lenmed
Embrace every day

PRELIMINARY STATEMENTS
for the year ended 28 February **2017**

Contents

Commentary

Performance review

The Group's performance exceeded expectations for the financial year. Revenue grew by 13% increasing to R1 558.5 million compared to R1 379.2 million in 2016. Normalised earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 28.9% to R272.7 million (2016: R211.6 million).

Group performance was positively impacted by several corporate actions during the year. Grinrod 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 (Pty) Ltd (Ethekwini hospital) 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 when it increased its shareholding to 53.6% in the equity of the company. In line with International Financial Reporting Standards (IFRS), the Group's investment in this 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 SA (Maputo hospital) by buying out the minority shareholders for R98.9 million. This gave rise to a full control reserve recognised in equity and transferred to accumulated profits of R37.0 million. Lenmed also invested R2.8 million in Kathu Private Hospital.

The Group's hospitals performed well above the prior year with all our major hospitals reporting much improved performance in both revenue and normalised EBITDA. 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 achieved for the Group of 17.8% (FY2016: 17.2%). On a segmental basis, the EBITDA margin for South African Hospitals was 19.4% (FY2016: 19.3%), whilst the EBITDA margin achieved for the rest of the African operations was 12.9% (FY2016: 11.9%).

The newly expanded Zamokuhle Private Hospital opened its doors in April 2016 and has performed above expectations. The hospital has brought much needed quality healthcare to the local community, who have been overwhelmingly supportive. We look forward to its continued growth as part of the Lenmed Group.

The associate companies achieved satisfactory earnings. The Group equity accounted for the earnings in Ethekwini hospital 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 the IFRS's IAS 23 "Borrowing Costs" standard, 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 hospital, which reopened in May 2016 following its rebuild and expansion.

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, 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.

Subsequent events

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.

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.

The Group's loan payable to Deutsche Investitions-und Entwicklungsgesellschaft (DEG) in Maputo 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.

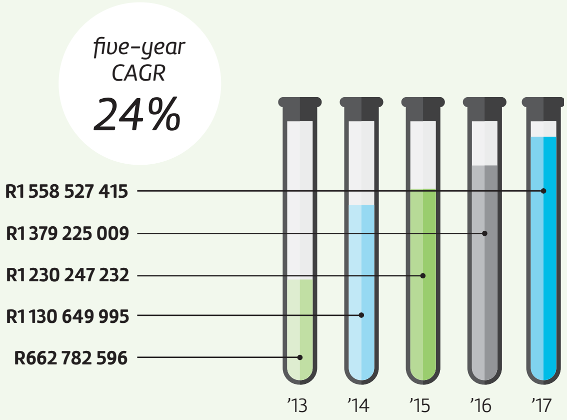
Outlook

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, and will continue doing so in line with our proven business model of steady expansion and adding in medical disciplines to existing facilities.

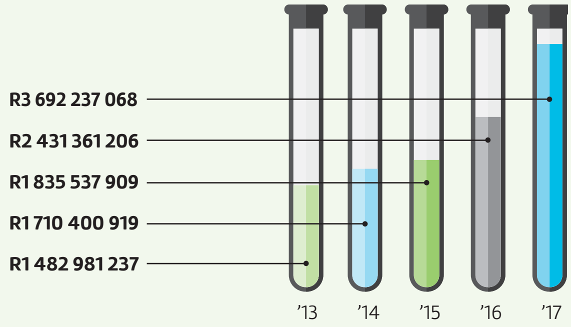
The construction of Lenmed's newest facility in Kimberley is progressing as planned and we remain encouraged by the level of interest, both from a public and specialist perspective. This facility will boast the provinces only cardiology and radiotherapy facilities in the Northern Cape and we are confident it will contribute meaningfully to the Group over the medium to long term.

