

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 15 - Measurement of defined benefit obligations.
- Note 27 - Contingent liabilities.

2. Summary of significant accounting policies

The accounting policies set out below are consistent with those used in previous year. 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 in foreign currencies are translated into Sri Lanka Rupees at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Sri Lankan Rupees at the exchange rate at that date. Non-monetary assets and liabilities 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.

2.2 Segmental information

A Segment is a distinguishable component of an enterprise that is engaged in either providing products or services (business segment) or in providing products or services with in particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

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

2.3 Earnings per share

The Company presents basic 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 attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

2.4 Post balance sheet events

All material events occurring after the Balance Sheet date have been considered and where appropriate, adjustments to or disclosures have been made in the respective notes to the financial statements.

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 reporting date, whichever is shorter.

3.1 Property, plant and equipment

Items of property, plant & equipment are measured at cost (or valuation in respect of buildings) 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. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

3.1.2 Revaluation

A revaluation of buildings is done when there is a substantial difference between the fair value (market value) and the carrying amount of the buildings and is undertaken by professionally qualified valuers.

Increases in the carrying amount on revaluation are credited to the revaluation surplus reserve in the shareholders equity

unless it reverses a previous revaluation decrease relating to the same asset, which was previously recognised as an expense. In these circumstances the increase is recognised as income to the extent of the previous write down.

Decreases in the carrying amount on revaluation that offset previous increases of the same individual asset are charged against revaluation surplus reserve in equity. All other decreases are expensed in profit and loss.

3.1.3 Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is de-recognised. The costs of day to day servicing of Property, plant and equipment are recognised in profit and loss as incurred.

3.1.4 Impairment of assets

The carrying amount of the Company's non-financial assets other than inventories is 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 recognised 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. Except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

Notes to the Financial Statements

3.1.5 De-recognition

The carrying amount of an item of property, plant and equipment is de-recognised on disposal of or when no future economic benefits are expected from its use or disposal. Gains and losses on de-recognition 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 income statement.

3.1.6 Depreciation

Depreciation is recognised in the 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.

The estimated useful lives are as follows.

• Motor vehicle	4 years
• Furniture & fittings	10 years
• Office equipment	10 years
• Computers	6 2/3 years
• Other equipment	10 years
• Medical equipment	10 years
• Medical vehicles	4 years
• Kitchen equipment	3 years

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 de-recognised.

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

3.2 Leases

3.2.1 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 in profit and loss on a straight-line basis over the term of the lease. Premiums paid in advance are carried forward and amortised over the entire lease period.

3.3 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in-first-out

(FIFO) principle. Net realisable value is the estimated selling price in the ordinary course of the business, less the estimated selling expenses.

3.4 Trade & 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.

3.5 Cash & cash equivalents

Cash and cash equivalents comprise 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.

For the purpose of the cash flow statement, cash and cash equivalents consist of aforesaid cash and cash equivalents net of outstanding bank overdraft.

4. Liabilities & 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 & 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 estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

4.3 Employee benefits

4.3.1 Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays a fixed contribution in to 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 in the periods during which services are rendered by employees.

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 "Employee Benefits".

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.

4.3.3 Short-term employee benefits

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

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 and associated costs or to be incurred can be reliably measured. The following specific recognition criteria must be met before revenue is recognised.

5.1.1 Rendering of hospital and pharmaceutical services

Revenue from hospital and pharmaceutical services is recognised at the point of delivering the service.

5.1.2 Interest income

Interest income is recognised in profit and loss as it accrues (taking into account the effective yield on the asset).

5.1.3 Rental income

Rental Income is recognised in profit and loss on a straight-line basis over the term of the lease.

5.1.4 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 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 and gain on translation of foreign currency.

Financing expense 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.

5.2.2 Taxation

Income tax expense comprises current tax and deferred tax. Current tax and deferred tax is recognised in profit and loss except to the extent that it relates to items recognised in equity, in which case it is recognised in equity.

