lenmed
Embrace every day

Annual Integrated Report 2018

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More information
can be found elsewhere in this report

ABOUT THIS REPORT

Lenmed Investments Limited's (the Group or Lenmed) 2018 Annual Integrated Report covers the financial year 1 March 2017 to 28 February 2018. 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.

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 IV Report on Governance for South Africa
- International Integrated Reporting Council's (IIRC) <IR> Framework
- International Financial Reporting Standards (IFRS)

Since the release of Lenmed's 2017 Annual Integrated Report, the only material changes to the structure, ownership or products and services of the Group were the increase of our shareholding in the Lenmed Ethekwini Hospital and Heart Centre from 53.61% to 76.72%, the shift in our shareholding in La Verna Private Hospital to 95.4% (100% previously), and the July 2017 opening of the Royal Hospital and Heart Centre in Kimberley, Northern Cape. Lenmed's longstanding Executive Chairman and Chief Executive Officer (CEO), Prakash Devchand, will be retiring from the CEO position in 2020. To ensure a smooth transition, Amil Devchand, until recently the Group's Chief Operating Officer (COO) was appointed as Lenmed's Deputy CEO.

MATERIALITY

This report was prepared on the basis of materiality. The process for determining and prioritising material matters, and our disclosure of these, is discussed on page 22.

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 herein.

The financial information included in this report was prepared in accordance with IFRS, with PKF Durban independently assuring the annual financial statements.

The Lenmed Investments Limited Board of Directors (the Board) did not deem it necessary to get independent assurance on non-financial information.

BOARD RESPONSIBILITY

This Annual Integrated Report was approved by the Board on 7 June 2018. The Board acknowledges its responsibility to ensure the accuracy of this 2018 Annual Integrated Report. It has applied its collective expertise to this Annual Integrated Report and, in its opinion, this Annual Integrated 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 cautioned 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.

Feedback on report

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

OUR BUSINESS

Who we are

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 Group's hallmark. We believe that delivering superior healthcare is achieved through combining unparalleled quality and clinical excellence, underpinned by a community focus on the personal needs of our patients and their families.

Affordability, efficiency and a sense of community set Lenmed 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, sustain Lenmed from year to year and will enable us to grow steadily into our collective future.

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

Our vision and values in action

AFFORDABILITY

Lenmed usually targets underserved communities rather than affluent sectors. We must therefore ensure that our services are affordable to those populations. Our ongoing review of internal efficiencies is the most direct means of 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, along with other initiatives, recruited experienced professionals to manage shared services for human resources, business development, information technology (IT), marketing and procurement.

Implementation of the SAP Enterprise Resource Planning (ERP) system throughout Lenmed is nearly complete. Full integration of SAP will ensure that Lenmed can continually optimise our operations and optimise strategic value from incoming data.

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 continually review our internal systems to recalibrate quality standards.

GROWTH

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

Although investment opportunities appear constantly, current economic circumstances dictate that we approach acquisitions conservatively – greenfield developments in particular.

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

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 co-ownership and 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 with Maputo Private Hospital during February 2017.

Value created highlights

FOR OUR PATIENTS

Shifa Private Hospital celebrated **50 years in operation**

The Ahmed Kathrada Cancer Institute and Sports Medical Centre was opened

Royal Hospital and Heart Centre opened in Kimberley as the first complete **100%** Lenmed specification hospital

Increased our stake in the **Lenmed Ethekwini Hospital and Heart Centre** to **76.72%.** This facility again listed in **Discovery Top 20 hospitals for the year**

Maputo Private Hospital performed its **first neuro-surgery** in early 2018

Royal Hospital and Heart Centre commenced performing **cardiac-catheterisation and open-heart procedures** in early 2018

Our patient experience improved by 2%

FOR OUR PEOPLE

All employee payrolls were migrated to SAP on 1 March 2017

The Lenmed Wellness Week in October 2017 enabled all employees to be screened for free for HIV/Aids, cholesterol, glucose and BMI

We conducted employee surveys at four hospitals to gauge staff satisfaction levels and address areas of concern