Five-year review

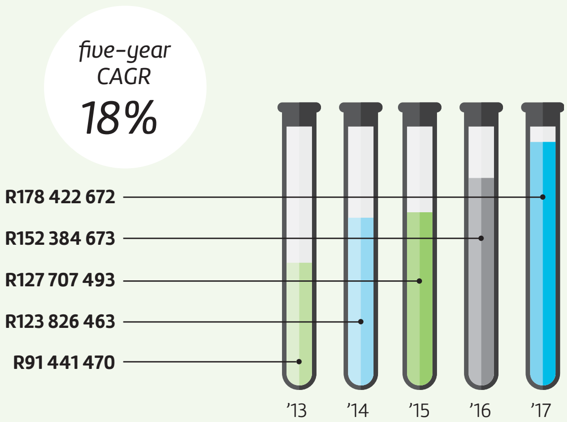
Revenue



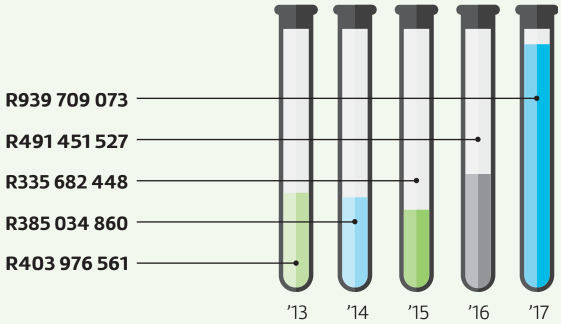
Total assets



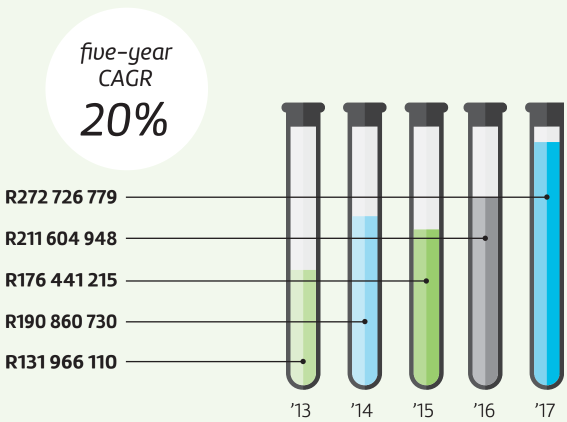
Headline earnings



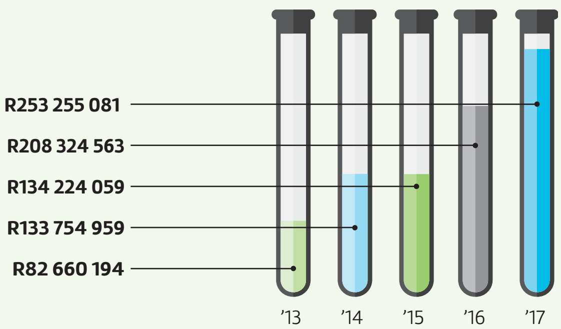
Total interest-bearing debt



Normalised EBITDA



Cash flow from operations



Statement of financial position

Rand	Note	GROUP 2017	2016
Assets			
Non-Current Assets			
Property, plant and equipment		2 605 659 905	1 620 905 603
Goodwill		315 051 754	29 935 259
Investment in associates		4 429 762	206 888 475
Deferred taxation		35 652 756	27 841 121
		2 960 794 177	1 885 570 458
Current Assets			
Inventory		38 837 387	27 160 427
Trade and other receivables		517 715 596	375 782 224
Taxation		6 859 699	2 822 215
Cash and cash equivalents		168 030 209	140 025 882
		731 442 891	545 790 748
TOTAL ASSETS		3 692 237 068	2 431 361 206
Equity and Liabilities			
Equity and Reserves			
Stated capital	2	422 407 213	219 843 313
Other Reserves		342 160 164	411 749 185
Accumulated profits		1 134 401 984	830 512 488
Non-controlling interest		202 881 982	31 303 784
		2 101 851 343	1 493 408 770
Non-Current Liabilities			
Long term liabilities		774 722 813	354 755 129
Loans from minorities		102 348 058	127 169 407
Deferred taxation		268 680 790	116 014 510
		1 145 751 661	597 939 046
Current Liabilities			
Trade and other payables		270 099 762	203 964 203
Current portion of long term liabilities		87 330 826	68 380 576
Provisions		36 375 961	29 782 170
Taxation		10 454 710	4 256 216
Bank overdraft		40 372 805	33 630 225
		444 634 064	340 013 390
TOTAL EQUITY AND LIABILITIES		3 692 237 068	2 431 361 206