5.2.2.1 Current taxation

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

Notes to the Financial Statements

arising from business operation of the hospital are exempt from income tax for a period of 12 years commencing from 2002.

5.2.2.2 Deferred taxation

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

5.2.3 Borrowing costs

Borrowing costs are recognised 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.

5.2.4 Government grants

Government grants received to compensate the Company for the cost of an asset is initially 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 associated with the grant and are then recognised in profit and loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Company for expenses incurred are recognised in profit and loss as other income on a systematic basis in the same periods in which the expenses are recognised.

6. Cash flow statement

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.

7. New accounting standards issued but not effective at the reporting date

The Institute of Chartered Accountants of Sri Lanka issued a new volume of Sri Lanka Accounting Standards which will become applicable for annual periods beginning on or after 1st January 2012. Accordingly, these Standards have not been applied in preparing these financial statements as they were not effective for the year ended 31st December 2011.

These Sri Lanka Accounting Standards comprise accounting standard prefixed both SLFRS (corresponding IFRS) and LKAS (corresponding IAS). Application of Sri Lanka Accounting Standards prefixed SLFRS and LKAS for the first time shall be deemed to be an adoption of SLFRS.

The Company is currently in the process of evaluating the potential effect of these Standards on its financial statements.

	Balance as at 01.01.2011 Rs.	Additions during the year Rs.	Balance as at 31.12.2011 Rs.
8 Property, Plant & Equipment			
8.1 Cost / valuation			
Freehold land	-	12,718,151	12,718,151
Buildings on leasehold land	2,189,450,250	8,755,712	2,198,205,962
Medical equipment	992,364,966	146,487,468	1,138,852,434
Furniture & fittings	139,565,022	9,173,596	148,738,618
Office equipment	33,077,131	1,940,809	35,017,940
Computers	67,840,831	25,097,226	92,938,057
Other equipment	354,984,438	29,861,370	384,845,808
Kitchen equipment	4,143,752	20,296,383	24,440,135
Medical vehicles	8,901,926	-	8,901,926
Motor vehicles	3,465,900	14,004,300	17,470,200
	3,793,794,216	268,335,015	4,062,129,231

	Balance as at 01.01.2011 Rs.	Charge for the year Rs.	Balance as at 31.12.2011 Rs.
8.2 Depreciation			
Buildings on leasehold land	-	54,765,200	54,765,200
Medical equipment	595,104,550	105,147,028	700,251,578
Furniture and fittings	82,075,604	14,270,953	96,346,557
Office equipment	25,232,284	3,347,824	28,580,108
Computers	56,899,388	5,396,612	62,296,000
Other equipment	241,269,147	36,548,113	277,817,260
Kitchen equipment	2,060,081	1,964,948	4,025,029
Medical vehicles	8,901,926	-	8,901,926
Motor vehicles	3,465,900	440,870	3,906,770
	1,015,008,880	221,881,547	1,236,890,427
Capital work-in-progress	50,000		-

	2011 Rs.	2010 Rs.
8.3 Carrying amount		
At cost/ cost incurred since last revaluation		
Total carrying amount of property, plant & equipment	2,825,238,804	2,778,835,336

	2011 Rs.	2010 Rs.
8.4 Depreciation on property, plant & equipment		
Classified under cost of services	105,147,028	96,472,230
Classified under depreciation on property plant & equipment	116,734,519	103,608,386
	221,881,547	200,080,616

Notes to the Financial Statements

As at 31 December 2011,

- 8.5** The buildings were revalued as at 31st December 2010 by Messrs A.A.M Fathihu - F.I.V (Sri Lanka) incorporated valuer. Only the surplus on revaluation relating to the building was incorporated in the financial statements from its effective date which is 31st December 2010. 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.

