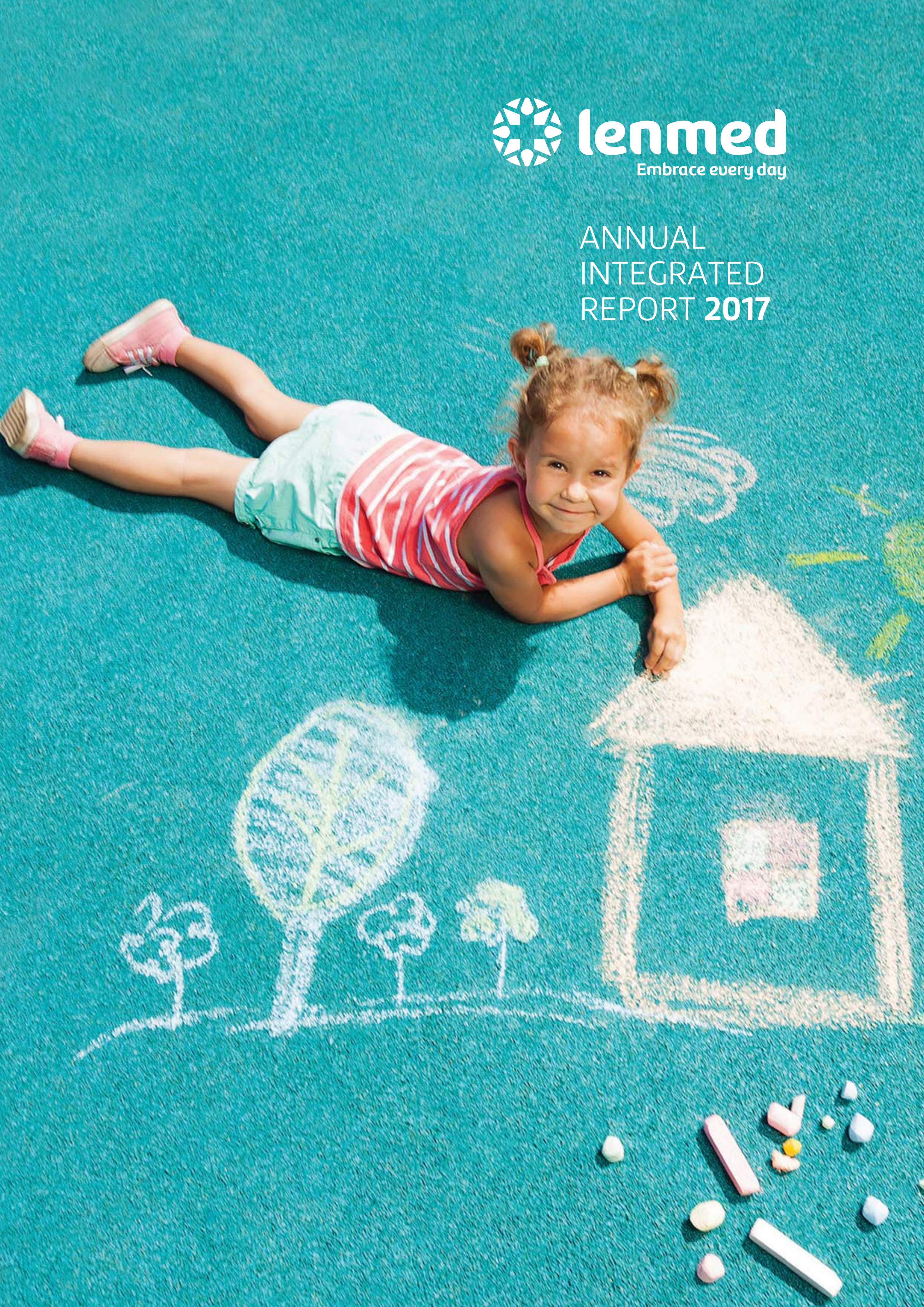
lenmed

Embrace every day

ANNUAL INTEGRATED REPORT **2017**



ABOUT THIS REPORT

Lenmed Investments Limited's (the Group or Lenmed) Annual Integrated Report covers the financial year 1 March 2016 to 28 February 2017. In this report, we share the collective thinking applied to material matters impacting on our ability to create long-term value. Throughout the report, we address the challenges faced by the Group, and opportunities and external drivers influencing Lenmed's strategy.

The report aims to provide a balanced and succinct view of Lenmed's financial and non-financial performance and covers the Group's operations in South Africa, Botswana and Mozambique. It provides information on Lenmed's strategies for growth, efficiency, quality, sustainability, corporate governance and accountability.

Feedback on report

We welcome your feedback on this report. Please email your comments to Vaughan Firman at info@lenmed.co.za

The information provided in this Annual Integrated Report has been guided by local and international requirements.

These include the:

- South African Companies Act 71 of 2008, as amended (Companies Act)
- King Report on Governance for South Africa, 2009 (King III)
- International Integrated Reporting Council's (IIRC) <IR> Framework
- International Financial Reporting Standards (IFRS).

Since the release of Lenmed's 2016 Annual Integrated Report, there has been no material change to the structure, ownership or products and services of the Group.

Materiality

This report was prepared on the basis of materiality. The process for determining these material matters and their detailed disclosure are on page 10.

Disclosure and assurance

Lenmed aims at high standards for all disclosures included in this report to provide meaningful, accurate, complete, transparent and balanced information to stakeholders. The Board, its committees and management were involved in finalising disclosures made in this Annual Integrated Report and assume responsibility for the information contained therein.

The financial information included in this report has been prepared in accordance with IFRS. PKF Durban has independently assured the annual financial statements.

Non-financial information was not independently assured.

Board responsibility

This report was approved by the Lenmed Investments Limited Board of Directors (the Board) on 08 June 2017. The Board acknowledges its responsibility in ensuring the accuracy of this 2017 Annual Integrated Report. The Board has applied its collective expertise to this report and, in its opinion, this report addresses all material issues and presents an integrated view of the Group's performance in the year under review.

Forward-looking statements

Many of the statements in this Annual Integrated Report constitute forward-looking statements. These are not guarantees or predictions of future performance. As discussed in the report, Lenmed faces risks and other factors outside its control. This may lead to outcomes unforeseen by the Group. These are not reflected in the report.

Readers are warned not to place undue reliance on forward-looking statements.

The forward looking and prospects information contained in this report have not been reviewed or audited by PKF Durban.

CONTENTS

More information can be found elsewhere in this report

More information can be found online at www.lenmed.com

OUR BUSINESS

Ownership

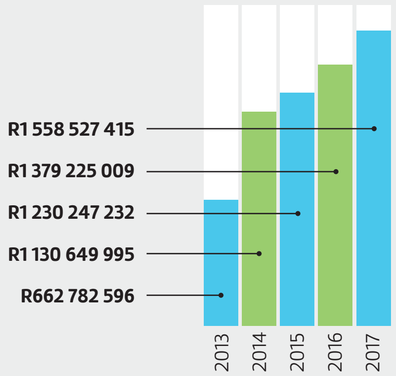
OWNERSHIP	HOSPITAL	BEDS
100%	**Ahmed Kathrada Private Hospital** *Lenasia, Gauteng*	254
100%	**Zamokuhle Private Hospital** *Tembisa, Gauteng*	94
100%	**Daxina Private Hospital** *Lenasia South, Gauteng*	64
100%	**Randfontein Private Hospital** *Randfontein, Gauteng*	174
100%	**La Verna Private Hospital** *Ladysmith, KwaZulu-Natal*	149
100%	**Shifa Private Hospital** *Durban, KwaZulu-Natal*	179
100%	**Royal Hospital and Heart Centre** *Kimberley, Northern Cape*	177
100%	**Maputo Private Hospital** *Maputo, Mozambique*	105
70%	**Bokamoso Private Hospital** *Gaborone, Botswana*	200
67%	**Kathu Private Hospital** *Kathu, Northern Cape*	55
54%	**Ethekwini Hospital and Heart Centre** *Durban, KwaZulu-Natal*	334
		1 785

HIGHLIGHTS

Five-year review

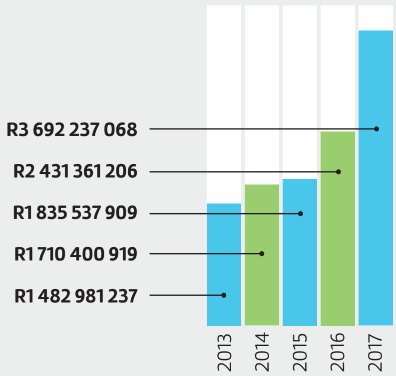
Revenue

five-year CAGR 24%*



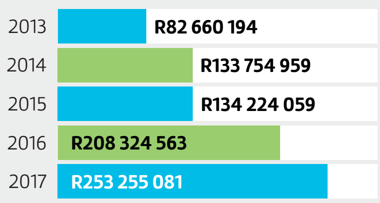
Total assets

five-year CAGR 26%*



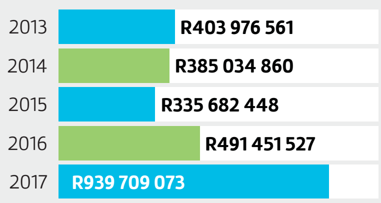
Cash flow from operations

five-year CAGR 32%*



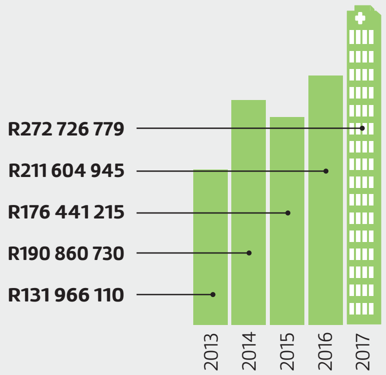
Total interest-bearing debt

five-year CAGR 23%*



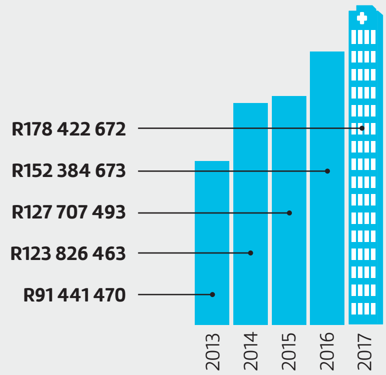
Normalised EBITDA

five-year CAGR 20%*



Headline earnings

five-year CAGR 18%*



* *Compound annual growth rate.*

2017 Highlights

Lenmed lists its annual highlights in line with the "six capitals" integrated reporting concept recommended by King III.

01 FINANCIAL CAPITAL

Headline earnings at R178.4 MILLION (2016: R152.4 million) up by 17.1%

R264.9 MILLION generated from operating activities (2016: R203.9 million)

R1 BILLION composite facility obtained from Rand Merchant Bank (RMB)

R200 MILLION equity injection from Grindrod Financial Services

Maputo Private Hospital became a 100% SUBSIDIARY on 1 February 2017

Ethekwini Hospital and Heart Centre shareholding raised to 53.6% on 18 January 2017 and consolidated into results

Financial capital is discussed further in the Chief Financial Officer's report

02 MANUFACTURED CAPITAL

Zamokuhle Private Hospital opened expanded facilities in May 2016 and is performing above expectations

Ethekwini Hospital and Heart Centre added 74 NEW MEDICAL AND SURGICAL BEDS INCLUDING ICU

Kathu Private Hospital added 31 BEDS AND AN OPERATING THEATRE

Oncology centre opened at Shifa Private Hospital in 2017

Royal Hospital and Heart Centre (Kimberley) is near completion

Manufactured capital is discussed further in the Chief Operating Officer's report

03 HUMAN CAPITAL

Appointment of business development executive and acting Chief Medical Officer (CMO)

EMPLOYEE SATISFACTION SURVEY CONDUCTED

Employee contracts standardised throughout the Group

Employee assistance programmes (EAPs) offered in partnership with Kaelo Consulting

PLEASING PARTICIPATION OF EMPLOYEES IN WELLNESS DAYS

Human capital is discussed further in the Sustainability report

04 SOCIAL AND RELATIONSHIP CAPITAL

Total corporate social investment (CSI) spend of over R2.9 MILLION

Discounts to financially disadvantaged patients of over R1.3 MILLION

91 FREE CATARACT SURGERIES PERFORMED

Expanded our range of clinical services and facilities to include a CARDIAC PROGRAMME AT BOKAMOSO PRIVATE HOSPITAL AND ONCOLOGY CENTRE AT SHIFA PRIVATE HOSPITAL

Social and relationship capital is discussed further in the Sustainability report

05 INTELLECTUAL CAPITAL

DELTA PHASE OF SAP ERP SYSTEM IMPLEMENTATION COMPLETED

Bokamoso Private Hospital (Botswana) gained COHSASA* accreditation and performed first open heart procedures in private healthcare in the country

Majority shareholding gained for Ethekwini Hospital and Heart Centre, a highly advanced medical and cardiac facility

Intellectual capital is discussed further in the Sustainability report

06 NATURAL CAPITAL

Solar power installed at AHMED KATHRADA PRIVATE HOSPITAL

Laundry water recycling implemented for Gauteng hospitals

Commenced roll-out of electricity check meters that post readings to an online system

Royal Hospital and Heart Centre in Kimberley being CONSTRUCTED AS A 'GREEN BUILDING'

Natural capital is discussed further in the Sustainability report

* *Council for Health Service Accreditation of Southern Africa.*

VISION AND VALUES

VISION

Lenmed devotes itself to being a relevant and growing hospital Group, championing exceptional patient experience and clinical outcomes, remaining true to our roots, the communities and the people we serve.

CORE VALUES

Lenmed's core values are fundamental to achieving the sustainability of the business.

The spirit of **caring, dedication and community involvement** that characterised the first Lenmed Hospital has become the hallmark of the Group. We believe the delivery of superior healthcare is achieved through a combination of unparalleled quality and clinical excellence along with a true focus on the personal needs of our patients and their families.

Affordability, efficiency and a sense of community are attributes of the Group that set us apart from other private healthcare facilities. Personal service in a caring and comfortable environment provides patients with good value, quality healthcare, advanced technology and professional nursing. These core values, backed by sound operational and financial management, have contributed to the Group's results to date and will sustain us into the future.

HOW DO WE EMBRACE EVERY DAY?

- We strive to exceed the expectations of our patients, visitors and doctors
- We aim for perfection in all that we do
- We always act with compassion and empathy
- We work as a team and hold ourselves and each other accountable for our actions

Together, we make Lenmed great

EXPANSION AND ACQUISITION STRATEGY

Given that private healthcare services are lacking across sub-Saharan Africa, Lenmed will continue growing through acquisitions, hospital management contracts and developing hospitals.

Although investment opportunities constantly present themselves, current economic circumstances dictate that we take a more conservative approach to acquisitions, and to greenfield developments in particular.

Nevertheless, Lenmed will continue seeking opportunities offering exceptional value within our current risk and capital parameters.

QUALITY

Private healthcare in South Africa is highly competitive, which makes quality of service a key differentiator between healthcare providers. As quality is a core Lenmed value, we are reviewing our internal systems to recalibrate quality standards.

AFFORDABILITY

Lenmed usually targets underserved communities rather than affluent sectors, therefore, we must ensure that our services are affordable to those populations. Our current review of internal efficiencies is the most direct means to securing affordability.

EFFICIENCY

As Lenmed acquires or builds more hospitals, while introducing additional facilities within these footprints, we need to manage these efficiently and cost-effectively. At Group level, we have recruited experienced professionals to manage shared services for human resources, business development, information technology (IT), marketing and procurement, among others. Nevertheless, certain functions such as the internal audit and the SAP implementation have been outsourced as they offer better value and services.

Implementation of a SAP Enterprise Resource Planning (ERP) system for Lenmed is also under way. Introducing SAP will ensure that Lenmed can continually optimise our operations and gain full strategic value from incoming data.

MANAGEMENT CONTRACTS

Taking on contracts to manage hospitals rather than acquiring these outright is a relatively low risk option for expanding the Group. Lenmed's expertise in doing so is well proven through our management of Bokamoso Private Hospital in Gaborone, Botswana, and Kathu Private Hospital in the Northern Cape. These contracts may lead to a buyout of the other shareholders, as was the case at the Maputo Private Hospital during February 2017.

HOW WE CREATE VALUE

Lenmed creates value for our shareholders and other stakeholders through a business model based on an intensive knowledge of the health industry. Lenmed's management features a well-balanced mix of deeply experienced health practitioners and younger, highly qualified professionals that together manage exceptional medical facilities across southern Africa.

The Lenmed Board and management are adept in identifying expansion opportunities in high potential areas that competing healthcare groups haven't entered.

Value is created by restoring underperforming medical facilities to healthy cash flows, or by building compact and efficient hospitals in underserved areas. These facilities are then expanded in response to demand, offering additional specialities and growing revenue streams.

INPUTS

FINANCIAL CAPITAL

Lenmed's pool of funds consists of funds reinvested in the Group, revenue generated, interest income and a combination of long and short-term loans from capital providers.

- Working capital
- Loans
- Operational and capital expenditure

MANUFACTURED CAPITAL

The hospital facilities and general infrastructure that enables Lenmed to procure, deliver and sell our services.

- Number of hospitals
- Number of beds
- Number of specialist units
- Equipment
- Vehicles

HUMAN CAPITAL

The skills and experience invested in our employees that enable us to implement our strategy and deliver our products and services, thereby creating value for Lenmed's stakeholders.

- Number of employees
- Number of nurses
- Training
- Remuneration and policies
- Agency agreements

SOCIAL AND RELATIONSHIP CAPITAL

The key and long-term relationships Lenmed has cultivated with key stakeholders and service providers.

Relationships with:
- Patients
- Investors
- Communities
- Doctors and nurses
- Medical funders
- Suppliers
- Government at various levels

INTELLECTUAL CAPITAL

The intangibles that sustain the quality of our product and service offering, which provide Lenmed's competitive advantage.

- Quality policies, procedures and standards
- Systems and analysis models
- Alternative reimbursement pricing models
- Legal and statutory compliance requirements

NATURAL CAPITAL

The natural resources that Lenmed uses for the delivery of our services.

- Energy
- Water
- Land use

Values

All Lenmed business is conducted within the culture of caring, dedication and community behind the founding of the group. Our core values are affordability, efficiency and quality, backed by excellent management, motivated employees and world-class facilities.

Vision

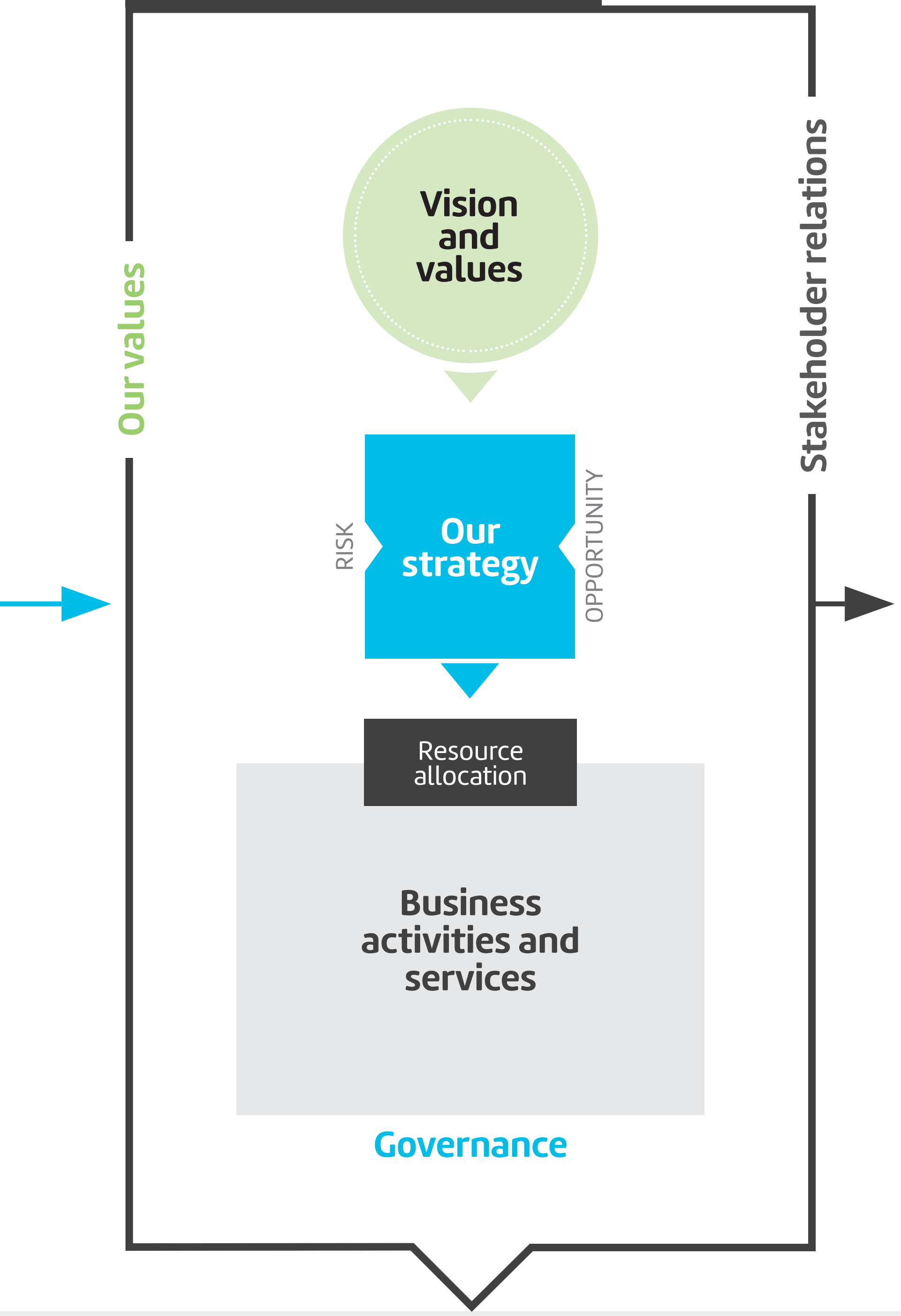
Lenmed was established in 1984 by the Lenasia community to construct and operate a much-needed hospital for the district. Although Lenmed has since expanded into three southern African countries, we remain true to our original community ethos of providing world-class medical facilities where these are lacking.

Strategy

Lenmed takes a pragmatic and risk-informed approach to steady growth, based on a solid balance sheet and constant enhancement of our management capacity and systems, while providing affordable and quality medical experiences that will continue building the Lenmed brand.

We attract highly reputable specialists in various medical disciplines to our facilities, so they in turn bring in their patients. Doctors practice at our hospitals due to top quality medical equipment and theatres, well-furnished wards and dedicated nursing and administrative employees.

OUR BUSINESS MODEL



OUTCOMES

FINANCIAL CAPITAL

R1 558.5 million revenue

R178.4 million headline earnings

Refer to the Chief Financial Officer's Report on page 28

MANUFACTURED CAPITAL

- **11** hospitals
- **1 785** registered beds
- **Operational efficiencies**

HUMAN CAPITAL

- **Qualified, experienced** and **motivated** workforce
- **2 507 employees** in the Group
- **1 493 nurses** employed in the Group

SOCIAL AND RELATIONSHIP CAPITAL

- **91 free** cataract surgeries
- Excellent **customer satisfaction results** shown in surveys
- **Level 2 B-BBEE* level rating** (under the old code)

INTELLECTUAL CAPITAL

- **Trust** and **confidence**
- **Performance improvement**
- **Quality standards** maintained and improved

NATURAL CAPITAL

- **Energy savings** and **reduction**
- **Waste** and **water treatment initiatives**

* *Broad-Based Black Economic Empowerment.*

Opportunities and risks

Lenmed's leadership continually looks out for development or turnaround opportunities in the southern African health sector. Identified opportunities are carefully assessed against the group's selection criteria and risk appetite. Only the best qualifiers will be taken on in terms of our growth strategy.

Resource allocation

Resources flow through Lenmed in the form of the six capitals, being our financial, human, intellectual, social and relationship, natural and manufactured capitals. Management prioritises the mix and quantities of these capitals allocated to ongoing operations and new projects.

Business activities and services

These are the day to day activities that enable Lenmed to function and attract medical personnel and patients to our hospitals. In over 30 years under expert and consistent management, Lenmed has developed an enviable reputation for healthcare, supported by standard operating procedures that are continuously improved through benchmarking and new technology.

Governance

Good corporate governance is the ethical foundation upon which Lenmed stands. Although a non-listed company, Lenmed governs itself in accordance with the King code of good governance best practices and reports to shareholders and stakeholders using the international integrated reporting <IR> framework.

MATERIAL MATTERS

Lenmed defines a material matter as an item that has a direct or indirect impact on its ability to create, preserve or erode financial, economic, environmental and social value for the Group and its stakeholders. Various internal and external influencers were considered when determining and prioritising the materiality of matters. These included interviews with executives, reviewing strategy, management reports, stakeholder expectations and the analysis of key risks. This section provides a high-level overview of our material matters and our strategic responses to them. These material matters are presented in no specific order of priority.

1 Relationships with medical schemes

WHY THIS IS IMPORTANT TO LENMED

Medical schemes, also known as medical aids, fund a high percentage of private healthcare consumers.

In recent years, medical scheme claims have risen sharply, while imported medical equipment and medication is becoming more expensive due to South African Rand volatility. Shrinking disposable incomes across the South African population, as well as above inflation rate medical scheme increases, are preventing any growth in the numbers of medical scheme contributors. The South African medical scheme population is statistically aging, which will naturally also push up the number of claims.

With the medical aid funders (MAFs) under increasing pressure, stronger approval and authorisation regimes will be imposed by medical schemes.

RISKS AND OPPORTUNITIES

Medical scheme negotiators are pressuring medical practitioners and healthcare providers to reduce their margins, which impacts on Lenmed's revenue streams.

Permissions for hospital admissions are being reduced, along with the length of hospital stays. As a consequence, Lenmed must appeal to a broader spectrum of potential patients and medical scheme partners to maintain our occupancy rates.

LENMED'S RESPONSE

We are presently re-evaluating our internal efficiencies and examining means for reducing costs to stay within the parameters of medical scheme cost frameworks.

2 Technology

WHY THIS IS IMPORTANT TO LENMED

Accurate and comprehensive data on patients has become imperative in driving more efficient service and clinical and financial operations.

RISKS AND OPPORTUNITIES

A switch to new systems could disrupt current operations and financial controls, leading to reputation and financial losses. However, integrating all patient information into a singular and appropriately accessible system enables Lenmed to improve collaboration between physicians, reduce laboratory testing duplication and lower patient risk through a rounded and timely view of patient profiles.

Our mobile app system may be leveraged to extend our outreach to patients, solicit feedback and enhance the hospital experience.

LENMED'S RESPONSE

In 2016, Lenmed began to install a SAP Enterprise Resource Planning (ERP) system to channel all data streams through a world-class management platform. Lenmed's implementation of SAP was piloted at head office and our Randfontein Private Hospital in the first half of 2017, with our roll-out through all facilities scheduled over the next three years.

Lenmed's membership of the National Health Network (NHN) enables access to a collective repository of patient data. We have engaged actuaries to analyse this database to learn from anomalies, billing comparisons and benchmarks.

3 Scarcity of skills in southern African healthcare

WHY THIS IS IMPORTANT TO LENMED

Providing a superior level of private healthcare requires qualified and experienced personnel. Suitably equipped individuals are presently in short supply across Africa and are being targeted by all our competitors.

RISKS AND OPPORTUNITIES

The lack of sufficient high calibre employees can result in mediocre clinical outcomes, service levels and reputational damage.

LENMED'S RESPONSE

Although legislation prohibits the direct employment of doctors, Lenmed continually upgrades or expands existing medical facilities to attract reputed doctors and specialists to our hospitals.

We offer generous packages and benefits to attract suitable medical professionals to our ranks. Internal skills development remains a priority and Lenmed has established a nursing academy to establish a suitably trained pool of nurses for our hospitals. We are currently awaiting government licencing, which has delayed our first intake of nurses to 2018.

4 The growing complexity of healthcare regulation

WHY THIS IS IMPORTANT TO LENMED

Healthcare regulation impacts on Lenmed's ability to provide quality services, develop new facilities and invest in skills development, among other aspects.

South Africa is heavily regulated through legislation that includes the National Health Act, 61 of 2003 (being amended), the Occupational Health and Safety Act, 85 of 1993, the Labour Relations Act, 66 of 1995, the Broad-Based Black Economic Empowerment Act, 53 of 2013 (B-BBEE Act), Protection of Personal Information Act, 4 of 2013 (POPI Act), the Pharmacy Act, 53 of 1974, and various environmental laws.

RISKS AND OPPORTUNITIES

- Non-compliance may lead to penalties or withdrawal of operating licences, and holds reputational risk for the Group.
- Increasing and poorly designed regulations can prevent efficient healthcare and dissuade new investment.

The Competition Commission's protracted investigation into private healthcare is delaying sector planning.

LENMED'S RESPONSE

- Lenmed constantly reviews medical scheme Prescribed Minimum Benefits (PMBs).
- We are continuing to engage with the South African national and provincial health authorities through all available channels to work for the best possible outcomes for the general public and all stakeholders.

5 Defending market share

WHY THIS IS IMPORTANT TO LENMED

Competition between healthcare providers is intensifying, with competitors developing hospitals near Lenmed facilities.

Increasing competition also makes attracting and retaining healthcare specialists more difficult. Competent professionals are vital to maintaining service standards.

RISKS AND OPPORTUNITIES

The most constructive response for defending market share is continuous innovation. Lenmed is always evaluating how to improve customer services, reduce costs and add in differentiators. Retaining market share requires continually increasing our competitive strength and value to customers. Lenmed is exploring opportunities to diversify by moving from acute care into adjacent medical disciplines.

LENMED'S RESPONSE

We are protecting and growing market share by raising service levels and reviewing all our operations for efficiency, affordability and costs. SAP technology is being rolled out across the Group to fully leverage data streams, and we engage actuaries to manage and analyse anomalies, billing comparisons, benchmarks and possible improvements.

We aim to ensure a consistently superior experience for patients and medical professionals.

6 Strategic differentiation

WHY THIS IS IMPORTANT TO LENMED

The healthcare industry is undergoing rapid change. Today's patients research their symptoms before visiting healthcare practitioners and expect astute and high quality service. As competition stiffens, healthcare players must differentiate themselves through service, range of facilities and a compelling brand.

RISKS AND OPPORTUNITIES

Consumers engage with brands that genuinely make them feel important and well taken care of. Healthcare brands must thus position themselves on superior service and unique propositions, such as location.

We intend to remain true to our roots and the communities we serve by championing exceptional patient experiences and clinical outcomes.

LENMED'S RESPONSE

In 2015/16, Lenmed rebranded to build on our ethos of community and caring. As the new brand rolls out comprehensively, we continuously address all internal operations and processes to refine the quality levels required to support our brand promise.

Lenmed is emphasising the patient experience rather than focusing on increased bed occupancy rates.

7 Economy

WHY THIS IS IMPORTANT TO LENMED

Consistently mediocre South African economic growth hinders employment, which slows or halts membership growth in medical schemes. Healthcare providers compete more vigorously for the limited market of medically insured lives, often through discounting or other means that reduce margins. In addition, Rand volatility and its consistent decline make imported equipment more expensive to acquire.

RISKS AND OPPORTUNITIES

A stagnant economic environment may impact on Lenmed's profitability and growth as the cost of care rises against a backdrop of decreased profits.

However, Lenmed has a well-managed balance sheet and challenging economic times offer high value acquisition opportunities. We will continue evaluating acquisitions or management contracts, but must perceive exceptional value before proceeding.

LENMED'S RESPONSE

South Africa's weak economic conditions are unlikely to improve soon and Lenmed is therefore increasingly circumspect on growth opportunities. We constantly monitor the economies of all geographies in which we are present and will only invest in the most robust projects available.

We remain committed to improving our internal efficiencies to lower costs and remain sustainably competitive.

OPPORTUNITIES AND RISKS

Opportunities

Lenmed's private sector community health niche is underpinned by:

- Gaps between public and private health facilities
- Lack of specialised medical units in local communities
- Huge demand in southern Africa for efficient medical care
- Lenmed's proven ability to develop and/or operate these hospitals.

IDENTIFIED OPPORTUNITIES

- Develop intermediary patient services to complement our current focus on acute care. These could be lower cost and off-site facilities manned by post-care nursing employees, possibly as partnerships with health authorities
- Acquisitions of other independent hospital groups
- Seek medical tourism patients through specialist travel operators
- Develop mobile phone apps to enhance patient reach and experience
- Extend centres of excellence at our hospitals to the remainder of the Group and equip and market them accordingly
- Explore the need for and benefits of pre-screening facilities for mammograms, bloods and other preventative practices
- Investigate the establishment of Health Management Organisations (HMOs) to provide medical aid in Africa – particularly Mozambique and Botswana
- Where feasible, establish day clinics in close proximity to our current hospitals.

OPPORTUNITIES ALREADY BEING PURSUED

- Lenmed has established a nursing college in Lenasia, although it awaits licencing
- Our recent new bed licences are being converted into actual beds in hospitals
- We are actively growing our network of primary healthcare and renal care facilities
- All new hospitals are being constructed as green buildings with energy and water-saving features.

