

June 03, 2024

Mr. Renuke Wijayawardhane
Chief Regulatory Officer
Colombo Stock Exchange
04-01 West Block
Echelon Square
World Trade Center
Colombo 1

Dear Sir,

**AUDITOR'S REPORT CONTAINING QUALIFIED OPINION AND EMPHASIS OF MATTER –
NAWALOKA HOSPITALS PLC**

We write further to the announcement made on the Colombo Stock Exchange on 26th January 2024 in accordance with Rule 7.5 (d)(ii) of the Listing Rules of the Colombo Stock Exchange.

- a) In terms of Listing Rules 7.5(d)(ii)(A)(4), the presence of a Qualified Opinion and Emphasis of matter on going concern in the Independent Auditor's Report on the Annual Report for the year ended 31st March 2023 was added as a reason to remain in the Watch List with effect from 31st January 2024.
- b) In terms of CSE Listing Rule 7.5 (d)(ii)(A)(5), the remedial action proposed to be taken by the Company to resolve the matters giving rise to the Qualified Audit Opinion and Emphasis of matter on going concern notified in our subsequent announcement dated 1st February 2024. Further, it shall be repeated on the first Market Day of each calendar month until the Entity resolves the matters giving rise to the Qualified Audit Opinion and Emphasis of matter on going concern as per the Rule 7.5 (d)(ii)(A)(6) of the CSE Listing Rules and the Company repeated the announcement made on 1st February 2024 with updates, if any, on 4th March, 1st April and 8th May 2024.

Basis for Qualified Opinion and Remedial Action

1. *Because of the disclaimer of opinion issued in respect of the prior period ended 31 March 2022, we were unable to satisfy ourselves as to the accuracy and completeness of the opening balances for inventories, trade and other receivables, trade and other payables, Income tax and deferred tax balances and retained earnings as at 1 April 2022. These opening balances entered into the determination of the results of operations and cash flows of the Company and the Group for the year ended 31 March 2023. However, adjustments specified (a) and (b) below were recorded in the financial statements for the year ended 31 March 2023 to ensure the balances in the statement of financial position as at 31 March 2023 are in line with the external confirmations and underlying documents.*

(a) The Group and the Company have recorded expenses amounting to Rs. 140.7 Mn. and Rs. 234 Mn. respectively as other operating expenses for the year ended 31 March 2023. We were not provided with supporting evidence to substantiate these expenses.

(b) As disclosed in note 14.1 to these financial statements, the Company and the Group have recorded a reversal of an income tax liability amounting to Rs. 129.6 Mn. which was erroneously recognised in the financial statements for the year ended 31 March 2022. This error is required to be recorded in line with LKAS 8 "Accounting Policies, Changes in Accounting Estimates and



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Errors” by adjusting retrospectively. However, the Company and the Group have corrected above error prospectively in the financial statements of the Company and the Group for the year ended 31 March 2023 which is a non-compliance with Sri Lanka Accounting Standards.

2. *The Company has identified during the year ended 31 March 2023, that the investment made in the equity accounted investee, Nawaloka College of Higher Studies (Private) Limited amounting to Rs. 50.5 Mn. was incorrectly recorded as other receivables in prior period financial statements. As such, this investment in equity accounted investee and the Group’s share of profit amounting to Rs. 159.9 Mn. have been accounted prospectively in the Group’s and the Company’s financial statements for the year ended 31 March 2023. LKAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” requires material prior period errors to be corrected retrospectively unless it is impracticable. However, the Company has corrected above error prospectively in the Financial Statements of the Group and the Company for the year ended 31 March 2023 which is a non-compliance with Sri Lanka Accounting Standards. In addition to above, we were unable to direct and supervise the performance of the audit of equity accounted investee due to circumstances arose over the timing of the audit of the Group Financial Statements. Accordingly, we are unable to determine whether any adjustment is required for the amounts recognised as investment in equity accounted investee and share of profit from equity accounted investee for the year ended 31 March 2023.*

To resolve the above Basis for Qualified Opinion 1 (a) & (b) and 2 outlined above, it is noted that no specific action is required by management. Both qualifications pertain to errors from the prior year, which have been rectified in the current financial year of 2022/2023. Consequently, these qualifications will not recur in the financial statements for 2023/2024, as they do not impact the figures of financial year 2023/2024 or the figures brought forward from the previous financial year 2022/2023.

Emphasis of Matters and Remedial Action

Material uncertainty related to going concern.

We draw attention to Note 48 of the Financial Statements, which indicates that the Company and the Group incurred a net loss of Rs. 654.7 Mn. and Rs. 2,438.5 Mn. respectively during the year ended 31 March 2023 and, as of that date, the Group’s current liabilities exceeded its current assets by Rs. 5,865.6 Mn. Further, the Company and the Group have reported accumulated losses of Rs. 887.3 Mn. and Rs. 823.2 Mn. respectively as at 31 March 2023.

To resolve the above Emphasis of Matter on material uncertainty related to going concern.