Company properties	Method of valuation	Date of valuation	Valuer	Revalued amount Rs.	Market value Rs.
Building constructed on land obtained on operating lease at 578, Elvitigala mawatha, Narahenpita, Colombo 05.	Investment method	31/12/2010	A.A.M. Fathihu (F.I.V. Sri Lanka) Incorporated valuer	2,189,450,250	2,189,450,250

The carrying amount of revalued 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 leasehold land	1,432,065,699	309,618,378	1,122,447,321

During the financial year, the company acquired property, plant & equipment to the aggregate value of Rs 268,335,015/- (2010 - Rs.181,685,843/-), the consideration for which was settled by cash.

8.6 Information on the freehold land of the Company

Location	Extent (Perches)	Cost of Land Rs.
Narahenpita Hathbodiya, Kirula Road, Narahenpita, Colombo 05.	10.25	7,461,000
Narahenpita Hathbodiya, Kirula Road, Narahenpita, Colombo 05.	10	5,257,151
		12,718,151

	2011 Rs.	2010 Rs.
9 Advance lease premium		
Balance at the beginning of the year	106,127,469	88,751,790
Premium paid during the year	18,546,548	22,059,151
Amount charged to the Income Statement	(4,683,472)	(4,683,472)
Balance at the end of the year	119,990,545	106,127,469

The Company has entered into a 99-year lease agreement with the Urban Development Authority from 1999. In terms of this agreement a further sum of Rs. 268.92 Mn is payable by 2026.

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

The leasehold interest in the land obtained on lease was assessed as at 31st December 2010 by Messrs A.A.M.Fathihu – F.I.V. (Sri Lanka) Incorporated Valuer as Rs.1,294,051,875/-. This value is not incorporated in the financial statements.

Year ended 31st December,

	2011 Rs.	2010 Rs.
10 Inventories		
Medical items	135,799,870	80,252,878
Non-medical items	7,522,416	4,517,950
Engineering items	1,868,063	1,680,329
	145,190,349	86,451,157
11 Trade & other receivables		
Trade receivables		
Trade receivables - related party		
Sri Lanka Insurance Corporation Limited	13,510,512	10,162,607
Total trade receivables from related parties	13,510,512	10,162,607
Trade receivables - others	120,124,101	130,632,788
Provision for bad & doubtful debts	(7,622,900)	(5,475,787)
Total trade receivables - others	112,501,200	125,157,001
Deposits and prepayments	44,002,763	42,629,555
Advances & other receivables		
- Insurance claim receivable from related parties - Sri Lanka Insurance Corporation Limited	-	33,293,068
Provision for bad & doubtful debts	-	(11,169,914)
	-	22,123,154
- Others	75,099,299	15,462,933
Total trade & other receivables	245,113,774	215,535,250
12 Amounts due from related parties		
Sri Lanka Insurance Corporation Limited	1,845,514	707,683
	1,845,514	707,683
13 Cash & cash equivalents		
13.1 Favourable cash & cash equivalents balance		
Cash in hand	18,995,237	6,678,400
Cash at bank	49,000,919	92,544,262
Repo investment	100,000,000	368,519,920
Commercial papers	156,043,233	-
Fixed deposits -NRFC	34,774,341	-
Fixed deposits -LKR	312,733,750	-
	671,547,480	467,742,582
13.2 Unfavourable cash & cash equivalents balances		
Bank overdraft	(82,472,245)	(129,804,063)
Total cash & cash equivalents for the purpose of cash flow statement	589,075,235	337,938,519

Notes to the Financial Statements

Year ended 31st December,

	2011 Rs.	2010 Rs.
14 Stated capital		
Issued & fully paid - ordinary shares		
Balance at the beginning of the Year		
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 dividend as declared from time to time and are entitled to one vote per share at a meeting of the Company.

	2011 Rs.	2010 Rs.
15 Employee benefits		
Retirement benefit obligations		
Balance at the beginning of the year	33,011,027	20,392,787
Current service cost	9,155,636	7,833,478
Interest cost	3,466,158	2,447,134
Actuarial (gain)/loss	(1,686,161)	5,101,458
Payments made (including benefits paid) during the year	(1,224,934)	(2,763,830)
Balance at the end of the year	42,721,726	33,011,027
Expenses recognised in profit or loss		
Staff costs	10,935,633	15,382,070

Retirement benefit obligations as at 31 December 2011 is based on actuarial valuation carried out by Messrs Actuarial & Management Consultants (Pvt) Ltd, a firm of professional actuaries. The valuation method used by the actuary is the Projected Unit Credit (PUC).