Top risks

COUNTRY RISK

South Africa and Mozambique face a loss of confidence in government policies. The risk of a further downgrade to credit ratings in both countries is a real possibility. The financial implications are a significantly weaker exchange rate and higher interest rates, which has already been felt in both countries due to large commodity-based projects being postponed. In addition, the drop in commodity prices has influenced the balance of payments, and reduced both countries' creditworthiness. A decline in southern African economic realities could delay Lenmed's expansion policy.

MITIGATION

- Constant monitoring of the situation
- More circumspect on growth opportunities
- Increase our internal Weighted Average Cost of Capital (WACC) and only invest in projects offering the highest potential within our risk parameters.

INDUSTRY REGULATION

Aspects of the healthcare industry being examined by the Department of Health (DoH) may negatively impact private hospitals in South Africa.

These include:

- The Competition Commission's inquiry into healthcare
- Delays in obtaining of licences for hospitals, beds and training facilities
- The proposed National Health Insurance (NHI) and Office for Health Standards Compliance
- Certificate of Need.

MITIGATION

- Strategy on negotiating through the National Health Network (NHN)
- Hospital efficiency drive to reduce costs per admission
- Ongoing monitoring includes submissions required by the DoH.

HOSTILE HEALTHCARE FUNDER REGIME

Medical schemes work to drive hospital tariffs lower and influence the manner in which hospitals operate.
Profit margin erosion and/or operational changes can impact on Lenmed. Aspects of these include:

- Discovery and Government Employees Medical Scheme (GEMS) dominance of the medical scheme sector
- Medical scheme consolidation
- Alternative reimbursement models.

MITIGATION

- Lenmed is part of the collective negotiating through NHN
- Actuarial support to develop innovative offerings to medical schemes
- Hospital efficiency drives to reduce costs per admission.

MEDICAL PRACTITIONERS

In terms of South Africa's law, Lenmed's doctors are not employed by the Group and may terminate their association with us at any time. Competition for medical practitioners is steep, as not nearly enough doctors and specialists are being trained to meet the healthcare requirements of southern African countries. There also appears to be a growing resistance in the public sector to doctors working in both the public and private sectors.

MITIGATION

- Lenmed works constantly to maintain strong relationships with its doctors
- Investment in infrastructure and modern equipment to attract and retain sought-after medical personnel
- Building relationships with universities for access to new graduates
- Share scheme in place for loyal doctors
- Marketing initiatives aimed specifically at recruiting doctors and specialists.

ENTERPRISE RISK THROUGH NEW HOSPITALS

Lenmed has expanded rapidly in the past three years, with two sizeable projects completed at the Kathu and Zamokuhle Private Hospitals, while Royal Hospital and Heart Centre in Kimberley is nearing completion. The acquisition of the Ethekwini Hospital and Heart Centre is a significant milestone.

MITIGATION

- Constantly monitor cash flows to maintain liquidity and solvency
- Grindrod Financial Services invested R200 million in January 2017
- Obtained a R1 billion facility from RMB
- Use an independent and highly experienced mergers and acquisitions advisor for these transactions.

STRATEGY AND LEADERSHIP

Our strategic vision

Lenmed devotes itself to being a relevant and growing hospital Group, championing exceptional patient experience and clinical outcomes, remaining true to our roots, the communities and the people we serve.

Africa, and most South African provinces, are chronically short of medical facilities and private healthcare in particular. Lenmed can choose from a range of development or management opportunities due to this shortage of quality health care.

We continuously seek out expansion opportunities while adding further value, beds and specialities to our current hospitals. We evaluate each opportunity on its merits and have adopted a prudent approach to protect our capital. As Africa's middle classes expand, establishing hospitals closer to non-urban communities makes business sense.

Expansion beyond South Africa will be in countries selected for their potential, economic stability, and local demand for excellent private healthcare. Healthcare services can be offered either from hospitals or stand-alone facilities such as eye clinics, oncology centres and renal units.

It is imperative that Lenmed claim the status sought in our strategic vision, and to this end we must make a concerted investment in improving patient experiences and clinical outcomes across all our hospitals.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT

Group revenue grew

13%

to over R1.5 billion

Normalised EBITDA* at

R272.7 million

increased by 28.9%

Once again, I have the pleasure of reporting back to you on a **positive year of growth and achievement.** Group revenue grew **13%** to over **R1.5 billion** and all our hospitals, with one exception, improved their results. Normalised **EBITDA* at R272.7 million increased by 28.9% over 2016.**

OVERVIEW AND HIGHLIGHTS

This year, we reopened our expanded Zamokuhle Private Hospital in Tembisa, bought out the minority shareholders in the Maputo Private Hospital and became the majority shareholder in the Ethekwini Hospital and Heart Centre. We also completed upgrades and installed additional services at many of Lenmed's facilities, including a R55 million expansion and refit at Ahmed Kathrada Private Hospital in Lenasia.

Our new hospital being built in Kimberley will open later in 2017, and we have significantly improved our financial resources through a new R1 billion facility from RMB, a R200 million equity investment by Grindrod Financial Services and the post year-end refinancing of the development loan for the Maputo Private Hospital.

We were saddened by the sudden passing of our community elder and patron, Ahmed Kathrada, but are proud that Lenmed's original and flagship hospital will continue serving the community in his name.

The Maputo Private Hospital, which we only recently took full control of, underperformed slightly, but we remain confident that its medium and long-term prospects remain healthy.

LENMED'S OPERATING ENVIRONMENT

South Africa's economy and the Rand strengthened throughout much of 2016, but deteriorated sharply in early April 2017, after South Africa's financial rating was downgraded to sub-investment or 'junk' status.

At the time of publishing, the impacts of this altered investment climate are not yet apparent. It is probable that imported equipment is likely to become more expensive, while South Africa's own services and manufactured products should be cheaper and more competitive in the global marketplace.

If a loss of business confidence and outside investment into South Africa subdues the economy, then the inevitable job losses will reduce the population of people who can afford medical aids and private healthcare. Some may fall off the medical aid platform entirely, while others will downscale to cheaper cover.

In this environment, South Africa's medical aid population will not grow its numbers. Besides growing unemployment, the younger population will put off joining medical schemes while they feel healthy, which lessens the funds available to subsidise the older medical aid members. More promisingly, the concept of medical aid in other African countries is catching on slowly as their middle classes expand. Regardless of economic downturns or upturns, Africa in general lacks sufficient private healthcare facilities in most regions.

Despite limited economic growth in South Africa and the world since the 2008 global crisis, Lenmed continues to grow steadily in assets, revenues, profits, resources and skills.

TAKING CARE IN A TIME OF CAUTION

Sub-Saharan Africa – and South Africa especially – are in a subdued economic cycle that calls for conservative investment and careful management of costs. At the same time, medical schemes are making tougher demands on prices and services.

We pride ourselves in our care for communities and personal service. Rather than pursuing new acquisitions, this is the prudent time to review and tighten Lenmed's internal efficiencies, with the focus on improving service quality and consistency.

Pursuing efficiencies must not be at the cost of our community responsibilities. Healthcare providers must look beyond the cold statistics of bed occupancy rates to emphasise patient outcomes and all-round experiences in medical facilities.

Nevertheless, Lenmed's balance sheet is in robust health and we will continue assessing exceptional opportunities that become available.

Lenmed fills a niche for medical schemes and communities in that we take private healthcare to areas overlooked by southern Africa's biggest healthcare groups. Our focus remains within Africa, whereas many of our competitors intend expanding outside of the continent.

* *Earnings before interest, tax, depreciation and amortisation.*

PROGRESS ON UNIVERSAL HEALTHCARE IN SOUTH AFRICA

The proposed NHI remains a South African governmental priority, but progress remains slow and we do not anticipate significant impacts to private healthcare within the next few years. As presently envisaged, NHI will be extremely costly, so implementation cannot start until government can resolve how this project will be funded.

The Competition Commission's inquiry into the alleged inflated costs of private healthcare in South Africa is still under way and will extend into 2018. We are confident that Lenmed's position is sound, as our costings and ethical conduct are transparent and self-evident. We have provided our feedback through the Hospital Association of South Africa (HASA).

Lenmed supports an end-to-end re-examination of the entire healthcare value chain, and we are presently reviewing the Prescribed Minimum Benefits (PMBs), which are currently a source of contention across the industry.

Quality healthcare for all is humane and Lenmed will continue working with government and other healthcare groups to arrive at realistic and fundable outcomes for implementing this principle.

STRATEGY, OPPORTUNITIES AND RISK

Lenmed's traditional development strategy is to acquire, develop or manage hospitals in underserved communities in southern Africa. We develop and position hospitals in these communities by identifying the gaps between public and private health facilities and introducing specialised medical offerings that are lacking.

In principle, we avoid building new hospitals or entering mature urban markets, unless especially attractive opportunities become available.

Specific examples of these exceptional opportunities are our 177-bed Royal Hospital and Heart Centre nearing completion in Kimberley, and our majority shareholding of the Ethekwini Hospital and Heart Centre in Durban. The Kimberley facility is a first of its kind in the Northern Cape, while the Ethekwini facility offers hands-on access for the Group to world-class medical training and operational processes.

As Africa's middle classes expand, establishing hospitals closer to non-urban communities makes business sense. Africa remains chronically underserved by private healthcare; therefore, opportunity is everywhere. Nevertheless, Lenmed invests strictly within our financial and operational risk parameters. Our Botswana and Mozambique operations have shown that an informed and cautious approach is required to unlock the potential in these opportunities. During the current economic cycle, Lenmed will adopt a conservative approach to embarking on any new acquisitions. These opportunities would have to offer outstanding value to be considered, unless the macroeconomic circumstances improve markedly during the year.

We do, however, add beds and additional medical specialities at our existing hospitals as the need for these arises. Lenmed currently focuses on acute care facilities, but is considering adding value for communities and shareholders by bringing in intermediate care and off-site disciplines.

In Africa, the primary risks are bureaucracy, corruption, scarcity of competent medical employees and the uneven spread of public infrastructure.

Bureaucratic delays and red tape hinder Lenmed's growth, deprive local communities of timely healthcare and dissuade investors from participating more intensively in Africa's healthcare.

The lengthy delay in licencing Lenmed's nursing academy in South Africa has already prevented two intakes of nurses from being trained for an industry that urgently needs these personnel.

HOW WAS LENMED'S STRATEGY IMPLEMENTED?

Lenmed established a footprint in Northern Cape healthcare by acquiring a majority shareholding in the Kathu Private Hospital and commencing the construction of our new Royal Hospital and Heart Centre in Kimberley.

In Mozambique, we were pleased to raise our shareholding in the Maputo Private Hospital to 100% by buying out the minority shareholders. This transaction enables Lenmed to set this hospital on the growth path it can achieve in the high potential Mozambican market.

In KwaZulu-Natal, Lenmed increased its shareholding in the Ethekwini Hospital to 53.6%, making the Group the majority shareholder. This high technology and 334-bed facility is one of just three hospitals in South Africa equipped for paediatric cardiology and for performing heart, lung and kidney transplants.

As discussed in the Chief Operating Officer's (COO) operational review later in this report, in most of our other hospitals beds and new services were added to address demand. Our growing footprint is attracting fresh investor interest, with Rand Merchant Bank and Grindrod Financial Services becoming new funding partners.

Grindrod Financial Services has subscribed for an 8.5% shareholding in Lenmed through the issue and has provided R200 million in funding through a cash injection.

FOCUSING ON LENMED'S INTERNAL EFFICIENCIES AND COSTS

Lenmed has expanded rapidly in the past few years through acquisitions and organic growth at our facilities, which has led us to prioritise introducing shared services, new executive posts and management technologies to establish proper governance and cost efficiencies.

In the previous year, we introduced the Kronos HR and Payroll system, after which we began implementing SAP's business suite for enterprise and customer management. The set roll-out commenced at our Randfontein Private Hospital in March 2017, and will be phased across the Group over three years. The SAP technology platform will enable Lenmed to integrate and interrogate data from all sources, integrate more closely with medical schemes, and speed up customer service, while also providing the necessary layers of data security in this era of growing cybercrime.

Establishing this platform will provide the base for seamless expansion in years to come and enable management to focus on providing a unique Lenmed patient experience rather than being diverted by operational details.

The Ahmed Kathrada and Bokamoso Private Hospitals have both been awarded full COHSASA accreditation.

CORPORATE GOVERNANCE AND DIVIDEND

Lenmed remains focused on organic growth and targeted acquisitions, and will retain cash reserves for capital investments. The Board believes that our shareholders will benefit more from the intrinsically strengthening value of Lenmed's shares than from dividends at this time. Although we remain an unlisted company, Lenmed's policy is to deploy corporate governance and ethical standards that adhere to the King III Code and the Listings Requirements of the JSE Limited. We have taken cognisance of the incoming King IV Report on Corporate Governance (King IV) and in this forthcoming financial year will examine our corporate governance practices against King IV's principles, with a view to implementing these in 2018.

OUTLOOK

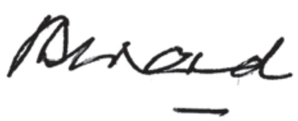
As a Group, we remain focused on our healthcare niche, which is to provide quality and affordable healthcare in underserved markets. At community level, people will always value local healthcare providers they can trust. Lenmed has a long record of developing and providing medical services despite any obstacles, and will continue doing so in line with our proven business model of steady expansion and adding medical disciplines to existing facilities.

I see this next financial year as being more about organic growth, bedding down new systems and driving service quality, rather than aggressive acquisitions. Nevertheless, Lenmed has the resources to take advantage of exceptional opportunities that may become available.

IN APPRECIATION

This year, we bid the well-loved and respected Ahmed Kathrada, who was an icon of our community, farewell. The great leader may no longer be with us in person, but his indomitable spirit will continue to inspire us.

Once again, Lenmed proved the sustainability of our business model by continuing to improve our financial results, along with providing social benefits to the communities where we operate. As the Group expands steadily, more people are joining the Lenmed family. We instil in them Lenmed's ethos of genuine caring while they bring fresh ideas and enthusiasm to keep us vibrant and open to change.



Mr Prakash Devchand
Chairman and Chief Executive Officer

Open heart surgery
through private healthcare is now available in Botswana

In October 2012, Lenmed acquired a 70% stake in the Bokamoso Private Hospital, a 200-bed hospital located in Gaborone, Botswana. Under our guidance, Bokamaso Private Hospital has undergone a remarkable financial and operational turnaround, and is reshaping Botswana's medical landscape.

Due to a general lack of high-level medical care, Botswana residents have often had to travel to South Africa or elsewhere for specialised medical procedures.

On 12 August 2016, a surgical team performed the first open-heart surgery procedure in a private healthcare hospital in Botswana. Numerous challenges had to be overcome before the operation could take place. Bokamoso Hospital Manager, André Ackerman, said, "Significant time and money was invested to procure all equipment, consumables and drugs needed for the surgery. The project took 10 months to plan and prepare."

With 80% of the surgical team being local citizens, the permanent Secretary in the Ministry of Health and Wellness (MHW), Shanaaz El-Halabi, commended the hospital for its transfer of medical skills to the country.

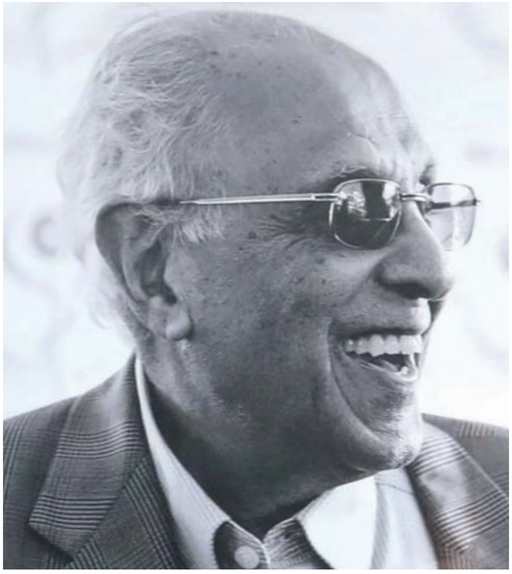
The patient was 21-year-old Merapelo Busang, who said, "I will forever be grateful to Bokamoso for this. They were so good to me and I will preach my story to whoever cares to listen."

Bokamoso Private Hospital has since hosted numerous open-heart and other complicated surgical procedures undertaken by its crack team of Botswanan and South African medical professionals.

Ahmed Kathrada

(1929 – 2017)

Giant of Africa and a **favourite uncle to all**



On 28 March 2017, Ahmed Kathrada, popularly known as 'Uncle Kathy', passed away after a brief illness.

Along with Nelson Mandela, Walter Sisulu and the other legendary Rivonia trialists, Uncle Kathy was sentenced to life imprisonment in 1963, after 17 years of forthright activism against racism and the brutal apartheid regime. 26 years later, in 1989, Kathrada would be released to begin preparing the ANC and South Africa's communities for the difficult transition into a democratic and just society.

At the tender age of 17 years old, in 1946, Kathrada joined the Passive Resistance Campaign of the South African Indian Congress and was one of 2 000 people arrested. He was then imprisoned for the first time.

In 1952, he was given a suspended sentence along with Nelson Mandela and Walter Sisulu for organising a defiance campaign and after a long high treason trial and continual harassment by the security police, went underground in 1962.

A year later, Uncle Kathy was famously arrested at Lilliesleaf Farm with the other Rivonia trialists. He obtained four university degrees during his long prison sentence and was acknowledged by his fellow prisoners as an enduring, resourceful and inspirational man.

As Nelson Mandela remembered, "I have been with Kathy since the late forties. I believe in surrounding myself with strong characters who tell me when I am wrong, and he is that character."

Uncle Kathy's warmth, humility and genuine affection for community on that day re-inspired us all afresh.

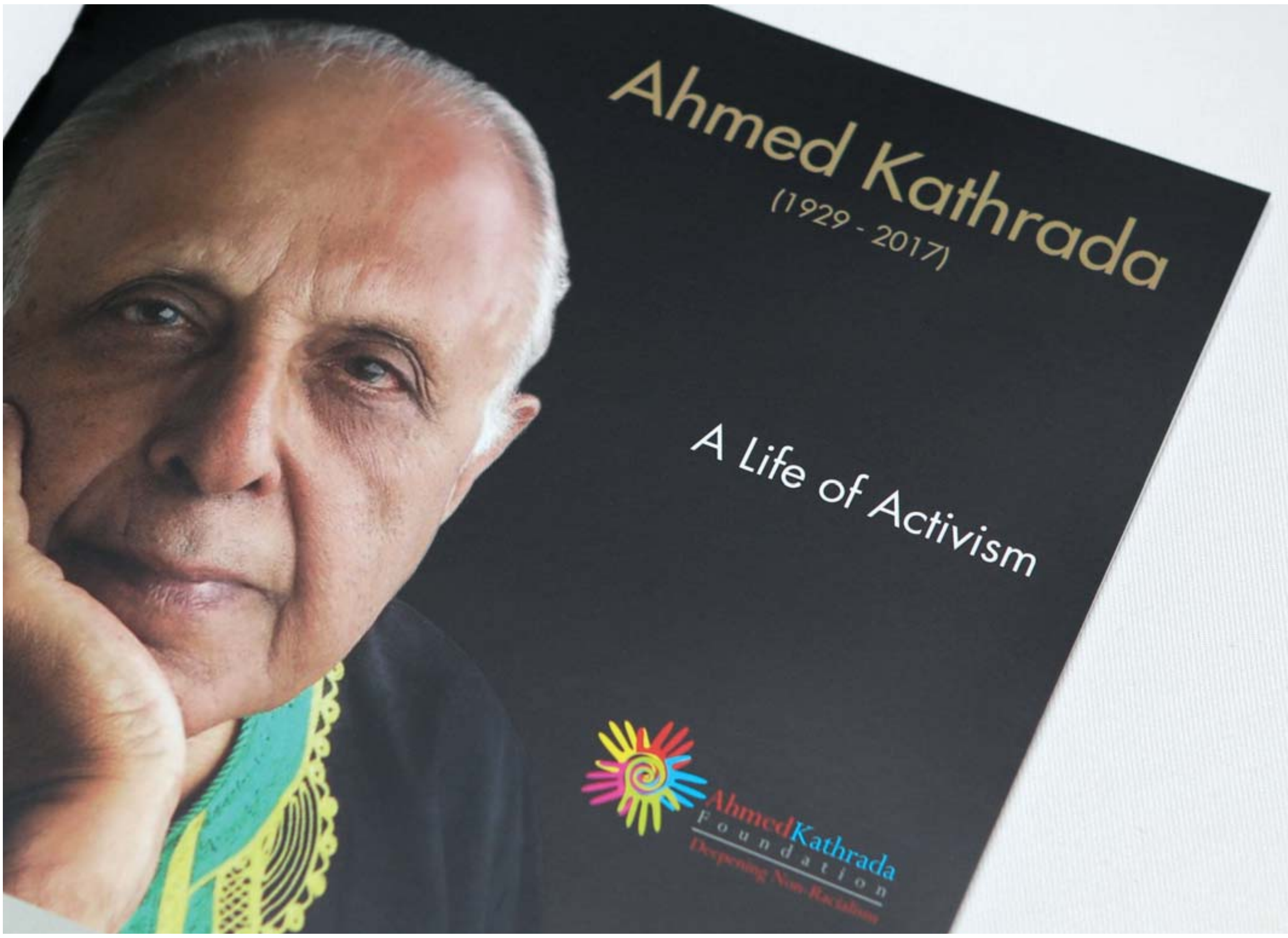
As an early and legendary leader of the South African Indian Congress, Uncle Kathy symbolised hope and patience for South Africa's Indian community during the oppressive apartheid decades. When it became clear in the early 1980s that the regime was not interested in providing sufficient medical care for marginalised communities such as Lenasia, the realisation that Uncle Kathy was waiting in the wings inspired the community to build their own hospital, Lenmed Clinic.

In 1984, we opened the Lenmed Clinic and in 2014, were deeply honoured and touched by having Ahmed Kathrada with us for renaming our much expanded hospital after him.

Ahmed Kathrada may have physically passed, yet his gentle and steely spirit for resisting injustice in any form lives on in us. As a healthcare group founded by a community for communal healthcare needs, at Lenmed we remain committed to Uncle Kathy's ideal of reverence for all human beings. This is being instilled through what Lenmed does, every day.

Ahmed Kathrada will always be a shining example of how authentic leaders should lead.

Lenmed's memorial service in honour of the late Ahmed Kathrada



Mr Prakash Devchand
Chairman and Chief Executive Officer

Mr Amil Devchand
Chief Operating Officer

Ms Elsa Benade
Hospital Manager:
Ahmed Kathrada Private Hospital

CHIEF OPERATING OFFICER'S REPORT

10%

increase in bed days sold

7%

increase in theatre occupancy

Lenmed's primary responsibility is to ensure the well-being of our patients. We have recently revised our Group vision to refocus ourselves on recognising and relentlessly pursuing this goal.

During the course of the year, improving the patient experience has been a priority for the management team. The Customer Experience Management (CEM) system implemented last year provided good insights into this area of the business and identified our strengths and gaps in this regard. As a result, we embarked on numerous projects aimed at enhancing our patients' journey throughout all our facilities, with investment in our people and infrastructure expected to continue over the medium term.

The launch of the Lenmed values during the year was a vital step in aligning employee focus and setting a Group-wide ethos of what is expected of a Lenmed employee:

- *We strive to exceed the expectations of our patients, visitors and doctors*
- *We aim for perfection in all that we do*
- *We always act with compassion and empathy*
- *We work as a team and hold ourselves and each other accountable for our actions.*

Together, we make Lenmed great

We are pleased to note that the results of these initiatives are beginning to bear fruit, with patient satisfaction scores, measured both by ourselves internally, and externally by certain funders, showing promising gains.

The Group continues to support its doctor base by providing infrastructure and equipment proven to improve clinical outcomes. We have a highly experienced, professional and competent doctor pool in the organisation, with whom we collaborate to improve quality and patient satisfaction, and address key industry concerns from medical aids around cost efficiencies in the market.

Competition in the local healthcare space is growing, with many funders being placed under severe financial strain – ultimately, patient satisfaction, quality and cost efficiency will be our differentiating factors.

BUSINESS ENVIRONMENT

The healthcare industry in South Africa is a mature market with over 215 private hospitals in operation, dominated by the 'big three' listed groups, who account for circa 65% of the market. Around 8.8 million people enjoy medical aid cover, with Discovery and Medscheme providing managed healthcare services for the bulk of the market.

Over the past year, the economy has continued to struggle, with virtually no growth achieved due to political instability, policy uncertainty, labour strife, the effects of drought, volatile commodity prices and lower than anticipated growth experienced in key international markets. The effects of a depressed economic environment has a direct impact on the private healthcare industry. Growth in the medical schemes market has slowed in recent years, turning negative in 2016 for the first time in 12 years.

Even so, South Africa's quadruple burden of disease and an ageing medically insured population has driven increased utilisation of health providers' services. This, coupled with structural deficiencies in medical scheme regulations, has resulted in significantly higher than consumer price index (CPI) medical aid premium increases passed on to members. Going forward, if left unresolved, medical aid cover will become increasingly unaffordable, with consumers moving to lower-benefit cheaper options, and over time, ceasing membership altogether.

It is against this backdrop that Lenmed needs to remain relevant and grow its market share. Medical schemes are under severe financial pressure and are looking for value in this difficult market. New Efficiency Discount Options (EDOs) are being introduced at an unprecedented rate across schemes, with members more receptive to accepting restricted provider choice in return for lower premiums.

Quality has become an increasingly important area for medical schemes, and will play a more prominent role in future interactions with these funders. Lenmed also anticipates the publication of clinical outcomes in the near future, allowing consumers to make more informed decisions as to where to seek treatment, further increasing competition in the industry. Medical schemes are exploring outcomes-based reimbursement models, which are expected to be introduced in the short to medium term.

It is imperative that we continue to implement our strategy of driving efficiencies, patient satisfaction and quality going forward, thereby creating a strong value proposition to schemes and increasing the likelihood of our participation on these plans.

Human resources, specifically the availability of skilled specialists and nursing employees continues to pose a challenge. While Lenmed remains competitive in attracting and retaining quality employees and doctors, the shortage of these skills will become more challenging if left unresolved. The change in the nursing curriculum and the consequent delay in training of new nurses emanating from this, threatens to further exacerbate this problem. HASA is liaising with government in this regard and we remain hopeful that a solution can be found.

Lenmed, through the NHN, has made detailed submissions and presentations to the Competition Commission in respect of the Healthcare Market Inquiry. We expect to make further representations in due course.

During the period under review, government has maintained its commitment to achieving universal healthcare coverage for all through an NHI system with the release of its NHI White Paper. HASA has provided detailed commentary, with a revised document expected in due course.

OPERATIONAL REVIEW

The business has delivered strong results for the year ended 28 February 2017. On a Group basis, revenue has increased by 13%. Bed days sold and theatre occupancy have grown by 10% and 7% respectively. Overall, a 2.8% increase in average revenue per bed day was generated. The increase in activity, coupled with stringent cost control measures, resulted in an improvement in the overall normalised EBITDA margin of 17.5% (2016: 15.3%). On a segmental basis, the EBITDA margin for South African hospitals was 19.4% (2016: 19.3%), while the EBITDA margin achieved for the rest of the African operations was 12.9% (2016: 11.9%).

The Group's Ahmed Kathrada and Shifa Private Hospitals were negatively impacted by the unilateral decision of Discovery Health to impose a 30% co-payment on its Keycare members at these facilities from 1 January 2017. We have engaged with the administrator to understand the rationale for this decision. Discussions are ongoing. We hope to resolve this issue before 2018. In the interim, and in order to minimise business disruption, these co-payments will be waived. On a positive note, Lenmed hospitals have been included on the GEMS' Emerald Value Option network for a period of three years, starting 1 January 2017.

Management continues to focus on identifying areas of the business where further value can be unlocked through centralisation, process re-engineering and leveraged procurement.

Our business heads are empowered to drive innovation and new thinking. Payroll costs remain a core focus area of the Group. Ensuring that we have employees levels and expertise commensurate with utilisation and acuities remain key in maintaining and improving profitability. The Group's nursing and human resource functions are working closely together to refine the employment models currently in place.

The engineering and technical department drive the proper management of equipment and infrastructure throughout the Group. Studies prove that a proactive maintenance strategy results in reduced spend over the medium to long term. In addition, this unit is also responsible for reducing the Group's environmental impact. We have recently installed a photovoltaic system at Ahmed Kathrada, the results of which will be used as a case study to determine the feasibility of roll-out for the rest of the Group. In anticipation of possible issues related to water supply at certain hospitals, a comprehensive solution ranging from borehole supply to water treatment plants has been formulated and will be implemented during the course of the 2018 financial year.

Zamokuhle Private Hospital

The new hospital was commissioned during May 2016. The activity level experienced post expansion has exceeded expectations, with a good core of specialists supporting the facility. The hospital reported a respectable operating profit for the year under review, and management will continue to drive business development and marketing initiatives to fully realise the potential of this facility.

Ahmed Kathrada Private Hospital

The flagship facility of the Group delivered solid operational performance, underpinned by improved activity and excellent specialist cover. The hospital is undergoing an extensive facelift, with the construction of a comprehensive oncology treatment centre that includes radiotherapy in progress. A complete revamp of a 42-bed surgical ward has been completed, in line with the Group's new ward specifications, aimed at maximising patient comfort and clinical efficiency. The reconfiguration of the hospital's parking facility, which will result in better traffic flow and more parking capacity, is in process. A new bed licence application has been lodged with the DoH to meet the increased demand currently experienced at this facility.

Daxina Private Hospital

The management restructure of this hospital, implemented last year, delivered good results. Due to a central management team across Ahmed Kathrada and Daxina Private Hospitals, we have been able to effectively leverage operational and strategic synergies. Top-line growth will continue to receive attention next year, with a specific focus on general medicine and psychiatric disciplines.

Randfontein Private Hospital

The hospital generated impressive growth in both revenue and profitability. The introduction of new 29-bed psychiatric ward in April 2016 was positively received, with strong utilisation experienced. Our efforts in building relationships with key doctors in the area has shown success, with additional activity at our facilities experienced as a result. The hospital commenced with the upgrade and expansion of its critical care unit from 11 beds to 20 beds. Approval from the DoH has been received in this regard.

La Verna Private Hospital

La Verna continues to show impressive growth, with profitability and activity levels increasing. This was achieved by attracting a number of full-time specialists to the facility, coupled with investment in new and existing infrastructure. We anticipate investing in the upgrade of the theatre complex during the course of this financial year, to further enhance the service offering to specialists and patients alike.

Shifa Private Hospital

The hospital performed well for the year under review, with the facility enjoying high utilisation. However, the effect of losing its full cover Keycare status, as well as the intense focus by medical aids on hospital admissions in the Durban region, resulted in utilisation tapering off in the last quarter. This, coupled with the opening of a competitor nearby, will make the next financial year challenging. In response, management has implemented various business development and marketing initiatives to protect its market share.

Ethekwini Hospital and Heart Centre

The hospital continues to be a strong cash contributor, with an impressive increase in activity noted. An additional 74 beds have been commissioned during the year, which bodes well for future growth. Paediatric cardiology and other paediatric sub-, the first in the KwaZulu-Natal region, were introduced, with excellent support received from the local medical fraternity to date. During the year under review, Lenmed increased its stake to 53.6%. We are planning a full rebranding of the hospital into a Lenmed facility.

Maputo Private Hospital

The Mozambican economy deteriorated rapidly during the year, driven by falling commodity prices and questionable government practices related to the International Monetary Fund. However, despite these headwinds, we still believe in the long-term potential of this market and of our facility. A full management restructure was undertaken, with the new team focused for much of the year on re-engineering the business, ranging from assessment of staffing levels to doctor reimbursement models. With this project completed, the focus for the new financial year will be on growing revenue, with early results of implemented strategies encouraging. Lenmed also bought out the minority shareholders in the hospital, which gives us the added flexibility in driving the business forward. A local partner able to add value to the business will be sought in due course.

Bokamoso Private Hospital

The hospital performed well, with excellent revenue and profitability growth noted. This was driven primarily by increased utilisation of higher end disciplines, as well as increased referrals from the Ministry of Health (MoH). It is pleasing to note that the hospital has commissioned a fully-fledged cardiac programme, the first of its kind in the private sector of Botswana.

Kathu Private Hospital

This hospital serves a catchment area of 200 km, with a high demand for private healthcare services. A project to expand the hospital to 55 beds and introduce an additional theatre was completed. This upgrade will allow the hospital to offer more comprehensive services to its patients, who otherwise would have to be transferred out.

Royal Hospital and Heart Centre

The construction of Lenmed's newest facility in Kimberley is progressing as planned, with completion expected in July 2017. This will be the only cardiology and radiotherapy facility in the Northern Cape. We remain encouraged by the level of interest, both from a public and a specialist perspective, and will prepare tirelessly to ensure the successful commissioning of this facility.

ACCREDITATION

As part of the Group's commitment to ensure the provision of top quality patient care, we envisage having all hospitals in the Group accredited by COHSASA, by 2018. During the year, Bokamoso Private Hospital became the second facility in the Group to obtain this accreditation, achieving a final score of 96%.

CONCLUSION

Despite the numerous challenges facing the private healthcare industry, we are well positioned to capitalise on any opportunity that presents itself. The Group will continue making strides in its quest to fulfil its vision and be recognised as the hospital group of choice for patients and doctors alike.