14 employees were educated through our **Adult Basic Education and Training (ABET) programme**

IN OUR COMMUNITIES

We performed **86 free cataract surgeries** (2017: 91) to the value of R0.7 million (2017: R0.8 million)

We assisted genuinely financially distressed individuals by volunteering discounted hospital services worth R2.1 million (2017: R1.3 million)

Implemented a **more focused and intensive** advertising, public relations and communications strategy

OUR PROVIDERS OF CAPITAL

Our process to voluntarily adhere to the King IV corporate code demonstrates Lenmed's commitment to transparent and ethical corporate governance

Group revenue increased by **42.0%** from R1 558.5 million to R2 220.8 million

Core headline earnings at **R162.6 million** decreased by 6.5% (primarily attributable to increased finance costs in 2018)

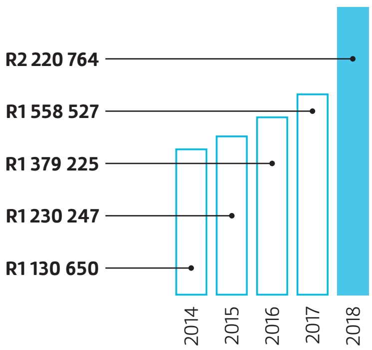
Lenmed invested **R337.2 million** into organic growth

The Group generated **R360.8 million** from operating activities (2017: R253.3 million), reflecting improved cash management

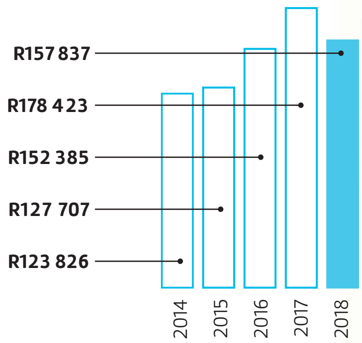
Five-year review*

Figures in '000

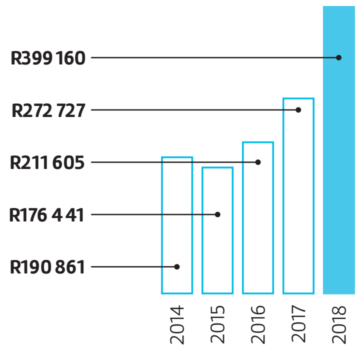
REVENUE
five-year CAGR ***27%***



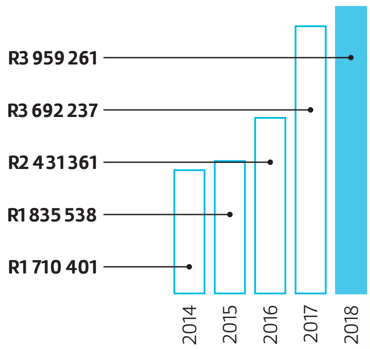
HEADLINE EARNINGS
five-year CAGR ***12%***



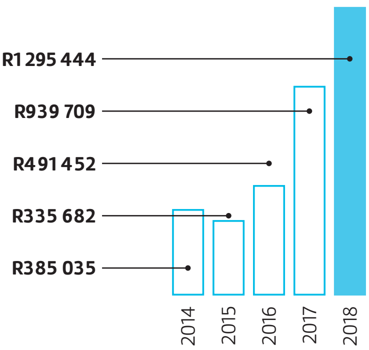
NORMALISED EBITDA
five-year CAGR ***25%***



