

NMS/SRM/ASH

September 30th, 2024

Attention: Mr. Thusitha Rubasinghe

Chief Financial Officer
Ceylon Hospitals PLC
No. 03, Alfred Place,
Colombo 03

Dear Sir,

Report on Tax and Transfer Pricing Considerations of merger options

We refer to your request, wherein you have sought an opinion on the tax implications on the above matter.

Please find attached for your perusal our Report on the above matter.

We have not verified the accuracy or completeness of the information provided to us but have relied on same for the purpose of the advice / opinion given, and accordingly, we cannot be held responsible for the consequences of advice being provided on the basis of inaccurate or incomplete information.

We draw your attention to the fact that the advice provided is based on the current laws and regulations in Sri Lanka. We will not update our report for subsequent changes or modifications to the tax laws and regulations, or to the administrative interpretations thereof or for changes in the authorities' practices, unless specifically engaged to do so.

In delivering any opinion or advices our role will be only that of an adviser and any decision should be taken by the Company's Board of Directors after duly considering such advice provided. We also advice that Ernst & Young cannot be held responsible for any consequences due to the risk of challenge by the Inland Revenue or subsequent changes resulting from legislation, court decision or practice

Should you have any clarifications please do not hesitate to contact Ms. Rifath Mowlana on +94770558532.

Yours faithfully,





Ceylon Hospitals PLC

Tax and Transfer Pricing Considerations

August 2024



Building a better
working world



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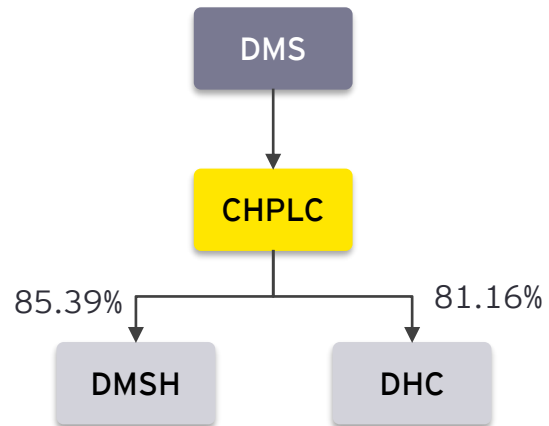
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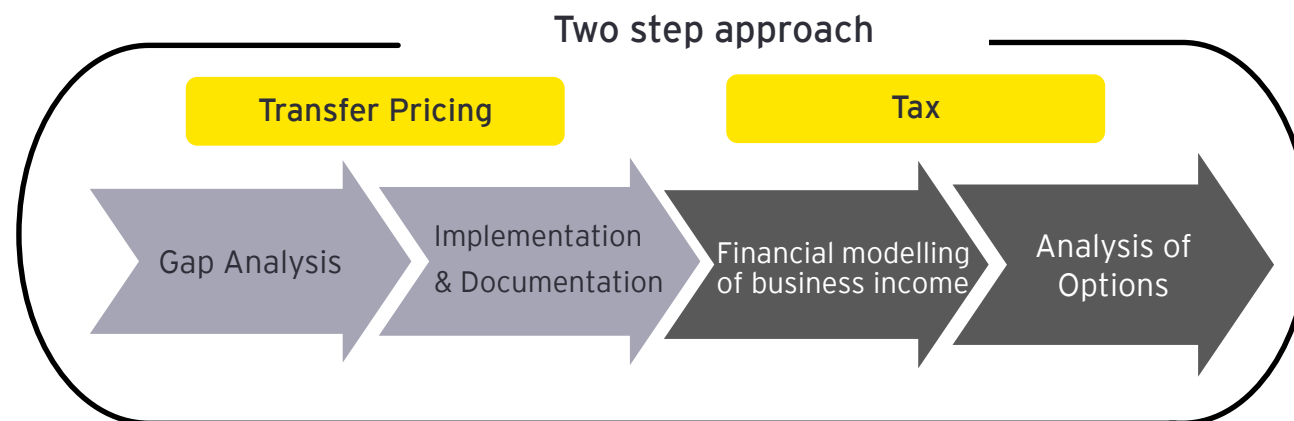
Background

Context



- The management is considering the merger of DHC with CHPLC and DMSH operating separately.

Approach



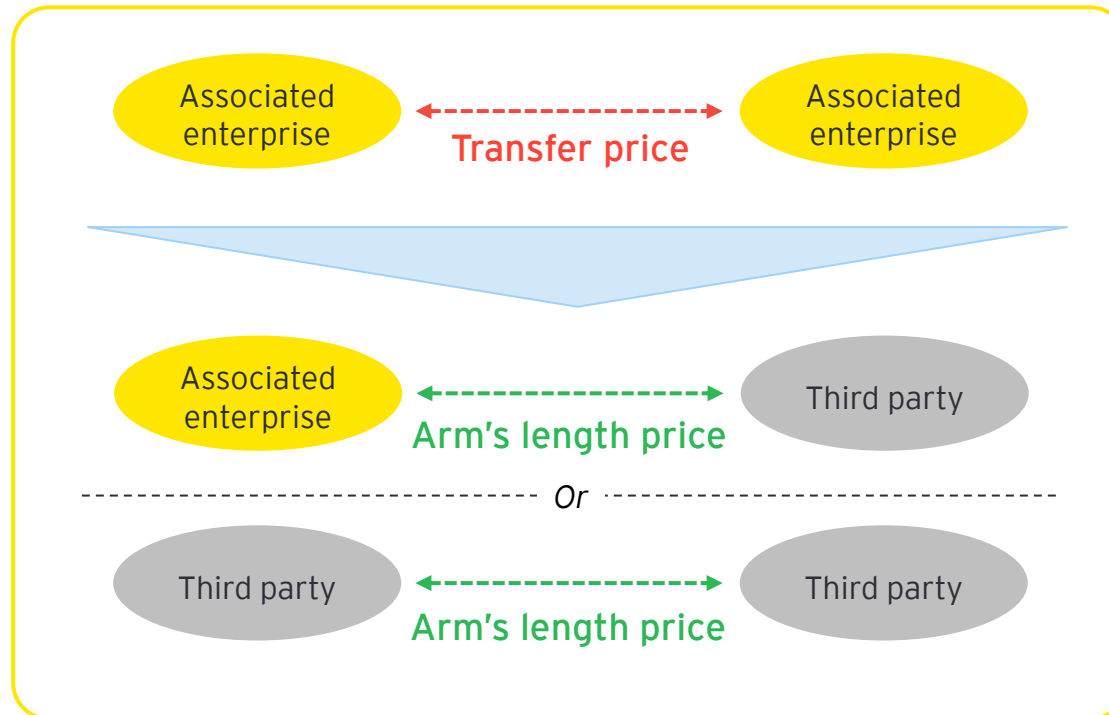
**Reliance has been placed on information provided by the management*