The key assumptions used by the actuary include the following

(1) Discount rate -	10.50%	
(2) Salary increment rate		
- Salary denoted in Sri Lankan rupees	10.00%	p.a
- Salary denoted in Indian rupees and USD	5.00%	p.a
(3) Retirement age	55 years	

The Company's retirement benefit obligation would have been Rs. 56,345,333/- 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.

	2011 Rs.	2010 Rs.
16 Deferred tax liabilities		
Balance at the beginning of the year	457,892,610	350,698,002
Effect on surplus on revaluation of property, plant & equipment	-	153,569,566
Effect on change in tax rate - Recognised in equity	(175,466,184)	(38,374,064)
- Recognised in income statement	(86,186,737)	(37,706,697)
Origination and reversal of temporary differences	28,670,915	29,705,803
Balance as at the end of the year	224,910,605	457,892,610

Year ended 31st December,

	2011		2010	
	Temporary difference	Tax effect	Temporary Difference	Tax Effect
	Rs.	Rs.	Rs.	Rs.
16.1 Analysis of deferred tax liabilities				
Property, plant & equipment	820,313,128	98,437,574	571,678,131	160,069,877
Employee benefits	(42,721,726)	(5,126,607)	(33,011,027)	(9,243,088)
Revaluation on buildings	1,096,663,647	131,599,638	1,096,663,647	307,065,821
	1,874,255,048	224,910,605	1,635,330,751	457,892,610

16.2 Deferred tax is measured at 12% being the applicable tax rate subsequent to the balance sheet date.

	2011	2010
	Rs.	Rs.
17 Interest bearing borrowings		
Syndicate loan (Note 17.1)	-	15,090,000
NDB loan (Note 17.2)	-	7,500,000
	-	22,590,000
Amount payable within one year	-	22,590,000
Amount payable after one year	-	-
17.1 Syndicate loan		
Hatton National Bank PLC (17.1 A)	-	7,500,000
National Development Bank PLC (17.1 B)	-	3,795,000
Seylan Bank PLC (17.1 C)	-	3,795,000
	-	15,090,000
17.1 A Hatton National Bank PLC		
Balance at the Beginning of the year	7,500,000	17,500,000
Payment made during the year	(7,500,000)	(10,000,000)
Balance at the end of the year	-	7,500,000
17.1 B National Development Bank PLC		
Balance at the Beginning of the year	3,795,000	8,855,000
Payment made during the year	(3,795,000)	(5,060,000)
Balance at the end of the year	-	3,795,000
17.1 C Seylan Bank PLC		
Balance at the Beginning of the year	3,795,000	8,855,000
Payment made during the year	(3,795,000)	(5,060,000)
Balance at the end of the year	-	3,795,000
17.2 Soft loan		
National Development Bank PLC		
Balance at the Beginning of the year	7,500,000	17,500,000
Payment made during the year	(7,500,000)	(10,000,000)
Balance at the end of the year	-	7,500,000

Notes to the Financial Statements

Year ended 31st December,

	2011 Rs.	2010 Rs.
18 Amounts due to related parties		
Sri Lanka Insurance Corporation Limited	4,247,497	4,593,014
	4,247,497	4,593,014
19 Trade & other payables		
Trade payables	149,990,609	141,786,178
Other payables		
- Advance received	30,730,655	29,991,433
- Economic service charge payable	2,404,385	2,373,976
- Other payables & accruals	127,878,691	103,354,916
	161,013,730	135,720,325
	311,004,339	277,506,504
20 Revenue		
Hospital revenue	2,728,888,378	2,280,247,527
Pharmacy revenue	951,285,951	875,775,155
	3,680,174,329	3,156,022,682