Mr Amil Devchand
Chief Operating Officer

CHIEF FINANCIAL OFFICER'S REPORT

This report must be read in conjunction with the Group annual financial statements commencing on page 63 of this Annual Integrated Report

The acquisition of a larger shareholding in Ethekwini Hospital and Heart Centre increased turnover of

R66.3 million

in the financial year

The increased number of beds at Zamokuhle Private Hospital added turnover of

R52.8 million

CORPORATE ACTION IN 2017

Group performance was positively impacted by several corporate actions during the year.

Grindrod Financial Services via GFS Holdings (Pty) Ltd injected R200 million into Lenmed, thereby strengthening the Group's equity and asset base. This was a significant milestone for the Group and demonstrates Lenmed's ability to raise capital from institutional investors.

During the first 10 months of the year, the Group increased its shareholding in Ethekwini Hospital and Heart Centre from 40.3% to 49.75% by buying out other shareholders at a cost of R124.8 million. On 18 January 2017, Lenmed became the majority shareholder in the Ethekwini Hospital and Heart Centre when it increased its shareholding to 53.6% in the equity of the company. In line with IFRS, the Group's investment in the associate increased by R209.0 million to reflect the fair value of the investment at date of acquisition. This acquisition gave rise to goodwill of R280.1 million.

The Group acquired 100% control of Maputo Private Hospital by buying out the minority shareholders for R98.9 million. This control gave rise to a reserve recognised in equity and transferred to accumulated profits of R37.0 million. Lenmed also invested R2.8 million in Kathu Private Hospital.

STATEMENT OF COMPREHENSIVE INCOME

The Group continues to use the concept of normalised EBITDA, as well as headline earnings, as measures to provide shareholders with consistent and comparable reporting tools. Normalised EBITDA is based on reportable EBITDA, excluding once-off and non-core items, while headline earnings are calculated in terms of accounting standards.

The Group performed pleasingly, with all its hospitals, except the Maputo Private Hospital, achieving an increase in earnings. The Group's revenue increased by 13.0% to R1 558.5 million (2016: R1 379.2 million). All its hospitals produced above inflationary growth, again with the exception of Maputo Private Hospital. The acquisition of a larger shareholding in Ethekwini Hospital and Heart Centre increased turnover of R66.3 million in the financial year, while the increased number of beds at Zamokuhle Private Hospital added turnover of R52.8 million.

Normalised EBIDTA reconciliation

Rand	2017	2016
EBITDA	**486 423 044**	233 989 125
Less: Fair value uplift on associate investment in Ethekwini Hospital and Heart Centre	**(209 002 619)**	–
Less: Profit on disposal of assets	**(662 847)**	(236 077)
Currency gains due to depreciation of the Rand	**(4 030 799)**	(22 148 103)
	272 726 779	211 604 945
Variance	28.9%	

The Group's normalised EBITDA at R272.7 million increased by 28.9% (2016: R211.6 million). Solid performances across all the hospitals contributed to the performance, except for Maputo Private Hospital, where profits decreased slightly. Management is confident about the longer-term prospects of this hospital, with its results post year-end being higher than the same period last year.

The fair value uplift as a result of obtaining control of Ethekwini Hospital and Heart Centre has been stripped out of normalised earnings. Similarly, currency gains of R4.0 million arising due to the strength of the US Dollar against the Mozambican Metical have also been stripped out of the normalised earnings calculation (2016: R22.1 million). The functional currency of Maputo Private Hospital is the US Dollar.

Headline earnings

Rand	2017	2016
Profit for the year attributable to Lenmed	**340 864 558**	152 523 867
Less: Profit on disposal of assets net of taxation and minority interests	**(255 854)**	(139 194)
Less: Fair value uplift on associate investment EHHC net of taxation	**(162 186 032)**	–
	178 422 672	152 384 673
Variance	17.1%	
Weighted average number of shares in issue	**653 064 735**	644 820 725
HEPS	**27.3**	**23.6**
Variance	15.6%	

Headline earnings at R178.4 million (2016: R152.4 million) increased by 17.1% against the prior year. This was attributable to the strong performance by the majority of the hospitals, with particularly pleasing results from Zamokuhle and Randfontein Private Hospitals.

The associate companies achieved satisfactory earnings. The Group's equity accounted for the earnings in Ethekwini Hospital and Heart Centre until 17 January 2017, which amounted to R27.2 million. Post that date, Ethekwini Hospital's results were consolidated into Lenmed's results. The Group also has a 30% investment in Lenasia Renal Centre and 40% investment in Renal Care Holdings. These two companies contributed R1.3 million to equity accounted profits.

Net interest expense amounted to R34.4 million, which was higher than the previous year. The Group continues to invest heavily in the future of the business, with R430.2 million spent on capital expenditure. The interest on the majority of these loans is still being capitalised to the property of the current projects, in line with International Accounting Standard (IAS) 23: *Borrowing Costs*, as well as the Group's accounting policy. R23.4 million (2016: R11.1 million) was capitalised due to interest incurred on the capital spend at the new hospital in Kimberley and at Zamokuhle Private Hospital, which reopened in May 2016, following its rebuild and expansion.

The effective tax rate of 20.5% was lower than last year's rate of 22.2%. The fair value uplift on the Ethekwini Hospital and Heart Centre acquisition has been provided for at the capital gains rate of taxation and not the normal rate of taxation. The Group also benefited from currency gains in Mozambique, which are not taxable in the local country.

Non-controlling interests reflected Lenmed's minority share of profits in Ethekwini, Kathu, Bokamoso and Maputo Private Hospitals (before buyout). The loss in the Maputo Private Hospital offset the increase in the non-controlling interests of the Ethekwini facility.

No dividend was declared this year, in line with Lenmed's growth strategy.

STATEMENT OF CASH FLOWS

The Group generated R264.8 million from operating activities (2016: R203.9 million), reflecting much-improved cash management during the current year. The Group's cash generated by operating activities, as a percentage of normalised EBITDA, improved from 96% to 97%. This result exceeded the Group's target of 90%. Maintaining working capital levels remains a critical focus area within the Group, and was much improved across all local hospitals, except Bokamoso Private Hospital in Botswana. The elevated debtor levels at Bokamoso Private Hospital remains a focus area, and pleasingly large collections of outstanding debtors there took place in March 2017. Lenmed's recently established credit control shared service centre continues to enhance efficiencies. The forthcoming implementation of SAP as Lenmed's information technology (IT) platform may impact these efficiencies in the short term, but management is confident that SAP will provide longer-term benefits in achieving standardisation and unlocking synergies in the Group.

Capital expenditure of R430.2 million was allocated largely to the new hospital in Kimberley (R214.1 million), and completing the Zamokuhle Private Hospital expansion (R55.7 million). R54.7 million was expended at the Ahmed Kathrada Private Hospital on brownfields projects such as the new radiotherapy centre, an expanded new medical centre and upgrades to a number of existing wards. Heavy investment in capital expenditure continued until mid-2017 and is now tapering off. The capital commitment of R102.3 million, as stated in note 31, relates primarily to the development projects at Kimberley and Ahmed Kathrada Private Hospitals.

During the year, the Group obtained a composite borrowing facility of just over R1 billion from RMB. Together with the Grindrod Financial Services equity injection, this finance enabled Lenmed to fund its various acquisitions and extensive capital expenditure programme. Net cash and cash equivalents increased from R106.4 million to R127.7 million year-on-year.

STATEMENT OF FINANCIAL POSITION

Assets

The Group's property, plant, equipment, furniture, fittings and vehicles increased in value to R2 605.6 million (2016: R1 620.9 million). This increase was due to the acquisition of R724.2 million in assets from obtaining the majority shareholding in Ethekwini Hospital and Heart Centre, as well as the other previously mentioned expansion projects.

Investment in associates decreased from R206.9 million to R4.4 million due to the Ethekwini Hospital acquisition, which previously had been equity accounted.

Debt management

As mentioned earlier in this report, Lenmed obtained a R1 billion composite facility from RMB and R200 million from Grindrod Financial Services by way of equity injection. Interest-bearing borrowings (excluding shareholder loans) increased from R456.6 million to R902.5 million.

Lenmed's total interest-bearing debt to equity ratio (excluding loans from minorities) increased to 43.0% (2016: 30.6%), while net interest-bearing debt to equity increased to 35.0% (2016: 21.2%). The interest ratio coverage decreased in line with increased debt levels to 6.6 (2016: 14.4), with cash flow from operations to net interest expense dropping from 15.6 times to 7.7 times.

Risk management

Upon completion of the Kimberley Private Hospital and a number of smaller operations at Ahmed Kathrada Private Hospital, Lenmed's planned capital expenditure cycle should be largely completed. Compelling potential acquisitions will be treated on a case-by-case basis, but within acceptable borrowing levels.

US Dollar receipts from patients in Mozambique were sufficient to meet our Deutsche Investitions- und Entwicklungsgesellschaft (DEG) debt loan obligations there. After year-end, Lenmed replaced the DEG loan for the Maputo Private Hospital with a facility negotiated with RMB that offered improved interest rates and extended the tenure of the loan.

Mr Vaughan Firman
Chief Financial Officer

SUSTAINABILITY REPORT

Lenmed rolls out new oncology centres

Cancer, the great equaliser, has no regard for class, race, gender or age. One in six South African men and one in seven South African women will be diagnosed with cancer in their lifetime. A recent study published by medical journal, Lancet, predicts that by 2030, South African cancer cases could increase by 78%.

Lenmed has decided to help tackle this scourge by developing state-of-the-art oncology care at our hospitals.

Early in 2017, we opened a world-class oncology unit at Shifa Private Hospital in Durban, staffed by skilled medical professionals with extensive experience in cancer management. The Shifa Oncology Centre, featuring a chemotherapy suite, consulting rooms and in-patient facilities, offers comprehensive support and personalised care and attention for cancer patients.

We will be extending our brand of patient-focused cancer care across a wider reach of communities by developing oncology centres at the Ahmed Kathrada Private Hospital in Lenasia and Royal Hospital and Heart Centre in Kimberley. Both are scheduled to open their doors in July 2017.

More patients are surviving cancer than ever before, due to scientific advances in cancer medication and treatments. Lenmed has adopted a holistic philosophy towards cancer treatment in our ceaseless quest for excellence. While advances in medical technology may update the methods for treating our patients, at Lenmed some things will never change. We will always treat our patients with empathy, care and compassion.

Financial capital

Highlights

Headline earnings at **R178.4 MILLION** increased by 17.1% (2016: R152.4 million)

Generated an overall **2.8%** increase in average revenue per bed per day

Bed days sold and theatre occupancy increased by **10%** and **7%** respectively

Lenmed obtained a **R1 BILLION** composite facility from RMB to finance expansion projects, and R200 million from Grindrod Financial Services by way of equity injection

What it is

The pool of funds that is:

- available to an organisation for producing goods or for providing services
- obtained through financing (such as debt, equity or grants), or generated through operations or investments.

In pursuit of adding value to the Group, Lenmed:

- continually investigates potential investment opportunities, both locally and elsewhere
- engages with various parties within the industry with a view to forming strategic alliances that will benefit the business
- monitors and reviews all processes to ensure that efficiencies are maximised, resulting in greater profitability
- introduces innovative methods, policies and processes to differentiate us from our competitors
- pursues governance in accordance with this report
- stays abreast of technological developments
- models its facilities on world-class standards
- closely monitors events likely to impact the industry, such as government's NHI proposals and the Competition Commission investigation into the cost of private healthcare
- complies with legislation and pays due taxes and levies
- maintains a strict code of ethics throughout the organisation
- conducts itself in accordance with the principles and practices set out in this report to ensure sustainable profitability.

Lenmed's financial capital performance is discussed in greater detail in the Chief Financial Officer's report on page 28 of this report

Human capital

Highlights

Appointment of DR MORGAN MKHATSHWA as Business Development Executive and acting CMO

LEVEL 2 B-BBEE rating (under the old code)

Positive EMPLOYEE ASSISTANCE PROGRAMME satisfaction survey

Pleasing participation of staff in WELLNESS DAYS

What it is

People's competencies, capabilities and experience, and their motivation to innovate, including their:

- alignment with an organisation's governance framework, risk management approach and ethical values
- ability to understand, develop and implement an organisation's strategy
- loyalty and motivation for improving processes, goods and services, ability to lead, manage and collaborate.

EMPLOYEES

Our people are our most important asset. We maintain sound working relationships with our employees and medical professionals through well-established communications channels.

The scarcity of professional nursing skills in the healthcare industry is a worldwide problem. Lenmed works continuously to attract experienced staff and established a nursing training facility, which will open when it is awarded the necessary accreditation.

DOCTORS

Experienced and reputable doctors are essential to Lenmed's growth and sustainability. Recruiting high-calibre doctors is a constant challenge, particularly in rural areas and broader Africa. Lenmed's well-equipped hospitals are often venues of choice for medical professionals in semi-rural areas.

EMPLOYEES

557
Male
2016: 472

1 950
Female
2016: 1 823

Total
2 507
2016: 2 295

1493
Nurses
2016: 1 351

EMPLOYEE ATTRACTION AND RETENTION

We benchmark our remuneration levels to accepted industry standards to ensure that the Group remains competitive in respect of basic pay, benefits and incentives. Staff incentives include participation in profits and monthly recognition awards. In addition, a long service scheme awards Lenmed shares to employees reaching 15 consecutive years of service.

We regularly engage with our employees to ascertain their needs.

Matters raised are responded to promptly and adequately.

TRANSFORMATION AND EQUAL OPPORTUNITY

In the 1980s, Lenmed was founded and staffed by a historically disadvantaged community, and therefore has been a transformed organisation from the outset. We set rigorous employment equity targets to maintain that proud tradition.

As a result, Lenmed is widely recognised for providing opportunities to suitably qualified, previously disadvantaged individuals in the healthcare sector.

Lenmed was re-awarded a level 2 B-BBEE rating in July 2016, following the annual assessment.

TRAINING AND DEVELOPMENT

Staff training and development programmes are made available to advance the careers of employees within the Group. We emphasise upgrading of nursing skills in intensive care unit (ICU), theatre technique, trauma, maternity and neonatal ICU. Shifa Private Hospital has been recognised as one of the top 25 training facilities nationally, in terms of training, by the Health and Welfare Sector Education and Training Authority (HWSETA).

EMPLOYEE WELLNESS

All our employees and their families have access to a full range of support and counselling services provided by an external service provider. This agency also organises wellness days at which the staff can undergo physical examinations and have their blood pressure, cholesterol and glucose levels checked.

Our employees are members of various medical aid schemes.

Employee assistance programmes

Lenmed offers EAPs in partnership with Kaelo Consulting.

Through Kaelo's 'Ask Nelson' programme, Lenmed employees are encouraged to develop suitable coping skills and accept more personal responsibility. The programme assists them to resolve individual, marital, family and job performance challenges.

The following high-level Ask Nelson benefits are available to Lenmed and its employees:

- Telephonic counselling, 24 hours a day, seven days a week, 365 days a year
- Face-to-face counselling
- Legal services (unlimited telephonic advice and a free half-hour consultation)
- Financial advice and services
- Policies
- Workplace trauma intervention
- Communication and marketing material
- Training and ongoing support for managers
- On-site launch events
- Emotional well-being workshops
- Dependant services
- SMS call-back facility.

Communication around EAP utilisation and benefits is important at a management level, as this provides insight into the problems that are being experienced by the workforce. It also allows management to develop interim, medium and long-term people strategies.

A survey was conducted in December 2016, to assess staff awareness of, and satisfaction with, Kaelo's Ask Nelson services. A total of 544 staff members responded (of 1 322 staff members surveyed), which was a 41.15% uptake.

Survey findings were as follows:

- 91% of the surveyed staff are aware of the Ask Nelson employee assistance programme
- 31% of the surveyed staff stated that they had made use of the Ask Nelson services
- 26% of the surveyed staff stated that they were satisfied with the service they received. 5% stated that they were not satisfied with the service they received. 70% did not answer this question
- 66% of the surveyed staff stated that they had not made use of the Ask Nelson services, as they have had no need to use the services at that point in time
- 72% of the surveyed staff stated that they perceived the services as confidential and 11% stated that they did not
- 82% of the surveyed staff stated that they were aware the Ask Nelson offered counselling, legal and financial support, 15% stated that they were not aware of these services
- 83% of the surveyed staff stated that they enjoyed their wellness day. 11% stated that they did not.

Wellness days

2016 uptake

HOSPITAL	TOTAL NUMBER OF EMPLOYEES	Covered	Uncovered	UPTAKE ESTIMATED	UPTAKE ACTUAL	ACTUAL UPTAKE based on staff count (%)
Ahmed Kathrada Private Hospital	365	171	203	300	285	78%
Daxina Private Hospital	89	51	41	74	60	67%
Kathu Private Hospital	53	34	16	40	36	68%
La Verna Private Hospital	182	88	79	170	104	57%
Randfontein Private Hospital	129	70	47	94	107	83%
Shifa Private Hospital	318	168	150	255	221	69%
Zamokuhle Private Hospital	106	62	22	90	83	78%
Head Office	54	35	13	39	22	41%

Uptake – Number of people tested/screened
Covered – on a medical aid
Uncovered – not on a medical aid

Occupational health and safety

Regular in-service training is undertaken to educate employees on safety and welfare issues, and how to identify and mitigate risk.

Health and safety teams have been established at all hospitals. Regular evacuation drills are held, ensuring adequate preparation in the event of an actual emergency.

The Health and Safety Committee, together with its employee representatives, ensures that all policies and procedures relating to safety are in place, updated and implemented. They also investigate and report on all incidents and ensure that risks are mitigated.

Social and relationship capital

Highlights

Total CSI spend of over **R2.9 MILLION**	Discounts to financially disadvantaged patients of over **R1.3 MILLION**	**91** free cataract surgeries performed

EXPANDED OUR RANGE OF CLINICAL SERVICES AND FACILITIES to include a cardiac programme at Bokamoso Private Hospital and an oncology centre opened at Shifa Private Hospital

What it is

The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective wellbeing. Social and relationship capital includes:

- shared norms, values and behaviours with key stakeholders
- willing engagements with external stakeholders
- intangibles associated with the brand and reputation
- an organisation's social licence to operate.

THE VALUE OF LENMED'S STAKEHOLDERS

Our social licence to operate depends largely on the quality of our stakeholder relationships and our positive or negative impacts on them. Lenmed's economic growth is underpinned by the value of our relationships with investors, employees, medical practitioners, patients, suppliers and the broader communities in which we operate.

Our approach to community development recognises that our long-term sustainability is linked with that of our communities.

We are, therefore, aware of and responsive to the socio-economic challenges faced by the communities surrounding our hospitals.

COMMUNICATION WITH OUR STAKEHOLDERS

Reputation and trust are vital intangible assets. Managing our brand and reputation is of prime concern in today's global business environment, in which stakeholders are increasingly well-informed and assertive. Lenmed makes every effort to establish close and informative relationships with our stakeholders.

As part of its management and shared services capacity building, Lenmed created a marketing and stakeholder relationship executive post, with the responsibility to ensure meaningful and productive interaction with key stakeholders. One of the new executive's first tasks was to implement a digital and real-time patient communications and complaint system, which enables Lenmed to react swiftly to hospital patient issues, preferably while the patient is still in the hospital. Information gained from this patient interaction is fed back into staff briefings and operational procedures.

Investors

The Annual Integrated Report, Annual General Meeting (AGM) and Lenmed's website are our prime methods of communication with shareholders.

Medical practitioners

Ongoing communication between Lenmed's Chief Medical Officer and our medical professionals support Lenmed's endeavours to make our hospitals an attractive choice for nurses, doctors and specialists.

Employees

To ensure optimum attention to the needs and motivation of our nursing staff, we employ a Group Nursing Services Manager to support all hospitals in the Group. Local, regional and Group-wide human resources personnel are available to support all staff members.

Patients and communities

Feedback from patients is facilitated through regular questionnaires and surveys. We continuously upgrade our facilities and add to our services in response to the suggestions and recommendations of our patients. All complaints are sent to head office, where they are investigated and appropriate action is taken.

Ensuring that our hospital fees remain competitive and affordable enables more patients to access private quality healthcare. Special rates and payment arrangements are available for non-medical aid patients.

We regularly engage with our communities by participating in community events such as co-sponsored fun runs, sports tournaments and community wellness days.

Suppliers

We hold regular meetings with our suppliers and appointed a Group Procurement and Engineering Manager. A tender process was implemented to ensure fair competition and equal opportunities.

Medical aids

Ongoing liaison with medical aids is ensured by Lenmed's NHN membership. The Group makes every effort to operate efficiently and to keep medical aids informed and updated on patient treatment. Lenmed is implementing an alternative reimbursement model to the major medical aid schemes.

Government

Engagement with government takes place through HASA. Lenmed's policy is to comply with all legislation and maintain the highest ethical standards.

The Group is participating in the Competition Commission's Market Inquiry into the cost of private healthcare through the NHN.

CARING FOR OUR PATIENTS

Our patients are the reason for Lenmed's existence.

We endeavour to provide quality and cost-effective medical care to all population groups by introducing the latest medical technologies and enlisting the services of high-calibre specialists and trained staff across all disciplines. During the year, we further expanded our range of clinical services and facilities to meet the ever-increasing needs of our patients.

We particularly focused on providing oncology facilities for cancer patients. Lenmed opened an oncology centre at Shifa Private Hospital in Durban in early 2017, to be followed by oncology centres at the Ahmed Kathrada Private Hospital in Lenasia and the Royal Hospital and Heart Centre in Kimberley later in the year.

The Bokamoso Private Hospital Cardiac Programme performed its first private open-heart surgery in Botswana on 12 August 2016. The procedure was a success and the patient has recovered well.

Through the implementation of the Best Care... Always! programme, we have ensured that all quality indicators relating to our patients' safety are adequately implemented and monitored. As a matter of course, we maintain stringent hygiene levels across all facilities to prevent infections.

We conduct regular surveys to monitor how satisfied our patients are with our services. These help identify the needs of our patients, so that we can respond accordingly.

In October 2015, Lenmed launched a new electronic patient satisfaction survey, ensuring real-time reporting and faster responses to problems. The EYERYS® customer experience management system measures patient satisfaction levels at various hospital points, including admissions, casualty and patient rooms. The system generates data without influence from medical staff and visitors are encouraged to provide anonymous feedback by making use of a Quick Response (QR) or Unstructured Supplementary Service Data (USSD) code. Any low ratings or complaints are auto-escalated for immediate attention.

Customer Relations Officers (CROs) conduct daily ward rounds to inspect equipment and interact with patients. They identify problem areas and provide electronic feedback entered on tablets. This data is monitored and analysed, improving our ability to provide a better customer experience while patients are in our care.

In addition, Lenmed has adopted the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) post-care patient survey. The intent of the HCAHPS initiative is to provide a standardised survey instrument and data collection methodology for measuring patients' perspectives on hospital care. HCAHPS is an internationally aligned survey that allows objective and meaningful data comparisons between hospitals.

Patient surveys show a demand for more information about what to expect before and after a hospital admission. Lenmed recently made these guidelines accessible on the website, with a patient handbook and maternity brochure available for download.

We are currently working on a series of post-discharge guidelines that will be uploaded to the website.

We continuously upgrade or add services in response to patients' requests. Where needs exist, Lenmed will improve or broaden the specialities available to patients.

Lenmed is working to obtain international accreditation through COHSASA at all our facilities over the next three years.

This process is already complete at the Ahmed Kathrada Private Hospital and at Bokamoso Private Hospital. Both achieved a 96% score. COHSASA provides independent assurance to our patients that Lenmed hospitals operate according to world-class standards.

Primary focus

- **Cataract surgeries**
  Providing free surgery for members of the community who require cataract surgery but cannot afford it

Secondary focus

- **Community involvement, improvement and development**
  Projects focus on improving the general health of the community (wellness days, health education, youth and aged health support and emergency education campaigns)
- **Discounts or payment assistance for procedures**
  Hospitals are encouraged to give priority to non industry-related initiatives (community upliftment projects and educational development projects)
- **Specific pro bono care**
  Discounts for patients who cannot afford procedures

Tertiary focus

- **Support of external projects that require medical-specific assistance**
  Sponsorships (independent community project support – fun walks/runs/community shows)

CARING FOR OUR COMMUNITY

Contributing and giving back to the communities in which we operate is the cornerstone of our CSI policy. Lenmed's CSI spend comprises 1% of profit, with 40% to 50% of this budget usually allocated to cataract projects.

During 2016, Lenmed refocused its CSI policy on specific areas relevant to our communities:

2016/17 CSI spend per category

27% Cataracts

2% External project support

25% Community

46% Discounts

During the past year, the Group performed 91 free cataract surgeries (2016: 118), to the value of R780 000 (2016: R1.3 million) and assisted other financially disadvantaged individuals by offering discounted hospital services. In total, R1.34 million (2016: R1.25 million) worth of discounts were awarded to patients who genuinely lacked the funds to pay their full fees.

Over and above the focus on providing free cataract surgeries and discounted services to deserving patients, the hospitals have also been involved in community-based initiatives:

- Ahmed Kathrada Private Hospital sponsored wellness testing for the Lenasia Ghandi Walk
- Shifa Private Hospital partnered with the Islamic Medical Association for a dialysis initiative
- Randfontein Private Hospital provided assistance to the Kagiso Orphanage
- La Verna Private Hospital offered wellness screening and support at the Arthur Cresswell Marathon
- Shifa, Randfontein, Laverna, Zamokuhle and Kathu hospitals each participated in Nelson Mandela Day.

Intellectual capital

Highlights

Roll-out of a NEW WORKFORCE MANAGEMENT SYSTEM at all our South African hospitals

Preparation for SAP ERP SYSTEM implementation under way

COHSASA ACCREDITATION for Bokamoso Private Hospital in Botswana

First OPEN HEART PROCEDURE in private healthcare in Botswana performed at Bokamoso Private Hospital

What it is

Organisational, knowledge-based intangibles, including:

- intellectual property, such as patents, copyrights, software, rights and licences
- "organisational capital" such as tacit knowledge, systems, procedures and protocols.

LENMED'S CULTURE AND CORE VALUES

Lenmed's core values are fundamental to our ongoing sustainability.

The spirit of caring, dedication and community involvement that characterised the first Lenmed Private Hospital has become the hallmark of the Group.

We believe delivery of superior healthcare is achieved by combining unparalleled quality and clinical excellence with an empathetic focus on the personal needs of our patients and their families

Affordability, efficiency and a sense of community set us apart from other private healthcare facilities. Personal service in a caring and comfortable environment provides patients with good value and quality healthcare, supported by advanced technology and professional nursing. These core values, backed by sound operational and financial management, are the foundation of Lenmed's long-term sustainability.

INSTITUTIONAL KNOWLEDGE

Healthcare is a knowledge-intensive industry. Medical research evolves quickly and people expect best practice, yet affordable, healthcare.

Lenmed's intellectual capital is a strategic resource that enables the Group to compete in this dynamic environment. We provide quality and cost-effective medical care by retaining high-calibre specialists and experienced employees across all disciplines, supported by the latest medical technologies.

During the year, we expanded our range of clinical services and facilities to meet ever-increasing community demand. Lenmed's new hospital in Kimberley, Northern Cape, will boast cutting-edge technology and feature comprehensive cardiac and oncology services, the first of their kind in the province.

All new hospital buildings and expansions are designed for future-proofing and incorporate energy-saving technology. Lenmed's new hospital building in Tembisa is our first facility designed from the outset as a green building, with a reinforced and sloped roof for solar panels.

Lenmed's clinical governance is managed through four main pillars:

- Quality of care
- Training and development
- Clinical risk management
- Clinical review.

Our clinical governance report is available on page 43 of this report

LEVERAGING TECHNOLOGY

Lenmed is implementing a new workforce management system at all our South African hospitals. This advanced human resources platform has already gone live in Durban and Gauteng, but will ultimately monitor and manage the entire employee base in South Africa and Mozambique.

A particular challenge is that medical employees, especially nurses, do not work regular hours. They may be required for extra shifts as patient needs dictate, or they may migrate between various hospitals within the Group. By replacing our manual system with a world-class digital upgrade, we will reduce management time and effort, improve statistical accuracy and integrate our employee data more seamlessly into management reporting.

Employees log into this system biometrically, thus enabling accurate records of hours worked by each employee. Management gains an accurate, consolidated view of employee productivity, allowing them to identify trends and activities within each medical speciality.

Lenmed employees will be trained to manage some of their employer relationships online, such as applying for leave.

Monitoring technology is also in place to measure water and energy efficiency at our facilities, and readings are taken to establish baselines through which Lenmed can drive informed cost savings.

SAP INTERNAL DEVELOPMENT UNDER WAY

Lenmed has selected the SAP ERP system for the management of Group and customer data. The delta phase was completed in March 2017. The Group's payroll, head office functions and the Randfontein Private Hospital integration has been completed. The second roll-out phase encompassing a further three hospitals commencing on 1 July 2017.

Implementing the SAP system will offer Lenmed numerous operational enhancements, such as:

- improved customer service
- efficient patient processing
- simpler and more productive administration
- accessing information from anywhere at any time, allowing better reporting and faster decision-making.

All information will be captured and stored for maximum confidentiality, in accordance with global and local best practices and legislation.

Implementing SAP will underpin Lenmed's future growth vision of being a leader in customer experience and clinical outcomes.

Natural capital

Highlights

SOLAR POWER installed at Ahmed Kathrada Private Hospital

LAUNDRY WATER RECYCLING implemented for Gauteng hospitals

Pilot stage of **GROUP ONLINE METERING** of power implemented

What it is

All renewable and non-renewable environmental resources and processes that provide goods or services, including:

- air, water, land, minerals and forests
- biodiversity and ecosystem health.

Lenmed's natural capital comprises energy, water and waste.

As a responsible corporate citizen, Lenmed conducts its business in an environmentally proactive manner. We are actively seeking to reduce our carbon footprint and consumption of natural resources.

In the light of limited power and water shortages in southern Africa, the Group is evaluating solar energy, boreholes and other measures to make our usage of natural capital more climate friendly and cost efficient.

ENERGY SAVING AND REDUCTION

Lenmed is phasing in tighter controls over energy monitoring and usage. This project is designed to reduce Lenmed's environmental impacts and mitigate the soaring costs of power and water. The Group's energy and water efficiency plan has several aspects, including the installation of our own meters for checking readings.

The Group is rolling out a system in which all critical life support equipment will be linked to an automated system that alerts employees to power failures and automatically switches the equipment to reserve power.

Monitoring instruments and check meters that report electricity usage online are being rolled out, commencing with Ahmed Kathrada Private Hospital. These check meters are taking readings that will establish the baselines through which Lenmed can drive informed cost savings. At the Ahmed Kathrada Private Hospital, each ward already generates data regarding its own specific energy use.

All new hospital buildings and expansions are designed to be future-proof and incorporate energy-saving technology. Lenmed's new hospital building in Tembisa (Zamokuhle Private Hospital) is our first facility designed from the outset as a green building, with a reinforced and sloped roof for solar panels. Energy-saving installations include heat pumps, solar geysers and energy-saving lighting wherever feasible, including in operating theatres. The facilities include energy-efficient air conditioning and a grey water system for flushing toilets.

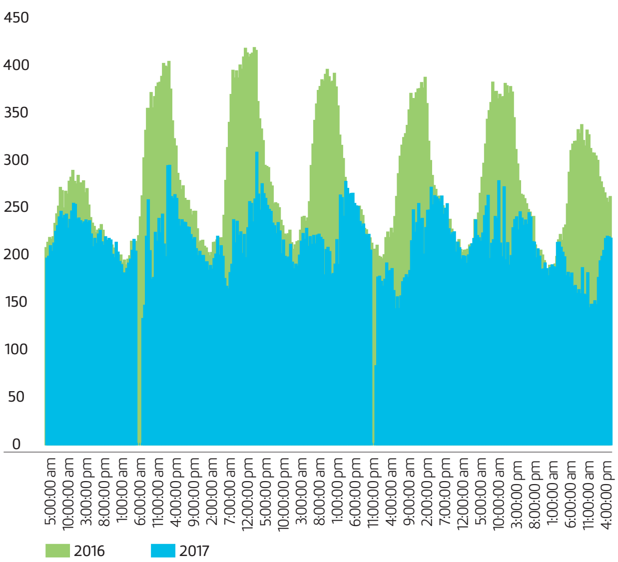
Our Kimberley hospital is being built with grey water systems, energy-efficient air conditioning and low cost lighting. The roofs will be ready to support solar panelling, which will be installed when occupancy levels justify the costs.

A 600 kW solar pilot project was installed at the Ahmed Kathrada Private Hospital, with Eskom electricity usage expected to reduce by at least 50%. On sunny days, the solar panels should produce more energy than the hospital needs.

The solar panel project will continue rolling out, with either Zamokuhle or Randfontein Private Hospital next in line.

Solar

(Kw)



WATER

Lenmed hospitals draw water from municipal supplies. We are working to reduce consumption by installing specialised shower heads and channel the laundry needs of all our Gauteng hospitals to a central laundry, which has instituted a laundry water recycling programme.

The Maputo and Kimberley hospitals were designed from the outset to recycle "grey water" for further use. In the medium term, water boreholes will be implemented at identified hospitals and a water treatment plant at Bokamoso hospital in Botswana. Where necessary, water storage tanks will be increased in capacity to provide at least a 24-hour supply.