** The tax computations herein are approximate values and may vary*

01

Transfer Pricing Considerations

Transfer pricing regulations are imposed to avoid profit shifting between group companies



- ▶ In Sri Lanka, the Regulations on Transfer Pricing No. 2 of 2020 were issued under the Gazette Extraordinary No. 2217/7 dated 2 March 2021.
- ▶ These regulations were drafted for the purpose of sections 76, 77 and 78 of the Inland Revenue Act, No. 24 of 2017.
- ▶ They are applicable to all international associated enterprise ("AE") transactions (sec. 76), and domestic AE transactions (sec. 77) where:
 - a) Exemptions are granted to any one of the AEs;
 - b) AEs are taxed at different income tax rates or,
 - c) Any one of the AEs have incurred tax losses or have brought forward tax losses.
- ▶ No tax exemption or benefit is provided on the Taxable Income enhanced as a result of TP adjustments. Similarly, where an adjustment is made to the taxable income of a taxpayer in relation to a domestic AE transaction, no tax adjustment would be made to the taxable income of the other party to the transaction.

As a rule, all AE transactions must be carried out at arm's length and proper records should exist to serve as proof of the arm's length nature of all AE transactions. This is because, if the Inland Revenue Department challenges the arm's length nature of any AE transaction, the burden of proof will lie with the taxpayer.

Applicable penalties | Impact of non-compliance to transfer pricing regulations

Non-maintenance of Documentation:

Penalty of up to 1% of the aggregate transaction value.

Not Furnishing Required Documents:

Penalty of up to Rs. 250,000.

Non-disclosure of any Required Information:

Penalty of up to 2% of the aggregate transaction value.

Failure to Submit Documents on the Specified Date:

Penalty of up to Rs. 100,000.

Concealment of Income, Furnishing Inaccurate Particulars or Evasion:

Penalty of 200% of incremental tax on the TP adjustment.



Our scope:

Covered entities:

- ▶ Ceylon Hospitals PLC (“CHPLC”)
- ▶ Durdans Heart Center (Private) Limited (“DHC”)
- ▶ Durdans Medical and Surgical Hospital (Private) Limited (“DMSH”)

Collectively referred to as Durdans Group.

Intercompany transactions reviewed:

- ▶ **Transaction 01:** Revenue sharing arrangement
- ▶ **Transaction 02:** Transfer of drugs, injections and consumables
- ▶ **Transaction 03:** Reimbursements
 - ▶ Income/ (expense) for drugs
 - ▶ Shared staff cost
 - ▶ Insurance expenses
 - ▶ Other common costs
- ▶ **Transaction 04:** Rent for the use of CHPLC premises
- ▶ **Transaction 05:** Cost allocation for the food and beverage unit
- ▶ **Transaction 06:** DHC operations
- ▶ **Transaction 07:** Oxygen expenses allocation
- ▶ **Transaction 08:** Interest on the intercompany loan

Our approach:

1

Gap analysis to identify potential audit risks

We conducted a review process to identify discrepancies between current TP practices in the Durdans Group and the regulatory requirements or arm's length standards set by the Inland Revenue Department (“IRD”). The study aims to identify and assess areas of potential tax risk due to non-compliance or misalignment with arm's length principles.

2

Recommendations

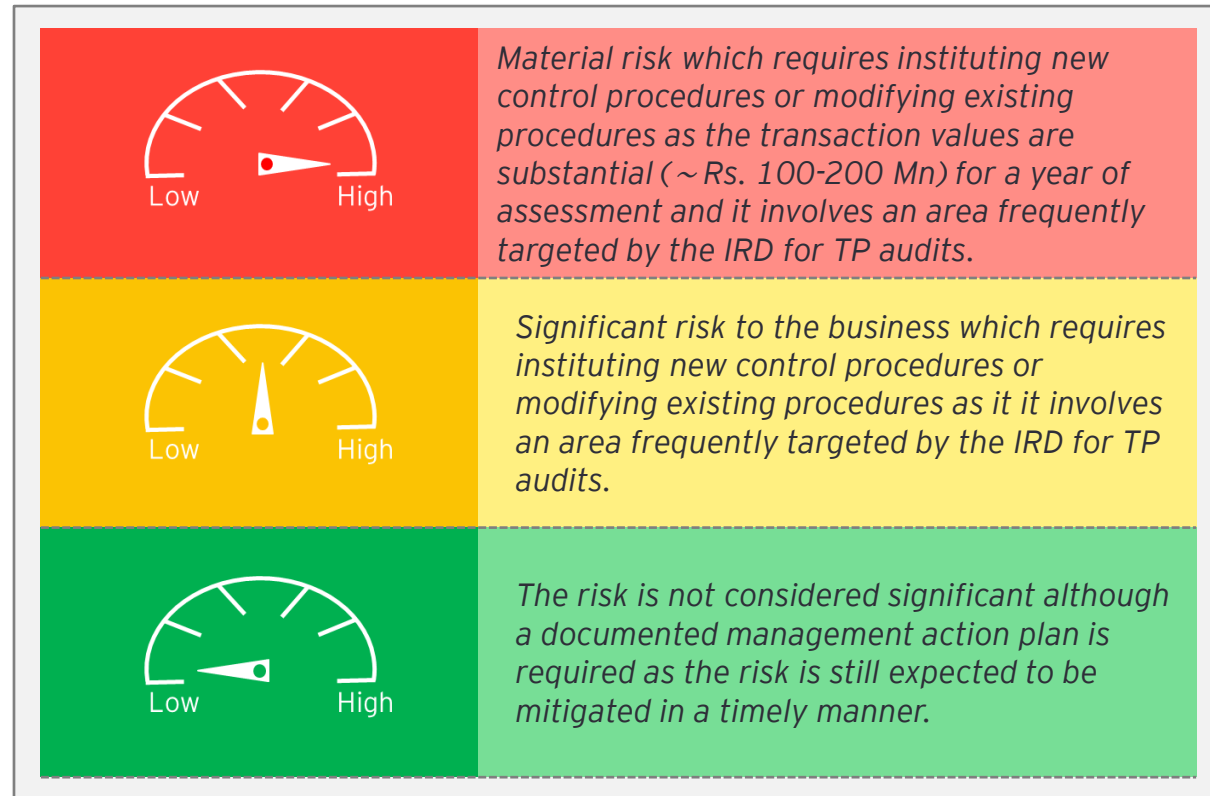
Based on the gap analysis, a detailed report was issued, which included recommendations for addressing identified gaps, such as changes to TP policies, pricing adjustments, restructuring of intercompany agreements, or enhancement of documentation. Strategies to reduce the risk of TP audits, adjustments, penalties, and disputes with tax authorities were also provided.