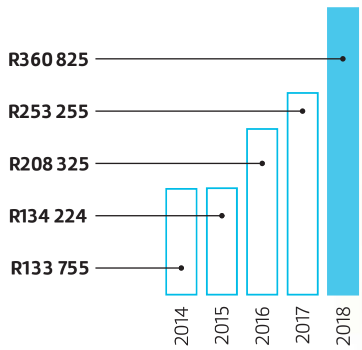
TOTAL ASSETS
five-year CAGR ***22%***



TOTAL INTEREST-BEARING DEBT
five-year CAGR ***26%***

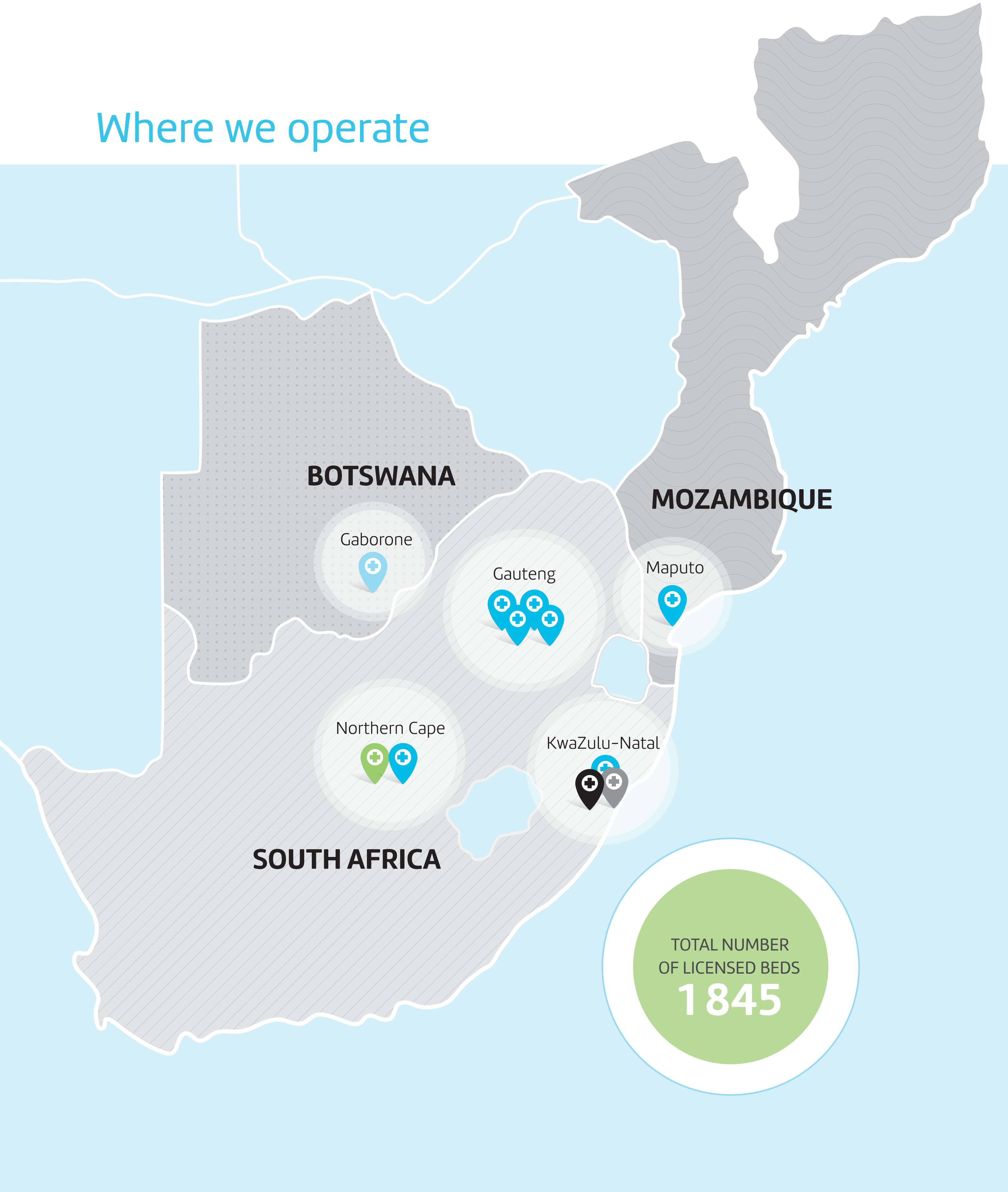


CASH FLOW FROM OPERATIONS
five-year CAGR ***34%***



* *Based on 2013 as the base year.*

Where we operate



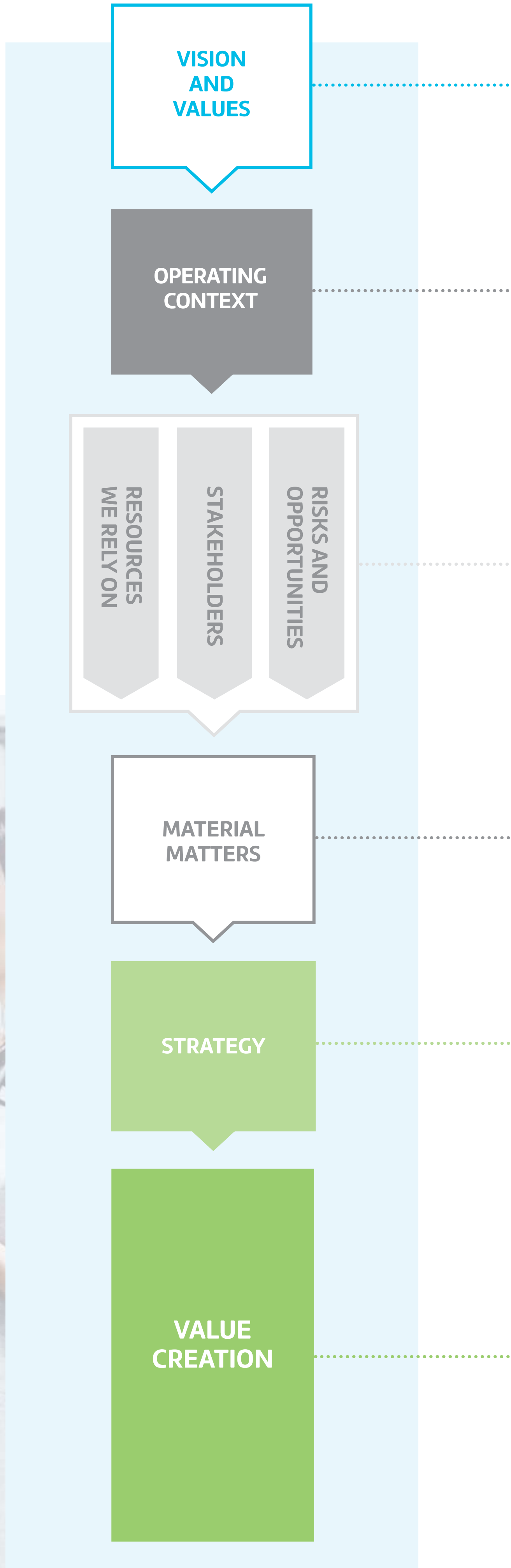
OWNERSHIP	HOSPITAL	BEDS
100%	Ahmed Kathrada Private Hospital, Lenasia, **GAUTENG**	268
100%	Zamokuhle Private Hospital, Tembisa, **GAUTENG**	94
100%	Daxina Private Hospital, Lenasia South, **GAUTENG**	64
100%	Randfontein Private Hospital, Randfontein, **GAUTENG**	174
100%	Shifa Private Hospital, Durban, **KWAZULU-NATAL**	179
100%	Maputo Private Hospital, Maputo, **MOZAMBIQUE**	105
100%	Royal Hospital and Heart Centre, Kimberley, **NORTHERN CAPE**	177
95%	La Verna Private Hospital, Ladysmith, **KWAZULU-NATAL**	149
77%	Ethekwini Hospital and Heart Centre, Durban, **KWAZULU-NATAL**	345
70%	Bokamoso Private Hospital, Gaborone, **BOTSWANA**	235
67%	Kathu Private Hospital, Kathu, **NORTHERN CAPE**	55

Our value creation journey

For a truly integrated report, we must show how value is created by sharing the flow of strategy and decision making that leads to value creation for shareholders, our people and communities.

By outlining the steps through which Lenmed creates value, we intend providing sufficient information for investors and stakeholders to logically evaluate our current and future prospects.

Embedding integrated thinking in an organisation supports an in-depth understanding of all factors impacting our ability to create sustainable value for our stakeholders. Integrated thinking enables us to plan and adjust our business in a constantly changing environment filled with challenges to overcome and opportunities to exploit.