Lenmed's hospitals currently have a combined total of 856 000 litres of stored water. The Group requires 567 900 litres per day to operate and has a 34% water reserve capacity.

WASTE

The disposal of medical or biological waste is a specialised area of waste management that poses a major risk. In line with regulations, we have designed and implemented various policies to mitigate risks associated with hazardous waste.

All separation of waste and its disposal is carried out in a manner that reduces the risk of infection.

During this period, Lenmed outsourced its waste disposal to one of South Africa's most reputable and scientific service providers in this discipline.

For paper, modern separation processes are employed wherever possible. Lenmed has installed paper shredding consoles from Shred-it at Ahmed Kathrada hospital, Randfontein hospital and Head Office as pilot projects. So far, about 26 tons of paper have been shredded, which frees up 57m² of landfill space and saved 265 trees from being cut down.

These shredding consoles do attract installation and servicing charges; therefore their usage must be weighed up on a hospital to hospital basis against paper consumption totals and alternative recycling options.

CLINICAL GOVERNANCE REPORT

Lenmed's clinical governance is managed by the Clinical Governance Committee through four main pillars:

CLINICAL GOVERNANCE

- Quality of care (patient safety)
- Training and development
- Clinical risk management
- Clinical review

QUALITY OF CARE

Patient care quality at Lenmed facilities is of a high standard. It is managed through key clinical indicators, measured monthly against a scorecard.

Lenmed's hospitals achieved higher scores than Group indicator targets. These results show that our hospitals perform better than industry benchmarks and confirms the high clinical care and safety levels enjoyed by patients in Lenmed hospitals.

MEASURE	BENCHMARK	2017	2016
Ventilator-associated pneumonia	0.65 – per 1 000 ventilated days	0.55	0.51
Surgical site infection	1.30 – per 1 000 theatre cases	0.53	0.25
Central line-associated blood stream infection	2.00 per 1 000 central line days	0.12	0.56
Catheter-associated urinary tract infection	2.25 – per 1 000 catheter days	0.39	1.06

We pride ourselves on our ability to attract experienced and skilled clinicians to utilise the cutting-edge technologies Lenmed provides. These include minimally invasive (pin-hole) surgery in most surgical disciplines, especially in gynaecology. New endoscopic technologies, such as pill endoscopy, have been introduced at our gastro-enterology facilities.

TRAINING AND DEVELOPMENT

Ongoing in-service training forms the cornerstone for sustaining quality care within our hospitals. A continuous quality improvement initiative compels us to monitor and evaluate the competency of our staff members to ensure that our training is accurate. We keep our staff members updated with current medical trends and in up-skill them to meet the demands of new treatment modalities and technologies. To this end, we actively manage a Continuing Professional Development (CPD) programme for all doctors and nurses working in our hospitals.

Skills development for nursing staff occurs externally in association with accredited nursing schools and universities, while we provide in-service updates internally. Lenmed sends nursing personnel on training courses to specialise in the fields of ICU care, theatre technique and neonatal care. These, and other, programmes keep nurses updated on evolving operating procedures to ensure high quality and consistent nursing care. As a result, the Group's adverse events rate is low and our patients are satisfied with their nursing care.

Ongoing training and updates in Basic and Advanced Life Support courses empower our staff to deal competently with clinical emergencies, resulting in improved clinical outcomes. In-service nursing training is conducted weekly, and focuses on deficiencies noted by senior personnel during clinical practice audits and from patient satisfaction surveys. Needs-based training is revised annually through our work skills planning programme.

We have instituted Adult Basic Education and Training (ABET) programmes at our facilities to assist employees to obtain matric certificates and possibly further their education.

Attracting and retaining skilled employees

Lenmed endeavours to attract experienced, highly skilled and competent staff to our facilities. For specialised and scarce nursing skills, we recruit outside South Africa while also developing a local pipeline through training and education. Lenmed approaches reputable doctors individually or at conferences and sponsors speciality training to attract them to practice at our hospitals.

We instituted reward and recognition programmes to motivate our workforce. We recognise service excellence through monthly excellence awards for staff members commended by patients. These are bolstered by quarterly awards and special annual awards that include monetary incentives.

CLINICAL RISK MANAGEMENT

We ensure that all our doctors and nurses are competent in their specialities and properly registered and accredited by their professional bodies.

Lenmed is continually on the alert for the possible outbreak of infectious diseases. Hospital disaster plans are in place for potential medical crises.

All our hospitals have sufficient generator capacity to ensure that power outages do not affect critical areas such as theatres and intensive care.

CLINICAL REVIEW

Adverse clinical events are closely monitored and reviewed. Detailed reports indicate the root cause analysis and the necessary corrective actions to prevent or minimise any future occurrences. Adverse events are categorised into nurse and doctor-related events for ease of monitoring and management.

The peer review process is used to monitor and manage doctor-related adverse events. The hospital manager, a senior specialist clinician and the chief medical officer are involved in the review system, which results in firm recommendations for follow-up action by hospital managers. During the year, six peer reviews were held. This low number indicates high levels of clinical accuracy by our clinicians.

Hospital Acquired Infections (HAI) and antimicrobial stewardship are particularly important. We strive to keep our patients safe in our hospitals and prudently use antibiotics to minimise occurrences of microorganisms that are multi-drug resistant.

The risk of acquiring an infection while in hospital is mitigated through standard surveillance processes and proactive nursing steps. Dedicated infection control sisters monitor and evaluate infection reports. There is also a close collaboration with microbiologists to keep hospital doctors informed and updated on changing infection trends and antibiotic resistance information.

A monthly audit of all resistant organisms is conducted and reviewed by a microbiologist and virologist. If areas of concern are identified, a remedial plan is implemented.

Other matters attended to during the year include:

Lenmed patient satisfaction

Patient satisfaction remains central to all Lenmed's activities. The overall patient experience, as measured by our internal customer experience questionnaire, shows that most patients are happy with our service and will remain loyal to the Lenmed brand.

Patient satisfaction levels were similar to the previous financial year. In October 2015, we updated the measuring system to provide real time reporting through electronic media and enable faster responses to issues. This new system helps Lenmed to take corrective steps while the complainants are still in hospital.

We ensure that frontline staff are trained in the policies and procedures for providing good customer experiences. Patient care is a recurrent theme in our interaction with nurses during their in-service training sessions and meetings. The customer experience measurement tool is being further improved, and new customer experience interventions are being planned.

Complaints received

A well established complaints management system ensures that all complaints are handled in a sensitive and effective manner. Upon discharge, all patients are asked to provide feedback on their experiences with us. The results are reviewed monthly and hospitals take corrective actions where necessary. As a result, fewer patient complaints were received than in the prior year.

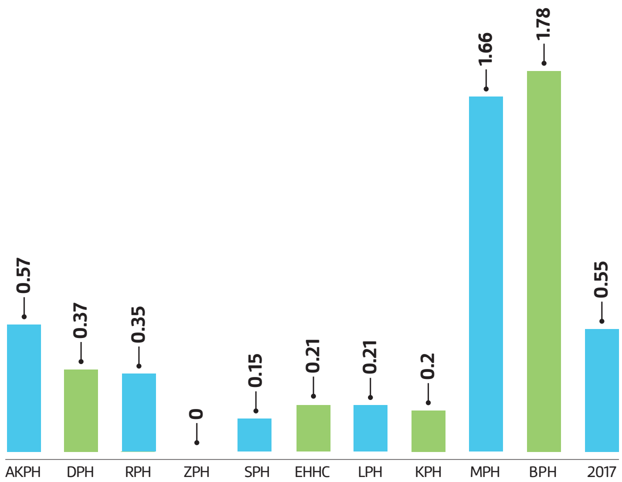
An industry benchmark on customer complaints is not available. However, when surveying social media, we appear to receive fewer complaints than our competitors.

Infection control

Infection control is a top priority in all our hospitals, with dedicated personnel in place to monitor daily for potential outbreaks. The infection rates in most of our hospitals are below industry benchmarks. When infections do occur, immediate risk mitigation steps are taken to prevent their spread. Lenmed continues improving in infection control, as shown in the table below.

HAI rate: (1.7)

(per 1 000 in-patient days)



AKPH	*Ahmed Kathrada Private Hospital*
DPH	*Daxina Private Hospital*
RPH	*Randfontein Private Hospital*
ZPH	*Zamokuhle Private Hospital*
SPH	*Shifa Private Hospital*
EHHC	*Ethekwini Hospital and Heart Centre*
LPH	*La Verna Private Hospital*
KPH	*Kathu Private Hospital*
MPH	*Maputo Private Hospital*
BPH	*Bokamoso Private Hospital*

Medical waste

Lenmed's medical waste disposal is outsourced to reputable accredited service providers. Adherence to legislation and by-laws is enforced. They are required to provide proof of their registrations and licences, and proof of their expertise. We audit these service providers annually to ensure that they comply with waste disposal legislation. Service providers must submit proof of adequate safe disposal of waste collected from our sites.

COHSASA accreditation

Lenmed has embarked on the COHSASA accreditation programme to measure and validate our services against international benchmarks. The Ahmed Kathrada Private Hospital was the first to be accredited by COHSASA, followed by the Bokamoso Private Hospital in this financial year.

Malpractice and reputational impact

Our professional staff and clinicians are expected to adhere to Lenmed's code of conduct. Clinicians alleged to have breached this code are engaged and mentored by senior management. Appropriate sanctions are imposed to clinicians who are regularly non-compliant.

Lenmed uses reputable service providers to ensure that our operations and identified risks are comprehensively insured. We conduct quarterly meetings to review and update the Group's risk registers.

Lenmed's focus on the patient experience has improved overall patient satisfaction levels. Both doctor and nursing care satisfaction levels comfortably exceed industry benchmarks. Our hospital managers are paying greater attention to non-clinical services and social issues. Continuous monitoring of patient experiences will deliver and sustain continuous improvement of their satisfaction levels.

Controlling the per capita cost of healthcare

The Group introduced a surgical and ethical formulary to all our hospitals to promote cost-effective healthcare delivery. We benchmark procedures to promote collaboration and continuous improvement of skills. This upskilling makes procedures more efficient and reduces costs.

PROTECTION OF PERSONAL INFORMATION ACT

Staff training on the POPI Act has been conducted at all facilities and we have instituted control systems at all facilities to ensure compliance. The Group is presently undertaking a gap analysis as a precursor to possibly introducing a new digital patient record keeping system.

General health and safety matters

Highlights

BACKUP GENERATORS
installed at all facilities

SOLAR POWER PROJECT
implemented at Ahmed Kathrada Private Hospital, which may roll out to more facilities

New systems or procedures implemented to improve patient safety

With patient safety a key priority, Lenmed introduced a range of risk mitigating factors. These include backup generators to ensure continuity of care and regular disaster drills to prepare for possible fires or several other scenarios.

Incoming patients transferred from other healthcare facilities, i.e. nursing homes, are always screened to minimise the chance of HAIs and to provide useful feedback to those healthcare facilities.

Collaboration within and across divisions regarding clinical governance

Lenmed's Clinical Governance Committee drives and monitors all Group clinical matters. Each hospital's monthly report is analysed for insights into how to improve clinical excellence in our facilities. We also evaluate our scores against industry benchmarks.

Disaster plans

Hospital disaster plans are reviewed annually and revised accordingly. We conduct monthly disaster drills to keep all workforces prepared for internal or external disasters. External consultants routinely conduct fire safety audits on all our hospitals.

Environmental safety

Internal and external environments at our hospitals are assessed monthly for possible risks to our operations or people. These monthly reports are reviewed at the various Health and Safety Committee meetings.

CORPORATE GOVERNANCE

The Board of Directors is **committed and subscribes to the values of good corporate governance**, as contained in **King III.**

We adhere to the strict principles contained in King III and continually seek opportunities to deliver shareholder value.

As regards King IV, the Group will be required to apply and explain the principles in the Annual Integrated Report for the financial year ended 28 February 2019. Given the existing level of compliance with King III, the Board is of the view that the Group will be able to meet all material requirements of King IV. An assessment of the Group's King IV readiness has already begun.

During the past financial year, further corporate governance improvements were achieved. Some of these developments are highlighted below:

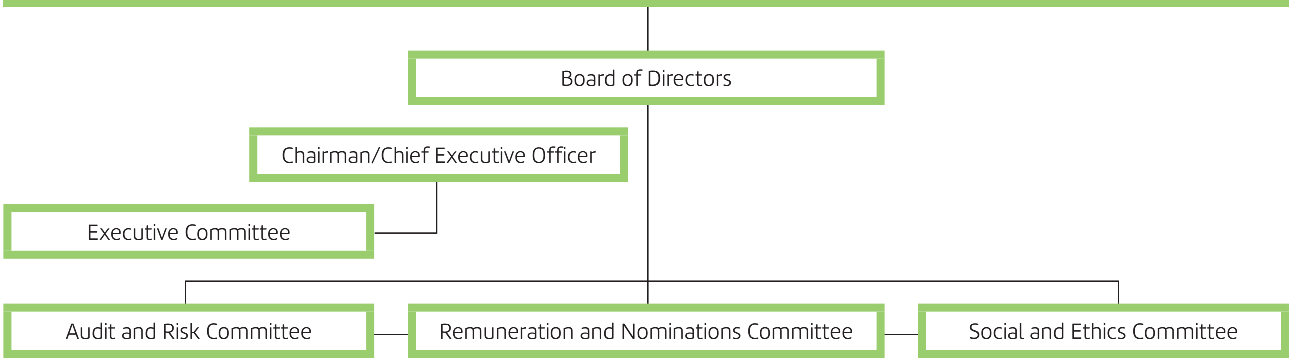
- Introduction of an open risk discussion at each Audit and Risk Committee meeting (in addition to the Risk Register), which enables management and the committee to freely discuss risks arising from the last quarter and risks expected for the next quarter
- Special presentations to the Audit and Risk Committee on topics of interest
- Implementation of a Board endorsed Code of Ethics and Conduct, which is applicable to all staff
- Attendance of various directors at the launch of King IV and commencing with preparations for King IV reporting
- Appointment of PricewaterhouseCoopers (PwC) as the Internal Audit function on an outsourced basis, and Marsh as the Group's insurance brokers
- Introduction of an interim report and a preliminary report, released to shareholders via the Group's website
- Formation of a Clinical Governance Committee, which reports to Lenmed's Board
- Implementation of various governance practices at Lenmed's non-South African entities in Mozambique and Botswana
- Successful outcome of a detailed due diligence enquiry into Lenmed, which was required for raising a significant loan with RMB and a capital investment by Grindrod Financial Services
- Implementation of a POPI Act project, to ensure that Lenmed is able to meet the requirements of the POPI Act when it becomes effective.

The areas of non-compliance to King III are as follows:

- The Chairman, who is also the CEO, is not independent. This is a historical arrangement arising from the control structure. This shortcoming is addressed through the appointment of a lead independent non-executive director
- The Group has not utilised independent assurance to assess the competence and independence of internal audit and IT. These are relatively new departments and, until they have matured, no such assurance will be sought. In addition, the Annual Integrated Report is not subject to external and internal audit. The current level of assurance is deemed appropriate for Lenmed, but is monitored
- The Group does not have a formal system of determining whether it complies fully with every detail of the recent plethora of legislation, although progress has been made with implementing a formal process to evaluate the relevant laws and regulations affecting Lenmed.

Lenmed's King III compliance report is available on the Group's website, www.lenmed.com

GOVERNANCE STRUCTURE



Our Board

EXECUTIVE

Prakash Devchand

Chairman and Chief Executive Officer
CA(SA)

Prakash Devchand is a qualified chartered accountant with 32 years of experience in the healthcare industry. He was appointed to the Board in 1986 and elected as Chairman and Chief Executive Officer in 1998. Under his leadership, Lenmed has seen significant growth in its local operations and the inception of the Group's African strategy.

Vaughan Firman

Chief Financial Officer
CA(SA)

Vaughan Firman is a qualified chartered accountant with 13 years' experience in the healthcare industry. His comprehensive experience as a financial director includes that of having served as both an executive as well as an independent non-executive director on numerous JSE- and non-JSE-listed companies. Vaughan's speciality is debt and property financing as well as mergers and acquisitions, of which he has extensive global experience. He was appointed to the Board in October 2014.

Amil Devchand

Chief Operating Officer
CA(SA)

Amil Devchand was appointed to the Lenmed Investments board in 2012. He is a qualified chartered accountant. Prior to being appointed as the Group COO, Amil served as Lenmed's Group Chief Financial Officer. He is the Chairman of the National Hospital Network (NHN) and is a director of the Hospital Association of South Africa (HASA).

NON-EXECUTIVE

Bharti Harie

Independent Non-executive Director
BA LLB (Natal),
LLM (Wits)

Bharti Harie was appointed to the Lenmed Investments Limited Board in 2010. She currently serves as a member of the Audit and Risk Committee and is the Chairman of the Remuneration and Nominations Committee. She is an independent non-executive director on the boards of Bell Equipment, Ascendis Health Limited and the Mineworkers Investment Company (MIC).

Mike Meehan

Independent Non-executive Director and Lead Independent Director
CA(SA)

Mike Meehan was appointed to the Board in 2010. He currently serves as a member of the Remuneration and Nominations Committee, and is Chairman of the Audit and Risk Committee. He has served as executive director and as an independent non-executive director on a number of JSE-listed companies. Mike consults to various companies and associations on strategic planning, financial administration and corporate management. He is a member of the Institute of Directors (IoD) and the Audit Committee forum.

Nomahlubi Simamane

Independent Non-executive Director
BSc (Honours) (University of Botswana & Swaziland)

Nomahlubi Simamane was appointed to the Lenmed Investments Limited Board in 2012. She serves on the Audit and Risk Committee and is the Chairman of the Social and Ethics Committee. Ms Simamane is the Chief Executive Officer of Zanusi Brand Solutions (Pty) Limited, a brand consultancy firm. She sits on the boards of JSE-listed Cashbuild, Oceana and The Foschini Group. Ms Simamane was the 2009 winner of the Top Businesswoman of the Year Award in the National Business Awards managed by Topco Media, and named the Businesswoman of the Year at the 2009 Black Business Awards run by BBQ.

Prof Bhaskar Goolab

Non-executive Director
MBBS (Bombay),
FRCOG (London)

Professor Bhaskar Goolab was appointed to the Board in 1999. He currently serves as a member of the Remuneration and Nominations Committee. He is in private practice and is also attached to the University of the Witwatersrand, where he is the head of the Department of Gynaecology and Endoscopy. In January 2012, Prof Goolab was elected President of the South African Society of Obstetrics and Gynaecology, and he currently serves on the Board of the International Society of Gynaecology and Endoscopy. He is also the Chairman of its training council for developing countries.

Our management team

Dr Morgan Mkhatswa
Group Business Development and Stakeholder Manager

Mr Naushad Gany
Group Financial Manager

Ms Michelle Naidoo
Group Marketing Manager

Mr Mohamed Bera
Group Procurement and Engineering Manager

Ms Bhavani Jeena
Group Human Resources Manager

Mr Deena Naidoo
Group Nursing Services Manager

Mr Gavin Harrison
Group Patient Services Manager

Ms Ursula Maritz
Group Shared Services Manager

Ms Presha Gurahoo
Group Pharmacy Manager

Mr Shalin Naidoo
Group Chief Information Officer

Mr Ebrahim Asmal
Group Regional Manager

Mr Rudi Clarke
Hospital Manager:
La Verna Private Hospital

Mr Rubendren Naidoo
Hospital Manager:
Maputo Private Hospital

Ms Elsa Benade
Hospital Manager: Ahmed Kathrada Private Hospital and Daxina Private Hospital

Ms Leoni Beaurain
Hospital Manager:
Randfontein Private Hospital

Mr Rodney Naicker
Hospital Manager:
Zamokuhle Private Hospital

Mr André Ackerman
Hospital Manager:
Bokamoso Private Hospital

Mr Hector Mackay
Hospital Manager:
Royal Hospital and Heart Centre

Phil Ryneveldt
Hospital Manager:
Kathu Private Hospital

Mr Niresh Bechan
Hospital Manager:
Ethekwini Hospital and Heart Centre

The Board of Directors

COMPOSITION, INDEPENDENCE AND SKILLS OF THE BOARD

The Board is based on a unitary structure and exercises full and effective control over the Group. It comprises seven members: an executive Chairman who also assumes the role of Chief Executive Officer (CEO); three independent non-executive directors; one non-executive director; and two executive directors: the Chief Operating Officer (COO) and Chief Financial Officer (CFO). The role of Chairman and CEO remains combined, as per the agreement with the Board. Any potential conflict has been addressed through the appointment of the Lead Independent Director, Mr MG Meehan. The non-executive director and independent non-executive directors provide objective knowledge and experience to the Board's deliberations. The independence of the non-executive directors is assessed annually and was confirmed by the Remuneration and Nominations Committee (Remco), based on the independence requirements of King III.

The Board

The Board's composition is reviewed annually to identify any gaps and ensure that the relevant skills, experience and competencies are in place. Each Board member offers a wide range of skills, knowledge and experience that allows them to exercise independent judgement on Board deliberations and decision-making. At the date of this report, the directors were:

- Mr P Devchand*
- Mr A Devchand*
- Mr VE Firman*
- Mr MG Meehan^
- Prof BD Goolab#
- Ms B Harie^
- Ms NV Simamane^

* *Executive*
^ *Independent non-executive*
# *Non-executive*

A brief curriculum vitae for each Board member is set out on pages 48 and 49 of this Annual Integrated Report

The CEO is responsible for implementing the Group's strategy and decisions in respect of operational issues. He is assisted in this regard by the COO and CFO.

Directors' attendance at Board and committee meetings

The following meetings were held in the last financial year:

Board meetings

Director	9 June 2016	8 September 2016	1 December 2016	**23 February 2017**
Mr P Devchand	✓ (c)	✓ (c)	✓ (c)	✓ (c)
Mr A Devchand	✓	✓	✓	✓
Mr VE Firman	✓	✓	✓	✓
Ms B Harie	✓	✓	✓	A
Prof BD Goolab	A	✓	✓	✓
Mr MG Meehan	✓	✓	✓	✓
Ms NV Simamane	✓	✓	✓	✓

Remuneration and Nomination Committee meetings

Director	24 May 2016	6 September 2016	8 September 2016	29 November 2016	**21 February 2017**
Ms B Harie	✓ (c)	✓ (c)	✓ (c)	✓ (c)	✓ (c)
Mr P Devchand	✓ (i)	✓ (i)	✓ (i)	✓ (i)	✓ (i)
Mr A Devchand	✓ (i)	✓ (i)	✓ (i)	✓ (i)	✓ (i)
Mr VE Firman	A	✓ (i)	✓ (i)	✓ (i)	✓ (i)
Prof BD Goolab	A	✓	✓	✓	✓
Mr MG Meehan	✓	✓	✓	✓	✓

Audit and Risk Committee meetings

Director	25 May 2016	3 June 2016	7 September 2016	30 November 2016	**22 February 2017**
Mr MG Meehan	✓ (c)	✓ (c)	✓ (c)	✓ (c)	✓ (c)
Ms B Harie	✓	✓	✓	✓	✓
Mr P Devchand	NP (i)	NP (i)	NP (i)	NP (i)	NP (i)
Mr A Devchand	NP (i)	NP (i)	NP (i)	NP (i)	NP (i)
Mr VE Firman	✓ (i)	✓ (i)	✓ (i)	✓ (i)	✓ (i)
Ms NV Simamane	✓	✓	✓	✓	✓

Social and Ethics Committee meetings

Director	9 March 2016	20 May 2016	24 October 2016
Ms NV Simamane	✓ (c)	✓ (c)	✓ (c)
Mr E Asmal	✓	✓	✓
Dr A Manning	✓	✓	✓

A = Apologies (c) = Chairman
(i) = Invitee NP = Not present but may be invited to attend certain aspects of the meeting

Rotation and tenure

Directors are appointed through a formal process led by Remco. In terms of the memorandum of incorporation, one-third of the Board (other than the executive directors) are subject to retirement and re-election by rotation annually. The appointment of directors appointed at the previous Annual General Meeting (AGM) is confirmed at the subsequent AGM.

The directors retiring and offering themselves for re-election at the 2017 AGM can be found in the notice of AGM commencing on page 103 of this Annual Integrated Report.

Induction and training

New Board members are provided with an induction and orientation programme on appointment. This covers key policies, terms of reference, charters, engagements with management and visits to hospitals.

BOARD PROCEDURES

Board meetings

The Board met four times this year. In addition, a two-day strategy session was held. Directors are provided with all necessary information in advance, including a detailed Board pack, to enable them to discharge their responsibilities. A work plan is approved by the Board annually, setting out matters for each meeting and specific matters for certain meetings. The Board agenda and meeting structure focuses on strategy, business performance monitoring and governance matters. The Board's meeting attendance is set out above.

Company Secretary

Directors have access to the advice and services of the Company Secretary, who plays an active role in the corporate governance of the Group. They are entitled, at the Group's expense, to seek independent professional advice about the affairs of the Group regarding the execution of their duties as directors. The Company Secretary is Mr W Somerville, aged 60, who holds an FCIS and ACMA qualification, as well as a Diploma in Corporate Law. He is a qualified Chartered Secretary with extensive experience in the company secretarial and corporate governance arenas. The Board has considered and is satisfied with the competence, qualifications, independence and experience of the Company Secretary. The Board is also satisfied that an arm's-length relationship exists between the Company Secretary and the Board of Directors, as the Company Secretary is not an employee of the company and provides services on an outsourced basis.

Board Charter

A Board Charter has been in place for a number of years and outlines the responsibilities of the Board as follows:

- Retain full and effective control of the Group
- Give strategic direction to the Group
- Monitor management in implementing plans and strategies as approved by the Board
- Appoint the Chief Executive Officer
- Ensure that succession is planned
- Identify and regularly monitor key risk areas and key performance indicators of the business
- Ensure that the Group complies with relevant laws, regulations and codes of business practice
- Ensure that the Group communicates with shareowners and relevant stakeholders openly and promptly
- Identify and monitor relevant non-financial matters
- Establish a formal and transparent procedure for appointment to the Board, as well as a formal orientation programme for incoming directors
- Regularly review processes and procedures to ensure effectiveness of internal systems of control and accept for the total process of risk management
- Assess the performance of the Board, its committees and its individual members on a regular basis.

The Charter also addresses issues such as the composition and size of the Board, Board procedures, matters reserved for Board decision and the frequency and proceedings of Board meetings. The Charter is reviewed annually by the Board.

Board and committee effectiveness evaluations

An effectiveness review of the Board and the committees was conducted during the year to assess the performance of the Board and committees. This review was led by the Company Secretary, and a report summarising the outcomes was tabled at the Board and relevant committees. Areas for further minor improvements have been identified and will be addressed as required. A new approach to evaluations is currently under consideration to avoid questionnaire fatigue.

Succession planning

Remco annually reviews the succession plan for the Chairman/CEO, Board of Directors and senior management, and makes recommendations to the Board as required.

BOARD COMMITTEES

While the Board remains accountable and responsible for the performance and affairs of the Group, it delegates certain functions to management and Board committees to assist it in properly discharging its duties.

The Board has the following sub-committees in place:

- Audit and Risk Committee
- Remuneration and Nominations Committee
- Social and Ethics Committee.

The Chairman of each Board committee provides feedback at each scheduled meeting of the Board and minutes of committee meetings are provided to the Board. All the members of the Audit and Risk Committee are independent non-executive directors. Remco has a majority of independent non-executive directors and is chaired by an independent non-executive director. The Social and Ethics Committee is chaired by an independent non-executive director. Each Board committee functions in accordance with the provisions of its own charter, as annually reviewed and recommended by the relevant committee and approved by the Board. The charters set out the purpose, membership, duties and reporting procedures of the various Board committees.

The directors and the members of the Board committees are supplied with full and timely information that enables them to properly discharge their responsibilities. All directors have unrestricted access to all Group information.

The Chairman of each Board committee is required to attend AGMs to answer questions raised by shareholders.

Further details of the committees can be found in the respective committee reports.

INFORMATION TECHNOLOGY GOVERNANCE

An IT Steering Committee is in place, chaired by Mr VE Firman. The committee meets regularly to discuss Lenmed's IT governance and evaluate potential or ongoing projects. An IT Charter is in place and the Board and Audit Committee are regularly apprised of committee discussions.

ETHICAL CONDUCT

The Group does not engage in or accept unethical conduct or unfair business practices in the conduct of its business. A zero tolerance approach has been adopted, supported by a Code of Ethics and Conduct. A whistleblowing facility is in place and is administered by Tip-offs Anonymous, which guarantees the anonymity of the complainant. Reports are provided to the Group Internal Audit Manager and a summary is provided to the Audit and Risk Committee.

DEALINGS IN LENMED SHARES

Directors may not deal in Lenmed shares during closed or prohibited periods. Further, prior clearance to deal must be obtained when a director wishes to deal in Lenmed shares.

ANNUAL GENERAL MEETING

The AGM will be held on 21 September 2017 at 15:00. Information relating to the AGM is contained in the notice commencing on page 103 of the Annual Integrated Report. The chairpersons of the Board committees as well as the external auditors will be available at the AGM.

Audit and Risk Committee report

The Audit and Risk Committee is a statutory committee of the Board, charged with the responsibility of overseeing audit and risk matters. It is structured in accordance with the requirements of the Companies Act, King III and King IV. The committee consists of three independent non-executive directors, as approved by the shareholders in a general meeting, one of whom is the chairman. The Financial Director and the Company Advisor, Grindrod Bank Ltd, are permanent invitees, as are the external auditors and the internal auditors. Other members of the executive management and the IT manager are invited as expedient. The external and internal auditors have unrestricted access to the committee and specifically its chairman.

The Charter of the Audit and Risk Committee is reviewed and updated by the committee and approved by the Board annually.

The composition of the committee as approved by the shareholders at the most recent AGM is as follows:

Name	Qualifications	Date Appointed	Position
Mr MG Meehan	CA(SA)	1 Nov 2010	Independent Non-executive Director
Ms B Harie	BA, LLB, LLM	1 Nov 2010	Independent Non-executive Director
Ms NV Simamane	BSc (Hons)	1 Oct 2012	Independent Non-executive Director

AUDIT COMMITTEE

In executing its statutory duties in the year, the Audit Committee:

- Reviewed and received assurances on the independence of the external auditors, PKF Durban, and specifically the nominated partner, Tania Marti-Warren
- Reviewed the work programme of the external auditors
- Agreed the terms of engagement of the external auditors
- Approved the fees to be paid to PKF Durban
- Determined and monitored a policy relating to non-audit services provided by PKF Durban and where applicable pre-approved such services
- Reviewed the reports of the external auditors to management and to the shareholders and recommended action where necessary
- Expressed its satisfaction with the competence of the external auditors
- Held separate discussions with the external auditors and determined that there were no matters of concern
- Held discussions with and reviewed the reports of the external auditors of the foreign subsidiary companies that were not audited by PKF Durban
- External Audit: The partner of PKF Durban responsible for the audit is Tania Marti-Warren who has been in this position for three years thus there are no rotational requirements at this stage
- Received assurances from management and internal audit on the systems of internal control
- Received two reports of fraud and theft which have been dealt with appropriately
- Reviewed the charters of the Audit and Risk Committee, Internal Audit and the IT Committee
- Approved the work programmes of the internal auditor and the IT Committee
- Reviewed the reports and recommendations of the internal auditor and IT Committee and where necessary made recommendations to management thereon
- Reviewed the IT risk register and made recommendations where appropriate
- Received presentations on cyber-security threats and reviewed management's recommendations on how to counter these
- Received no reports or complaints from third parties from within or outside the group relating to

  (a) accounting practices
  (b) content or auditing practices of financial statements
  (c) internal financial controls of the group
  (d) any related matters.
- Gave guidance on the accounting treatment of significant matters, specifically:

  a) Acquisition of control of Ethekwini Hospital and Heart Centre
  b) Acquisition of 100% of the shareholding in Maputo Private Hospital
  c) Exchange gain on Maputo Private Hospital.
- Expressed its satisfaction with the competence of the Financial Director, Vaughan Firman
- Reviewed the performance of the Group against its loan covenants
- Monitored the performance of the Group against the requirements of King III and recommended actions to close any gaps identified
- Approved all announcements to shareholders
- Concurred with the views of management that the adoption of the going concern premise in the preparation of the financial results is appropriate
- Approved the results for the 2017 financial year and recommended them for acceptance by the Board
- Conducted a self-assessment of the committee and its members and included responses from invitees.

Matters of importance addressed by the committee included:

- Debtors: The significant investment in debtors has not been reduced. While debtors in South Africa are well within accepted norms, the additional exposure arises from slow payment practices by MAFs in territories outside of South Africa. Management has made prudent provisions for non-recovery and continues to implement revised strategies and internal practices to reduce this exposure
- King III gap analysis: The committee has not considered it necessary to recommend the appointment of third party consultants to advise the Board of the sustainability of the Group at this stage. The Group is aware of the risks to its sustainability and makes plans to combat these through regular strategic planning sessions of executive management and the Board
- The committee has not recommended to the Board that an external evaluation of the internal audit function should be conducted, however, since 1 March 2017, the internal audit has been outsourced to PwC
- King IV: Members of the committee attended the launch of King IV and have attended other presentations on the implementation of this revised corporate governance standard. The committee welcomes the concepts of King IV and is promoting the adoption of the 17 principles as well as the reporting thereon in the 2018 Annual Integrated Report
- Internal Audit: In recognition of the considerable growth the Group has experienced, it was felt that greater strength in the internal audit function than could be provided by an in-house division was necessary. It was agreed to outsource the internal audit function to PwC with effect from 1 March 2017. The handover from the internal operation has been effected smoothly and all internal audit staff were offered positions in PwC.