3

Implementation and documentation

Benchmark studies were conducted for specific transactions. EY developed a transfer pricing policy document, detailing the nature of AE transactions, pricing policies and the basis for pricing policies applied, to be maintained internally by management.




Overview of AE transactions | Risk impact analysis



- ▶ Based on brainstorming session had with management, the risk level of the covered intercompany transactions has been evaluated from a Sri Lankan transfer pricing perspective.
- ▶ Covered transactions have been classified as high risk, low risk, and moderate risk.
- ▶ For the avoidance of doubt, the factors considered when determining the level of risk applicable to the covered intercompany transactions covered are as follows:
 - a) Materiality of transaction value; and
 - b) Trends in transfer pricing audits initiated by the IRD.




Regardless of the risk indicator, our recommendation is that the Group maintains comprehensive documentation for all transactions between group entities.

Overview of AE transactions | Risk impact analysis

Transaction*	Perceived level of risk	Risk impact	Recommendations for mitigation / Management actions
Revenue and cost sharing agreement ~Rs. 250 Mn		<ul style="list-style-type: none"> ▶ A revenue/cost sharing arrangement in lieu of rent for CHPLC's use of DMSH's premises can be challenged by the IRD - remuneration for the use of premises is typically rent. ▶ Current revenue/cost sharing policy has no basis. ▶ If identified, the IRD may request that the service fee be justified (i.e., provide proof that additional services, aside from use of premises, are provided). 	<ul style="list-style-type: none"> ▶ A benchmark study was conducted by EY using CHPLC's existing rental agreements with independent third-party lessors for its medical centers/lab sample collection centers. ▶ Based on this, Rs. 71 - 121 was the arm's length range. We recommend applying a rent rate that falls between the median and upper quartile (i.e., Rs. 103 - 121) as market rates in the vicinity are between ~Rs. 123 - 310 (corroborative analysis).
Reimbursement of shared staff expenses ~Rs. 367 Mn		<ul style="list-style-type: none"> ▶ Reimbursements of salary-related expenses has been challenged by the IRD in the past, on the basis that sharing skilled employees between independent entities would invariably involve a mark-up. ▶ Certain executive and non-executive staff within the Durdans Group are shared (i.e., salaries, bonuses, overtime, EPF, ETF), allocated based on estimated time spent in each unit, last updated in 2018. 	<ul style="list-style-type: none"> ▶ Management stated that this arrangement will be eliminated, and activity-based staff allocation will be implemented. Secondment arrangements are also being considered. ▶ <i>A benchmark study was not performed as management intends to rectify this internally.</i> ▶ However, we recommend a documented management action plan as soon as practicable.
Reimbursement of overheads, etc. ~Rs. 474 Mn		<ul style="list-style-type: none"> ▶ Overheads are charged out on a predetermined fixed apportionment basis which was set based on projected consumption levels for each entity, without considering actual usage by group entities. 	<ul style="list-style-type: none"> ▶ Management maintains that appropriate allocation keys (e.g., meter reading, etc.) will be applied to identify actual usage (where possible) when charging out these costs.




*Values indicated are estimates provided by management for Y/A 2023/2024.

Overview of AE transactions | Risk impact analysis

Transaction*	Perceived level of risk	Risk impact	Recommendations for mitigation / Management actions
<p>Sale of drugs, injections and consumables</p> <p>~Rs. 173 Mn</p>		<ul style="list-style-type: none"> ▶ The current pricing policy (i.e., transfers at weighted average cost of goods) can be challenged by the IRD. ▶ An upward adjustment could be made on the basis that the benefits received by AEs (i.e., immediate access to goods, are not considered and that this practice is not consistent with the arm's length principle. 	<ul style="list-style-type: none"> ▶ As per management, the following pricing policies will be applied for future transfers of this nature: <ul style="list-style-type: none"> ▶ Controlled drugs and uncontrolled drugs @ wholesale price + mark-up from the in-patient mark-up table. ▶ We also recommend maintaining a 60-day credit period on these sales. ▶ <i>A benchmark study was not performed.</i>
<p>Reimbursement of drug expenses incurred on behalf of group entities</p> <p>~Rs. 131 Mn</p>		<ul style="list-style-type: none"> ▶ Reimbursements at cost are typically placed under scrutiny by the IRD on the basis that services provided are value-added service and requires a mark-up. Invoicing between AEs for these services does not take place. 	<ul style="list-style-type: none"> ▶ Management maintains that the current pricing policy is arm's length in nature as AE settlements occur after expenses are recovered using the standard mark-ups applied to in-patient services. ▶ <i>A benchmark study was not performed.</i>
<p>Residential fee payment</p> <p>~Rs. 26 Mn*</p>		<ul style="list-style-type: none"> ▶ The discounted residential fee paid by DHC for the use of CHPLC and DMSH's rooms for its patients could be challenged by the IRD, as the discount has no basis and is lower than in-patient standard room rate charged by CHPLC. 	<ul style="list-style-type: none"> ▶ CHPLC currently offers National Insurance Trust Fund (i.e., independent third-party) a discounted rate for a standard room (excl. surgical packages) at Rs. 8,000. Management will use this rate when calculating the residential fee payable by DHC.

*Values indicated are estimates provided by management for Y/A 2023/2024.