	2011 Rs.	2010 Rs.
21 Other operating income		
Amortisation of government grants	-	221,154
Rent income	1,350,000	420,000
Car park income	17,546,334	-
Sundry income	3,987,888	380,071
	22,884,222	1,021,225

	2011 Rs.	2010 Rs.
22 Staff costs		
Salaries, fees, wages & other related costs	621,844,058	497,663,978
Retirement benefit obligations	10,935,633	15,382,070
Defined contribution plan cost - EPF & ETF	49,489,657	40,101,550
	682,269,348	553,147,598
No. of Employees	1,210	1,082

Year ended 31st December,	2011 Rs.	2010 Rs.
23 Net finance income		
23.1 Finance income		
Interest income from - Call deposits	19,572,305	17,726,094
- Fixed deposits - LKR	6,786,763	-
- Fixed deposits - NRFC	2,529,493	1,460,157
- Treasury bills	2,193,514	-
- Commercial papers	7,603,455	-
Gain on translation of foreign currency	2,968,835	1,037,582
Total finance income	41,654,365	20,223,833
23.2 Finance cost		
Interest on		
- NDB loan	(431,320)	(1,813,750)
- Syndicate loan	(874,309)	(4,247,533)
Guarantee fees	(573,075)	(529,153)
Bank overdraft	(7,556)	(10,029)
Loss on translation of foreign currency	(1,364,900)	(1,620,931)
Total finance cost	(3,251,160)	(8,221,396)
	38,403,205	12,002,437
24 Profit before income tax		
Profit before income tax has been stated after charging all expenses including the following;		
Auditors' remuneration		
- Statutory audit	515,000	475,000
- Non audit services	1,600,000	-
Provision/(reversal of provision) for doubtful debts	2,147,113	(10,798,838)
Provision/(reversal of provision) for inventories	449,056	(3,387,188)
Legal and professional fees	1,756,905	2,457,626
Amortisation of advanced lease premium	4,683,472	4,683,472
Loss on disposal of property, plant & equipment	-	(13,517,535)

Notes to the Financial Statements

Year ended 31st December,

25 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 from 2002. However, income tax has been provided at the normal rates of tax on non-trading income.

	2011 Rs.	2010 Rs.
Tax expense		
Current tax		
Taxation on profit for the year (Note : 25.1)	16,547,624	7,281,109
Irrecoverable economic service charge	-	877,328
Reversal of economic service charge	(17,717,784)	-
	(1,170,160)	8,158,437
Deferred tax		
Origination & reversal of temporary differences	28,670,915	29,705,803
Effect on changes in tax rate (Note 16)	(86,186,737)	(37,706,697)
	(57,515,822)	(8,000,894)
	(58,685,982)	157,543
25.1 Reconciliation of the income tax expense		
<u>Non-trading income</u>		
Sundry income	5,337,888	380,071
Rent income	17,546,334	420,000
Interest income	36,156,036	19,695,660
Taxable income	59,040,258	20,495,731
Tax rates applicable	28%	35%
Taxation on non-trading income	16,531,272	7,173,506
Social responsibility levy	16,352	107,603
Taxation on profits for the year	16,547,624	7,281,109

26 Basic earnings per share

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

	2011	2010
Profit for the year excluding effect on changes in tax rate		
Profit for the year excluding effect on changes in tax rate	351,914,875	251,437,026
Weighted average number of ordinary shares applicable	223,732,169	223,732,169
Basic earnings per share (Rs.)	1.57	1.12
Profit for the year including effect on changes in tax rate		
Profit for the year including effect on changes in tax rate	438,101,612	289,143,723
Weighted average number of ordinary shares applicable	223,732,169	223,732,169
Basic earnings per Share (Rs.)	1.96	1.29

27 Contingent liabilities

There were no material contingent liabilities as at the balance sheet date which requires adjustments or disclosure in the Financial Statements.

28 Capital commitments & others**28.1 Capital expenditure commitments**

There were no material capital commitments as at the Balance Sheet date.