RISK COMMITTEE

The committee plays an oversight role in respect of risk management. The Group identifies risks under the headings of:

- Enterprise risk
- Operational risk
- Financial risk
- Reputational risk.

The Group has an appetite for risk that is consistent with the operation of private hospitals in the healthcare industry in South Africa, Mozambique and Botswana. It manages that risk by remaining compliant with legislation and statutory requirements such as the terms under which its licences are granted. The Group has zero tolerance for risk to the enterprise and its reputation, but is willing to take on risks at manageable levels for operations and finance, recognising that reward and opportunities flow from the acceptance of risk.

The Group is not itself involved in conducting medical research or practicing medicine, but provides facilities and equipment for procedures conducted by medical practitioners and medical care for patients.

The Group operates in a field in which risk is ever present and is a fundamental part of business strategy. Accordingly, the Group adopts practices and procedures that address risk in all facets of the business model. Hospital management and staff are made aware of the risks inherent in their roles and they accept responsibility for managing risk within their scope. The risk register is built up from the hospitals and business units and is reviewed by management and the executive quarterly. The Risk Committee reviews the Group risk register quarterly and makes recommendations to management and the Board.

Additional assurance on risk management has been achieved through a change in insurance broking arrangements. Marsh has now been appointed as the Group's brokers and regular discussions are held with them on risk matters, on cover for assets and liabilities, the effects of new legislation and other operational matters.

The organisation structure continues to be expanded to place a greater emphasis on compliance and professional standards, as well as internal controls and succession planning. The filling of new roles and the implementation of continually improving standards is an ongoing process.

The Audit and Risk Committee previously reviewed the reports of the Chief Medical Officer on clinical governance and performance. It was felt that more direct medical professional competence was required to address the risks in this field. Accordingly, a new Clinical Governance Committee under the chairmanship of Professor Goolab was established and became effective from 1 March 2017.

The Group made progress in identifying and assessing the extent of compliance with the numerous pieces of legislation that affect it. This is being tackled both by the in-house legal resource and by completion of the requirements of the COHSASA framework.

CONCLUSION

The committee confirms that it has fulfilled its responsibilities in accordance with its charter for the year and has recommended the Annual Integrated Report to the Board for distribution to members.

Risk management

RISK APPETITE DETERMINATION

King III requires the Board to determine the organisation's risk appetite or tolerance for risk. Risk appetite in this context is "the amount of risk Lenmed is willing to accept in pursuit of value".

Risk appetite is directly related to our business strategy; therefore, strategy changes could require re-assessing our risk appetite and strategy. Both are re-evaluated annually.

ENTERPRISE RISKS

Risks under this heading are often environmental, over which the Group has limited control.

Lenmed has no appetite for enterprise risk and we keep informed on risk topics such as:

- National and/or international opinion on the private healthcare industry
- Environmental concerns or thinking that could impact on hospital locations and the disposal of medical waste
- Social, health and political policies of national and regional government
- Competitor activities and strategies
- Technological and industry changes in surgery, hospital design and infrastructure, and healthcare in general
- Patient, medical aid and medical practitioner opinions, behaviour and concerns as they relate to the industry and the use of the Lenmed facilities
- Key industry challenges facing the overall health sector.

Responses to enterprise risk

- Maintain a neutral position toward government
- Ensure a culture of compliance at all levels
- Perform adequate due diligence and review exercises before making new investments.

OPERATIONAL RISKS

Trading operations expose the Group to levels of risk in processes (clinical and operational), labour, supply of pharmaceutical consumables, availability and suitability of medical practitioners. These vary according to location and time. Often, these risks are short-term in nature and have to be managed on a day-to-day basis, but can lead to long-term disruption of operations if not mitigated promptly.

Accordingly, Lenmed has an appetite for operational risk, which seeks to balance the risks of maximising profitability against the risks of disruption of services, production and/or distribution of our products.

Lenmed pursues strategies that will:

- ensure operational efficiencies and productive management processes
- attract suitable doctors to Lenmed facilities
- optimise facilities for efficient recovery of fixed overheads
- implement appropriate clinical governance processes for positive clinical outcomes
- train and motivate nursing staff to adhere to agreed standards
- work with medical practitioners and medical aids to optimise capacity usage and optimise efficient fee recovery
- ensure ongoing electricity, water and gas supply at optimal cost
- provide optimal insurance for potential disruption of operations, non-recovery of debtors and medical malpractice
- keep Lenmed in the forefront of industry technologies
- maintain lower medical procedures costs than local and international competition
- optimise the organisational structure to ensure efficient controls over a diverse network of healthcare facilities spread over several countries
- ensure that the Group sets and maintains consistent standards throughout.

FINANCIAL RISKS

Lenmed takes a balanced approach to financial risks and evaluates any potential capital investments against specific criteria.

Accordingly, Lenmed has an appetite for financial risk, which will reward shareholders with an above average return, but provide lenders with sufficient comfort to advance funds to the company without excessive security.

Lenmed deploys strategies that:

- ensure all projects generate an acceptable return in excess of the weighted average cost of capital in the Group, as stipulated by the Board
- restrict maximum gearing to prudent levels
- ensure forecast liquidity and solvency ratios for forecast periods of five years are within acceptable limits
- maintain a prudent dividend policy.

REPUTATIONAL RISKS

These risks have similar consequences to enterprise risks. They are capable of destroying the business, stakeholder perceptions, shareholder wealth and the credibility of the Group and its management.

Lenmed has no appetite for risks that could damage its reputation or brand.

The Group adopts strategies to ensure:

- compliance with the highest healthcare, safety and health performance standards
- recruitment of high calibre doctors
- compliance with the highest ethical standards
- open and transparent dealings with all stakeholders
- compliance with all regulatory authorities and legislation
- accurate, complete and timely reporting to shareholders
- fierce advancement and protection of the Lenmed brand
- sufficient resources to engage in new projects.

Remuneration and Nominations Committee report

The activities of Remco over the past year were fairly regular in once again bedding down its policies and procedures and aiming for consistent standards across the Group. Of note were the first vesting under the Share Appreciation Rights scheme (SARs), the launch of King IV and its impact going forward, and a concern around the recruitment of scarce healthcare skills.

Remco is now in its sixth full year of operation and has an established forward plan of agenda items. In addition, as the Group grows and seeks to implement further employee benefits, these are tabled, debated and approved on an ongoing basis. Remco is chaired by Bharti Harie, with the other permanent members being Mike Meehan (lead independent, non-executive) and Prof Bashkar Goolab (non-executive). Prakash Devchand (CEO); Vaughan Firman (CFO), Amil Devchand (COO); Bhavani Jeena (HR Manager) and the Financial Advisor from Grindrod Bank, Dino Theodorou, are also invited to attend the meetings. Four meetings were held prior to year-end and all of the permanent members attended these meetings, except for one meeting for which Prof Goolab tendered his apologies.

Remco operates within Terms of Reference, as approved by the Board on 9 June 2016. The Terms of Reference were benchmarked against King III, discussed and reviewed by Remco on 21 February 2017, with a view to being presented at the next Board meeting. The document will be aligned to King IV in February 2018.

Remco's main purpose is to provide an independent and objective body that will:

- make recommendations on the remuneration policies, practices and philosophies for the executive directors, senior management at Lenmed and its subsidiaries in general
- make recommendations on the composition of the Board and Board committees and ensure that the Board consists of individuals who are equipped to fulfil the role of directors of Lenmed
- make recommendations on the nominations of new directors, having gone through the appropriate interview processes
- review and report to the Board on its operating effectiveness and performance at least annually, by means of a self-evaluation questionnaire.

Remco activities over past financial year have included, among others:

- Review of Executive Committee (Exco) service contracts for the CEO, CFO, CMO and COO and their respective letters of appointment
- Review of Board, Social and Ethics and Audit Committee membership
- Discussion around the establishment of a Clinical Governance Committee to focus on clinical outcomes and quality of the Lenmed healthcare offering
- Review of directors up for re-election at the AGM
- Review of director independence and a discussion around the factors determining independence and number of years on the Board
- Approval of the Executive Annual Bonus Scheme for the financial year ending February 2018. Adjustments made to individual targets are discussed under the section, risk portion of package
- Approval of the Executive Annual Bonus payments for the financial year ended February 2017
- Approval of the Executive Annual Remuneration increases effective 1 March 2017
- Oversight and discussion of the hospital managers' and Group functional heads' annual remuneration increases effective 1 March 2017
- Approval of the principles of the hospital managers' bonus scheme for financial year ended February 2018
- Review of non-executive director fees: For the 2017 AGM, it is proposed that the fees payable for the period from the 2017 to the 2018 AGM be amended as follows:
  - Independent non-executive director:
    Annual retainer – increased to R180 000 per annum
    Per meeting fee – increased to R13 000 per meeting
    Chairman's fee – R13 000 per meeting
  - Non-executive director:
    Non-executive directors' fees to match the fees of the independent non-executive directors.
- Performance review of the Board and its sub-committees. On an annual basis, questionnaires are sent out to Board members by the Company Secretary, who collects, analyses and reviews the results. These results are then presented to the Board and its sub-committees. The last set of results proved satisfactory
- As per the previous year, a performance review of the Company Secretary was conducted by Board members. The outcome was satisfactory and feedback was given to the Company Secretary
- Revision of the long service and share scheme awards. Both schemes were revised, as discussed in the Remuneration Policy below
- Review and discussion around the Lenmed organogram. This assisted in the oversight of the appointment of various vacancies within the approved organogram and certain changes to the organogram based on the changes in the Lenmed business model. The role of General Manager: IT was discussed and approved. The incumbent will oversee, among other things, the roll-out of SAP. Remco was also advised of the resignation of the CMO, Dr Arthur Manning, and advised further that a search was under way for a suitable replacement
- Review and discussion of executive and senior management succession planning
- Oversight of the implementation of the long-term incentive scheme and various revisions to the scheme. Tranche 1 of the 2013 SARs had vested in August 2016, and these awards were cash settled. Further SARs awards were also made. Details can be found under the Remuneration Policy discussion. As new

rules around SARs are developed through discussions at Remco, these are recorded by way of a set of Practice Notes, which are read together with the original policy document

- Feedback from human resources on a full review of staff members who are covered by medical aid (and how many remain without any cover), together with a review of the employer contribution to the scheme
- Review and feedback on the job grading system in which Patterson grades were assigned, and job descriptions standardised and linked to job titles and grades
- Director training: The independent directors attended the launch of King IV, under the auspices of the IoDSA. The day was useful in setting the scene for the themes around King IV. As per the previous year, various industry specialists were invited to address the directors at the annual strategy planning meeting earlier this year. This year, we were addressed by an economist, two medical aids and an attorney. It provided valuable insight and context into the healthcare environment. Remco also approved that the COO attend a leadership programme with a recognised institution
- Review of staff pension fund and funeral arrangements
- Finalisation of the Remuneration and Benefits Policy. This is an all-encompassing policy setting out the fundamentals of the Group's Remunerations and Benefits. This particular policy goes a long way in entrenching a single policy across the Group and will be reviewed annually
- Discussion around the recruitment of scarce healthcare (especially nursing) skills. The skills shortage is an ongoing challenge and more will be invested in training. It was noted that skills are particularly scarce in KwaZulu-Natal due to the number of new hospitals opening in the province, which also has the effect of driving up personnel costs.

REMUNERATION POLICY

The South African healthcare sector is characterised by a shortage of staff in general, which compels Lenmed to retain talented and higher level staff. Remco has the task to recommend strategies to attract and retain staff of the highest calibre, while still being mindful of managing costs. Remco considers the remuneration packages of the Group's executive directors and hospital managers based on their job profiles, individual performances, and current market levels of similar job profiles.

Lenmed's remuneration philosophy is to pay a fair salary in exchange for fair work done. In our view, we do pay fair salaries within industry norms and will compete for scarce skills when business cases so demand. Once in our employ, we extend the "We Do Care" policy to our staff, through which we aim to retain and motivate staff using the various benefits discussed in this report.

Lenmed's policy on remuneration is that the guaranteed portions of our staff packages are targeted to be at least on the median, or slightly below the median. Conversely, as regards the risk portion of the package, our policy is that this should be targeted to be equal to or higher than the median.

Having understood the industry medians from previous years, we believe that executive packages are now in line with the above policy.

REMUNERATION PACKAGE FORMULATION

Packages for all key staff members (executives, directors and hospital managers) are apportioned as between a guaranteed portion, being the annual package, and the risk portion, being the bonus incentives through which key members of staff are appropriately incentivised to maximise shareholder returns.

GUARANTEED PORTION OF PACKAGE

Increases in remuneration packages for Lenmed executives were considered at the 21 February 2017 Remco meeting, and implemented on 1 March 2017. In considering the new remuneration packages, Remco took into account the following factors:

- Comparison against the benchmark, with a focus on considering the package as a whole, taking into account both the guaranteed and risk portions
- Individual performance
- High-level comparisons made with similar positions within the sector and also with companies of a similar size
- Affordability.

RISK PORTION OF PACKAGE – SHORT-TERM AND LONG-TERM BENEFITS

Lenmed executives and other key staff are incentivised by way of a short-term bonus scheme. On an annual basis, it is the responsibility of Remco to review and approve the Executive Annual Bonus Scheme. Remco also notes the principles behind the hospital managers' and Group functional heads' Annual Bonus Scheme. The key performance areas in both these schemes measure specific individual targets, align shareholder and individual goals based on a HEPS target, and also include a measure of the performance of the Group as a whole. If the key performance areas are achieved, identified staff can earn bonuses ranging between a maximum of 25% and 100% of their individual packages, with the maximum thresholds determined by job levels.

Short-term targets for the year ending February 2018 were adjusted as follows:

- Measurable targets counted for at least 50% of the total weighting
- More difficult to measure targets counted for at least 20% of the total weighting
- A discretionary target of 10% was applied (this weighting was unchanged from previous years).

Targets were also customised around what Remco considered to be specific priority performance areas for each executive to encourage delivery in these areas.

The following short-term bonuses, relating to last year's results (February 2016), were earned by executive directors in the financial year:

Mr P Devchand	R2 451 114 (71.67%)
Mr VE Firman	R1 503 280 (79.12%)
Mr A Devchand	R1 306 725 (74.67%)
Dr A Manning	R960 000 (60%)

- Remco also had oversight of the implementation of the Long-Term Incentive Scheme (LTIS) which is now in its fourth year of operation. The LTIS is based on a SARs and a Performance Share Scheme. Last year, it was agreed that guidelines or practice notes recorded as amendments are made to the scheme. These notes then form an annexure to the original policy.

The following are the salient features of the LTIS:

Scheme concept:

- Up to 10% of Lenmed's issued share capital will be set aside for purposes of the scheme
- Based on the liquidity and the price of the shares on the Over the Counter (OTC) market, Remco will have the right to use the OTC price or to determine a price itself
- The allocation of LTIS shares will be considered by Remco annually as part of its forward planning
- The LTIS will apply to the following levels, with the corresponding band of share allocations:

Category 1 – CEO	1.5 million to 2.5 million shares
Category 2 – Directly reports to category 1	750 000 to 1.5 million shares
Category 3 – Directly reports to category 2	250 000 to 1 million shares

Scheme rules:

- The performance criteria for the SARs is a minimum 50% average achievement of the participant's short-term incentive bonus over the three years prior to vesting
- The hurdle rate calculation for the financial year ending February 2017 is CPI plus 4%, to be reviewed annually by Remco
- Vesting will be one third on the third anniversary of the allocation date (fourth year from allocation), one third on fourth anniversary of the allocation date (fifth year from allocation) and one third on the fifth anniversary of the allocation date (sixth year from allocation)
- Settlement is in cash or shares, at the discretion of Remco
- Participants are not entitled to any dividends and have no voting rights.

A first for Remco under the scheme, was the vesting of Tranche 1 of the 2013 allocation. At Remco's discretion, these were done at a valuation of R3.00 per share.

For the financial year ended February 2017, the fourth set of SARs were also issued at R3.00, per Remco's discretion not to apply the average OTC price for this period, due to the shares being illiquid. In both instances, Remco applied its discretion to a price of R3.00 per share based on a presentation from our financial advisors, who had conducted a high-level indicative valuation of Lenmed using different valuation methodologies and actual indicative term sheets received from various third parties. The internal valuation methodologies included forward PE, discounted cash flow and forward EBITDA multiples.

The following SARs awards were made to executive management:

Mr P Devchand	R2 500 000
Mr A Devchand	R1 000 000
Mr VE Firman	R1 000 000

Long service award scheme:

Remco continued the oversight of the implementation of a long service award scheme for all staff. The scheme comprises two parts:

- a cash award, payable at six-month intervals, to employees who have worked for Lenmed for longer than 10 years
- a share award, to staff who have worked longer than 15 years. Under this scheme, employees are entitled to receive 15 000 Lenmed shares once they have attained a service record of 15 years. These shares are priced along the same principles as the SARs scheme. For the period ended December 2016, the price allocated was R3.00 per share. This benefit is in addition to the cash award referred to above.

At its discretion, Lenmed may extend the above scheme to long-serving staff at acquired hospitals from three years after acquisition.

OTHER BENEFITS

Staff enjoy other benefits such as medical aid, leave pay, funeral cover and planning for retirement. As new hospitals are acquired over the years, it is the intention that these benefits are standardised across Lenmed.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The three independent non-executive directors and one non-executive director have continued to hold office since their appointment in September 2010 (Ms Simamane since October 2012). They are paid an annual retainer, plus attendance fees per meeting. These directors' fees are confirmed by shareholders at the Lenmed AGM. It is important to note that non-executive directors do not receive any payment related to performance of the Group and do not participate in any bonus arrangements. Details of the directors' fees are as follows:

Directors' remuneration

Name	Executive/ Non-executive	Annual package FY2017	Annual package FY2018	Retainer fee	Meeting fee per meeting	Chairman fee
Mr P Devchand	Executive	R3.8m	R4.1m	–	–	–
Mr VE Firman	Executive	R2.4m	R3m	–	–	–
Mr A Devchand	Executive	R2.3m	R2.9m	–	–	–
Mr MG Meehan	Non-Executive	–	–	R174 000	R12 000	R12 000
Ms B Harie	Non-Executive	–	–	R174 000	R12 000	R12 000
Ms NV Simamane	Non-Executive	–	–	R174 000	R12 000	R12 000
Prof BD Goolab	Non-Executive	–	–	R174 000	R12 000	R12 000

The value of total remuneration awarded to and realised by executive directors during the financial year may be found in note 25 to the Annual Financial Statements

Social and Ethics Committee report

REPORT TO SHAREHOLDERS

This report by the Social, Ethics and Transformation Committee (the committee) is prepared in accordance with the requirements of the Companies Act, 71 of 2008, as amended (Companies Act) and describes how the committee has discharged its statutory duties in terms of the Companies Act and its additional duties assigned to it by the Board in respect of the financial year ended 28 February 2017.

Over the years since its inception, the committee has diligently carried out its mandate and statutory obligation to direct and oversee the company's activities relating to social and economic development, good corporate citizenship, the environment, health and safety, and labour and employment issues.

COMPOSITION OF THE COMMITTEE

The committee comprises three suitably skilled and experienced members appointed by the Board. Ms NV Simamane, who is an independent non-executive director, chairs the committee. Committee members include Mr E Asmal, the Regional Director, and invitees include senior managers in the areas of human resources, finance, marketing and internal audit. The Group Company Secretary acts as the secretary of the committee. Dr A Manning, Lenmed's previous CMO, was a member of the committee, but has resigned from Lenmed.

THE COMMITTEE CHARTER AND WORKPLAN

The Board approved the committee charter and workplan, which details the role, responsibilities and mandate of the committee.

In terms of the committee's mandate, at least two meetings should be held annually.

THE COMMITTEE'S ROLE AND RESPONSIBILITIES

Role

The committee has an independent role with accountability to the Board. The committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management.

The overall role of the committee is to assist the Board with the oversight of social, ethical and transformation matters relating to the company.

Responsibilities

The committee performs all the functions necessary to fulfil its role as stated above, including its statutory duties.

In fulfilling its statutory duties and performing its functions as delegated by the Board, the committee considers and evaluates the sustainability of the Group with reference to the company's:

- ethical culture and values
- approach to compliance
- commitment to transformation and B-BBEE
- health and public safety, which includes occupational health and safety as well as the clinical quality of the Group's services and waste management
- environmental matters
- patient satisfaction
- labour relations
- corporate citizenship.

Policy review

The committee is responsible for developing and reviewing the Group's policies with regard to the commitment, governance and reporting of the Group's sustainable development performance and for making recommendations to management and/or the Board in this regard. During the year, the committee reviewed and recommended to the Board the proposed Business Integrity Policy that incorporated the Code of Ethics, Anti-Corruption Policy including guidelines on gifts, Whistle-Blowing Policy and Lenmed Values. CSI, Human Rights, Employee Wellness, Health and Safety as well as HIV/Aids Policies were also reviewed.

In fulfilling its functions, the committee has received and reviewed reports on:

Human rights practices within the company

There have been no incidents of human rights abuses declared against the company in the year under review.

Labour and employment practices

The committee reviewed the employee headcount, progress of employment initiatives undertaken during the year, employment equity reporting, skills development reporting and legislative updates. Reports on employment equity were submitted to the Department of Labour.

Transformation

The committee reviewed the company's performance against the dti's (Department of Tourism and Industry) B-BBEE scorecard relating to ownership, management control, employment equity, skills development, preferential procurement, enterprise development and socio-economic development, as well as the results of the annual independent B-BBEE audit. The committee also reviewed the likely impact of the new codes on Lenmed's B-BBEE rating and highlighted areas that will require focus, with clearly defined action plans and targets.

Corporate social investment

The company's CSI expenditure and its progress against planned initiatives during the year was assessed and found to be satisfactory.

Anti-corruption, ethics and compliance

During the year, the committee received various reports on ethics and compliance. It was further noted that relevant information on the Anti-Corruption Policy, Business Conduct Policy and related legislation was communicated to all employees.

Environment, health and public safety

The Environmental, Health and Safety Report that covered environment matters, disaster management, waste management and safety of patients and staff was reviewed. It was noted that there are appropriate processes in place covering health and safety and that this was actively managed. It was further noted that infection control measures were in place and well under control.

Customer relationships

The committee received and reviewed reports on the company's advertising and public relations activities and stakeholder relations, including patient satisfaction levels.

The company's sustainable development report, which reflects more detail relating to the company's activities, can be found on the company's website, www.lenmed.com

REPORT TO SHAREHOLDERS

The committee has reviewed and was satisfied with the content in the Annual Integrated Report that is relevant to the activities and responsibilities of the committee.

The agenda for the company's AGM to be held on 21 September 2017 includes a report by the committee chairman to shareholders.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

The reports and statements set out below comprise the consolidated annual financial statements presented to the shareholders:

LEVEL OF ASSURANCE

These annual financial statements have been audited in compliance with the applicable requirements of the South African Companies Act 71 of 2008, as amended (Companies Act).

PREPARERS

These financial statements were prepared and supervised by:

Mr N A Gany CA(SA)
Mr H Nieuwoudt CA(SA)

Directors' responsibilities and approval

The directors are required by the South African Companies Act 71 of 2008 (Companies Act) to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements of Lenmed Investments Limited and its subsidiaries and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company and the Group as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards. The auditors are engaged to express an independent opinion on the annual financial statements.

The financial statements have been audited by the independent auditing firm, PKF Durban, who was given unrestricted access to all financial records and related data, including minutes of all meetings of the shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during the audit were valid and appropriate. The external auditor's unqualified audit report is presented on pages 66 and 67.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial controls established by the Group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors has established a system of internal financial controls aimed at reducing the risk of error or loss in a cost effective manner. These controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that under all reasonable circumstances is above reproach.

The focus of risk management in the Group is on identifying, assessing, managing and monitoring all known forms of risk. While operating risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management and the internal auditors, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, but not absolute, assurance against misstatement or loss.

The directors believe that the Group will be a going concern in the foreseeable future based on forecasts and available cash and cash equivalents. The consolidated financial statements support the viability of the Group.

The annual financial statements of the Group as set out on pages 68 to 100, which have been prepared on the going concern basis, were approved by the board of directors on 8 June 2017 and were signed on its behalf by:

Mr P Devchand

Mr VE Firman

Report of the Audit Committee

Report of the Audit Committee in terms of section 94(7)(f) of the Companies Act.

The committee met on four occasions last year and held further discussions with the external auditors and internal audit manager. Based on the information supplied at those meetings, the audit committee has no reason to believe that there were any material failures or breakdowns in the system design and effectiveness of internal financial controls during the year.

The committee also satisfied itself on the independence of the external auditors and that they were properly appointed in terms of the Companies Act.

The committee reviewed the annual financial statements and the Annual Integrated Report as well as the significant judgements and reporting decisions with the assurance providers and management and came to the conclusions that:

- The going concern basis of reporting is appropriate.
- The annual financial statements and Annual Integrated Report comply in all material respects with statutory disclosure requirements
- The annual financial statements should be approved by the board and circulated to shareholders.

For further information on the composition and activities of the Audit and Risk Committee, please refer to page 55 of the Annual Integrated Report

Mr MG Meehan CA (SA)
Chairman of the Audit Committee

24 May 2017

Statement of compliance by the Company Secretary

I, W Somerville, the undersigned, being the Company Secretary of Lenmed Investments Limited, certify that all returns required by a public company in terms of the Companies Act of South Africa have, in respect of the financial year under review, been lodged with the Companies and Intellectual Properties Commission (CIPC), and that all such returns and notices are true, correct and up-to-date.

Mr W Somerville
Company Secretary

08 June 2017

Report of the Independent Auditor

To the shareholders of Lenmed Investments Limited and its subsidiaries

Report on the Audit of the Consolidated and Separate Financial Statements

OPINION

We have audited the consolidated and separate annual financial statements of Lenmed Investments Limited and its subsidiaries set out on pages 71 to 100, which comprise the consolidated and separate statements of financial position as at 28 February 2017, and the consolidated and separate statements of profit and loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Lenmed Investments Limited and its subsidiaries (the Group) as at 28 February 2017, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated and separate Financial Statements. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of consolidated and separate financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the Director's Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated financial statements and our auditors report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide the directors with a statement that we have complied with the relevant ethical requirements regarding the independence, and to communicate with them all relationships and others matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PKF Durban has been the auditor of Lenmed Investments Limited and its subsidiaries for nine years.

PKF Durban

PKF Durban
Partner: TC Marti-Warren RA CA(SA)
Registered Auditor
Durban

8 June 2017

Report of the directors

NATURE OF BUSINESS

The principal activities of the Group during the year were the provision of private patient health care, through management and ownership of hospitals and other related health services. There were no major changes in the nature of the business during the year under review.

The Lenmed Investments Group includes the following material entities

	% holding	
Subsidiaries		
Direct		
Lenmed Health (Pty) Ltd	100%	Reg. No. 2005/022423/07
Lenmed Health Africa (Pty) Ltd	100%	Reg. No. 2011/130484/07
Indirect		
Lenmed Health Lenasia (Pty) Ltd	100%	Reg. No. 2006/002764/07
Lenmed Health Laverna (Pty) Ltd	100%	Reg. No. 1988/004487/07
Lenmed Health Shifa (Pty) Ltd	100%	Reg. No. 2000/006080/07
Lenmed Health Zamokuhle (Pty) Ltd	100%	Reg. No. 2005/017980/07
Lenmed Health Daxina Private Hospital (Pty) Ltd	100%	Reg. No. 2006/021573/07
Lenmed Health Randfontein Private Hospital (Pty) Ltd	100%	Reg. No. 2012/006706/07
Lenmed Management Services (Pty) Ltd	100%	Reg. No. 2000/021905/07
Lenmed Health Management Company (Pty) Ltd	100%	Reg. No. 2010/004046/07
Lenmed Health Bokamoso Private Hospital (Pty) Ltd	70%	Reg. No. CO2011/4403
Maputo Private Hospital SA	100%	Reg. No. 17682
Nu-Yale Trust	100%	IT 29/1996
Lenmed Health Kathu Properties (Pty) Ltd	60%	Reg. No. 2013/146831/07
Lenmed Health Kathu Private Hospital (Pty) Ltd	67%	Reg. No. 2013/229376/07
Royal Hospital and Heart Centre (Pty) Ltd	100%	Reg. No. 2009/011218/07
Lenmed Health Properties (Pty) Ltd	100%	Reg. No. 2012/103789/07
Ethekwini Hospital and Heart Centre (Pty) Ltd	54%	Reg. No. 2002/002222/07
All the subsidiaries have a place of business within the Republic of South Africa except for Lenmed Health Bokamoso Private Hospital (Pty) Ltd (Incorporated in Botswana) and Maputo Private Hospital SA (Incorporated in Mozambique).		
Associate companies		
Renal Care Holdings (Pty) Ltd	40%	Reg. No. 2016/027042/07
Lenasia Renal Centre (Pty) Ltd	30%	Reg. No. 1999/028225/07

GROUP FINANCIAL RESULTS

The Group's earnings before interest, taxation, depreciation and amortisation (EBITDA) amounted to R486 423 044 (2016: R233 989 125).

The Group's profit before taxation for the year amounted to R427 925 725 (2016: R204 111 913) before deducting taxation of R87 615 126 (2016: R45 397 244), resulting in profit after taxation for the year of R340 310 599 (2016: R158 714 669).

The company's profit before taxation for the year amounted to R2 238 179 (2016: R1 799 288) before deducting taxation of R626 690 (2016: R559 801), resulting in profit after taxation for the year of R1 611 489 (2016: R1 239 487).

Lenmed Investments Limited's share of aggregate profits after tax from subsidiaries is R340 864 558 (2016: R152 523 867).

The results of the Group are set out in the attached financial statements. For further commentary please refer to the other reports detailed in the Annual Integrated Report. The financial statements have been prepared in accordance with International Financial Reporting Standards. The accounting policies have been consistently compared to the prior year.

STATEMENT OF RESPONSIBILITY

The directors' statement of responsibility is addressed on the approval page of these financial statements.

DIVIDENDS

The company's policy is to pay dividends at the discretion of the directors. No dividends were declared nor paid to ordinary shareholders during the year under review (2016: nil).

DIRECTORSHIP

The directors of the company during the year and to the date of this report are as follows:

Executive directors

Mr P Devchand
Mr A Devchand
Mr VE Firman

Non-executive directors

Mr MG Meehan
Prof BD Goolab
Ms B Harie
Ms NV Simamane

SECRETARIES

The company secretary, Mr W Somerville, was appointed by the Board.

The transfer secretary of the company is Singular Systems (Pty) Ltd.

SHARE CAPITAL

During the year under review, 62 477 587 (2016: 183 672) shares were issued by the company as follows:

i) GFS Holdings (Pty) Ltd – 59 925 587 shares
This share issue relates to a subscription for shares by GFS Holdings (Pty) Ltd, a subsidiary of Grindrod Limited. These shares were issued at R3.34 per share.

ii) Doctors – 2 417 000 shares
This share issue relates to a subscription for shares by doctors who currently practice at our facilities. During the year 14 doctors purchased shares at R1.70 per share.

iii) Employees – 135 000 shares
This share issue was in terms of the long service award plan. The Group awards employees who have achieved 15 years of employment with the Group, with shares to the value of R45 000 (2016: R40 000) per employee for no consideration. During the reporting period, nine (2016: nine) employees qualified for this award and were issued 15 000 (2016: 20 408) shares each. Each share was valued at R3.00 (2016: R1.96). The expense recognised in the consolidated annual financial statements, related to this award, amounted to R405 000 (2016: R360 000).

In terms of IFRS 2: *Share-based Payment*, calculations are performed to determine the expense in respect of this award plan for employees, who at year end date have not achieved 15 years of service. However due to the long term nature of the service award and the uncertainty surrounding attrition of the employees, this expense is considered immaterial and has not been adjusted for in these annual financial statements.

Full details of authorised and issued share capital of the company is contained in note 10 of these consolidated annual financial statements.

AUDITORS

PKF Durban Chartered Accountants (SA), Registered Auditors will continue in office as external auditors of the company in accordance with section 90(1) of the Companies Act of South Africa, subject to shareholder approval at the upcoming Annual General Meeting. Tania Marti-Warren will be the individual registered auditor who will undertake the audit.

MANAGEMENT BY THIRD PARTIES

Neither the business of the company nor its subsidiaries, nor any part thereof, has been managed by a third party or a company in which a director had an interest during the year under review.

CORPORATE GOVERNANCE

The directors acknowledge and subscribe to the values of good corporate governance as set out in the King III Report on Governance for South Africa with effect from 1 March 2011. By supporting this Code of Corporate Practices and Conduct, the Directors conduct the business of the Group with integrity and in accordance with generally accepted best corporate governance practices.

PROPERTY, PLANT AND EQUIPMENT

During the year the Group acquired property, plant and equipment to the amount of R1 154 475 082 (2016: R290 651 073).

Included in additions above is an amount of R724 266 236 relating to the first time consolidation of Ethekwini Hospital and Heart Centre (Pty) Ltd (Ethekwini Hospital).