Overview of AE transactions | Risk impact analysis

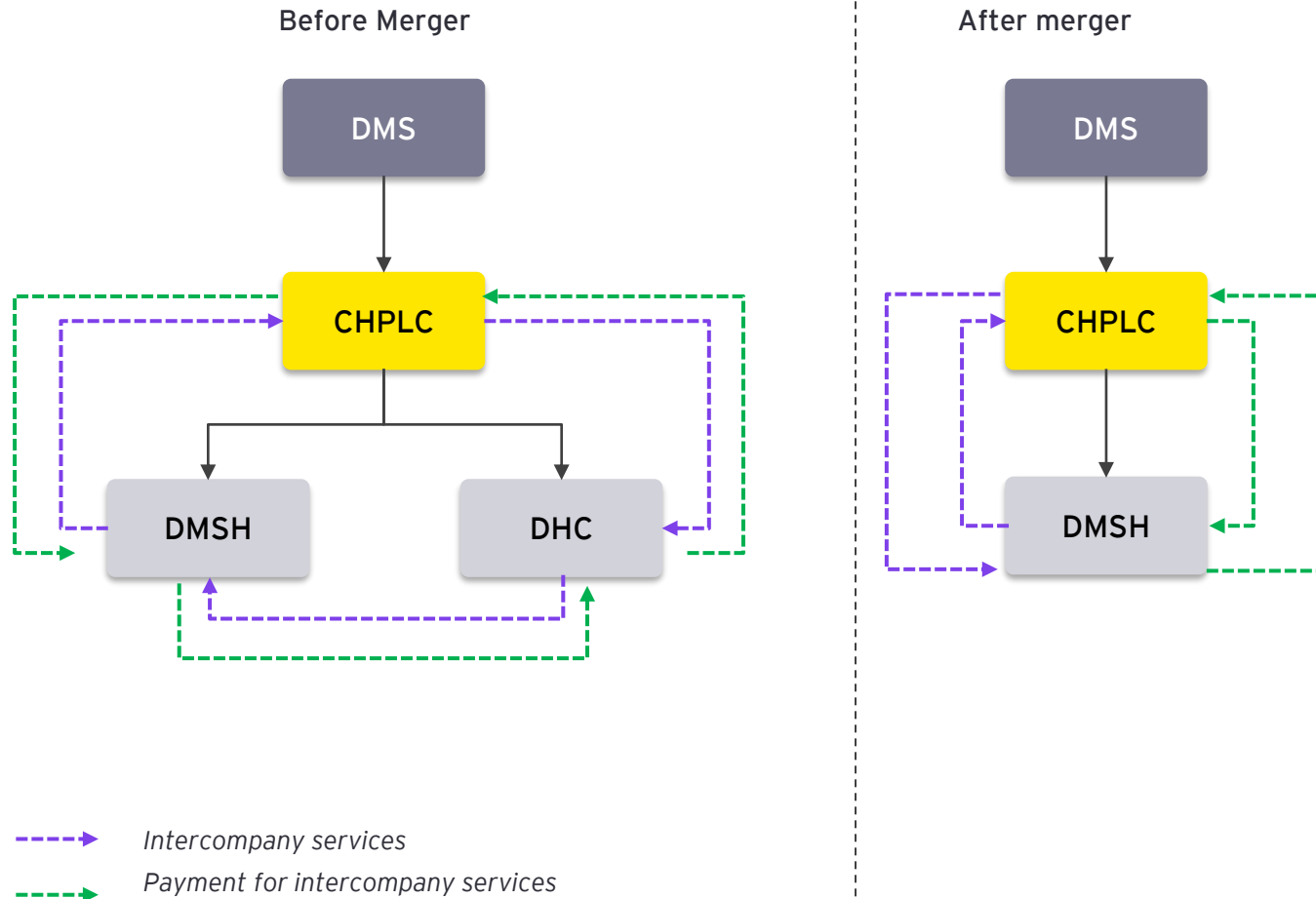
Transaction*	Perceived level of risk	Risk impact	Recommendations for mitigation / Management actions
Reimbursement of shared oxygen expenses ~Rs. 25 Mn		<ul style="list-style-type: none"> Current allocation based on actual oxygen revenue generated by each entity does not pose any significant transfer pricing implications. 	<ul style="list-style-type: none"> Documentation is recommended to establish the basis of apportionment, as the risk is still expected to be mitigated in a timely manner.
Reimbursement of insurance expenses ~Rs. 14 Mn		<ul style="list-style-type: none"> Considering that insurance expenses incurred by CHPLC on behalf of AEs are of a supportive nature, and do not require CHPLC to assume any significant additional risks, these expenses are likely to be pass-through costs which can be allocated to relevant service recipients excluding a mark-up. 	<ul style="list-style-type: none"> Subject to any changes to the current arrangements, we do not foresee any significant risks from a Sri Lankan TP perspective.
Food and beverage related cost ~Rs. 72 Mn		<ul style="list-style-type: none"> Rent was not paid for DMSH's operation of the cafeteria premises owned by CHPLC. In-patient meals, food and beverage items, prepared by CHPLC, are provided to all patients, including those admitted with DMSH. The pricing for these items was outdated. 	<ul style="list-style-type: none"> As per management, cafeteria assets will be transferred to CHPLC. Accordingly, tax and TP implications of asset transfer should be examined. Based on our recommendations, the meal/food and beverage item price card was updated in July 2024. Management maintains that these prices, which are charged from DMSH for the meals provided to their patients, reflect current market rates. <i>However, we recommend conducting a benchmark study to support this position.</i>

*Values indicated are estimates provided by management for Y/A 2023/2024.

02

Tax Considerations

Merger of DHC with CHPLC and DMSH continuing separately



- ▶ CHPLC and DHC merge with CHPLC being the amalgamated entity.
- ▶ Accordingly, all assets and liabilities of DHC will vest with CHPLC
- ▶ The shares of DHC will be cancelled upon merger.
- ▶ DMSH will continue as an independent entity and transactions between CHPLC and DMSH are carried out at arm's length as per Transfer Pricing Regulations



Tax Considerations of a Merger

Income Tax

Where the assets and liabilities of the amalgamating entities vest with the amalgamated entity, the amalgamating entities will part with ownership of the assets and hence there will be a realization of an asset, and any resulting gain will be liable to income tax at 30%.

However, Section 46(4) of the IRA provides a rollover relief where assets are transferred between associated persons, wherein the consideration is deemed to be equal to the cost of the asset and consequently there will not be a gain on realization on which to pay income tax for the specific classes of assets.

Value Added Tax (VAT)

There will be no VAT liability where the conditions under Section 16(5) are met.

Social Security Contribution Levy (SSCL)

There will be no SSCL liability on the basis that a merger does not come within the parameters of the SSCL charging section.

Other Considerations

- BOI pre-approval will have to be obtained prior to the merger
- Legal advice will have to be sought on the form of amalgamation (short form vs long form) and any consideration paid to minority shareholders
- Legal advice will have to be sought on the transfer of employees and considerations in relation to EPF, ETF and gratuity
- Accounting advice will have to be sought on method of accounting for the merger
- Legal advice will have to be sought on the SEC Regulations



Tax Implications on Intercompany Transactions

Income Tax

Where an arm's length consideration is charged and claimed by the AE, there will not be a cashflow from the group perspective where both entities are taxed at the same rate.

In case of intercompany transactions charged to DMSH, since DMSH is taxed at a reduced rate of 15%, there will be a cash outflow from a group perspective, since the income will be taxed at 30% whilst the payment will only result in a tax saving at 15%.

VAT

VAT will be chargeable at 18% on intercompany charges. This will be a cost and cannot be claimed given that CHPLC, DMSH and DHC are exempt from VAT.

SSCL

SSCL will be chargeable at 2.5% on intercompany charges which cannot be claimed and will be a cost.