VISION AND VALUES

Lenmed remains focused on growth through affordable and quality patient experiences and clinical outcomes. We remain true and relevant to our original community ethos of providing world-class medical facilities where these are lacking.

Our core values are:

Affordability | Efficiency | Quality

Backed by excellent management, motivated employees and world-class facilities.

Refer to Who we are on page 2

OPERATING CONTEXT

We analyse the environments where we operate to determine which risks and opportunities will most impact Lenmed's ability to create value in the short, medium and long term.

ANALYSE
- Operating context
- Resources we rely on
- Stakeholder feedback

IDENTIFY
- Risks and opportunities

PLAN
- Business strategy

Refer to page 16 for more information on our Business environment

RESOURCES WE RELY ON

Resources flow through Lenmed in the form of the six identified capitals, being our financial, human, intellectual, social and relationship, natural and manufactured capitals. Management decides how these capitals should be applied to ongoing operations and new projects.

- Financial capital
- Social and Relationship capital
- Manufactured capital
- Intellectual capital
- Human capital
- Natural capital

STAKEHOLDERS

Our relationships with people, patients and communities are our strategic differentiators. The quality of these relationships and the issues raised by stakeholders inform our assessment of risks and opportunities.

- Investors
- Medical practitioners
- Employees
- Patients and communities
- Suppliers
- Medical aids
- Government

Refer to Our key relationships on page 20

RISKS AND OPPORTUNITIES

Having identified Lenmed's risks and opportunities, we decide on responses to minimise each risk and maximise each opportunity. We also try to identify opportunities within our risks, which are ranked in terms of their potential impacts on the Group. Identified opportunities are carefully assessed against the Board-approved risk appetite. Depending on the operating context and our risk appetite, only the highest ranked opportunities will be engaged.

Refer to Our principle risks on page 18

MATERIAL MATTERS

Lenmed utilises a process to identify the economic, environmental and social matters that management believes could most substantively impact the Group's ability to create value. We consider various internal and external influencers when prioritising each matter.

- Increasing competition
- Making healthcare more efficient for patients and providers
- Strategic differentiation
- Economy
- Relationships with medical schemes
- Scarcity of skills in southern African healthcare
- The growing complexity of healthcare regulation
- Technology

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. To remain sustainable, we pay close attention to our performance, compliance and community relationships.

Build critical mass

Operate efficiently

Grow reputation

Refer to Our value creation strategy on page 8

VALUE CREATION

Lenmed creates value for our shareholders and other stakeholders through our deep and broad knowledge of Southern Africa's health industry. Lenmed has recruited a well-balanced mix of experienced health practitioners and younger, highly qualified professionals to collaborate in our medical facilities across Southern Africa.

Our Board and management are adept in identifying expansion opportunities in high potential areas where competing healthcare groups haven't yet entered.

Value is created by restoring underperforming medical facilities to healthy cash flows, or by building compact and efficient hospitals in underserved areas. Additional specialities are added at facilities, based on demand.

Business activities and services

In over 30 years under expert and consistent management, Lenmed has developed a solid reputation for providing healthcare, supported by standard operating procedures that are continuously improved through benchmarking and new technology.

These day to day activities enable Lenmed to function and attract medical personnel and patients to our hospitals.

Governance

Lenmed is committed to ethical and sound corporate governance.

Although a non-listed company, Lenmed governs itself in accordance with the principles of the King IV Report on Corporate Governance for South Africa, 2016 (King IV).

We utilise the International Integrated Reporting Council's (IIRC's) <IR> Framework to structure our Annual Integrated Report to shareholders and stakeholders.

How we sustain value

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.