ACQUISITIONS

Subsidiaries

During the year the Group's investment in Ethekwini Hospital changed it's classification from an associate to a subsidiary. The Group acquired 48 515 shares during the year for R124 million to increase its stake in Ethekwini Hospital and Heart Centre from 40.3% at the beginning of the year to 49.75% as at January 2017. During January 2017, the Group's stake increased further to 53.61% when a share buy-back transaction was concluded in Ethekwini Hospital. The Group considered Ethekwini Hospital an associate until 18 January 2017, and a subsidiary thereafter until year end.

During January 2017 the Group increased it's investment in Maputo Private Hospital SA (Maputo Private Hospital) by purchasing the remaining non-controlling interest and shareholder loans from Invalco Limitada (40%) for R99m. As at 1st of February 2017, Maputo Private Hospital is a 100% subsidiary of the Group.

Refer to note 19 for further information.

Associates

During the year the Group acquired 40% of Renal Care Holdings (Pty) Ltd for no consideration.

The company operates dialysis units at the following hospitals, Zamokuhle Private Hospital, Laverna Private Hospital and subsequent to year end, at Shifa Private Hospital.

FOREIGN CURRENCY TRANSLATION RESERVE

The Group incurred a foreign currency translation loss of R77 184 990 (2016: R107 504 157 gain). This arose as a result of the Rand appreciating against the Botswana Pula and the US Dollar. The functional currency of the Maputo Private Hospital is US Dollars.

BORROWINGS

On behalf of the Group, the directors have established credit facilities with various financial institutions for use by the Company and it's subsidiary companies. During the year, the Group negotiated a R1 billion facility with Rand Merchant Bank. This will assist with the completion of the Royal Hospital and Heart Centre (Pty) Ltd in Kimberley as well as supplementing the Group's expansion goals. The directors did not exceed any authorised levels of borrowings during the year under review.

GOING CONCERN

The consolidated and separate annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance the operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

SPECIAL RESOLUTIONS

The following special resolution was passed during the course of the year:

- Amendment to the Memorandum of Incorporation (MOI) for insertion of certain minority protection rights for the benefit of GFS Holdings (Pty) Ltd.

EVENTS AFTER REPORTING DATE

The directors are not aware of any other matter or circumstance arising since the end of the financial year, not otherwise dealt with in the Group and company financial statements which significantly affects the financial position at 28 February 2017 or the result of its operations or cash flows for the year ended except for the following:

i) The Group is in discussions with the Industrial Development Corporation Limited to acquire a further 23% of Ethekwini Hospital. The financial effect is not known at this stage as the participation of the other Ethekwini Hospital shareholders is still to be determined.

ii) Lenmed Health Laverna (Pty) Ltd, a 100% subsidiary of the Group, issued 1 850 shares subsequent to year end to doctors who currently practice at the hospital at R1 000 per share. This represents 4.62% of the issued share capital of Lenmed Health Laverna (Pty) Ltd.

iii) The loan payable to Deutsche Investitions-und Entwicklungsgesellschaft (DEG) in Maputo Private Hospital was replaced subsequent to year end with a facility from Rand Merchant Bank. The new facility offers an improved interest rate and extends the tenure of the loan.

Statements of financial position

		GROUP		COMPANY	
Rand	Notes	2017	2016	2017	2016
ASSETS					
Non-current assets					
Property, plant and equipment	3	2 605 659 905	1 620 905 603	–	–
Goodwill	4	315 051 754	29 935 259	–	–
Investment in subsidiaries	5	–	–	8 699 107	4 974 398
Investment in associates	6	4 429 762	206 888 475	–	–
Loans receivable	14	–	–	528 463 903	269 176 277
Deferred taxation	16	35 652 756	27 841 121	31 567	29 120
		2 960 794 177	1 885 570 458	537 194 577	274 179 795
Current assets					
Inventory	7	38 837 387	27 160 427	–	–
Trade and other receivables	8	517 715 596	375 782 224	1 166 989	808 412
Taxation		6 859 699	2 822 215	146 617	157 877
Investment held for sale		–	–	–	–
Cash and cash equivalents	9	168 030 209	140 025 882	1 789 136	57 732 824
		731 442 891	545 790 748	3 102 742	58 699 113
TOTAL ASSETS		3 692 237 068	2 431 361 206	540 297 319	332 878 908
EQUITY AND LIABILITIES					
Equity and reserves					
Stated capital	10	422 407 213	219 843 313	422 407 213	219 843 313
Other reserves	11	342 160 164	411 749 185	6 733 906	3 414 198
Accumulated profits		1 134 401 984	830 512 488	110 832 248	109 220 759
Non-controlling interest	12	202 881 982	31 303 784	–	–
		2 101 851 343	1 493 408 770	539 973 367	332 478 270
Non-current liabilities					
Long-term liabilities	15	774 722 813	354 755 129	–	–
Loans from minorities	13	102 348 058	127 169 407	–	–
Deferred taxation	16	268 680 790	116 014 510	–	–
		1 145 751 661	597 939 046	–	–
Current liabilities					
Trade and other payables	18	270 099 762	203 964 203	323 952	400 638
Current portion of long-term liabilities	15	87 330 826	68 380 576	–	–
Provisions	17	36 375 961	29 782 170	–	–
Taxation		10 454 710	4 256 216	–	–
Bank overdraft	9	40 372 805	33 630 225	–	–
		444 634 064	340 013 390	323 952	400 638
TOTAL EQUITY AND LIABILITIES		3 692 237 068	2 431 361 206	540 297 319	332 878 908

Statements of comprehensive income

Rand	Notes	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
PROFIT AND LOSS					
Revenue		1 558 527 415	1 379 225 009	–	–
Cost of sales		(416 981 298)	(374 861 351)	–	–
Gross profit		1 141 546 117	1 004 363 658	–	–
Other income		268 363 758	48 072 482	2 966 400	2 140 500
Operating costs		(976 106 016)	(863 785 539)	(1 937 674)	(1 845 461)
Profit before interest and taxation	20	433 803 859	188 650 601	1 028 726	295 039
Share of profit from associates	6	28 473 685	28 516 547	–	–
Investment income	21	5 358 147	3 644 387	1 209 453	1 504 249
Finance costs	22	(39 709 966)	(16 699 622)	–	–
Profit before taxation		427 925 725	204 111 913	2 238 179	1 799 288
Taxation	23	(87 615 126)	(45 397 244)	(626 690)	(559 801)
PROFIT FOR THE YEAR		340 310 599	158 714 669	1 611 489	1 239 487
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit and loss					
Gain on property revaluation		–	53 941 439	–	–
Gross property revaluation		–	71 442 217		
Tax effect on property revaluation		–	(17 500 778)	–	–
Items that may be reclassified subsequently to profit and loss					
Foreign currency translation reserve		(77 184 990)	107 504 157	–	–
TOTAL OTHER COMPREHENSIVE INCOME		(77 184 990)	161 445 596	–	–
TOTAL COMPREHENSIVE INCOME		263 125 609	320 160 265	1 611 489	1 239 487
PROFIT FOR THE YEAR ATTRIBUTABLE TO:					
Non-controlling interests		(553 959)	6 190 802	–	–
Lenmed Investments Ltd equity holders		340 864 558	152 523 867	–	–
		340 310 599	158 714 669	–	–
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Non-controlling interests		(7 472 894)	12 913 807	–	–
Lenmed Investments Ltd equity holders		270 598 503	307 246 458	–	–
		263 125 609	320 160 265	–	–

Statements of cash flows

Rand	Notes	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
Cash flows from operating activities					
Profit for the year		340 310 599	158 714 669	1 611 489	1 239 487
Finance costs	22	39 709 966	16 699 622	–	–
Income tax		87 615 126	45 397 244	626 690	559 801
Depreciation and amortisation	3	52 619 185	45 338 524	–	–
Interest income	21	(5 358 147)	(3 644 387)	(1 209 453)	(1 504 249)
Profit on disposal of property, plant and equipment		(662 847)	(236 077)	–	–
Fair value adjustment on investment in associate		(209 002 619)	–	–	–
Capital issued in respect of long service awards		405 000	360 000	405 000	360 000
Share-based payment accrual/(reversal)		3 319 708	(909 771)	3 319 708	(909 771)
Income from associates	6	(28 473 685)	(28 516 547)	–	–
Foreign currency translation adjustments		(15 596 373)	(29 350 951)	–	–
Operating cash flow before working capital changes		264 885 913	203 852 326	4 753 434	(254 732)
Working capital changes					
Increase in inventory		1 289 725	4 610 868	–	–
Increase in trade and other receivables		(114 097 904)	(68 718 433)	(358 577)	(127 481)
Increase/(decrease) in trade and other payables and accruals		101 177 347	68 579 802	(76 687)	(331 811)
Cash generated by operating activities		253 255 081	208 324 563	4 318 170	(714 024)
Interest income	21	5 358 147	3 644 387	1 209 453	1 504 249
Finance costs	22	(39 709 966)	(16 699 622)	–	–
Income tax paid	24	(76 143 885)	(40 914 044)	(617 877)	(760 413)
NET CASH FROM OPERATING ACTIVITIES		142 759 377	154 355 284	4 909 746	29 812
Cash flows from investing activities					
Property, plant and equipment acquired	3	(397 150 312)	(263 189 747)	–	–
– to maintain operating capacity		(85 165 311)	(33 080 093)	–	–
– to expand operating capacity		(311 985 001)	(230 109 654)	–	–
Proceeds on disposals of property, plant and equipment		1 920 861	411 812	–	–
Decrease in loan to associate		–	14 486 920	–	–
Increase in Investment in associates	19.1	(124 800 167)	(2 232 300)	(3 724 709)	549 771
Business combination effected	19.1	–	(34 170 663)	–	–
Additional consideration for investment in subsidiary		(2 850 000)	–	–	–
NET CASH UTILISED IN INVESTING ACTIVITIES		(522 879 618)	(284 693 978)	(3 724 709)	549 771
Cash flows from financing activities					
Proceeds from equity issued		202 158 900	–	202 158 900	–
Net loans (repaid)/raised		268 373 443	143 782 255	(259 287 625)	9 118 380
Loans raised		704 433 874	214 484 209	–	9 118 380
Loans paid		(436 060 431)	(70 701 954)	(259 287 625)	–
Issue of shares to minorities		–	240	–	–
Full control in subsidiary acquired	19.2	(98 860 857)	–	–	–
NET CASH GENERATED BY FINANCING ACTIVITIES		371 671 486	143 782 495	(57 128 725)	9 118 380
(Decrease)/increase in cash and cash equivalents		(8 448 755)	13 443 801	(55 943 688)	9 697 963
Translation movement		1 234 572	–	–	–
Cash acquired on acquisition	19.1	28 475 930	–	–	–
Cash and cash equivalents at beginning of the year		106 395 657	92 951 856	57 732 824	48 034 861
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	9	127 657 404	106 395 657	1 789 136	57 732 824

Statements of changes in equity

Rand	Stated capital	Revaluation reserve	Foreign currency translation reserve	Share-based payment reserve
GROUP				
Balance at 1 March 2015	219 483 313	176 544 490	77 067 906	4 323 969
Increase in minority on acquisition of shares	–	–	–	–
Profit for the year				
Other comprehensive income	–	53 714 916	101 007 675	–
Share-based payment reversal	–	–	–	(909 771)
Issue of share capital	360 000	–	–	–
Balance at 1 March 2016	219 843 313	230 259 406	178 075 581	3 414 198
Profit for the year	–	–	–	–
Other comprehensive income	–	–	(70 266 055)	–
Share-based payment accrual	–	–	–	3 319 708
Full control of subsidiary	–		(2 642 674)	
Acquisition of subsidiary	–	–	–	–
Issue of share capital	202 563 900	–	–	–
Balance at 28 February 2017	422 407 213	230 259 406	105 166 852	6 733 906
Notes	10	11	11	11

Rand	Stated capital	Share-based payment reserve	Retained earnings	**Total**
COMPANY				
Balance at 1 March 2015	219 483 313	4 323 969	107 981 272	**331 788 554**
Profit for the year	–	–	1 239 487	**1 239 487**
Share-based payment accrual	–	(909 771)	–	**(909 771)**
Issue of share capital	360 000	–	–	**360 000**
Balance at 1 March 2016	219 843 313	3 414 198	109 220 759	**332 478 270**
Profit for the year	–	–	1 611 489	**1 611 489**
Share-based payment accrual	–	3 319 708	–	**3 319 708**
Issue of share capital	202 563 900	–	–	**202 563 900**
Balance at 28 February 2017	422 407 213	6 733 906	110 832 248	**539 973 367**
Notes	10	11		

Accumulated profits	Equity attributable to Group	Non-controlling interest	**Total**
677 988 621	1 155 408 299	18 389 737	**1 173 798 036**
–	–	240	**240**
152 523 867	152 523 867	6 190 802	**158 714 669**
–	154 722 591	6 723 005	**161 445 596**
–	(909 771)	–	**(909 771)**
–	360 000	–	**360 000**
830 512 488	1 462 104 986	31 303 784	**1 493 408 770**
340 864 558	340 864 558	(553 959)	**340 310 599**
–	(70 266 055)	(6 918 935)	**(77 184 990)**
–	3 319 708	–	**3 319 708**
(36 975 062)	(39 617 736)	525 694	**(39 092 042)**
–	–	178 525 398	**178 525 398**
–	202 563 900	–	**202 563 900**
1 134 401 984	1 898 969 361	202 881 982	**2 101 851 343**
		12	

Notes to the consolidated annual financial statements

1. BASIS OF PREPARATION

These consolidated and separate financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), Interpretations adopted by the International Accounting Standards Board (IASB), the IFRS Interpretations Committee (IFRIC) of the IASB, SAICA financial reporting guides as issued by the Accounting Practices Committee, financial reporting announcements issued by the Financial Reporting Standards Council and the Companies Act of South Africa. These policies have been consistently applied to all years presented, unless otherwise stated. They have been prepared on the historical cost basis except for revalued land and buildings and the fair value adjustment to investments in associate. The principal accounting policies incorporated are listed below.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that may affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The 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 only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements, and significant estimates made in the preparation of these consolidated and separate financial statements are disclosed in note 28.

1.1 Standards and Interpretations adopted with no effect on the financial statements

The following new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

The Group and Company adopted the IAS 1 amendment which was designed to encourage the Group to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial discourses. Furthermore, the amendments clarify that the Group should use professional judgement in determining where and what order information is presented in the financial disclosures. The Group undertook a project to assess the effectiveness of the disclosure and where possible removed immaterial and unnecessary information.

Standard	**Annual periods**
IFRS 7: *Financial Instruments Disclosures*	1 January 2016
IAS 38: *Intangible Assets*	1 January 2016
IAS 16: *Property, Plant and Equipment*	1 January 2016
IAS 1: *Presentation of Financial Statements*	1 January 2016
IAS 28: *Investments in Associates and Joint Ventures*	1 January 2016
IFRS 10: *Consolidated Financial Statements*	1 January 2016
IAS 27: *Consolidated and Separate Financial Statements*	1 January 2016

1.2 Standards in issue, not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue, but not yet effective. The directors have considered the impact of the below Standards and Interpretations and believe their effect to be immaterial. However the impact of IFRS 16 is still being assessed.

Standard	**Annual periods**
IFRS 2: *Share-based Payment*	1 January 2018
IAS 7: *Statement of Cash flows*	1 January 2017
IFRS 9: *Financial Instruments*	1 January 2018
IAS 12: *Income Taxes*	1 January 2017
IFRS 16: *Leases*	1 January 2019
IFRS 10: *Consolidated Financial Statements*	Effective date deferred indefinitely until further notice
IAS 28: *Investment in Associates and Joint Ventures*	Effective date deferred indefinitely until further notice
IFRS 12: *Disclosure of Interest in Other Entities*	1 January 2017
IFRS 15: *Revenue from Contracts with Customers*	1 January 2018

2. ACCOUNTING POLICIES

2.1 Revenue

Revenue is recognised at the fair value of the consideration received or receivable net of indirect taxes and trade discounts. Revenue comprises the amounts charged for accommodation, equipment, ethicals, theatre fees, medical consumables and where the Group employs doctors, their fees related to professional services rendered. Revenue within the Group is eliminated on consolidation.

Revenue is recognised when the service giving rise to this revenue is rendered.

2.2 Other income

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Dividends are recognised when the shareholders' right to receive payment is established.

Management fees are recognised on the accrual basis in accordance with the substance of the relevant contracts.

Interest is recognised on a time proportion basis, taking account of the principal amount outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

Gains or losses on foreign currency translations of foreign subsidiary loans, are recognised in profit and loss, where the loans do not form part of the net investment in the foreign operations, and in other comprehensive income when it does form part of the net investment.

2.3 Cost of sales

Cost of sales includes all costs of purchase. Inventory write-downs are included in cost of sales when recognised. Trade discounts and similar costs are deducted in determining the costs of purchases. Where the Group employs doctors and recognises revenue on their professional services rendered, the cost of employing these doctors is recognised as a cost of sale.

2.4 Inventory

Inventory is stated at the lower of cost or net realisable value on a First in First out basis. Cost comprises all costs of purchase and other costs which are incurred in bringing the inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

2.5 Taxation

Current tax

The charge for current tax is based on the results for the year adjusted for items which are tax exempt or are not tax deductible. Tax is calculated using rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is provided on the liability method and is computed as the difference between the tax base and carrying amounts of assets and liabilities. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary difference can be utilised. The carrying amount of the deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

The Group does not recognise deferred tax liabilities, or deferred tax assets, on temporary differences associated with investments in subsidiaries, joint ventures and associates when it is not considered probable that the temporary differences will reverse in the foreseeable future.

2.6 Operating leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against profit and loss on a straight-line basis over the period of the lease.

Contingent rentals arising under operating leases are recognised in the period they are incurred.

2.7 Finance lease

Assets held under finance leases are recognised as assets of the Group at the fair value at the inception of the lease or if lower, at the present value of the minimum lease payments. The related liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between interest expenses and capital redemption of the liability. Interest is recognised immediately in profit or loss, unless attributable to qualifying assets in which case they are capitalised to the cost of those assets.

2.8 Goodwill

Goodwill on acquisitions comprises the excess of the aggregate of the fair value of the consideration transferred, the fair value of any previously held interests, and the recognised value of the non-controlling interest in the acquiree over the net identifiable assets acquired and liabilities assumed at acquisition date.

Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested for impairment annually. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2.9 Property, plant and equipment

Property, plant and equipment is initially measured at cost.

Property, plant and equipment, except for land and buildings, are carried at cost less accumulated depreciation and any impairment losses.

Land and buildings are carried at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Professional valuations are performed with sufficient regularity, but at least every three years, to ensure that the carrying amount of the land and buildings does not differ materially from that which would be determined using the fair value at the reporting date.

An increase in an asset's carrying amount, as a result of a revaluation, is recognised in other comprehensive income and accumulated in the revaluation surplus in equity. The increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in profit or loss in the current period. The decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in the revaluation surplus in equity.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The residual value represents the best estimate of the current recoverable amount of the asset at the end of its useful life.

The following are the current estimated useful lives:

Land	**Indefinite**
Buildings	50 years
Leasehold improvements	Written off over the period of lease
Plant and Equipment	10 years
Motor vehicles	5 years
Computer Equipment	3 years
Office Equipment	10 years
Furniture and Fittings	10 years

Gains or losses on disposal of assets are calculated as the fair value of the consideration received less the carrying amount at the date of sale and are recognised in profit and loss.

2.10 Impairment

The carrying amounts of the assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount is estimated as the higher of the net selling price and value in use.

In assessing value in use, the expected future cash flows are discounted to present value using pre-tax discount rates that reflects current market assessments of the time value of money and the risk specific to the asset. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. Impairment losses and reversals of impairment losses are separately disclosed in profit and loss.

A previously recognised impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

2.11 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and when a reliable estimate can be made of the amount of the obligation. Where the effect of discounting is material, provisions are discounted. The discount rate used is a pre-tax rate.

2.12 Basis of consolidation

These financial statements are consolidated financial statements of Lenmed Investments Limited and its subsidiaries and associates. Control is achieved when the Group has powers over the investee, is exposed or has rights to variable returns from its investment with the investee and has the ability to use its power to affect its returns. If facts and circumstances indicate that there are changes to one or more elements of control, the Group shall reassess whether it controls the investee.

The Group can have power over an investee even if it holds less than a majority of the voting rights of an investee. All facts and circumstances are considered in assessing whether or not voting rights in an investee are sufficient to give it power, for example, through:

- contractual arrangements with other vote holders;
- rights from other contractual arrangements that indicate that the Group has a current ability to direct the relevant activities of the investee;
- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of other vote holders; or
- potential voting rights held by the Group that are substantive.

Subsidiaries

Subsidiaries are consolidated from the date on which the control is transferred to the Group and are no longer consolidated from the date that control ceases. The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiaries acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated.

A business combination achieved in stages is accounted for using the acquisition method at the acquisition date. The components of a business combination under IFRS 3 include previously held interests. The previously held interest is measured to fair value at the acquisition date and a profit or loss is recognised in the Statement of Comprehensive Income.

Non-controlling interests in subsidiaries are presented in the consolidated statement of financial position separately from the equity attributable to equity owners of the parent company. Non-controlling shareholders' interest may initially be measured at fair value or the non-controlling shareholders' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on each acquisition individually. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The investment in an associate is initially recognised at cost and adjusted for the Group's share of the changes in the net assets of the investee after the date of acquisition, and for any impairment in value (equity method), except when the investment is classified as held-for sale in accordance with IFRS 5: *Non-current Assets Held for Sale* and discontinued operations. If the Group's share of losses of an associate equals or exceeds its interest in the associate, the Group discontinues recognising it's share of further losses.

2.13 Employee benefits

Short-term employee benefits

The cost of all short-term benefits is recognised during the period in which the employee renders the related service.

The provisions for employee entitlements to wages, salaries and annual leave represent the amount which the company has a present obligation to pay as a result of the employees' services provided during the reporting date. The provisions have been calculated at undiscounted amounts based on current wage and salary rates.

Retirement benefits

The company and its subsidiaries contribute to defined contribution funds on behalf of its employees. Contributions are charged against profit or loss as incurred.

2.14 Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, using the effective interest rate method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings as interest.

2.15 Financial Instruments

The Group classifies financial instruments on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are recognised in the statement of financial position at fair value when the Group becomes a party to the contractual provisions of the instrument. Direct transaction costs are included in the initial carrying value of the financial instrument except in the case of financial instruments classified at fair value through profit and loss, in which case the transaction costs are expensed as they are incurred.

The Group has divided its financial instruments into the classes based on the manner in which the financial instruments are managed and reported on for internal management purposes.

Long and short-term investments

These include available for sale financial instruments and financial instruments held to maturity. The purpose of such investment is to earn a return on surplus cash flows in excess of the investor's required rate of return.

They are included in non-current assets unless the investment matures or management intends to dispose of the financial asset within 12 months of the statement of financial position date.

Working capital balances

These include loan and trade receivables and loan and trade payables which arise in the normal course of the Group's business.

Subsequent to initial measurement, the constituents of the above classes of financial instruments are measured as follows:

Trade and other receivables

Trade and loans receivable are subsequently measured at amortised cost using the effective interest rate method and reduced by appropriate allowances for estimated irrecoverable amounts.

The Group makes an assessment at each reporting date whether there is any objective evidence that trade and other receivables are impaired. Where objective evidence exists as a result of the occurrence of one or more events that occurred subsequent to the initial recognition of the receivable, the amount of the impairment is determined by estimating the impact of these loss events on the future cash flows expected to be generated from the receivable and recognised in profit and loss.

Subsequent recoveries of amounts previously written off are recognised in profit and loss.

Trade and other payables

Trade and loans payables are subsequently measured at their amortised cost using the effective interest rate method.

2.16 Investments

In the company financial statements investments in subsidiaries and associates are initially recorded at cost on the effective date of acquisition. They are subsequently carried at cost less any provision for impairment.

2.17 Share capital

Ordinary shares are classified as equity. Issued share capital is stated in the statement of changes in equity at the amount of the proceeds received less directly attributable issue costs.

2.18 Contingencies and commitments

Transactions are classified as contingent liabilities where the Group's obligations depend on uncertain events and principally consist of contract specific third party obligations under written by banking institutions. Items are classified as commitments where the group commits itself to future transactions, particularly in the acquisition of property, plant and equipment. Contingent liabilities are not recognised.

2.19 Share incentive scheme

The company operates a share incentive scheme, under which the Group receives services from employees as consideration for equity. The fair value of the employee services received is measured by reference to the estimated fair value at the grant date of equity instruments granted and is recognised as an expense over the vesting period. The estimated fair value of the option granted is calculated using the Black Scholes option pricing model. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

2.20 Translation of foreign currencies

Items included in the financial results of each entity are measured using the functional currency of that entity. The consolidated financial results are presented in Rand, which is the Group's functional and presentation currency.

Foreign currency transactions

Income and expenditure transactions are translated into the functional currency of the entity at the rate of exchange ruling at the transaction date. Monetary assets and liabilities are translated into the functional currency of the entity at the rate of the exchange ruling at the reporting date. Foreign exchange gains or losses resulting from the translation and settlement of monetary assets and liabilities are charged to profit or loss, except when they relate to cash flow hedging activities in which case these gains or losses are recognised in other comprehensive income and included in the cash flow hedge accounting reserve in equity.

Foreign operations

The financial results of all entities that have a functional currency different from the presentation currency of their parent entity are translated into the presentation currency. Income and expenditure transactions of foreign operations are translated at the average rate of exchange for the year. All assets and liabilities, including fair value adjustments arising on acquisition, are translated at the rate of exchange ruling at the reporting date. Differences arising on translation are recognised in other comprehensive income and included in the foreign currency translation reserve in equity.

On consolidation, differences arising from the translation of the net investment in a foreign operation are recognised in other comprehensive income and included in the foreign currency translation reserve in equity.

On disposal of part or all of the investment, the proportionate share of the related cumulative gains or losses previously recognised in the foreign currency translation reserve in equity are included in determining the profit or loss on disposal of that investment charged to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.21 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period of time to prepare for their extended use or sale, are capitalised to the cost of these assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are expensed in the period in which they are incurred.

3. PROPERTY, PLANT AND EQUIPMENT

	Cost/ valuation	Accumulated depreciation	2017 Carrying value	Cost/ valuation	Accumulated depreciation	2016 Carrying value
Group						
Buildings	2 065 908 865	5 657 347	2 060 251 518	1 159 689 362	1 080 079	1 158 609 283
Land	202 958 396	–	202 958 396	202 069 875	–	202 069 875
Plant and equipment	531 744 512	256 418 983	275 325 529	340 433 883	130 921 227	209 512 656
Motor vehicles	3 028 397	2 303 936	724 461	2 700 772	1 627 149	1 073 623
Furniture and fittings	76 169 812	40 794 993	35 374 819	55 844 725	24 472 227	31 372 498
Leasehold improvements	7 431 761	2 398 705	5 033 056	2 862 049	1 019 088	1 842 961
Office equipment	14 313 976	8 929 917	5 384 059	13 609 797	7 652 331	5 957 466
IT equipment	96 259 620	75 651 553	20 608 067	34 471 645	24 004 404	10 467 241
	2 997 815 339	392 155 434	2 605 659 905	1 811 682 108	190 776 505	1 620 905 603

The carrying amounts of property, plant and equipment can be reconciled as follows:

	Carrying value at beginning of year	Additions	Disposals	Depreciation	FCTR adjustment	Revaluation	2017 Carrying value at end of year
Group							
2017							
Buildings	1 158 609 283	980 867 929	–	(4 972 683)	(74 253 011)	–	2 060 251 518
Land	202 069 875	19 191 214	–	–	(18 302 693)	–	202 958 396
Plant and equipment	209 512 656	118 112 072	(132 211)	(32 450 325)	(19 716 663)	–	275 325 529
Motor vehicles	1 073 623	151 128	–	(481 536)	(18 754)	–	724 461
Furniture and fittings	31 372 498	11 904 388	–	(4 469 706)	(3 432 361)	–	35 374 819
Leasehold improvement	1 842 961	5 696 748	(1 124 575)	(1 382 078)	–	–	5 033 056
Office equipment	5 957 466	726 253	(1 225)	(1 298 435)	–	–	5 384 059
IT equipment	10 467 241	17 825 350	–	(7 564 422)	(120 102)	–	20 608 067
	1 620 905 603	1 154 475 082	(1 258 011)	(52 619 185)	(115 843 584)	–	2 605 659 905

	Carrying value at beginning of year	Additions	Disposals	Depreciation	FCTR adjustment	Revaluation	2016 Carrying value at end of year
Group							
2016							
Buildings	766 249 367	230 211 791	–	(1 832 438)	135 051 779	28 928 785	1 158 609 283
Land	149 732 626	9 823 817	–		–	42 513 432	202 069 875
Plant and equipment	172 561 826	35 641 385	(166 298)	(28 712 913)	30 188 656	–	209 512 656
Motor vehicles	1 026 807	454 168	–	(445 228)	37 876	–	1 073 623
Furniture and fittings	26 610 840	4 876 526	(93)	(4 985 592)	4 870 817	–	31 372 498
Leasehold improvement	2 679 560	–	–	(836 599)	–	–	1 842 961
Office equipment	6 931 973	284 743	(15)	(1 259 235)	–	–	5 957 466
IT equipment	8 192 418	9 358 643	(9 329)	(7 266 519)	192 028	–	10 467 241
	1 133 985 417	290 651 073	(175 735)	(45 338 524)	170 341 156	71 442 217	1 620 905 603

3. PROPERTY, PLANT AND EQUIPMENT continued

The revaluation of land and buildings is determined every three years by an independent professionally qualified valuator, Valquest Property Valuers & Consultants.; (S.A.C.V.P. No. 5047), unless the land and buildings have been subject to volatile movements in the fair value and may be required to more frequent revaluation. When performing the valuations, the valuator referred to current market conditions, recent sales transactions of similar properties in similar geographical locations and the present value of future rental income expected to be earned in respect of the properties in their current condition. The cash flows were estimated based on external evidence of current rentals for similar properties in similar locations. In estimating the fair value of the properties, the highest and best use of the property is their current use. There has been no change in the valuation technique used during the year. The fair value hierarchy of land and buildings has been determined to be a level 3 input. There were no transfers between fair value levels 1, 2 or 3 during the year.

If the cost model had been applied, the carrying value of land would have been R119 653 055 (2016: R53 892 507) and the buildings would have been R1 215 260 082 (2016: R475 614 063).

Interest has been capitalised on qualifying assets to the amount of R23 447 366 (2016: R11 092 680) in terms of the Group's accounting policy note 2.21.

Included in additions is an amount of R724 266 236 relating to Ethekwini Hospital and Heart Centre (Pty) Ltd as per note 19. The breakdown of these additions is as follows:

	GROUP		COMPANY	
Rand	**2017**	2016	**2017**	2016
Buildings	**660 808 786**	–	**–**	–
Land	**19 191 214**	–	**–**	–
Plant and equipment	**44 266 236**	–	**–**	–
	724 266 236	–	**–**	–

Certain assets are encumbered as security for liabilities of the Group (refer to note 15). A register of land and buildings is available for inspection at the registered office of the company.

4. GOODWILL

	GROUP		COMPANY	
Rand	**2017**	2016	**2017**	2016
Carrying amount at beginning of the year	**29 935 259**	29 935 259	**–**	–
Movement for the year – business combination	**285 116 495**	–	**–**	–
Carrying amount at the end of the year	**315 051 754**	29 935 259	**–**	–

Goodwill relates to the excess of the purchase price consideration over the fair value of the assets and liabilities of Lenmed Health Laverna (Pty) Ltd, Lenmed Health Shifa (Pty) Ltd, Lenmed Health Kathu Private Hospital (Pty) Ltd and Ethekwini Hospital and Heart Centre (Pty) Ltd on acquisition as a subsidiary. Refer to note 19 for further information on the business combination of Ethekwini Hospital and Heart Centre (Pty) Ltd.

An annual impairment test is conducted on goodwill. Management determines the recoverable amounts of cash generating units as being the higher of net selling price or value in use. In the absence of an active market, value in use is used to determine the recoverable amount. A traditional method of discounting managements best estimate of future cash flows attributable to the cash generating unit has been applied to determine the value in use. A growth rate has been applied to the cash flow streams to take into account the effect of inflation. Management has based it's cash flow projections covering a 5 year period. Goodwill relating to Ethekwini Hospital arose in February 2017, all assumptions and judgements made on initial recognition are still applicable at year end and no impairment is necessary.

Assumptions used in the calculation of the discount rate are as follows:

- R204 rate was yielding 8% as at 28 February 2017
- A market risk premium of 6% given the unlisted nature of the Group. CPI growth for 2017 is forecast to be 6%
- Beta of 0.8 is appropriate based on the defensive nature of the Group.

The net present value of these forecasts support the value of goodwill indicated above.

Management has based their assumptions on past experience and external sources of information.

Rand	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
5. INVESTMENT IN SUBSIDIARIES				
Lenmed Health Africa (Pty) Ltd	–	–	100	100
Lenmed Health (Pty) Ltd	–	–	8 699 007	4 974 298
	–	–	8 699 107	4 974 398

Investment in Lenmed Health (Pty) Ltd increased during the reporting period by R3 724 709 (2016: (R549 771)) due to the following:

Long service share award: R405 000 (2016: R360 000)

Share-based payment: R3 319 709 (2016: R909 771)

Refer to note 11 for further information.