Basis of Calculation

- ▶ The forecast income statement for **10 years** has been computed by **extrapolating the 5 year forecast** applying the same assumptions. An independent verification of the underlying assumptions and the validity was not carried out
- ▶ The **current intercompany chargeout** is based on the information provided to us, A **YoY growth of 5%** has been applied in this regard, on the same basis as expenses

Accounting Adjustments

- ▶ Revenue sharing arrangement - **75,000 sq ft** at **125 per sq ft** (slightly higher than the upper quartile suggested by TP)
- ▶ CHPLC premises used by DMSH - **125 per sq ft** for an estimated floor area of **1,000 sq ft**
- ▶ Residential fee arrangement - An average of **300 bed days** and **60 bed days** a month is occupied by DHC in CHPLC and DMSH premises respectively. A discounted room fee of **LKR 8,000 per day** has been applied based on the TP benchmark
- ▶ Transfer of drugs, injections and consumables - an **average mark-up of 17%**
- ▶ Reimbursement of shares staff, insurance, oxygen and overheads - A **management fee of 2% of revenue** has been applied for purposes of this calculation. A detailed analysis is required to arrive at a justifiable basis.
- ▶ Food and beverage related cost - transfers to inpatients are at arm's length as confirmed by management. Hence, **no further adjustment is made** in this regard.

Tax Adjustments

- ▶ Tax adjustments in 2023/2024 applied with an increase of 5% YoY.
- ▶ Tax rate of 30% applied indefinitely

Merger of DHC with CHPLC and DMSH continuing separately

Note 2A - Income Tax Saving/ (Cost) over 10 years

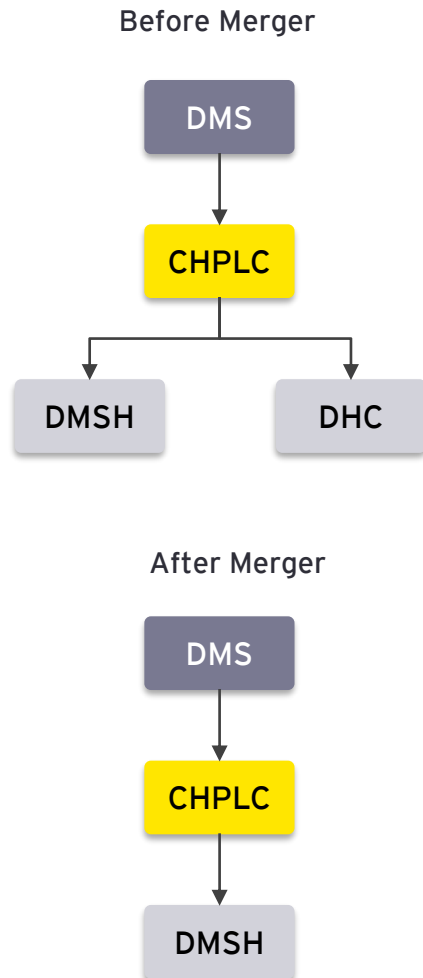
	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total
Before Merger											
Business Income of CHPLC	-	-	-	-	-	-	392	903	1,140	1,399	3,834
Tax at 30%	-	-	-	-	-	-	118	271	342	420	1,150
Business Income of DMSH	950	1,056	1,170	1,295	1,431	1,579	1,739	1,914	2,103	2,309	15,548
Tax at 15%	143	158	176	194	215	237	261	287	316	346	2,332
Business Income of DHC	201	225	250	277	307	339	374	413	454	499	3,339
Tax at 30%	60	67	75	83	92	102	112	124	136	150	1,002
Total Business Income	1,152	1,280	1,420	1,572	1,738	1,918	2,506	3,230	3,697	4,208	22,721
Total Tax Payable	203	226	250	277	307	339	491	682	794	916	4,484
After Merger											
Business Income of CHPLC	-	-	-	-	503	839	1,070	1,324	1,602	1,907	7,245
Tax at 30%	-	-	-	-	151	252	321	397	481	572	2,174
Business Income of DMSH	950	1,056	1,170	1,295	1,431	1,579	1,739	1,914	2,103	2,309	15,548
Tax at 15%	143	158	176	194	215	237	261	287	316	346	2,332
Total Business Income	950	1,056	1,170	1,295	1,934	2,417	2,810	3,238	3,706	4,217	22,793
Total Tax Payable	143	158	176	194	366	488	582	684	796	919	4,506
Net Saving/ (Cost)	60	67	75	83	(59)	(150)	(91)	(2)	(3)	(3)	(22)

Merger of DHC with CHPLC and DMSH continuing separately

Note 2B - Tax Saving/ (Cost) on Intercompany Transactions

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total
Transactions											
Revenue sharing arrangement	109	114	120	126	132	139	146	153	161	169	1,370
Rent for DHC use of DMSH premises	6	6	6	7	7	7	8	8	9	9	72
Rent for DMSH use of CHPLC premises	2	2	2	2	2	2	2	2	2	2	19
Management fee in lieu of shared expense reimbursements	71	77	82	89	95	102	110	118	127	137	1,008
Total	191	202	214	227	241	255	270	287	304	322	2,514
Tax Saving/ (Cost)											
Income tax leakage	29	30	32	34	36	38	41	43	46	48	377
VAT	(34)	(36)	(39)	(41)	(43)	(46)	(49)	(52)	(55)	(58)	(453)
SSCL	(5)	(5)	(5)	(6)	(6)	(6)	(7)	(7)	(8)	(8)	(63)
Total VAT and SSCL	(39)	(41)	(44)	(47)	(49)	(52)	(55)	(59)	(62)	(66)	(515)

Merger of DHC with CHPLC and DMSH continuing separately



Key Considerations

Transaction Tax Cost

- ▶ Section 46(4) can be applied and hence no income tax liability on the transfer of the listed class of assets.
- ▶ No VAT subject to applying to Section 16(5) and no SSCL cost on the merger

Tax Saving/ (Cost) - Nil

Income Tax Saving/ (Cost) in a 10 year period

- ▶ The 15% BOI reduced rate of DMSH will continue

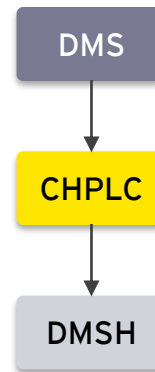
Tax Saving/ (Cost) - LKR (22) Mn

Tax Saving/ (Cost) on Intercompany Transactions

- ▶ Income tax leakage on intercompany transactions between CHPLC and DMSH
- ▶ VAT and SSCL cost on intercompany transactions between CHPLC and DMSH

Tax Saving/ (Cost) - LKR (515) Mn

DHC merging with CHPLC and DMSH
operating separately



Overall Tax Saving/ (Cost)

	LKR Mn
Income Tax saving in 10 years	(19)
Tax cost on intercompany transactions	(515)
Net Saving/ (Cost)	(537)