INPUTS

- Working capital
- Loans
- Operational and capital expenditure

OUTPUTS

- R2 220.7 million revenue
- R162.6 million core headline earnings

OUTCOMES

- A healthy balance sheet and sufficient working capital to fund our operations supports long-term sustainability

Refer to the Chief Financial Officer's report on page 34

MANUFACTURED CAPITAL

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

INPUTS

- Acquiring new hospitals
- Enhancing established hospitals
- Managing hospitals for third parties
- Head office
- Equipment
- Technology

OUTPUTS

- 11 hospitals
- 1 845 registered beds
- 133 new specialists
- Operational efficiencies

OUTCOMES

- Our hospitals generate cash flows that fund developments and repay debt
- New developments support long-term revenue generation and capital growth through a growing portfolio
- A geographically diversified portfolio of quality private hospitals in underserviced areas

Refer to the Deputy Chief Executive Officer's report on page 26

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.

INPUTS

- 2 510 employees
- 1 594 nurses
- Training
- Remuneration and policies
- Agency agreements

OUTPUTS

- Qualified, experienced and motivated workforce
- Ongoing skills development

OUTCOMES

- Motivated staff to deliver our strategy
- Skills attraction and retention
- Skilled workforce
- Alignment to our company values and habits
- Diversity

Refer to the Human capital review on page 38

SOCIAL AND RELATIONSHIP CAPITAL

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

INPUTS

Relationships with:

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

OUTPUTS

- 86 free cataract surgeries for community members
- Excellent customer satisfaction results shown in surveys
- Discounts to financially disadvantaged patients of over R2 million

OUTCOMES

- Brand reinforcement as well as clear and consistent messaging and market communication
- Constructive interaction with all stakeholders
- Sustained reputation among all stakeholders
- B-BBEE contractors and workers to transform the industry
- Long-term value for our community through CSI initiatives

Refer to the Social and Relationship capital review on page 42

INTELLECTUAL CAPITAL

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

INPUTS

- Quality policies, procedures and standards
- Systems and analysis models i.e. SAP
- Alternative reimbursement pricing models
- Legal and statutory compliance requirements
- Cyber security

OUTPUTS

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

OUTCOMES

- Improved responses to changing consumer needs
- Effective controls and processes
- Recognition and enhanced reputation
- Automation through technology
- Communication interfaces

Refer to the Intellectual capital review on page 50

NATURAL CAPITAL

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

INPUTS

- Energy
- Water
- Land use

OUTPUTS

- Cost savings and reduced consumption of fossil generated energy through technology updates and solar energy
- Waste and water treatment initiatives

OUTCOMES

- Reduced amount of resources used and waste generated
- Lower cost of ownership and occupation of our buildings
- The ability to operate with constrained water and electricity supply

Refer to the Natural capital review on page 52

OPERATING CONTEXT

Chairman and Chief Executive Officer's statement

Looking back, the year 2017 represented the darkest hours before the dawn of a brighter political and economic dispensation in South Africa.

Continuing political volatility and widespread allegations of public sector corruption had further damaged the already stagnant economy and prompted global rating agencies to issue a series of investment downgrades. Fixed investment dried up as business confidence fell and companies held on to their cash reserves until a clearer way forward could be seen. Falling disposable income persuaded many consumers to save their cash and reduce debt, which meant fewer South African residents joining medical aid funds or upgrading their medical aid plans.

As 2017 ended, our dawn broke clear of the clouds due to a decisive change of leadership in the governing party and two months later, in the presidency and cabinet of South Africa. Business confidence is improving, while rating agencies have approved of the more pro-business and investment climate being established in South Africa.

HEALTHCARE INDUSTRY IN SOUTH AFRICA

Affordability and cost of care

In global terms, South Africa provides quality healthcare at comparatively cheap prices. Medical tourism from other countries is a potentially lucrative option for Lenmed. Nevertheless, reality dictates that healthcare should be affordable to communities in our hospital catchment areas. Lower income South African residents are hard pressed to pay medical aid subscriptions, or for ad-hoc healthcare.

Lenmed is participating in the deliberations for the forthcoming National Health Insurance (NHI) scheme. As the draft NHI begins taking shape, we look forward to all role players being given meaningful opportunities to contribute to the best solution for South Africa's residents.