28.2 Commitment on leased land

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 tax)
2004 to 2025	18,546,548	(Excluding tax)
2026	9,273,274	(Excluding tax)

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.

29 Events after the balance sheet date

There were no material events that occurred after the balance sheet date which required adjustments to or disclosure in the Financial Statements.

Notes to the Financial Statements

Year ended 31st December,

30 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. 680,000/- 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 year ended 31st December 2011.

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 as at 31 December	
				2011 Rs.	2011 Rs.	2011 Rs.	2010 Rs.
Sri Lanka Insurance Corporation Ltd	Mr. A. M. M. De Alwis	Parent Company	Services provided by The Lanka Hospitals Corporation PLC	83,703,479	(80,355,574)	13,510,512	10,162,607
			Fee for the insurance policy on Fire, Vehicle, Professional Indemnity, Staff Insurance, General Insurance and vehicle hiring charges	36,670,568	37,016,085	(4,247,497)	(4,593,014)
			Services provided by The Lanka Hospitals Corporation PLC including auditorium hiring and F&B services	7,546,169	(6,408,337)	1,845,515	707,683
			Insurance claim on fire insurance policy	-	(23,534,686)	-	33,293,068

Shareholder and Investor Information

Top 20 Shareholding as at 31st December

Shareholder	2011		2010	
	No of shares	Holding	No of shares	Holding
1 Sri Lanka Insurance Corporation Ltd - Life Fund	66,097,350	29.54%	66,097,350	29.54%
2 Fortis Global Healthcare Holdings Pte Ltd	64,120,915	28.66%	-	-
3 Sri Lanka Insurance Corporation Ltd - General Fund	56,080,643	25.07%	56,080,643	25.07%
4 Property Development PLC	21,329,000	9.53%	21,329,000	9.53%
5 Royal Ceramics Lanka PLC	475,800	0.21%	-	-
6 Seylan Bank PLC/ Mr. W.D.N.H. Perera	467,300	0.20%	-	-
7 Seylan Bank PLC/ Rurev Capital (Pvt) Ltd	325,200	0.15%	-	-
8 Dr. S.K. Shanmugam	287,810	0.13%	881,914	0.39%
9 Mr. M.M.C.J. Fernandopulle	275,000	0.12%	280,000	0.12%
10 Mr. H.W.M.Woodward	220,300	0.10%	-	-
11 Pan Asia Banking Corporation PLC/ Mr. A.S.R.Silva	202,200	0.09%	-	-
12 Mr. A.H. Munasinghe	168,571	0.08%	226,571	0.10%
13 Carlines Holdings (Pvt) Ltd	142,510	0.06%	-	-
14 Union Assurance PLC/ Account No.05	118,700	0.05%	-	-
15 DFCC Vardhana Bank Limited/ Mr. E.P.I. Fernando	114,500	0.05%	-	-
16 DPMC Financial Services (Pvt) Ltd / Account No.02	110,300	0.05%	-	-
17 Mr. T.L.M. Imtiaz	110,000	0.05%	200,900	0.09%
18 Mr. W.P.A.S. Perera	100,000	0.04%	-	-
19 Mr. A.M. Weerasinghe	95,200	0.04%	-	-
20 Mr. G.C. Goonetilleke	92,000	0.04%	-	-
	210,933,299	94.27%	145,096,378	64.84%

Individual / Institution as at 31st December 2011

	No of Shareholders	As %	No of Shares	As %
Individual	8,437	97.89	12,705,703	5.68
Institution	182	2.11	211,026,466	94.32
	8,619	100.00	223,732,169	100.00

Resident / Non-Resident as at 31st December 2011

	No of Shareholders	As %	No of Shares	As %
Resident	8,591	99.68	159,148,677	71.13
Non-Resident	28	0.32	64,583,492	28.87
	8,619	100.00	223,732,169	100.00