Statement of comprehensive income

	GROUP	
Rand	**2017**	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
Operating costs	(976 106 016)	(863 785 539)
Profit before interest and taxation	433 803 859	188 650 601
Share of profit from associates	28 473 685	28 516 547
Investment income	5 358 147	3 644 387
Finance costs	(39 709 966)	(16 699 622)
Profit before taxation	427 925 725	204 111 913
Taxation	(87 615 126)	(45 397 244)
PROFIT FOR THE YEAR	340 310 599	158 714 669
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**
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
Headline earnings		
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 in Ethekwini Hospital and Heart Centre (Pty) Ltd net of taxation	(162 186 032)	–
	178 422 672	152 384 673

Statement of changes in equity

Rand	Stated capital	Revaluation reserve	Foreign currency translation reserve	Share-based payment reserve	Accumulated profits	Equity attributable to Group	Non-controlling interest	Total
Group								
Balance at 1 March 2015	219 483 313	176 544 490	77 067 906	4 323 969	677 988 621	1 155 408 299	18 389 737	**1 173 798 036**
Increase in minority on acquisition of shares	–	–	–	–	–	–	240	**240**
Profit for the year	–	–	–	–	152 523 867	152 523 867	6 190 802	**158 714 669**
Other comprehensive income	–	53 714 916	101 007 675	–	–	154 722 591	6 723 005	**161 445 596**
Share-based payment reversal	–	–	–	(909 771)	–	(909 771)	–	**(909 771)**
Issue of share capital	360 000	–	–	–	–	360 000	–	**360 000**
Balance at 1 March 2016	219 843 313	230 259 406	178 075 581	3 414 198	830 512 488	1 462 104 986	31 303 784	**1 493 408 770**
Profit for the year	–	–	–	–	340 864 558	340 864 558	(553 959)	**340 310 599**
Other comprehensive income	–	–	(70 266 055)	–	–	(70 266 055)	(6 918 935)	**(77 184 990)**
Share-based payment accrual	–	–	–	3 319 708	–	3 319 708	–	**3 319 708**
Full control of subsidiary	–	–	(2 642 674)	–	(36 975 062)	(39 617 736)	525 694	**(39 092 042)**
Acquisition of subsidiary	–	–	–	–	–	–	178 525 398	**178 525 398**
Issue of share capital	202 563 900	–	–	–	–	202 563 900	–	**202 563 900**
Balance at 28 February 2017	422 407 213	230 259 406	105 166 852	6 733 906	1 134 401 984	1 898 969 361	202 881 982	**2 101 851 343**