Regulatory environment and NHI developments

The health regulatory environment in South Africa is fluid at present, with regulatory and licensing proposals at various stages of development. Lenmed participates in regulatory deliberations through the Hospitals Association of South Africa (HASA).

South Africa's cabinet approved a proposed National Health Insurance (NHI) Bill, which had been years in the planning. This is government's first major piece of legislation aimed at providing universal healthcare to all South Africans. The draft NHI bill is intended to realign and consolidate the service offerings of public and private healthcare providers.

Chief Justice Sandile Ngcobo released a provisional Competition Commission report on private healthcare in South Africa that concluded four years of investigation. This report is currently open to comment by stakeholders.

As Lenmed is in the process of studying both the NHI Bill and the Competition Commission report, it would be premature for me to make any further comment on these matters at this time.

Shortage of specialised skills

South Africa has a chronic shortage of qualified nurses and medical professionals in all categories. Our tertiary and training institutions do not presently have the capacity to turn out sufficient numbers to meet the needs of South Africa's current healthcare environment and will certainly be far short of the numbers of qualified medical staff required to fulfil additional NHI requirements.

Lenmed and other private healthcare providers are eager to play a meaningful role in training doctors and medical professionals to help meet Southern Africa's needs. Our hospitals are available as training platforms and healthcare providers are willing to establish private medical schools.

We are waiting on Lenmed's proposed nursing college to be licenced, with the hope that the formalities are completed soon, and we can help grow South Africa's pipeline of qualified nursing staff.

MATERIAL MATTERS, RISKS AND OPPORTUNITIES

I wish to share a high-level view of this critical aspect of managing Lenmed for long-term sustainability. Our Group-wide approach to material matters, risks and opportunities, along with our strategy, is detailed later in this report.

The material matters we prioritised last year remain, however, increasing competition between private healthcare providers is a new material issue. Other private hospital groups have built or are developing hospitals in areas where Lenmed is already present. I foresee a consolidation in the private healthcare sector due to speculative new entrants entering the market in numbers.

Lenmed's market differentiators will keep us competitive and growing. The Group is neither too big nor too small, with the flexibility of being unhindered by the anti-competitive restrictions placed on the major healthcare providers. The Lenmed brand is trusted for a long track record of quality care, our community focus and meeting our financial obligations.

Once our new facilities are fully established, we will explore the market for further medical opportunities we can optimise through experienced management and fresh capital. Private healthcare is an attractive proposition for investors who look to reputable healthcare providers such as Lenmed. With Southern African economies expected to gain momentum in 2018/19, we look forward to embarking on new projects that fit our risk appetite and meet investor approval.

Financial capital

The results for the year reflect a decrease in Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA), profit before tax and profit after tax. This decrease on the prior year can be attributed to a prior year once-off gain on the fair value of the Group's investment in Lenmed Ethekwini Hospital and Heart Centre (Ethekwini hospital) on acquisition of R209 million pre-tax. This gain was recognised in line with International Financial Reporting Standards (IFRS).

The Group continues using the normalised EBITDA format, as a measure for providing consistent and comparable reporting. The Group's normalised EBITDA for the year was R399.2 million compared to R272.8 million in the prior year, after excluding the gain on fair value described above of R209 million. This 46% increase is attributed primarily to a R100.2 million increase from Ethekwini hospital's first full year consolidation.

Human capital

Motivated and engaged employees are fundamental to Lenmed's drive to continuously improve the patient experience. We therefore provide incentives and skills development opportunities to retain valued staff members.

Succession planning

The Board has accepted my intention to retire as Chief Executive Officer (CEO) by 29 February 2020.

Amil Devchand, who has filled executive posts since joining Lenmed in 2011 and was its Chief Operations Officer (COO) for the past three years, was appointed by the Board as Deputy CEO from 1 March 2018. He therefore has two years to transition seamlessly into the Group CEO role.

Chairman and Chief Executive Officer's statement continued

The COO role has been set aside for now and several of Amil's previous COO responsibilities have been allocated to Dr Morgan Mkhatshwa, who joined Lenmed in 2016 as our Group Business Development and Stakeholder Relations Manager. Dr Mkhatshwa was appointed into the new position of Head: Group Operations with the responsibility for improving efficiencies, growing the business and continually enhancing patient service levels.