Shareholder and Investor Information

Directors'/Senior Management Shareholdings as at 31st December

Directors	Position	2011		2010	
		No of shares	Holding %	No of shares	Holding %
Mr. Gotabaya Rajapaksa	Chairman	-	-	-	-
Dr. Nalaka Godahewa	Director	-	-	-	-
Mr. A. M. M. De Alwis	Director	-	-	-	-
Prof. Dayasiri Fernando	Director	-	-	-	-
Dr. T. R. C. Ruberu	Director	-	-	-	-
Mrs. R. S. Cabraal	Director	-	-	-	-
Dr. G. W. K. Wickramasinghe	Director	-	-	-	-
Mr. P. A. Lionel	Director	-	-	-	-
Mr. Malvinder Mohan Singh	Director	-	-	-	-
Mr. Shivinder Mohan Singh	Director	-	-	-	-
Mr. Sunil Godhwani	Director	-	-	-	-
Dr. Bandula Chandranath Wijesiriwardena (Appointed on 27th February 2012)	Director	-	-	-	-
Mr. Vishal Bali (Alternate Director to Mr. Malvinder Mohan Singh)	Director	-	-	-	-
Mr. Balinder Singh Dhillon (Alternate Director to Mr. Shivinder Mohan Singh)	Director	-	-	-	-
Dr. Amit Varma (Alternate Director to Mr. Sunil Godhwani)	Director	-	-	-	-
Senior Management					
Mr. Lakith Peiris	Chief Executive Officer	-	-	-	-

		2011	2010
Earnings Per Share	Rs.	1.96	1.29
Dividend Per Share	Rs.	N/A	N/A
Net Asset Value Per Share	Rs.	14.94	12.20
Market Value per Ordinary Share			
- Highest value during the year	Rs.	64.90	38.00
- Lowest value during the year	Rs.	35.10	29.00
- Value at the end of the year	Rs.	52.10	31.70
Gearing Ratio	%	N/A	0.82
Interest Cover	Times	261.19	45.75
Quick Asset Ratio	Times	2.31	1.57

Shareholdings and Distribution as at 31st December

Share Range	2011			2010		
	No of shareholders	No of shares	Holding %	No of share holders	No of shares	Holding%
1 1 -1,000	6,431	2,732,176	1.22	5,937	2,537,712	1.13
2 1001 - 5000	1,779	4,299,574	1.92	1,685	4,099,112	1.83
3 5,001 - 10,000	230	1,749,081	0.78	167	1,244,257	0.56
4 10,001 - 50,000	145	3,088,739	1.38	89	1,833,054	0.82
5 50,001 - 100,000	17	1,216,500	0.55	9	662,385	0.30
6 100,001 - 500,000	13	3,018,191	1.35	13	3,145,413	1.41
7 500,001 - 1,000,000	-	-	-	2	1,491,914	0.67
8 1,000,001 - & Above	4	207,627,908	92.80	5	208,718,322	93.28
	8,619	223,732,169	100.00	7,907	223,732,169	100.00

Public Shareholding as at 31st December 2011 - 16.73% (December 2010 - 16.73%)

Number of Shares - 37,433,261 (2010 - 37,430,391)

Notice of Meeting

NOTICE IS HEREBY GIVEN that the 13th Annual General Meeting of The Lanka Hospitals Corporation PLC will be held on 29th June 2012 at 10.30 a.m. at Dr. Prathap C Reddy Auditorium of The Lanka Hospitals Corporation PLC, No.578, Elvitigala Mawatha, Colombo 5 for the purpose of conducting the following business:

1. To receive, consider and adopt the Annual Report and the Financial Statements of the Company for the year ended 31st December 2011 together with the Report of the Auditors' thereon.
2. To approve a final dividend for the year ended 31st December 2011, as recommended by the Board of Directors.
3. 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 72 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".

4. To appoint Messrs PricewaterhouseCoopers Chartered Accountants as auditors of the Company for the year 2012 and to authorize the Directors to fix their remuneration.
5. To authorize the Directors to determine donations for the year 2012 and up to the date of the next Annual General Meeting.
6. Any other business of which due notice has been given.