6. INVESTMENT IN ASSOCIATES

The Group's investment in Lenasia Renal Centre (Pty) Ltd and Renal Care Holdings (Pty) Ltd are accounted for under the equity method of accounting.

Ethekwini Hospital and Heart Centre (Pty) Ltd (Ethekwini Hospital)

During the year the Group acquired a further 48 515 ordinary shares for R109 570 753 as well as a loan account to the value of R15 229 414. This acquisition increased its stake in Ethekwini Hospital from 40.3% at the beginning of the year to 49.75% as at January 2017. During January 2017, the Group's stake increased further to 53.61% when a share buy-back transaction was concluded in Ethekwini Hospital. The Group considered Ethekwini Hospital an associate until 18 January 2017, and a subsidiary thereafter until year end. Refer to note 19 for further information.

Rand	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
Opening balance	203 494 418	187 790 392	–	–
Acquisition of shares	109 570 753	1 779 390	–	–
Increase in loan	15 229 414	452 910		
Repayment of loan account	–	(14 486 920)	–	–
Share of associate earnings	27 212 980	27 958 646	–	–
Fair value adjustment on remeasurement	209 002 619	–	–	–
Elimination of investment through business combination	(564 510 184)	–	–	–
CLOSING BALANCE	–	203 494 418	–	–
Lenasia Renal Centre (Pty) Ltd.				
The Group owns 30% of Lenasia Renal Centre (Pty) Ltd, a renal dialysis unit situated adjacent to the Lenmed Health Lenasia (Pty) Ltd t/a Ahmed Kathrada Private Hospital.				
Opening balance	3 394 057	2 836 156	–	–
Share of associate's earnings	902 428	557 901	–	–
Dividends received	(225 000)	–	–	–
CLOSING BALANCE	4 071 485	3 394 057	–	–
Renal Care Holdings (Pty) Ltd				
The Group acquired a 40% share of Renal Care Holdings (Pty) Ltd during the year for no consideration.				
Opening balance	–	–	–	–
Share of associate's earnings	358 277	–	–	–
CLOSING BALANCE	358 277	–	–	–
TOTAL INVESTMENT IN ASSOCIATES	4 429 762	206 888 475	–	–

The directors are of the opinion that the fair value of the above investments exceeds its carrying value.

Rand	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
7. INVENTORY				
Medical supplies and consumables	38 837 387	27 160 427	–	–
Allowance for obsolete stock				
Balance at beginning of year	3 182 292	1 895 304		
Current year allowance	(2 108 680)	1 286 988		
Balance at end of year	1 073 612	3 182 292		
Inventory has been valued as per policy outlined in note 2.4.				
8. TRADE AND OTHER RECEIVABLES				
Trade receivables	483 495 998	398 106 165	–	–
Other receivables	94 076 022	39 333 322	1 166 989	808 412
	577 572 020	437 439 487	1 166 989	808 412
Provision for bad debts	(59 856 424)	(61 657 263)	–	–
	517 715 596	375 782 224	1 166 989	808 412
Provision for bad debts				
Opening balance	(61 657 263)	(47 144 156)	–	–
Decrease/(increase) in provision recognised in profit and loss	1 800 839	(14 513 107)	–	–
CLOSING BALANCE	(59 856 424)	(61 657 263)	–	–
Trade receivables past due but not impaired				
– One month past due	24 146 032	21 740 969	–	–
– Two months past due	21 342 215	16 256 666	–	–
– Three months and over past due	68 550 299	63 491 259	–	–
	114 038 546	101 488 894	–	–

Trade receivables to the value of R54 678 393 (2016: R107 304 548) have been ceded as security to RMB and Nedbank for various short term banking facilities granted to the Group.

The factors considered in determining the amount and the impairment of trade receivables were financial difficulties, abscondences, disputes and exposure to credit risk.

The majority of gross trade receivables at the reporting date by type and customer were made up of medical aids. Other trade receivables include Workmen's Compensation, Private, Government and Road Accident Fund.

Rand	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
9. CASH AND CASH EQUIVALENTS				
Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents, included in the statements of cash flows, comprise the following amounts:				
Favourable cash balances				
Cash on hand	**91 854**	31 101	**–**	–
Bank balances	**167 938 355**	139 994 781	**1 789 136**	57 732 824
	168 030 209	140 025 882	**1 789 136**	57 732 824
Overdraft				
Bank overdraft	**40 372 805**	33 630 225	**–**	–
Net cash and cash equivalents	**127 657 404**	106 395 657	**1 789 136**	57 732 824
R14 323 980 (2016: R17 755 540) of the cash and cash equivalents is pledged in favour of RMB as a guarantee for the overdraft in Maputo Private Hospital SA.				
Other overdraft facilities are secured over certain items of property, plant and equipment and trade receivables.				
10. STATED CAPITAL				
Authorised				
1 000 000 000 ordinary shares at no par value (2016: 1 000 000 000 ordinary shares)				
Issued				
707 558 909 ordinary shares at no par value (2016: 645 081 322 ordinary shares)	**422 407 213**	219 843 313	**422 407 213**	219 843 313
Share reconciliation				
Balance at the beginning of the year	**219 843 313**	219 483 313	**219 843 313**	219 483 313
Ordinary shares issued during the year	**202 563 900**	360 000	**202 563 900**	360 000
	422 407 213	219 843 313	**422 407 213**	219 843 313

During the year under review 62 477 587 (2016: 183 672) shares were issued by the company as follows:

Employees – 135 000 shares

This share issue was in terms of the long service award plan. The Group awards employees who have achieved 15 years of employment with the Group, with shares to the value of R45 000 (2016: R40 000) per employee for no consideration. During the reporting period, nine (2016: nine) employees qualified for this award and were issued 15 000 (2016: 20 408) shares each. Each share was valued at R3.00 (2016: R1.96). The expense recognised in the annual financial statements, related to this award, amounted to R405 000 (2016: R360 000).

Doctors – 2 417 000 shares

This share issue relates to a subscription for shares by doctors who currently practice at our facilities. During the year 14 doctors were issued shares at R1.70 per share.

GFS Holdings (Pty) Ltd – 59 925 587 shares

This share issue relates to a subscription for shares by GFS Holdings (Pty) Ltd, a subsidiary of Grindrod Limited. These shares were issued at R3.34 per share.

The directors are authorised, in terms of the company's Memorandum of Incorporation, to issue and allot any of the unissued share capital for any purpose and upon such terms and conditions as they deem fit.

Rand	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
11. OTHER RESERVES				
Revaluation reserve	**230 259 406**	230 259 406	**–**	–
Foreign currency translation reserve	**105 166 852**	178 075 581	**–**	–
Share based payment reserve	**6 733 906**	3 414 198	**6 733 906**	3 414 198
	342 160 164	411 749 185	**6 733 906**	3 414 198

Revaluation reserve

Revaluation reserve is disclosed net of deferred tax. Land and buildings were revalued by a qualified independent valuator during the 2013 and 2016 financial years.

Foreign currency translation reserve

This reserve exists due to exchange differences arising on translation of assets and liabilities of the Group's foreign subsidiaries, Lenmed Health Bokamoso Private Hospital (Pty) Ltd and Maputo Private Hospital SA. The foreign currency translation reserve has been valued as stated in note 2.

Share-based payment reserve

This reserve is made up of four allocations of share appreciation rights (SARs):

1) 5 550 000 (2016: 6 800 000) SARs

7 300 000 SARs were issued on 15 of October 2013 to two executive directors and nine members of senior management, at a price of R1.31 each. As at 28 February 2017, 5 550 000 (2016: 6 800 000) SARs were in issue. The reduction from the prior year is due to senior management attrition during the year.

2) 6 200 000 (2016: 7 450 000) SARs

7 750 000 SARs were issued on 1st of August 2014 to three executive directors and nine members of senior management, at a price of R2.52 each. As at 28 February 2017, 6 200 000 (2016: 7 450 000) SARs were in issue. The reduction from the prior year is due to the senior management attrition during the year.

3) 8 100 000 SARs (2016: 9 600 000) SARs

9 600 000 SARs were issued on 1st of August 2015 to three executive directors and twelve members of senior management, at a price of R2.78 each. As at 28 February 2017, 8 100 000 (2016: 9 600 000) SARs were in issue. The reduction from the prior year is due to the senior management attrition during the year.

4) 9 000 000 SARs

9 000 000 SARs were issued on 1st of August 2016 to three executive directors and fifteen members of senior management, at a price of R3.00 each.

In terms of this scheme, appreciation of SARs is calculated on the positive growth in the value of the share, in excess of a hurdle rate. The hurdle rate has been defined as inflation per the consumer price index (CPI) plus 4%, which is subject to annual review by the remuneration committee. One-third of the SARs allocated vest on the third anniversary of the allocation date, one-third on the fourth anniversary of the allocation date, and one-third on the fifth anniversary of the allocation date.

The Group has determined that the allocation should be accounted for as an equity settled share-based payment transaction. The fair value of the SARs was calculated using the Black Scholes option pricing model. The amount recognised in the annual financial statements for the current year, in accordance with IFRS 2: *Share-based Payments*, is R3 319 708 (2016: R909 971 (income)).

The assumptions used in determining the fair value of the SARs granted are summarised below:

	1	2	3	4
Last traded price as at 28 February 2017	R2.65	R2.65	R2.65	R2.65
Last traded price as at 29 February 2016	R1.96	R1.96	R1.96	R0.00
Risk-free rate	7.95%	7.95%	7.95%	7.95%
Volatility	22%	22%	22%	22%
Dividend yield	0%	0%	0%	0%
Long-term inflation	6%	6%	6%	6%

The risk-free rate of 7.95% has been assumed based on the prevailing return on a five-year RSA Government Retail Bond as at year end.

The volatility of 22% was determined based on the historic volatility of the Group's share price over the previous year.

Rand	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
12. NON-CONTROLLING INTERESTS				
Non-controlling interests relate to outside shareholders of Lenmed Health Bokamoso Private Hospital (Pty) Ltd (30% Non-controlling interest), Lenmed Health Kathu Private Hospital (Pty) Ltd (33% Non-controlling interest), Lenmed Health Kathu Properties (Pty) Ltd (40% Non-controlling interest) and Ethekwini Hospital and Heart Centre (Pty) Ltd (46.39% Non-controlling interest) and are made up as follows:				
Opening balance	31 303 784	18 389 737	–	–
Share capital	–	240	–	–
Business combination	178 525 398	–		
Full control of subsidiary acquired	525 694	–		
Profit for the year	(553 959)	6 190 802	–	–
Foreign currency translation	(6 918 935)	6 723 005	–	–
CLOSING BALANCE	202 881 982	31 303 784	–	–
Summary of financial information for Ethekwini Hospital and Heart Centre (Pty) Ltd				
Non-current assets	726 429 777	503 066 797		
Current assets	108 868 458	102 750 003		
Non-current liabilities	363 894 087	270 932 886		
Current liabilities	72 563 073	43 008 586		
Revenue	514 854 191	462 586 685		
Profit after taxation	78 777 563	69 453 475		
Summary of financial information for other non-controlling interests				
Non-current assets	122 768 843	667 225 953		
Current assets	224 404 435	264 554 606		
Non-current liabilities	160 419 593	680 906 593		
Current liabilities	127 139 594	169 758 079		
13. LOANS FROM MINORITIES				
Board of Public Officers Medical Aid Scheme (BPOMAS)	24 582 335	28 063 201	–	–
This loan is unsecured, bears interest at rates linked to prime in Botswana and is repayable over seven years from inception, subject to the availability of funds at Lenmed Health Bokamoso Private Hospital (Pty) Ltd. The Pula balance payable at year end is P20 099 700 (2016: P20 099 700).				
Invalco Limitada	–	92 483 810	–	–
The loan was settled during the current financial year whilst acquiring full control of Maputo Private Hospital SA. The US dollar balance payable to Invalco Limitada at the reporting period end is $nil (2016: $5 729 603).				
ATMG	12 700 294	6 622 396	–	–
The loan is unsecured, has no fixed terms of repayment and bears interest at prime rate.				
Ethekwini Hospital and Heart Centre (Pty) Ltd non-controlling shareholders	65 065 429	–	–	–
These loans are unsecured, have no fixed terms of repayment and bear no interest.				
	102 348 058	127 169 407	–	–

	GROUP		COMPANY	
Rand	**2017**	2016	**2017**	2016
14. LOANS RECEIVABLE				
Lenmed Health (Pty) Ltd	**–**	–	**515 903 590**	247 920 752
Lenmed Health Africa (Pty) Ltd	**–**	–	**12 560 313**	21 255 525
	–	–	**528 463 903**	269 176 277
The company loans are unsecured, interest free and will not be repaid in the foreseeable future.				
15. LONG-TERM LIABILITIES				
15.1 Mortgage bonds	**801 001 205**	389 803 914	**–**	–
Nedbank Limited This loan was repaid in full during the current year. Repayable in monthly instalments of Rnil (2016: R169 147).	**–**	4 431 019	**–**	–
Loans Payable to vendors These loans bear interest at 15.25% (2016: 15.25%) per annum and are secured over land and buildings, the cession of the hospital licence and general notarial bond over the movable assets of Lenmed Health Shifa (Pty) Ltd. Repayable in monthly instalments of R125 000 (2016: R125 000)	**4 264 013**	5 047 600	**–**	–
First National Bank Limited These loans from First National Bank are secured by land and buildings with a carrying amount of R737 million (refer to note 3). Interest has been charged at rates linked to prime. This loan is repayable in monthly instalments of R3 123 540 (2016: R4 204 000). Included in the loan amount is an amount of R20 million which is under a 12 month capital moratorium.	**166 405 662**	272 393 168	**–**	–
Rand Merchant Bank These loans are secured by a first ranking mortgage bond over the Group's land and buildings with a carrying amount of R1.1 billion and a notarial bond of moveable assets with a carrying value of R167 million. Interest has been charged at rates linked to JIBAR. The loan is split in two facilities. The first facility is a six-year term loan and has a balance outstanding of R313.5 million, with interest repayable quarterly and capital repayable every six months. The second facility is a six-year term loan and has a balance outstanding of R235 million, with interest repayable quarterly, and no capital repayments until the end of the term when the full capital is required to be repaid.	**548 500 000**	–	**–**	–
Deutsche Investitions-und Entwicklungsgesellschaft MBH (DEG) This loan is secured by a first ranking mortgage bond over Maputo Private Hospital's property, plant and equipment, movable assets and a pledge of Lenmed's shares in the entity. The loan bears interest at six months Libor plus 4.3% per annum. The US dollar balance at reporting period end is \$6 284 195 (2016: \$6 686 665). Repayable in bi-annual instalments over a period of six years with the last payment of \$326 666 on the 15th August 2020.	**81 831 530**	107 932 127	**–**	–

Rand	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
15. LONG-TERM LIABILITIES continued				
15.2 Instalment sales	**61 052 434**	33 331 791	–	–
Nedbank Limited	**5 472 585**	3 678 028	–	–
Repayable in monthly instalments of R233 379 (2016 R188 700). Interest has been charged at rates of interest linked to the prime lending rate. Secured by plant and equipment with a book value of R6 460 956.				
WesBank, a division of FirstRand Bank Ltd	**39 150 349**	29 653 763	–	–
Repayable in monthly instalments of R787 456 (2016: R1 039 324). Interest has been charged at rates of interest linked to the prime lending rate. Secured by plant and equipment with a book value of R46 598 664				
Centrafin (Pty) Ltd	**16 429 500**	–	–	–
Repayable in monthly instalments of R614 210. Interest has been charged at rates of interest linked to the prime lending rate. Secured by plant and equipment with a book value of R18 766 165				
	862 053 639	423 135 705	–	–
Repayable within one year, transferred to current liabilities	**(87 330 826)**	(68 380 576)	–	–
	774 722 813	354 755 129	–	–
16. DEFERRED TAXATION				
Deferred tax asset				
Balance at beginning of year	**27 841 121**	27 488 212	**29 120**	27 216
Movements consisting of:				
Property, plant and equipment	**(3 736 575)**	(994 559)	–	–
Provisions	**382 955**	3 624 582	**2 447**	1 904
Leases	**(53 767)**	142 151	–	–
Assessed losses	**8 021 469**	2 490 963	–	–
Share-based payment accrual	**838 320**	(237 484)	–	–
Revaluation of land and buildings	–	(5 333 375)	–	–
Change in capital gains inclusion rate	–	787 697	–	–
Prior year over provision	**1 802 496**	114 779	–	–
Foreign currency translation adjustment	**556 737**	(241 845)	–	–
BALANCE AT END OF YEAR	**35 652 756**	27 841 121	**31 567**	29 120
The balance comprises:				
Property, plant and equipment	**(3 534 991)**	(2 108 544)	–	–
Provisions	**5 840 548**	5 460 561	**31 567**	29 120
Leases	**88 473**	142 150	–	–
Assessed losses	**37 746 585**	29 673 098	–	–
Share-based payment accrual	**1 727 496**	889 211	–	–
Revaluation of land and buildings	**(6 215 355)**	(6 215 355)	–	–
BALANCE AT END OF YEAR	**35 652 756**	27 841 121	**31 567**	29 120

Rand	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
16. DEFERRED TAXATION continued				
Deferred tax liability				
Balance at beginning of year	116 014 510	91 360 033	–	–
Movements consisting of:			–	–
Property, plant and equipment	5 731 587	4 053 958	–	–
Provisions	(566 318)	510 699	–	–
Fair value adjustment	46 866 987	–	–	–
Business combination	115 833 019	–	–	–
Income received in advance	(1 543)	(964)	–	–
Lease smoothing adjustment	(86 262)	108 415	–	–
Share based payment accrual	(90 945)	17 251	–	–
Revaluations	–	14 584 414		
Change in capital gains inclusion rate	–	(1 936 566)		
Prepaid expenses	543 847	54 213	–	–
Assessed loss	(448 414)	(270 157)	–	–
Prior year adjustment	(2 878 357)	(80 896)		
Foreign currency translation adjustment	(8 858 464)	4 440 484	–	–
Foreign currency translation on loan	(3 378 857)	3 173 626	–	–
BALANCE AT END OF YEAR	268 680 790	116 014 510	–	–
The balance comprises:				
Property, plant and equipment	99 383 544	55 254 890	–	–
Provisions	(6 396 637)	(3 163 599)	–	–
Investment in associate	46 866 987	–	–	–
Income received in advance	(17 091)	(15 548)	–	–
Lease smoothing adjustment	74 074	132 251	–	–
Share based payment accrual	(157 745)	(66 800)	–	–
Revaluations	126 946 496	59 372 853		
Prepaid expenses	1 007 106	195 391	–	–
Assessed loss	(1 335 515)	(270 157)	–	–
Foreign currency translation on loan	2 309 571	4 575 229	–	–
BALANCE AT END OF YEAR	268 680 790	116 014 510	–	–
Deferred tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable.				
17. PROVISIONS				
Leave pay and bonus provision				
Carrying amount at the beginning of the year	29 782 170	20 339 722	–	–
(Decrease)/increase in accrual	6 593 791	9 442 448	–	–
Carrying amount at end of the year	36 375 961	29 782 170	–	–
18. TRADE AND OTHER PAYABLES		–		
Trade payables	152 968 767	112 288 516	–	–
Other payables	117 130 995	91 675 687	323 951	400 634
	270 099 762	203 964 203	323 951	400 634

The carrying value of trade and other payables approximated their fair value due to the short term nature of these payables.

19. BUSINESS COMBINATION

19.1 Obtaining control of Ethekwini Hospital and Heart Centre (Pty) Ltd

During January 2017 the Group's investment in Ethekwini Hospital and Heart Centre (Pty) Ltd (Ethekwini Hospital) changed its classification from an associate to a subsidiary.

The Group acquired shares during the year to increase its stake in Ethekwini Hospital from 40.3% at the beginning of the year to 49.75% as at January 2017. During January 2017, the Group's stake increased further when a share buy-back transaction was concluded in Ethekwini Hospital thereby increasing the Group's stake from 49.75% to 53.61%. The Group considered Ethekwini Hospital an associate until 18 January 2017, and a subsidiary thereafter till year end. Please refer to movement for the year detailed below:

	GROUP		COMPANY	
Rand	**2017**	2016	**2017**	2016
Investment in associate:				
Opening balance – 29 February 2016	203 494 418	–	–	–
Increase in investment	124 800 167	–	–	–
Acquisition of shares	109 570 753	–	–	–
Increase in loan	15 229 414	–	–	–
Share of associate profit recognised until 18 January 2017	27 212 980	–	–	–
Fair value adjustment	209 002 619	–	–	–
Balance before share buy back @ 49.75%	564 510 184	–	–	–
Elimination of inter-company loan account	(78 096 677)	–	–	–
Balance before consolidation	486 413 507	–	–	–
At acquisition				
Trade and other receivables	75 894 074	–	–	–
Inventory	15 332 864	–	–	–
Cash and cash equivalents	28 475 930	–	–	–
Property, plant and equipment	574 578 812	–	–	–
Trade and other payables	(53 016 140)	–	–	–
Loans from shareholders	(137 306 200)	–	–	–
Loans from financial institutions	(128 112 269)	–	–	–
Deferred tax	(98 180 413)	–	–	–
Revaluation of land and buildings net of deferred tax	107 169 293	–	–	–
Net asset value of Ethekwini Hospital as at January 2017	384 835 951	–	–	–
Lenmed share of net asset value after Ethekwini Hospital buy back – @ 53.61%	206 310 553	–	–	–
Balance before consolidation	486 413 507	–	–	–
Lenmed share of net asset value after Ethekwini Hospital buy back – @ 53.61%	206 310 553	–	–	–
Consideration paid for increase in percentage holding from 49.75% to 53.61%	–	–	–	–
Goodwill	280 102 954	–	–	–
Acquisition-related costs				
Commission and legal costs	650 000	–	–	–

	GROUP		COMPANY	
Rand	**2017**	2016	**2017**	2016
19. BUSINESS COMBINATION continued				
19.2 Increase in Investment in subsidiary				
During February 2017 the Group increased its investment in Maputo Private Hospital SA (Maputo Private Hospital) by purchasing the remaining non-controlling interest from Invalco Limitada (40%) for R99 million. This included both the shares and shareholders' loans held by them. As at 1 February 2017, Maputo Private Hospital is a 100% subsidiary of the Group.				
Net asset value of Maputo Private Hospital at 1 February 2017	**(722 001)**	–	**–**	–
Non controlling interest	**(250 032)**	–	**–**	–
Consideration paid	**98 860 857**	–	**–**	–
Shareholder loan acquired	**62 135 827**	–	**–**	–
Shares	**36 725 030**	–	**–**	–
Full control reserve transferred to accumulated profits	**36 975 062**	–	**–**	–
Acquisition-related costs				
Commission and legal costs	**770 784**	–	**–**	–
20. OPERATING PROFIT				
Operating profit is arrived at after taking into account the following items:				
Income				
Profit on disposal of property, plant and equipment	**662 847**	236 077	**–**	–
Exchange rate profits on foreign exchange	**–**	22 148 104	**–**	–
Profit on disposal of associate	**–**	2 096 938	**–**	–
Fair value gain on investment	**209 002 619**	–	**–**	–
Expenditure				
Exchange rate losses on foreign exchange	**2 420 134**	–	**–**	–
Depreciation	**52 619 185**	45 338 527		
Secretarial fees	**769 240**	770 254	**340 566**	361 108
Employee costs	**514 597 464**	474 019 759	**–**	–
Lease rentals				
Property	**44 795 491**	39 362 753	**–**	–
Equipment	**4 232 439**	4 296 851	**–**	–
Other	**569 774**	533 595	**–**	–
	49 597 704	44 193 199	**–**	–
21. INVESTMENT INCOME				
Interest received	**5 358 147**	3 644 387	**1 209 453**	1 504 249
	5 358 147	3 644 387	**1 209 453**	1 504 249
22. FINANCE COSTS				
Long-term loans	**32 623 746**	13 444 531	**–**	–
Bank overdrafts	**7 086 220**	3 255 091	**–**	–
	39 709 966	16 699 622	**–**	–

Rand	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
23. TAXATION				
Current taxation	53 202 568	41 227 131	629 137	561 705
Underprovision/(overprovision) in prior year	–	35 520	–	–
Deferred taxation				
Current year temporary differences	29 632 660	4 561 965	(2 447)	(1 904)
Underprovision/overprovision) in prior year	4 779 898	(427 372)	–	–
TAXATION FOR THE YEAR	87 615 126	45 397 244	626 690	559 801
Reconciliation of rate of taxation	%	%	%	%
South African normal tax rate	28.00	28.00	28.00	28.00
Adjusted for:				
Underprovision/(overprovision) in prior year	(1.09)	(0.10)	–	(0.54)
Disallowed expenditure	0.05	0.28	–	–
Income not taxable	(3.40)	(4.95)	–	–
Lower foreign tax rate	(0.35)	(0.99)	–	–
Capital gains tax	(2.74)	0.00	–	–
EFFECTIVE RATE OF TAXATION	20.47	22.24	28.00	27.46

The current tax charge for the year has been reduced by R2 412 108 as a result of the prior year tax loss of R8 535 863 utilised at Lenmed Health Randfontein Private Hospital (Pty) Ltd, Lenmed Health Management Company (Pty) Ltd and Maputo Private Hospital SA.

Rand	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
24. INCOME TAX PAID				
Receivable/(Payable) at the beginning of the year	(1 434 001)	(3 751 590)	157 877	(40 831)
Expense for the year	(87 615 126)	(45 397 244)	(626 690)	(559 801)
Adjustment for deferred tax	12 404 029	4 134 593	(2 447)	1 904
Deferred tax foreign currency translation adjustments	(3 093 798)	2 666 196	–	–
Payable at the end of the year	3 595 011	1 434 001	(146 617)	(157 877)
	(76 143 885)	(40 914 044)	(617 877)	(760 413)

25. DIRECTORS' EMOLUMENTS

	For services as directors	Short-term employee benefits	Bonuses	Long-term incentive bonus	Total
2017					
Mr P Devchand	–	3 800 000	2 451 114	1 066 207	7 317 321
Mr A Devchand	–	2 300 000	1 306 725	426 483	4 033 208
Mr VE Firman	–	2 400 000	1 503 280	–	3 903 280
Prof BD Goolab	262 002	–	–	–	262 002
Mr MG Meehan	398 000	–	–	–	398 000
Ms B Harie	374 000	–	–	–	374 000
Ms NV Simamane	349 000	–	–	–	349 000
	1 383 002	8 500 000	5 261 119	1 492 690	16 636 811
2016					
Mr P Devchand	–	3 420 000	915 000	–	4 335 000
Mr A Devchand	–	1 750 000	528 000	–	2 278 000
Mr VE Firman	–	1 900 000	–	–	1 900 000
Prof BD Goolab	213 900	–	–	–	213 900
Mr MG Meehan	306 500	–	–	–	306 500
Ms B Harie	306 500	–	–	–	306 500
Ms NV Simamane	295 500	–	–	–	295 500
	1 122 400	7 070 000	1 443 000	–	9 635 400

The remuneration of the directors as per the above schedule was determined by the Remuneration Committee. Refer to the Remuneration Report in the annual integrated report for disclosure relating to Share Appreciation Rights awarded to directors.

26. CONTINGENT LIABILITIES

Certain Compensation for Occupational Injuries and Diseases (COID) debtors are factored between 83% and 84% of their original value. The factoring houses have recourse should they not be able to recover the debt. The total funds received but still open to recourse amounted to R12 554 017 as at reporting date (2016: R12 044 156).

27. RELATED PARTY TRANSACTIONS

The holding company, directors and subsidiaries are disclosed in the report of the directors. Transactions and balances between the Group and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation.

The remuneration and benefits received by the directors are disclosed in note 25.

COMPANY

					Amounts owed by/(to) the related party at year-end	
Name	Relationship	Transaction	2017	2016	2017	2016
Lenmed Health (Pty) Ltd	Subsidiary		–	–	515 903 590	247 920 752
Lenmed Health Africa (Pty) Ltd	Subsidiary		–	–	12 560 313	21 255 525
Lenmed Health Management Company (Pty) Ltd	Subsidiary	Management Fees received	2 140 500	1 675 375	–	–
Lenvestco Investments (Pty) Ltd	Shareholder		–	–	(30 683)	(30 683)

28. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Key sources of estimation uncertainty

28.1 Deferred tax

A deferred tax asset is recognised with the carry-forward of unused tax losses adjusted for the current year to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. The Group considered the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses can be utilised:

- Whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which will result in taxable amounts against which the unused tax losses can be utilised;
- Whether it is probable that the entity will have taxable profits before the unused tax losses expire; and
- Whether the unused tax losses result from identifiable causes which are unlikely to recur.

To the extent that it is not probable that taxable profits will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised. To determine the probability that taxable profit will be available against which the unused tax losses can be utilised, the company has reviewed its forecasts for the foreseeable future and compared that to its total tax losses.

28.2 Trade receivables

Provision is made for doubtful debts based on management's estimate of the prospect of recovering the debt. Where management has determined that the recovery of the debt is doubtful, the amount is provided for immediately.

28.3 Residual values and useful lives of items of property, plant and equipment

Buildings

The Group's estimate of the useful life of buildings is 50 years due to the specialised nature of the buildings and with reference to the valuations performed as per note 3. The residual value of buildings is determined by management taking into account significant judgements applied to various factors and external information available.

Plant and equipment

Due to the specialised nature of the Group's plant and equipment the residual value attached to these assets has been estimated to be nil. The Group estimates that the useful life of plant and equipment, being the period of time for which the assets can be utilised without significant modifications, replacements or improvements, is 10 years based on current levels of utilisation.

Motor vehicles

The entity has a policy of utilising all motor vehicles for a period of five years. It is estimated that passenger vehicles have a residual value determined by using the Meads Guideline.

28.4 Goodwill

Goodwill is tested for impairment at each statement of financial position date. The recoverable amounts of cash generating units have been estimated based on value in use calculations. Value in use calculations have been based on a subjective pre-tax discount rate of 19%. Based on these calculations, no impairment loss is recognised. Had the discount rate used been 1% greater or lower than estimated no impairment loss would have been recognised.

28.5 Share-based payments

The fair value is calculated using the Black Scholes option pricing model. Please refer to note 11 for assumptions used in the model.

28.6 Control over subsidiaries

An assessment of control was performed by the Group based on whether the Group has the practical ability to direct the relevant activities unilaterally. In making the judgement, the relative size and dispersion of other vote holders, potential voting rights held by them or others, rights from other contractual arrangements were considered. After the assessment, the Group concluded that they had a dominant voting interest to direct the relevant activities of the subsidiaries and it would take a number of vote holders to outvote the Group, therefore the Group has control over the subsidiaries.

In the current year, the Group purchased shares to increase its stake in Ethekwini Hospital and Heart Centre (Pty) Ltd (Ethekwini Hospital) from 40.3% at the beginning of the year to 49.75% as at January 2017. During January 2017, the Group's stake increased further to 53.61% when a share buy-back transaction was concluded in Ethekwini Hospital. The Group considered Ethekwini Hospital an associate until 18 January 2017, and a subsidiary thereafter till year end. An assessment of control was performed by the Group and it was concluded that the Group has a majority voting interest to direct the relevant activities of Ethekwini Hospital.

28.7 Significant influence over an associate

Renal Care Holdings (Pty) Ltd is an associate of the Group as described in note 6. Significant influence arises from the Group's 40% interest.

Lenasia Renal Centre (Pty) Ltd is an associate of the Group as described in note 6. Significant influence arises from the Group's 30% interest.

28.8 Fair value measurements and valuation processes

The Group measures some of its assets and liabilities at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

29. FINANCIAL RISK MANAGEMENT

The Group's financial liabilities comprise long-term liabilities, short-term liabilities, trade and other payables, taxation payables and bank overdrafts. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as loan accounts, trade receivables and cash and cash equivalents, which arise directly from its operations. The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency risk. These risks are managed as follows:

29.1 Interest rate risk

Interest rate risk is the risk that changes in the interest rate will affect the Group's income or value of its financial instruments, namely its cash and cash equivalents and interest-bearing borrowings. The Group is exposed to interest rate risk through its commitments in interest bearing borrowings, cash and cash equivalents and instalment sale agreements. The Group is willing to accept the risk of market-related interest rates.

Interest risk table

The following table demonstrates the sensitivity of profit before tax (through the impact on floating rate borrowings) to a possible change in interest rates, with all other variables held constant.

	GROUP		COMPANY	
Rand	**2017**	2016	**2017**	2016
Interest bearing loans payable	**838 283 834**	424 489 511	**–**	–
Instalment sale liabilities	**61 052 434**	33 331 791	**–**	–
Bank overdraft	**40 372 805**	33 630 225	**–**	–
	939 709 073	491 451 527	**–**	–
Sensitivity analysis				
Increase of 100 basis points would result in a reduction in profit before tax of	**(9 397 091)**	(4 914 515)	**–**	–
Decrease of 100 basis points would result in an improvement in profit before tax of	**9 397 091**	4 914 515	**–**	–

29.2 Credit risk

The Group trades where possible with recognised, credit worthy third parties. Where patients are without medical insurance, risk is limited by the collection of a deposit. The amount of the deposit is determined by the expected treatment plan envisaged for the patient. Actual billings are tracked against the deposit on a daily basis and further funds are collected from the patient where necessary. In addition receivable balances are monitored on an ongoing basis. The maximum exposure is the carrying amount as disclosed in note 8.