- (i) The Group’s management has diligently addressed challenges related to the improvement of Group’s operational results, utilizing expertise and innovative approaches to minimize losses and optimize resource utilization.
- (ii) The Board of Directors foresaw that the Group will generate additional income during the year ended 31st March 2024, compared to the preceding year, employing enhanced strategies to boost admissions and channel counts within the Group.
- (iii) Attracting new general physicians, cardiologists, orthopedic surgeons, and external referrals by allocating an increased marketing budget, which includes social media, mass media, below-the-line (BTL), and vlog campaigns.
- (iv) Introducing appealing discount schemes for the corporate sector to attract more corporate customers.
- (v) Implementing the innovative concept of a “Surgical Hub” to attract and reduce outgoing theatre admissions.
- (vi) Enhancing service orientation through continuous professional development of in-house nurses via the Nursing School.

Additionally, the Board of Directors witnessed a revenue growth of the Group during the subsequent twelve months ended 31st March 2024 which had been influenced by the broader economic upturn, impacting consumer spending and the demand for products or services.

These revenue streams are already well established and supported with enhanced investment and accordingly, the Board is confident that the Group is able to operate at a capacity to earn revenue from these streams without additional investments.

Furthermore, the following changes in circumstances and actions taken by the Management are also expected to add positively to the improved financial performance and position of the Group and the Company.

- (a) The Group's management has taken several steps to reduce its existing cost structure through initiatives such as training and education on cost savings, re-alignment of operational workflows, cost saving on energy cost, etc. The substantial reduction in interest rates and finance costs contributed to a significant decrease in the overall finance costs and this is anticipated to continue in the upcoming years.
- (b) Management obtained additional credit facilities to ensure that it can pay its debts as and when they fall due and payable for a minimum of 12 months period from the date of approval of these financial statements by the Board of Directors.
- (c) As disclosed in Note 44.1 to the Annual Report 2022/2023, the Management has taken steps to overcome the recovery actions taken by Hatton National Bank PLC. New Nawaloka Medical Centre (Pvt) Ltd filed action in the Commercial High Court on 17.05.2023 bearing Case No. CHC 118/23 MR requesting *inter alia* an Injunction against the proposed auction of the mortgaged property, i.e. part of the premises of the Nawaloka Hospital complex in Colombo 02, by Hatton National Bank PLC and on 22.02.2024 the requested Injunction had been refused. However, on 28.02.2024, the Court of Appeal in CA RII-0024-24 issued an Interim Order preventing *inter alia* Hatton National Bank PLC from auctioning the property and/or leasehold rights of the property in issue and on 7th May 2024 dismissed all objections submitted by HNB against the said Interim Order and the Court of Appeal extended the said Interim Order until the final determination of the Case.

The Company expects a positive outcome over restructuring and renegotiating terms over settling the dues in a way that will not impact the going concern of the Group.

Having considered these factors, the Board of Directors meticulously reviewed the individual companies operating within the Group.

Following thorough analysis of potential outcomes and their likelihood, the Directors have ascertained that the Company and the Group possess adequate resources to sustain their operations well into the foreseeable future. Further, the Management of the Company does not have any intention to liquidate the Company or the Group and to cease the operations in the near future.

Therefore, the management does not expect this Emphasis of Matter on material uncertainty related to going concern to be repeated in the financial statements of 2023/2024.

- c) The time period within which such remedial action is expected to be taken.
The Company is expected to submit the next Annual report on or before 31st of August 2024. These qualifications are not expected to be repeated in the financial statements of 2023/2024.
- d) In terms of Rule 7.5(d)(ii)(A)(5)(d) of the Listing Rules of the CSE, the Company further announces that,
 - i. In the event of any deviation from the proposed remedial action, the extent of the deviation shall be communicated to the investors by way of a subsequent announcement to the Market via the Exchange within one (01) Market Day from the date of obtaining the approval of the Board of Directors of the Entity for such deviation;

- ii. In the event the matters giving rise to the qualified audit opinion and the emphasis of matter on going concern are not resolved within a period of fifteen (15) months from the date of transferring the Securities of the Entity to the Watch List, the trading of Securities of the Listed Entity shall be suspended. In the event the trading suspension continues for a period in excess of twelve (12) months, the securities of the Entity shall be delisted by the Board of Directors of the CSE in terms of Rule 11.3 (a) of the Listing Rules.
- iii. In the event the matters giving rise to the qualified audit opinion and the emphasis of matter on going concern are resolved and such fact is independently verified by an auditor during the period the Securities of the Entity are on the Watch List, it shall be announced to the Market via the CSE forthwith.

Accordingly, the Board of Directors is pleased to inform all stakeholders that they are committed to making every possible effort to address the issues highlighted in the qualified audit opinion and the emphasis of matter on going concern. Their utmost priority is to ensure that the audit opinion for the financial year 2023/2024 will be unqualified and that the financial statements reflect a true and fair representation of the organization's financial position and performance.

Yours faithfully,



Charuni Gunawardana

Director

C G Corporate Consultants (Private) Limited

Secretaries for NAWALOKA HOSPITALS PLC