By order of the Board of Directors of

THE LANKA HOSPITALS CORPORATION PLC

Accounting Systems Secretarial Services (Private) Limited

Company Secretaries

Colombo, this 17th May 2012

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.

Shareholders/Proxyholders are requested to bring with them an acceptable form of identity.

Form of Proxy

Folio Number*

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

Mr. Gotabaya Rajapaksa	or failing him
Dr. Nalaka Godahewa	or failing him
Mr. A. M. M. De Alwis	or failing him
Prof. D. P. A. Fernando	or failing him
Dr. G. W. K. Wickramasinghe	or failing him
Mr. P. A. Lionel	or failing him
Dr. T. R. C. Ruberu	or failing him
Mrs. R. S. Cabraal	or failing him
Mr. Malvinder Mohan Singh	or failing him
Mr. Shivinder Mohan Singh	or failing him
Mr. Sunil Godhwani	or failing him
Dr. B. Wijesiriwardena	

as my/our Proxy to represent and speak and vote for me/us** on my/our behalf at the 13th Annual General Meeting of the Company to be held on 29th June 2012 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, on my/our behalf on the resolution set out in the Notice convening the meeting, as follows:

	For	Against
1) To receive, consider and adopt the Annual Report of the Directors, the Audited Accounts for the Year ended 31st December 2011 and the Report of the Auditors.	<input type="text"/>	<input type="text"/>
2) To approve a final dividend for the year ended 31st December 2011.	<input type="text"/>	<input type="text"/>
3) 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="text"/>	<input type="text"/>
4) To appoint Messrs PricewaterhouseCoopers as auditors of the company for the financial year 2012 and to authorize the Directors to fix their remuneration.	<input type="text"/>	<input type="text"/>
5) To authorize the Directors to determine donations for the year 2012 and up to the date of the next Annual General Meeting.	<input type="text"/>	<input type="text"/>

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

.....
Signature

Notes: * Please indicate your folio number which is given in the address sticker carrying this annual report pack.

** Instructions as to completion appear overleaf.

Please indicate with an "x" in the space provided, how your Proxy is to vote on the Resolutions.

If no indication is given, the Proxy in his discretion will vote as he thinks fit.

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, Tower 01 - 3rd floor, Aitken Spence Building, 305, Vauxhall Street, Colombo02 on or before 27 June 2012.
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 appointor is a company/ Incorporated body this Form must be executed in accordance with the Articles of Association/ Stature.

Corporate Information

Name of the Company

The Lanka Hospitals Corporation PLC

Company Registration No.

PQ 180

Registered Office

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

Board of Directors

Mr. Gotabaya Rajapaksa
Dr. Nalaka Godahewa
Mr. A. M. M. De Alwis
Prof. D. P. A. Fernando
Dr. G. W. K. Wickramasinghe
Mr. P. A. Lionel
Dr. T. R. C. Ruberu
Mrs. R. S. Cabraal
Mr. Malvinder Mohan Singh (Alternate director Mr. Vishal Bali)
Mr. Shivinder Mohan Singh (Alternate director Mr. Balinder Singh Dhillon)
Mr. Sunil Godhwani (Alternate director Dr. Amit Varma)
Dr. Bandula Wijesiriwardena

Secretaries

M/s. Accounting Systems Secretarial Services (Private) Limited
Level 4, No. 2, Castle Lane, Colombo 4.
Tel: +94 11 2505152

Auditors

Outgoing Auditor

M/s. KPMG
(Chartered Accountants)
32A, Mohamed Macan Markar Mawatha,
Colombo 03.
Tel: +94 11 5426426

Proposed New Auditor

M/s PricewaterhouseCoopers
(Chartered Accountants)
P. O. Box 918
100, Braybrooke Place,
Colombo 02.
Tel: +94 11 7719838

Registrars to Shares

National Asset Management Limited
Tower 01- 3rd Floor,
Aitken Spence Building,
305, Vauxhall Street,
Colombo -02.
Tel : +94 11 2445911

Bankers

Bank of Ceylon
Hatton National Bank PLC

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