04

Appendix

Appendix 1 - Forecast Income Statements

1A - CHPLC

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total
Revenue	6,446	6,929	7,449	8,008	8,608	9,254	9,948	10,694	11,496	12,359	91,192
Cost of sales	(2,715)	(2,918)	(3,137)	(3,372)	(3,625)	(3,897)	(4,189)	(4,504)	(4,841)	(5,204)	(38,403)
Gross profit	3,732	4,011	4,312	4,636	4,983	5,357	5,759	6,191	6,655	7,154	52,790
Other operating income and gains	75	81	87	93	100	108	116	125	134	144	1,062
Administration expenses	(2,522)	(2,648)	(2,780)	(2,919)	(3,065)	(3,218)	(3,379)	(3,548)	(3,726)	(3,912)	(31,716)
Other Operating Income	(728)	(764)	(803)	(843)	(885)	(929)	(975)	(1,024)	(1,075)	(1,129)	(9,155)
Finance cost	(288)	(274)	(260)	(247)	(235)	(223)	(212)	(201)	(191)	(181)	(2,311)
Finance income	-	-	-	-	-	-	-	-	-	-	-
Profit before taxation	269	407	557	720	899	1,095	1,308	1,542	1,797	2,076	10,670
Income tax expense	(83)	(122)	(167)	(216)	(270)	(328)	(393)	(463)	(539)	(623)	(3,203)
Net profit after taxation	186	285	390	504	629	766	916	1,079	1,258	1,453	7,466

Appendix 1 - Forecast Income Statements

1B - DMSH

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total
Revenue	3,563	3,830	4,117	4,426	4,758	5,115	5,498	5,911	6,354	6,831	50,402
Cost of sales	(1,366)	(1,468)	(1,578)	(1,697)	(1,824)	(1,961)	(2,108)	(2,266)	(2,436)	(2,618)	(19,320)
Gross profit	2,197	2,362	2,539	2,729	2,934	3,154	3,391	3,645	3,918	4,212	31,082
Other operating income and gains	99	106	114	123	132	142	153	164	176	190	1,399
Administration expenses	(1,774)	(1,862)	(1,956)	(2,053)	(2,156)	(2,264)	(2,377)	(2,496)	(2,621)	(2,752)	(22,310)
Finance cost	(23)	(22)	(21)	(20)	(19)	(18)	(17)	(16)	(15)	(15)	(185)
Finance income	-	-	-	-	-	-	-	-	-	-	-
Profit before taxation	499	584	677	779	891	1,015	1,149	1,297	1,459	1,636	9,986
Income tax expense	(155)	(88)	(102)	(117)	(134)	(152)	(172)	(195)	(219)	(245)	(1,578)
Net profit after taxation	344	496	575	662	758	862	977	1,103	1,240	1,390	8,408

Appendix 1 - Forecast Income Statements

1C - DHC

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total
Revenue	1,319	1,417	1,524	1,638	1,761	1,893	2,035	2,188	2,352	2,528	18,653
Cost of sales	(794)	(853)	(917)	(986)	(1,060)	(1,140)	(1,225)	(1,317)	(1,416)	(1,522)	(11,230)
Gross profit	525	564	606	652	701	753	810	871	936	1,006	7,424
Other operating income and gains		-									
Administration expenses	(422)	(443)	(465)	(488)	(513)	(538)	(565)	(593)	(623)	(654)	(5,304)
Finance cost	(4)	(3)	(3)	(3)	(3)	(2)	(2)	(2)	(2)	(1)	(25)
Finance income	-	-	-	-	-	-	-	-	-	-	-
Profit before taxation	99	118	138	161	186	213	243	275	311	350	2,095
Income tax expense	(19)	(35)	(42)	(48)	(56)	(64)	(73)	(83)	(93)	(105)	(618)
Net profit after taxation	80	83	97	113	130	149	170	193	218	245	1,477

Appendix 2 - Revised Accounting Profit and Business Income where all three entities are merged

2A - CHPLC

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total
Accounting Profit (LKR)	269	407	557	720	899	1,095	1,308	1,542	1,797	2,076	10,670
<i>Current reveue sharing payments (added back)</i>											-
Revenue sharing arrangement	134	141	148	155	163	171	180	189	198	208	1,688
Residential fee arrangement	-	-	-	-	-	-	-	-	-	-	-
Transfer of drugs, injections and consumables	101	106	111	117	123	129	135	142	149	156	1,269
Reimbursement income/ expenses for drugs	92	97	102	107	112	118	124	130	136	143	1,160
Reimbursement of shared staff expenses	76	80	84	89	93	98	103	108	113	119	962
Reimbursement of insurance expenses	-	-	-	-	-	-	-	-	-	-	-
Reimbursement of other common cost	31	32	34	35	37	39	41	43	45	47	384
Shared oxygen expenses	-	-	-	-	-	-	-	-	-	-	-
Food and beverage related cost	-	-	-	-	-	-	-	-	-	-	-
	434	456	479	503	528	554	582	611	642	674	5,463
<i>Current revenue sharing income (removed)</i>											
Revenue sharing arrangement	(135)	(142)	(149)	(156)	(164)	(172)	(181)	(190)	(200)	(210)	(1,699)
Residential fee arrangement	-	-	-	-	-	-	-	-	-	-	-
Transfer of drugs, injections and consumables	(52)	(54)	(57)	(60)	(63)	(66)	(70)	(73)	(77)	(80)	(652)
Reimbursement income/ expenses for drugs	(34)	(36)	(37)	(39)	(41)	(43)	(46)	(48)	(50)	(53)	(427)
Reimbursement of shared staff expenses	(292)	(307)	(322)	(338)	(355)	(373)	(392)	(411)	(432)	(454)	(3,677)
Reimbursement of insurance expenses	(15)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(185)
Reimbursement of other common cost	(458)	(481)	(505)	(531)	(557)	(585)	(614)	(645)	(677)	(711)	(5,764)
Shared oxygen expenses	(26)	(27)	(29)	(30)	(32)	(33)	(35)	(37)	(39)	(40)	(328)
Rent paid by DHC for the use of CHPLC's premises	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(18)
Food and beverage related cost	(76)	(79)	(83)	(88)	(92)	(97)	(101)	(107)	(112)	(117)	(952)
	(1,089)	(1,144)	(1,201)	(1,261)	(1,324)	(1,391)	(1,460)	(1,533)	(1,610)	(1,690)	(13,704)
Revised accounting profit	(386)	(281)	(166)	(38)	103	259	430	620	829	1,059	2,429
Business income	(506)	(349)	(179)	98	353	530	724	938	1,172	1,428	4,208
Total loss	506	856	1,035	937	937	584	54	-	-	-	-
Loss deductible					353	530	54	-	-	-	937
Business Income after loss					-	-	670	938	1,172	1,428	4,208

Appendix 2 - Revised Accounting Profit and Business Income where all three entities are merged