29.3 Liquidity risk

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate un-utilised borrowing facilities are available. In addition, the Group maintains a strong business relationship with its bankers. The table summarises the maturity profile of the financial liabilities as at 28 February 2017, based on contractual undiscounted payments.

	GROUP		COMPANY	
	Less than 1 year	Between 1 and 5 years	Less than 1 year	Between 1 and 5 years
Maturity analysis – 2017				
Borrowings	**127 703 631**	**812 005 442**	**–**	**–**
Trade and other payables	**246 356 693**	**–**	**323 951**	**–**
	374 060 324	**812 005 442**	**323 951**	**–**
Maturity analysis – 2016				
Borrowings	102 010 801	389 440 726	–	–
Trade and other payables	186 006 632	–	400 634	–
	288 017 433	389 440 726	400 634	–

Long-term liabilities and shareholders' loans

The directors consider the carrying amounts of the long term liabilities to approximate their fair values.

Capital management

The Group's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefit for other stakeholders.

The Group manages the capital structure in light of changes in business activities and economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Group monitors risk to capital on the basis of the interest bearing debt to capital ratio. This ratio is calculated as net interest bearing debt divided by capital. Net interest bearing debt is calculated as total interest bearing debt less cash and cash equivalents. Capital comprises all components of equity (i.e. ordinary shares, minority interest, retained earnings and other reserves).

29.4 Foreign currency risk

The Group is exposed to foreign currency risk through its offshore subsidiaries, Maputo Private Hospital SA (Maputo Private Hospital) and Lenmed Health Bokamoso Private Hospital (Pty) Ltd (Bokamoso Private Hospital). A US dollar denominated long term loan exists at Maputo Private Hospital. However, revenue at the hospital is partially US dollar denominated, thus forming a natural hedge. The net working capital at Maputo Private Hospital is denominated in Mozambican Meticals. This amount is considered immaterial and no hedging takes place. To date the Group has not suffered any material currency loss. There are no long term loans at Bokamoso Private Hospital, except shareholders' loans. These are denominated in Pula. Revenue at the hospital is denominated in Pula, also forming a natural hedge. Revenue and profits generated by this hospital are expected to be sufficient to settle the shareholders' loans over a maximum period of seven years. The Group does not formally hedge its foreign currency risk.

	GROUP		COMPANY	
Rand	**2017**	2016	**2017**	2016
Foreign currency translation reserve	**105 166 851**	178 075 581	**–**	–
Sensitivity analysis				
Increase of 10% in functional currency rate would result in a reduction in reserve of:	**(10 516 685)**	(17 807 558)	**–**	–
Decrease of 10% in functional currency rate would result in an increase in reserve of:	**10 516 685**	17 807 558	**–**	–

30. FINANCIAL INSTRUMENTS

30.1 Categories of financial Instruments

Rand	GROUP			COMPANY		
	Loans and receivables	Assets at fair value through profit and loss	Available-for-sale	Loans and receivables	Assets at fair value through profit and loss	Available-for-sale
2017						
Financial assets per statements of financial position						
Investments in associates	–	–	4 429 762	–	–	–
Investments in subsidiaries	–	–	–	–	–	8 699 107
Loan receivable	–	–	–	528 463 903	–	–
Trade and other receivables	513 874 752		–	976 296	–	–
Cash and cash equivalents	168 030 209	–	–	1 789 136	–	–
2016						
Financial assets per statements of financial position						
Investments in associates	–	–	206 888 475	–	–	–
Investments in subsidiaries	–	–	–	–	–	4 974 398
Loan receivable	–	–	–	269 176 277	–	–
Trade and other receivables	371 941 380	–	–	808 412	–	–
Cash and cash equivalents	140 025 882	–	–	57 732 824	–	–

Rand	GROUP			COMPANY		
	Loans and payables	Financial liabilities measured at amortised cost	Derivatives used for hedging	Loans and payables	Financial liabilities measured at amortised cost	Derivatives used for hedging
2017						
Financial liabilities per statements of financial position						
Long-term liabilities	–	774 722 813	–	–	–	–
Loans from minorities	–	102 348 058	–	–	–	–
Trade and other payables	–	246 356 693	–	–	323 951	–
Current portion of long-term liabilities	–	87 330 826	–	–	–	–
Bank overdraft	–	40 372 805	–	–	–	–

Rand	GROUP			COMPANY		
	Loans and payables	Financial liabilities measured at amortised cost	Derivatives used for hedging	Loans and payables	Financial liabilities measured at amortised cost	Derivatives used for hedging
2016						
Financial liabilities per statements of financial position						
Long-term liabilities	–	354 755 129	–	–	–	–
Loans from minorities	–	127 169 407	–	–	–	–
Trade and other payables	–	186 006 629	–	–	400 634	–
Current portion of long-term liabilities	–	68 380 576	–	–	–	–
Bank overdraft	–	33 630 225	–	–	–	–

The carrying amounts of the financial assets and financial liabilities approximates their fair value

30.2 Fair value hierarchy and measurements

Financial assets and liabilities that are not measured at fair value on a recurring basis.

	GROUP			
	Fair value at 28 February 2017			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Loans and receivables				
– Trade and other receivables	–	–	513 874 752	513 874 752
– Cash and cash equivalents	–	168 030 209	–	168 030 209
Financial liabilities				
Financial liabilities held at amortised cost				
– Long-term liabilities	–	769 675 198	5 047 615	774 722 813
– Loans from minorities	–	–	102 348 058	102 348 058
– Trade and other payables	–	–	246 356 693	246 356 693
– Current portion of long-term liabilities	–	87 330 826	–	87 330 826
– Bank overdraft	–	40 372 805	–	40 372 805
	Fair value at 29 February 2016			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Loans and receivables				
– Trade and other receivables	–	–	371 941 380	371 941 380
– Cash and cash equivalents	–	140 025 882	–	140 025 882
Financial liabilities				
Financial liabilities held at amortised cost				
– Long-term liabilities	–	349 707 514	5 047 615	354 755 129
– Loans from minorities	–	–	127 169 407	127 169 407
– Trade and other payables	–	–	186 006 629	186 006 629
– Current portion of long-term liabilities	–	47 707 164	20 673 412	68 380 576
– Short-term loan	–	–	–	–
– Bank overdraft	–	33 630 225	–	33 630 225

	COMPANY			
	Fair value at 28 February 2017			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Loans and receivables				
– Loan receivable	–	–	528 463 903	528 463 903
– Trade and other receivables	–		976 296	976 296
– Cash and cash equivalents	–	1 789 136	–	1 789 136
Financial liabilities				
Financial liabilities held at amortised cost				
– Trade and other payables	–	–	323 951	323 951
	Fair value at 29 February 2016			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Loans and receivables				
– Loan receivable	–	–	269 726 048	269 726 048
– Trade and other receivables	–		617 719	617 719
– Cash and cash equivalents	–	57 732 824	–	57 732 824
Financial liabilities				
Financial liabilities held at amortised cost				
– Trade and other payables	–	–	400 634	400 634

The fair value of assets and liabilities disclosed under level 3 have been determined in accordance with generally accepted pricing models. All the above financial instruments are short term in nature and their fair value approximates their carrying values. There were no transfers between level I and 2 during the year.

Rand	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
31. COMMITMENTS				
31.1 Operating lease commitments – lessee				
Future minimum lease payments under non-cancellable operating leases are as follows:				
– Within one year	8 984 911	14 735 069	–	–
– Due thereafter but not later than five years	6 277 401	11 305 647	–	–
	15 262 312	26 040 716	–	–
The above lease commitments relate to both Lenmed Health Bokamoso Private Hospital (Pty) Ltd and Lenmed Health Management Company (Pty) Ltd and are in respect of property rentals payable for premises.				
31.2 Operating lease commitments – lessor				
Future minimum lease receipts under non-cancellable operating leases are as follows:				
– Within one year	1 211 269	1 162 564	–	–
– Due thereafter but not later than five years	2 110 911	3 436 857	–	–
	3 322 180	4 599 421	–	–
31.3 Capital Commitments				
The construction, renovation and upgrading of hospital buildings	79 333 507	234 380 918	–	–
The acquisition of plant and equipment	22 941 410	34 051 206	–	–
	102 274 917	268 432 124	–	

32. EVENTS AFTER REPORTING DATE

i) The Group is in discussions with the Industrial Development Corporation Limited to acquire a further 23% of Ethekwini Hospital and Heart Centre (Pty) Ltd (Ethekwini Hospital). The financial effect is not known at this stage as the participation of the other Ethekwini Hospital shareholders is still to be determined.

ii) Lenmed Health Laverna (Pty) Ltd, a 100% subsidiary of the Group, issued 1 850 shares subsequent to year end to doctors who currently practice at the hospital at R1 000 per share. This represents 4.62% of the issued share capital of Lenmed Health Laverna (Pty) Ltd.

iii) The loan payable to Deutsche Investitions-und Entwicklungsgesellschaft (DEG) in Maputo Private Hospital SA was replaced subsequent to year end with a facility from RMB. The new facility offers an improved interest rate and extends the tenure of the loan.

Acronyms and glossary

ACRONYMS

ABET	Adult Basic Education and Training
AGM	Annual General Meeting
B-BBEE	Broad-Based Black Economic Empowerment
CA	Chartered Accountant
COHSASA	Council for Health Service Accreditation of Southern Africa
COO	Chief Operating Officer
CPD	Continuing Professional Development
CSI	Corporate Social Investment
DEG	Deutsche Investitions-und Entwicklungsgesellschaft (German Development Bank)
DoH	Department of Health
dti	Department of Trade and Industry
EBITDA	Earnings Before Interest, Taxation, Depreciation and Amortisation
GEMS	Government Employees Medical Scheme
GDP	Gross Domestic Product
HAI	Hospital-Acquired Infections
HCAHPS	Hospital Consumer Assessment of Healthcare Providers and Systems
HWSETA	Health and Welfare Sector Education and Training Authority
ICU	Intensive Care Unit
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IT	Information Technology
JSE	Johannesburg Stock Exchange
NGOs	Non-governmental organisations
NHI	National Health Insurance
NHN	National Hospital Network
OTC	Over-the-counter shares
POPI Act	Protection of Personal Information Act
QR	Quick Response
USSD	Unstructured Supplementary Service Data
WACC	Weighted Average Cost of Capital

GLOSSARY

Antimicrobial stewardship	Optimised use of antimicrobials to prevent the development of resistance and improve patient outcomes.
Benchmark	A standard or point of reference against which things may be compared.
Brownfield	Start a project based on prior development or to rebuild a facility from an existing one.
Carbon footprint	The amount of carbon dioxide released into the atmosphere as a result of the activities of a particular individual, organisation, or community.
Cataract	A medical condition in which the lens of the eye becomes progressively opaque, resulting in blurred vision.
Clinical governance	A systematic approach to maintaining and improving the quality of patient care within a health system.
Commissioned	Bring into working condition.
Companies Act	South African Companies Act 71 of 2008, as amended.
Competition Commission	A statutory body constituted by the South African government, empowered to investigate, control and evaluate restrictive business practices, abuse of dominant positions and mergers in order to achieve equity and efficiency in the South African economy.
Compliance	Abiding by both industry regulations and government legislation.
Curriculum	The subjects comprising a course of study in a school or college.
Due diligence	An investigation or audit of a potential investment to ensure a certain standard of responsibility.
Employment equity	Promoting equal opportunity and fair treatment in employment through elimination of unfair discrimination and implementing affirmative action measures.
Endoscopy	A non-surgical procedure used to examine a person's digestive tract, using a flexible tube with a light and camera attached to it.
Eskom	A South African electricity public utility.
Gearing	The ratio of a company's loan capital (debt) to the value of its ordinary shares (equity).
Greenfield	Previously undeveloped sites for commercial development or exploitation.
Grey water	Waste water from baths, sinks, washing machines, and other kitchen appliances.
Infection control	The discipline concerned with preventing healthcare-associated infection.
Integrated Report	A concise communication about how an organisation's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term.
King III Code	King III Code of Governance reporting principles.
Management contract	An arrangement under which operational control of an enterprise is vested by contract in a separate enterprise that performs the necessary managerial functions in return for a fee.
Material matters	Matters that a reasonable shareholder would consider important in deciding how to vote their shares or invest their money.
Medical aid tariffs	The cost of a service negotiated by a medical fund with a preferred provider, such as doctors and hospitals.
Medical schemes	The business of undertaking health service liability in return for a premium or contribution.
Medical waste	All waste materials generated at healthcare facilities, including used needles and syringes, soiled dressings, diagnostic samples, blood, chemicals, pharmaceuticals, medical devices and radioactive materials.
Normalised EBITDA	On the balance sheet, earnings adjusted to remove unusual or one-time influences.
Oncology	The study and treatment of tumours.
Paediatric	A medical speciality that manages medical conditions affecting babies, children and young people.
Pharmaceutical	Medicinal drugs, their preparation, use or sale.
Protocols	Official procedure or system of rules.
Quadruple burden of disease	HIV/Aids, underdevelopment, chronic diseases related to unhealthy lifestyles, and injuries.
Radiotherapy	The treatment of disease, especially cancer, using X-rays or similar forms of radiation.
Renal	Relating to the kidneys.
Risk appetite	The amount of risk a company is willing to accept in pursuit of value.
the Group	Lenmed Investments Limited.
Transformation	Increased access and opportunities for previously disadvantaged South Africans.
Unlisted company	A company with shares that are not traded on a stock exchange.

Notice of Annual General Meeting

LENMED INVESTMENTS LIMITED

(Registration number 1980/003108/06)
("the company" or "Lenmed")

Notice is hereby given to the shareholders of the company that the 35th Annual General Meeting ("AGM") of the company will be held at Lenmed's Head Office, 2nd Floor, Fountainview House, Constantia Office Park, corner 14th Avenue and Hendrik Potgieter Road, Constantia Kloof on **Thursday, 21 September 2017** at **15:00** for the purposes of passing, with or without modification, the ordinary and special resolutions set out below.

References in this notice of AGM, to the "Companies Act" means the Companies Act, number 71 of 2008, as amended.

Section 63(1) of the Companies Act – Identification of meeting participants

Kindly note that meeting participants (including proxies) are required to provide reasonably satisfactory identification before being entitled to attend or participate in a shareholders' meeting. Forms of identification include valid identity documents, driver's licences and passports.

Electronic participation at the AGM

Should a shareholder wish to avail themselves of this facility, they are requested to contact the Company Secretary at least 10 business days before the date of the general meeting.

ORDINARY RESOLUTIONS

Ordinary resolution 1: Annual financial statements

"RESOLVED THAT the annual financial statements of the company for the year ended 28 February 2017, including the directors' report and the report of the Audit and Risk Committee, be and are hereby received."

Percentage of voting rights to pass this resolution: 50% plus 1 vote.

Retirement by rotation of directors – In terms of the Memorandum of Incorporation of the company, one third of the directors shall retire from office at the AGM.

Ordinary resolution 2: Re-election of director

"RESOLVED THAT Mr P Devchand be and is hereby re-elected as a director of the company."

Percentage of voting rights to pass this resolution: 50% plus 1 vote.

Ordinary resolution 3: Re-election of director

"RESOLVED THAT Mr VE Firman be and is hereby re-elected as a director of the company."

Percentage of voting rights to pass this resolution: 50% plus 1 vote.

Ordinary resolution 4: Re-election of director

"RESOLVED THAT Ms B Harie be and is hereby re-elected as a director of the company."

Percentage of voting rights to pass this resolution: 50% plus 1 vote.

Profiles of the above directors are set out in the Annual Integrated Report.

Ordinary resolutions 5.1, 5.2 and 5.3: Appointment of Audit and Risk Committee members

It is proposed that the members of the company's Audit and Risk Committee, as set out below, be appointed. The membership as proposed by the Board of Directors ("the Board") is Ms B Harie, Mr MG Meehan and Ms NV Simamane, all of whom are independent non-executive directors as prescribed by the Companies Act. It is recorded that Mr MG Meehan is Chairman of the Audit and Risk Committee.

Ordinary resolution number 5.1

"RESOLVED THAT Ms B Harie be and is hereby appointed as a member of the Audit and Risk Committee."

Percentage of voting rights to pass this resolution: 50% plus 1 vote.

Ordinary resolution number 5.2

"RESOLVED THAT Mr MG Meehan be and is hereby appointed as a member of the Audit and Risk Committee."

Percentage of voting rights to pass this resolution: 50% plus 1 vote.

Ordinary resolution number 5.3

"RESOLVED THAT Ms NV Simamane be and is hereby appointed as a member of the Audit and Risk Committee."

Percentage of voting rights to pass this resolution: 50% plus 1 vote.

Profiles of the above directors are set out in the Annual Integrated Report.

Ordinary resolution number 6: Non-binding advisory endorsement on the company's remuneration policy

"To endorse on a non-binding advisory basis, the company's remuneration policy (excluding the remuneration of the non-executive directors for the services as directors and members of Board committees)."

The company's remuneration policy and related information appears on page 58 of the Annual Integrated Report.

Reason for this resolution

The reason for this resolution is to comply with the recommendations of King III regarding the key elements and guiding principles of the company's remuneration policy, namely to communicate to shareholders, for the purposes of a non-binding advisory vote, how senior executives and especially directors of the company are remunerated.

Effect of this resolution

The effect of this resolution is that the shareholders will have taken note of the key elements and guiding principles of the company's remuneration approach and policy, and will have given an indication by way of a non-binding advisory resolution whether they have found the aforementioned appropriate.

Percentage of voting rights to pass this resolution: 50% plus 1 vote.

SPECIAL RESOLUTIONS:

Special resolution 1: Approval of financial assistance

"RESOLVED THAT to the extent required by the Companies Act, the Board of Directors of the company may, subject to compliance with the requirements of the company's Memorandum of Incorporation (MOI) and the Companies Act, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance by way of loan, guarantee, the provision of security or otherwise, to:

- any of its present or future subsidiaries and/or any other company or entity that is or becomes related or inter-related to the company or any of its subsidiaries, and/or to any member of such subsidiary or related or inter-related company or entity, all as contemplated in sections 44 and/or 45 of the Companies Act, for such amounts and on such terms and conditions as the directors of the company may determine;

such authority to endure until the AGM of the company for the year ended 28 February 2018."

Percentage of voting rights to pass this resolution: 65%.

Motivation for special resolution 1

Notwithstanding the title of section 45 of the Companies Act, being "Loans or other financial assistance to directors", on a proper interpretation, the body of the section may also apply to financial assistance provided by a company to related or inter-related companies and other entities, including, inter alia, its subsidiaries, associates, joint ventures, partnerships, collaboration arrangements, etc for any purpose.

Furthermore, section 44 of the Companies Act may also apply to the financial assistance so provided by a company to related or inter-related companies or other entities, in the event that the financial assistance is provided for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or a related or inter-related company, or for the purchase of any securities of the company or a related or inter-related company.

Both sections 44 and 45 of the Companies Act provide, inter alia, that the particular financial assistance must be provided only pursuant to a special resolution of the shareholders, adopted within the previous 2 (two) years, which approved such assistance either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category and the Board of Directors must be satisfied that:

- immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test; and
- the terms under which the financial assistance is proposed to be given are fair and reasonable to the company.

The company would like the ability to provide financial assistance, if necessary, also in other circumstances, in accordance with section 45 of the Companies Act. Furthermore, it may be necessary or desirous for the company to provide financial assistance to related or inter-related companies and entities to acquire or subscribe for options or securities or purchase securities of the company or another company related or inter-related to it. Under the Companies Act, the company will, however, require the special resolution referred to above to be adopted. In the circumstances and in order to, inter alia, ensure that the company's subsidiaries and other related and inter-related companies and entities have access to financing and/or financial backing from the company (as opposed to banks), it is necessary to obtain the approval of shareholders, as set out in special resolution 1.

Special resolution 2: Future directors' fees

"RESOLVED THAT the non-executive directors be paid the following fees for services as directors for the period from the date of this AGM to the date of the next AGM:

Rand	Fees per meeting	Retainer (per annum)
Non-executive director/ Independent non-executive director	13 000	180 000
Audit and Risk Committee chairman	13 000 (in addition to meeting fee)	
Audit and Risk Committee member	13 000	
Remuneration and Nominations Committee chairman	13 000 (in addition to meeting fee)	
Remuneration and Nominations Committee member	13 000	
Social and Ethics Committee chairman	13 000 (in addition to meeting fee)	
Social and Ethics Committee member	13 000	
Fee for work not specified above (per meeting rate)	13 000	

Percentage of voting rights to pass this resolution: 65%.

Motivation for special resolution 2

The reason for special resolution 2 is to comply with the provisions of the Companies Act. The effect of the special resolution is that, if approved by the shareholders at the AGM, the fees payable to non-executive directors until the next AGM will be as set out above.

Any matters raised by shareholders, with or without advance notice to the company

To deal, at the AGM, with any matters raised by shareholders, with or without advance notice to the company.

Appointment of auditors

Shareholders are advised that PKF Durban are deemed to be re-appointed as auditors of the company at this AGM for the ensuing financial year, and that the individual registered auditor who will undertake the audit during the financial year ending 28 February 2018 will be Ms Tania Marti-Warren. In this regard, the Lenmed Audit and Risk Committee has:

- ensured that PKF Durban are qualified for appointment;
- received confirmation that PKF Durban are willing to accept the appointment;
- ensured that the auditor complies with the rotation requirements of section 92;
- confirmed that it has no objections to PKF Durban's reappointment; and
- ensured that there has been no notice received of an intended resolution to appoint some other auditor in place of PKF Durban.

Voting and proxies

In terms of the company's MOI, at any time, a shareholder may, in respect of any class of shares held by the Shareholder, appoint any individual, including an individual who is not a shareholder of the company, as a proxy to participate in, and speak and vote, at the AGM, on behalf of the shareholder.

In terms of the company's MOI (clause 3.10.1), a shareholder of the company may not appoint two or more persons concurrently as proxies.

In terms of the company's MOI (clause 3.10.3), a copy of the instrument appointing a proxy must be delivered to the registered office of the company, marked for the attention of the Company Secretary (or to be delivered to such other location and/or person on behalf of the company as may be specified in the notice convening the meeting), to be received by the company not less than 48 hours before the appointed time for the beginning of the meeting or, if the meeting is adjourned, the appointed time for the resumption of the adjourned meeting.

By order of the Board

William Somerville
Company Secretary

24 July 2017

Registered office
Lenmed Investments Limited
2nd Floor Fountainview House,
Corner 14th Avenue and Hendrik Potgieter Road,
Constantia Kloof, Johannesburg, 1709

Rights in terms of section 58 of the Companies Act, 2008

For purposes of this summary, the term "shareholder" shall have the meaning ascribed thereto in section 57(1) of the Companies Act.

1. At any time, a shareholder of a company is entitled to appoint any individual, including an individual who is not a shareholder of that company, as a proxy to participate in, speak and vote at a shareholders' meeting on behalf of the shareholder.
2. A proxy appointment must be in writing, dated and signed by the relevant shareholder.
3. Except to the extent that the MOI of a company provides otherwise:
   3.1. a shareholder of the relevant company may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by such shareholder (a); and
   3.2. a copy of the instrument appointing a proxy must be delivered to the relevant company, or to any other person on behalf of the relevant company, before the proxy exercises any rights of the shareholder at a shareholders' meeting (b).

Notes

(a) In respect of item 3.1, in terms of the company's MOI (clause 3.10.1), a shareholder of the company may not appoint two or more persons concurrently as proxies.

(b) In respect of item 3.2, in terms of the company's MOI (clause 3.10.3), a copy of the instrument appointing a proxy must be delivered to the registered office of the company, marked for the attention of the Company Secretary (or to be delivered to such other location and/or person on behalf of the company as may be specified in the notice convening the meeting), to be received by the company not less than 48 hours before the appointed time for the beginning of the meeting or, if the meeting is adjourned, the appointed time for the resumption of the adjourned meeting.

4. Irrespective of the form of instrument used to appoint a proxy:
   4.1. the appointment of the proxy is suspended at any time and to the extent that the shareholder who appointed that proxy chooses to act directly and in person in the exercise of any rights as a shareholder of the relevant company; and
   4.2. should the instrument used to appoint a proxy be revocable, a shareholder may revoke the proxy appointment by cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and the relevant company.

5. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the relevant shareholder as of the later of the date:
   5.1. stated in the revocation instrument, if any; or
   5.2. upon which the revocation instrument is delivered to the proxy and the relevant company as required in section 58(4)(c)(ii) of the Companies Act.
6. Should the instrument appointing a proxy or proxies have been delivered to the relevant company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the relevant company's MOI to be delivered by such company to the shareholder must be delivered by such company to:
   6.1. the shareholder; or
   6.2. the proxy or proxies if the shareholder has in writing directed the relevant company to do so and has paid any reasonable fee charged by the company for doing so.
7. A proxy is entitled to exercise, or abstain from exercising, any voting right of the relevant shareholder without direction, except to the extent that the MOI of the relevant company or the instrument appointing the proxy provide otherwise.
8. If a company issues an invitation to shareholders to appoint a person named by such company as a proxy, or supplies a form of instrument for appointing a proxy:
   8.1. such invitation must be sent to every shareholder who is entitled to receive notice of the meeting at which the proxy is intended to be exercised;
   8.2. the company must not require that the proxy appointment be made irrevocable; and
   8.3. the proxy appointment remains valid only until the end of the relevant meeting at which it was intended to be used, unless revoked as contemplated in section 58(5) of the Companies Act.

The practical applications of the aforementioned rights are also reflected in the notes to the proxy form attached hereto.

Form of proxy

LENMED INVESTMENTS LIMITED

(Registration number 1980/003108/06)
("the company")

For use at the 35th Annual General Meeting ("AGM") of the company to be held at Lenmed's Head Office, 2nd Floor, Fountainview House, Constantia Office Park, Corner 14th Avenue and Hendrik Potgieter Road, Constantia Kloof, Johannesburg on Thursday, 21 September 2017 at 15:00 and at any adjournment thereof.

I/We ______________________________ (Full name in block letters) of

______________________________ (address)

being a shareholder(s) of the company and holding ______________________________

ordinary shares in the company, ______________________________

hereby appoint ______________________________ of ______________________________ , or

failing him/her ______________________________ of ______________________________ , or

failing him/her the chairman of the AGM, as my/our proxy to act for me/us and on my/our behalf at the AGM which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the ordinary and special resolutions to be proposed thereat and at any adjournment thereof; and to vote for and/or against the ordinary and special resolutions and/or abstain from voting in respect of the company's ordinary shares registered in my/our name(s), in accordance with the following instructions:

	Number of votes		
	For	Against	Abstain
Ordinary resolutions			
1. To receive the annual financial statements of the company for the year ended 28 February 2017, including the directors' report and the report of the Audit and Risk Committee.			
2. To re-elect Mr P Devchand as a director of the company.			
3. To re-elect Mr VE Firman as a director of the company.			
4. To re-elect Ms B Harie as a director of the company.			
5. To appoint members of the Audit and Risk Committee:			
5.1 To appoint Ms B Harie as a member of the Audit and Risk Committee.			
5.2 To appoint Mr MG Meehan as a member of the Audit and Risk Committee.			
5.3 To appoint Ms NV Simamane as a member of the Audit and Risk Committee.			
6. To endorse the company's remuneration policy.			
Special resolutions			
1. Approval of financial assistance.			
2. Approval of the future fees of non-executive directors.			

Please indicate with an "X" in the appropriate spaces above how you wish your votes to be cast. Unless otherwise instructed, my/our proxy may vote as he/she thinks fit.

Signed at ______________________________ (place) on ______________________________ 2017 (date)

Shareholder's signature ______________________________ assisted by ______________________________ (if applicable)

Notes to form of proxy

1. At any time, a shareholder may in respect of shares held in the company by that shareholder, appoint any individual, including an individual who is not a shareholder of the company) to participate in, speak and, on a poll, vote in place of that shareholder at the AGM. Meeting participants will be required to provide satisfactory identification before being allowed to participate in the meeting.
2. A shareholder wishing to appoint a proxy must do so in writing by inserting the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space provided on the form of proxy, with or without deleting "the chairman of the AGM". The person whose name stands first on the form of proxy and who is present at the AGM will be entitled to act as proxy to the exclusion of those whose names follow.
3. A shareholder's instructions to the proxy must be indicated on the form of proxy by the insertion of the relevant number of votes exercisable by that member in the appropriate box(es) provided. Failure to comply with the above will be deemed to authorise the chairman of the AGM, if the chairman is the authorised proxy, to vote in favour of the ordinary and special resolutions at the AGM, or any other proxy to vote or to abstain from voting at the AGM as he/she deems fit, in respect of all the shareholder's votes exercisable thereat.
4. A shareholder or his/her proxy is not obliged to vote in respect of all the ordinary shares held by such shareholder or represented by such proxy, but the total number of votes for or against the ordinary resolutions and in respect of which any abstention is recorded may not exceed the total number of votes to which the shareholder or his/her proxy is entitled.
5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the company's transfer office or waived by the chairman of the AGM.
6. The chairman of the AGM may reject or accept any form of proxy which is completed and/or received other than in accordance with these instructions, provided that he is satisfied as to the manner in which a shareholder wishes to vote.
7. Any alterations or corrections to this form of proxy must be initialled by the signatory(ies).
8. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the AGM and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
9. A minor must be assisted by his/her parent/guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the company.
10. Where there are joint holders of shares (i) any one holder may sign the form or proxy; and (ii) the vote of the senior shareholders (for that purpose seniority will be determined by the order in which the names of the shareholders appear in the company's register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholders.
11. Any proxy appointment made in terms of this form of proxy remains valid until the end of the AGM, unless revoked earlier.
12. In terms of the company's MOI (clause 3.10.3), a copy of the instrument appointing a proxy must be delivered to the registered office of the company, marked for the attention of the Company Secretary (or to be delivered to such other location and/or person on behalf of the company as may be specified in the notice convening the meeting), to be received by the company not less than 48 hours before the appointed time for the beginning of the meeting or, if the meeting is adjourned the appointed time for the resumption of the adjourned meeting.

Registered Office

Lenmed Investments Limited
2nd Floor Fountainview House,
Constantia Office Park,
Corner 14th Avenue and Hendrik Potgieter Road,
Constantia Kloof, Johannesburg, 1709

Company information

Country of incorporation
South Africa

Nature of business
The provision of private patient healthcare, through management and ownership of hospitals and other related health services.

Executive directors
Mr P Devchand
Mr A Devchand
Mr VE Firman

Non-executive directors
Mr MG Meehan (lead independent)
Ms B Harie (independent)
Ms NV Simamane (independent)
Prof BD Goolab

Registered address
2nd Floor Fountainview House,
Constantia Office Park,
Corner 14th Avenue and Hendrik Potgieter Road,
Constantia Kloof, Johannesburg, 1709

Postal address
PO Box 855,
Lenasia, Johannesburg, 1820

Auditors
PKF Durban, Chartered Accountants (SA)
Registered Auditors
Practice number – 906352E
2nd Floor,
12 on Palm Boulevard,
Gateway, KwaZulu-Natal, 4319

Company secretary
Mr W Somerville
2nd Floor Fountainview House,
Constantia Office Park,
Corner 14th Avenue and Hendrik Potgieter Road,
Constantia Kloof, Johannesburg, 1709

Registration number
1980/003108/06

Bankers
Rand Merchant Bank

Transfer secretary
Singular Systems (Pty) Ltd t/a Equity Express
7 Junction Road,
Bramley, Johannesburg, 2001

Our hospitals

Ahmed Kathrada Private Hospital
K43 Highway, Extension 8, Lenasia Gauteng
T. +27 11 213 2000 F. +27 11 854 1002

Bokamoso Private Hospital
Plot 2435, Mmopane Block 1, Gaborone, Botswana
T. +267 369 4000 F. +267 369 4140

Daxina Private Hospital
1682 Impala Street, Lenasia South, Gauteng
T. +27 11 213 7000 F. +27 11 855 1039

Ethekwini Hospital and Heart Centre
11 Riverhorse Road, Riverhorse Valley Business Estate,
Queen Nandi Drive, Durban,
KwaZulu-Natal
T. +27 31 581 2400 F. +27 31 581 2699

Kathu Private Hospital
Frikkie Meyer Street, Kathu
T. +27 53 723 3231 F. +27 53 723 3389

La Verna Private Hospital
1 Convent Road, Ladysmith, KwaZulu-Natal
T. +27 36 631 0065 F. +27 36 637 4889

Maputo Private Hospital
Rua do Rio Inhamiara, Sommerschield II, Maputo, Mozambique
T. +258 21 48 3905 F. +258 21 49 3680

Randfontein Private Hospital
Ward Street Ext, Randfontein, Gauteng
T. +27 11 411 3000 F. +27 11 411 3134

Shifa Private Hospital
482 Randles Road, Sydenham, Durban, KwaZulu-Natal
T. +27 31 240 5000 F. +27 86 559 7043

Zamokuhle Private Hospital
128 Flint Mazibuko Street, Hospital View, Tembisa, Gauteng
T. +27 11 923 7700 F. +27 11 924 2149

Royal Hospital and Heart Centre
Corner Welgevonden and Jacobus Smit Street, Royldene, Kimberley
T. +27 53 045 0350

lenmed

www.lenmed.com