Statement of cash flows

		GROUP	
Rand	Notes	2017	2016
Cash flows from operating activities			
Profit for the year		340 310 599	158 714 669
Finance costs		39 709 966	16 699 622
Income tax		87 615 126	45 397 244
Depreciation and amortisation		52 619 185	45 338 524
Interest income		(5 358 147)	(3 644 387)
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
Share-based payment accrual/(reversal)		3 319 708	(909 771)
Income from associates		(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
Working capital changes			
Increase in inventory		1 289 725	4 610 868
Increase in trade and other receivables		(114 097 904)	(68 718 433)
Increase in trade and other payables and accruals		101 177 347	68 579 802
Cash generated by operating activities		253 255 081	208 324 563
Interest income		5 358 147	3 644 387
Finance costs		(39 709 966)	(16 699 622)
Income tax paid		(76 143 885)	(40 914 044)
NET CASH FROM OPERATING ACTIVITIES		142 759 377	154 355 284
Cash flows from investing activities			
Property, plant and equipment acquired		(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		1 920 863	411 812
Decrease in loan to associate		–	14 486 920
Increase in Investment in associates	3.1	(124 800 169)	(2 232 300)
Business combination effected	3.1	–	(34 170 663)
Additional consideration for investment in subsidiary		(2 850 000)	–
NET CASH UTILISED IN INVESTING ACTIVITIES		(522 879 618)	(284 693 978)
Cash flows from financing activities			
Proceeds from shares issued		202 158 900	–
Net loans raised		268 373 443	143 782 255
Loans raised		704 433 874	214 484 209
Loans paid		(436 060 431)	(70 701 954)
Issue of shares to minorities		–	240
Full control in subsidiary acquired		(98 860 857)	–
NET CASH GENERATED BY FINANCING ACTIVITIES		371 671 486	143 782 495
(Decrease)/Increase in cash and cash equivalents		(8 448 755)	13 443 801
Translation movement		1 234 572	–
Cash acquired on acquisition		28 475 930	–
Cash and cash equivalents at beginning of the year		106 395 657	92 951 856
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		127 657 404	106 395 657

Accounting policies

1. Basis of preparation

These preliminary consolidated statements that are not audited have been correctly extracted from the audited annual financial statements that PKF Durban have issued an unqualified opinion on. The results have been prepared under the supervision of Vaughan Firman CA(SA).

These preliminary consolidated statements are prepared in accordance with International Financial Reporting Standards (IFRS), IAS34 Interim Financial Reporting Standards, 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.

All new and revised standards that became effective during this period were adopted and did not lead to any material change to accounting policies. 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.

Notes to the Consolidated Annual Financial Statements

2. Stated capital

Rand	No of Shares	2017	2016
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
Share reconciliation			
Balance at the beginning of the year	645 081 322	219 843 313	219 483 313
Share premium reclassified to stated capital		–	–
Ordinary shares issued during the year	62 477 587	202 563 900	360 000
	707 558 909	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:

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.

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.

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, 9 (2016: 9) 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).

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.

Notes to the Consolidated Annual Financial Statements
continued

3. Business combination

3.1 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 it's classification from an associate to a subsidiary.

The Group acquired shares during the year to increase it's 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:

Rand	2017
Investment in associate: Opening balance - 29 February 2016	203 494 418
Increase in investment	124 800 169
Acquisition of shares	109 570 753
Increase in loan	15 229 416
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%	564 510 186
Elimination of inter-company loan account	(78 096 679)
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 costs	
Commission and legal costs	650 000

3.2 INCREASE IN INVESTMENT IN SUBSIDIARY

During February 2017 the Group increased it's investment in Maputo Private Hospital SA (Maputo 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 hospital is a 100% subsidiary of the Group.

Rand	2017
Net asset value of Maputo hospital at 1 February 2017	(722 001)
Non controlling interest	(250 032)
Consideration paid	98 860 622
Shareholder loan acquired	62 135 592
Shares	36 725 030
Full control reserve transferred to accumulated profits	36 975 062
Acquisition-related costs costs	
Commission and legal costs	770 784

Our hospitals

Ahmed Kathrada Private Hospital
K43 Highway, Extension 8, Lenasia Gauteng
T. +27 11 213 2000 F. +27 11 852 8910

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 2695

Kathu Private Hospital
Frikkie Meyer Street, Kathu
T. +27 53 723 3231 F. +27 53 723 3389

Royal Hospital and Heart Centre
Cnr Welgevonden and Jacobus Smit Street,
Royldene, Kimberley
T. +27 53 045 0350

La Verna Private Hospital
1 Convent Road, Ladysmith, KwaZulu-Natal
T. +27 36 631 0065 F. +27 36 637 4889

Maputo Private Hospital
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T. +258 21 488 600 F. +258 21 49 3680

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T. +27 11 411 3000 F. +27 11 411 3134

Shifa Private Hospital
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