2B - DMSH

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total
Accounting Profit	499	584	677	779	891	1,015	1,149	1,297	1,459	1,636	9,986
<i>Current reveue sharing payments (added back)</i>											
Revenue sharing arrangement	135	142	149	156	164	172	181	190	200	210	1,699
Residential fee arrangement											-
Transfer of drugs, injections and consumables	65	68	71	75	79	83	87	91	96	101	815
Reimbursement income/ expenses for drugs	11	12	12	13	14	14	15	16	17	18	142
Reimbursement of shared staff expenses	212	223	234	246	258	271	284	298	313	329	2,668
Reimbursement of insurance expenses	12	13	13	14	15	15	16	17	18	19	153
Reimbursement of other common cost	351	368	386	406	426	447	470	493	518	544	4,409
Shared oxygen expenses	22	23	24	25	27	28	29	31	32	34	275
Food and beverage related cost	76	79	83	88	92	97	101	107	112	117	952
	884	928	974	1,023	1,074	1,128	1,184	1,243	1,305	1,371	11,113
<i>Current revenue sharing income (removed)</i>											
Revenue sharing arrangement	(134)	(141)	(148)	(155)	(163)	(171)	(180)	(189)	(198)	(208)	(1,688)
Residential fee arrangement	-										-
Transfer of drugs, injections and consumables	(103)	(108)	(113)	(119)	(125)	(131)	(138)	(145)	(152)	(160)	(1,294)
Reimbursement income/ expenses for drugs	-										-
Reimbursement of shared staff expenses	(92)	(96)	(101)	(106)	(111)	(117)	(123)	(129)	(136)	(142)	(1,154)
Reimbursement of insurance expenses	-										-
Reimbursement of other common cost	(39)	(41)	(43)	(46)	(48)	(50)	(53)	(55)	(58)	(61)	(495)
	(368)	(387)	(406)	(426)	(447)	(470)	(493)	(518)	(544)	(571)	(4,631)
Revised accounting profit	1,015	1,125	1,245	1,376	1,518	1,672	1,840	2,022	2,220	2,435	16,468
Business income	860	963	1,075	1,197	1,330	1,475	1,633	1,805	1,992	2,196	14,527

Appendix 2 - Revised Accounting Profit and Business Income where all three entities are merged

2C - DHC

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total
Accounting Profit (LKR)	99	118	138	161	186	213	243	275	311	350	2,095
<i>Current reveue sharing payments (added back)</i>											
Revenue sharing arrangement											-
Residential fee arrangement											-
Transfer of drugs, injections and consumables	16	17	17	18	19	20	21	22	23	24	198
Reimbursement income/ expenses for drugs	34	36	37	39	41	43	46	48	50	53	427
Reimbursement of shared staff expenses	96	101	106	112	117	123	129	136	142	150	1,212
Reimbursement of insurance expenses	3	3	3	3	3	3	3	4	4	4	32
Reimbursement of other common cost	117	122	129	135	142	149	156	164	172	181	1,466
Shared oxygen expenses	4	4	5	5	5	5	6	6	6	7	53
Rent paid by DHC for the use of CHPLC's premises	1	2	2	2	2	2	2	2	2	2	18
Food and beverage related cost											
	271	284	299	314	329	346	363	381	400	420	3,407
<i>Current revenue sharing income (removed)</i>											
Revenue sharing arrangement											-
Residential fee arrangement											-
Transfer of drugs, injections and consumables	(27)	(28)	(29)	(31)	(32)	(34)	(36)	(38)	(39)	(41)	(335)
Reimbursement income/ expenses for drugs	(104)	(109)	(114)	(120)	(126)	(132)	(139)	(146)	(153)	(161)	(1,302)
Reimbursement of shared staff expenses	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(11)
Reimbursement of insurance expenses											-
Reimbursement of other common cost											-
	(131)	(138)	(144)	(152)	(159)	(167)	(176)	(184)	(194)	(203)	(1,648)
Revised accounting profit	239	265	293	323	356	391	430	472	518	567	3,854
Business income	250	276	304	335	368	405	444	487	533	584	3,986

Appendix 3 - Revised Accounting Profit and Business Income where CHPLC and DHC merge

3A - CHPLC

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total
Accounting Profit (LKR)	269	407	557	720	899	1,095	1,308	1,542	1,797	2,076	10,670
Current reveue sharing payments (added back)	434	456	479	503	528	554	582	611	642	674	5,463
Current revenue sharing income (removed)	(1,089)	(1,144)	(1,201)	(1,261)	(1,324)	(1,391)	(1,460)	(1,533)	(1,610)	(1,690)	(13,704)
<i>Additional adjustments for transactions between CHPLC (merged entity) and DMSH</i>											
Revenue sharing arrangement	(113)	(118)	(124)	(130)	(137)	(144)	(151)	(158)	(166)	(175)	(1,415)
Residential fee arrangement											-
Rent for CHPLC premises	2	2	2	2	2	2	2	2	2	2	19
Rent for DHC operations											-
Transfer of drugs, injections and consumables											-
Income (including margin)	53	56	59	62	65	68	72	75	79	83	671
Expense (total payment)	(109)	(115)	(120)	(126)	(133)	(139)	(146)	(154)	(161)	(169)	(1,374)
Management fee in lieu of reimbursement of shared	71	77	82	89	95	102	110	118	127	137	1,008
	(96)	(99)	(102)	(105)	(108)	(111)	(114)	(117)	(119)	(122)	(1,091)
Revised accounting profit	(482)	(380)	(267)	(143)	(5)	148	317	503	709	937	1,338
Business income	(602)	(448)	(281)	(7)	245	419	611	821	1,052	1,306	3,117
Total loss	602	1,050	1,331	1,337	1,337	1,092	673	62	-	-	-
Loss deductible					245	419	611	62	-	-	1,337
Business Income after loss					-	-	-	759	1,052	1,306	3,117

Appendix 3 - Revised Accounting Profit and Business Income where CHPLC and DHC merge

3B - DMSH

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total
Accounting Profit	499	584	677	779	891	1,015	1,149	1,297	1,459	1,636	9,986
Current reveue sharing payments (added)	884	928	974	1,023	1,074	1,128	1,184	1,243	1,305	1,371	11,113
Current revenue sharing income (removed)	(368)	(387)	(406)	(426)	(447)	(470)	(493)	(518)	(544)	(571)	(3,876)
<i>Additional adjustments for transactions between CHPLC (merged entity) and DMSH</i>											
Revenue sharing arrangement	113	118	124	130	137	144	151	158	166	175	1,415
Residential fee arrangement	-	-	-	-	-	-	-	-	-	-	-
Rent for CHPLC premises	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(19)
Residential fee for DMSH premises from D	6	6	6	7	7	7	8	8	9	9	72
Rent for DHC operations	-	-	-	-	-	-	-	-	-	-	-
Transfer of drugs, injections and consuma	-	-	-	-	-	-	-	-	-	-	-
Income (including margin)	120	126	133	139	146	154	161	169	178	187	1,514
Expense (total payment)	(76)	(80)	(84)	(88)	(92)	(97)	(102)	(107)	(112)	(118)	(953)
Management fee in lieu of reimbursement	(71)	(77)	(82)	(89)	(95)	(102)	(110)	(118)	(127)	(137)	(1,008)
	90	93	95	98	101	104	106	109	111	114	1,021
Revised accounting profit	1,105	1,218	1,341	1,474	1,619	1,776	1,946	2,131	2,332	2,549	17,489
Business income	950	1,056	1,170	1,295	1,431	1,579	1,739	1,914	2,103	2,309	15,548

Appendix 3 - Revised Accounting Profit and Business Income where CHPLC and DHC merge

3C - DHC

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total
Accounting Profit (LKR)	99	118	138	161	186	213	243	275	311	350	2,095
Current revenue sharing payments (added back)	271	284	299	314	329	346	363	381	400	420	3,407
Current revenue sharing income (removed)	(131)	(138)	(144)	(152)	(159)	(167)	(176)	(184)	(194)	(203)	(1,648)
Additional adjustments for transactions with DMSH											
Revenue sharing arrangement											-
Residential fee arrangement											-
Rent for DHC operations											-
Transfer of drugs, injections and consumables											-
Income (including margin)	22	24	25	26	27	29	30	32	33	35	282
Expense (total payment)	(11)	(12)	(12)	(13)	(13)	(14)	(15)	(16)	(16)	(17)	(140)
Management fee in lieu of reimbursement of shared expenses											
	11	12	13	13	14	14	15	16	17	18	143
Revised accounting profit	250	277	305	336	369	406	445	488	535	585	3,996
Business income	261	288	317	348	382	419	459	503	550	601	4,129

Appendix 4 - Revised Accounting Profit and Business Income where all entities operate independently

4A - CHPLC

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total
Accounting Profit (LKR)	269	407	557	720	899	1,095	1,308	1,542	1,797	2,076	10,670
<i>Current revenue sharing payments (added back)</i>	434	456	479	503	528	554	582	611	642	674	5,463
<i>Current revenue sharing income (removed)</i>	(1,089)	(1,144)	(1,201)	(1,261)	(1,324)	(1,391)	(1,460)	(1,533)	(1,610)	(1,690)	(13,704)
<i>Additional adjustments for transactions between all three entities</i>											
Revenue sharing arrangement	(113)	(118)	(124)	(130)	(137)	(144)	(151)	(158)	(166)	(175)	(1,415)
Residential fee arrangement	29	30	32	33	35	37	39	41	43	45	362
Rent for CHPLC premises	2	2	2	2	2	2	2	2	2	2	19
Rent for DHC operations	-	-	-	-	-	-	-	-	-	-	-
Transfer of drugs, injections and consumables	-	-	-	-	-	-	-	-	-	-	-
Income (including margin)	61	64	67	70	74	77	81	85	90	94	763
Expense (total payment)	(118)	(124)	(130)	(137)	(143)	(151)	(158)	(166)	(174)	(183)	(1,484)
Management fee in lieu of reimbursement of shared	98	105	113	121	130	140	151	162	174	187	1,381
	(42)	(42)	(41)	(40)	(39)	(38)	(36)	(34)	(32)	(29)	(374)
Revised accounting profit	(428)	(323)	(207)	(78)	64	221	394	586	797	1,030	2,055
Business income	(548)	(391)	(220)	58	314	492	688	903	1,140	1,399	3,834
Total loss	548	939	1,159	1,101	1,101	788	296	-	-	-	-
<i>Loss deductible</i>					314	492	296	-	-	-	1,101
Business Income after loss					-	-	392	903	1,140	1,399	3,834

Appendix 4 - Revised Accounting Profit and Business Income where all entities operate independently

4B - DMSH

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total
Accounting Profit (LKR)	499	584	677	779	891	1,015	1,149	1,297	1,459	1,636	9,986
Current reveue sharing payments (added)	884	928	974	1,023	1,074	1,128	1,184	1,243	1,305	1,371	11,113
Current revenue sharing income (removed)	(368)	(387)	(406)	(426)	(447)	(470)	(493)	(518)	(544)	(571)	(3,876)
<i>Additional adjustments for transactions between all three entities</i>											
Revenue sharing arrangement	113	118	124	130	137	144	151	158	166	175	1,415
Residential fee arrangement											-
Residential fee for DMSH premises from D	6	6	6	7	7	7	8	8	9	9	72
Rent for CHPLC premises	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(19)
Rent for DHC operations											-
Transfer of drugs, injections and consumables											-
Income (including margin)	120	126	133	139	146	154	161	169	178	187	1,514
Expense (total payment)	(76)	(80)	(84)	(88)	(92)	(97)	(102)	(107)	(112)	(118)	(953)
Management fee in lieu of reimbursement	(71)	(77)	(82)	(89)	(95)	(102)	(110)	(118)	(127)	(137)	(1,008)
	90	93	95	98	101	104	106	109	111	114	1,021
Revised accounting profit	1,105	1,218	1,341	1,474	1,619	1,776	1,946	2,131	2,332	2,549	17,489
Business income	950	1,056	1,170	1,295	1,431	1,579	1,739	1,914	2,103	2,309	15,548

Appendix 4 - Revised Accounting Profit and Business Income where all entities operate independently

4C - DHC

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total
Accounting Profit (LKR)	99	118	138	161	186	213	243	275	311	350	2,095
Current revenue sharing payments (added back)	271	284	299	314	329	346	363	381	400	420	3,407
Current revenue sharing income (removed)	(131)	(138)	(144)	(152)	(159)	(167)	(176)	(184)	(194)	(203)	(1,648)
<i>Additional adjustments for transactions between all three entities</i>											
Revenue sharing arrangement											-
Residential fee arrangement	(29)	(30)	(32)	(33)	(35)	(37)	(39)	(41)	(43)	(45)	(362)
Residential fee for DMSH premises from DHC	(6)	(6)	(6)	(7)	(7)	(7)	(8)	(8)	(9)	(9)	(72)
Rent for DHC operations	-	-	-	-	-	-	-	-	-	-	-
Transfer of drugs, injections and consumables	-										-
Income (including margin)	31	33	34	36	38	40	42	44	46	48	392
Expense (total payment)	(18)	(19)	(20)	(21)	(22)	(24)	(25)	(26)	(27)	(29)	(232)
Management fee in lieu of reimbursement of sh	(26)	(28)	(30)	(33)	(35)	(38)	(41)	(44)	(47)	(51)	(373)
	(48)	(51)	(54)	(58)	(62)	(66)	(70)	(74)	(79)	(84)	(647)
Revised accounting profit	191	213	238	265	294	326	360	398	439	483	3,207
Business income	201	225	250	277	307	339	374	413	454	499	3,339

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