Dr Augusta Dorning has joined the Group as our first Head: Africa Business, with the mandate to lead and guide our expansion into the broader continent. Dr Dorning brings with her a solid track record in healthcare business development gained over many years.

Manufactured capital

Moving ahead steadily in improving the efficiencies and capabilities of our manufactured assets such as hospitals, equipment and related facilities is fundamental to the Lenmed strategy. Our recently appointed Chief Medical Officer (CMO), Dr Nilesh Patel, is presently introducing new clinical management systems and evaluating specialised software for measuring clinical outcomes.

Over the past two years we have implemented the SAP ERP system across all our facilities and premises, which has greatly enhanced how we utilise all six capitals. Aligned with clinical outcomes and HR specialised software, SAP will enable continual improvement in our manufactured capital.

Social and relationship capital

Lenmed completed an extensive rebranding exercise two years ago, which has resulted in the general public and healthcare players becoming more aware of the Lenmed brand. The recently renamed Lenmed Ethekwini Hospital and Heart Centre is recognised by Discovery as one of South Africa's top 20 hospitals for the third year in succession. With Ethekwini Hospital and Heart Centre leading the way, we intend getting more Lenmed hospitals acclaimed as medical destinations of choice.

The Group has employed many new people over the past three years, particularly in senior and middle management. The new recruits are instilling efficient management of our operations after a period of rapid expansion. With head office well settled, we can focus on equipping the management teams and their workforces.

We are also working toward closer relationships with the Medical Aid Funders (MAFs). These engagements are direct one-on-ones, as well as through the National Health Network (NHN), which is growing in status as a guardian and negotiator of private healthcare interests.

An immediate concern is that MAFs are discouraging new private hospitals, taking the view that current capacity in South Africa is not being utilised sufficiently and efficiently. We understand their concern about new hospitals in well served areas, but many parts of South Africa and our neighbours sorely lack private healthcare facilities in many underprivileged areas where medical facilities are scarce.

STRATEGY

Lenmed's immediate strategy is to identify and develop the medical facilities that our current facilities can and should anchor. There is growing demand for day hospital and mental health facilities, in addition to the other specialities the residents of our catchment areas require. We have much scope for growing Lenmed without acquiring or opening new hospitals at this time.

Having said that, we have received numerous enquiries about commissioning hospitals across the rest of Africa and will follow up on viable opportunities. Dr Augusta Dorning is leading and overseeing Lenmed's broader African interests and business expansion.

I am pleased that we achieved most of our 2017 objectives, the key milestones being the opening of our new Kimberley hospital and securing a 77% shareholding in the 414 bed Ethekwini Hospital and Heart Centre.

We also commissioned oncology centres and other medical speciality units at our other hospitals. I wish to make special mention of the post year-end launch of the paediatric cardiology unit at Ethekwini Hospital and Heart Centre under the leadership of Prof Rob Kingsley and Dr Darshan Reddy. This is the first unit of its kind in KwaZulu-Natal and has delivered outstanding results to date.

Having introduced an improved patient survey system, Lenmed gets real-time feedback on patient experiences that is analysed and benchmarked across all hospitals and facilities daily. These results show that overall patient experiences at Lenmed facilities have improved and continue doing so.

On the negative side, South Africa's stagnant economy and more aggressive cost-cutting by MAFs has lowered our financial returns for the year. We were also disappointed by the withdrawal of a key medical scheme plan and the loss of certain specialist doctors from the Ethekwini Hospital and Heart Centre. We have, however, introduced new specialists and are confident of their success going forward. We also are in discussions with the MAF to revive the medical scheme agreement.

SUSTAINABILITY

Sustainability is a key element of our business strategy, which focuses not only on financial performance, but also on managing social and environmental impacts and conducting business fairly and ethically.

Affordability

Lenmed works constantly to ensure that services at our hospitals are efficient, effective and appropriate.

Affordable healthcare is a major issue in Southern Africa. Since we operate primarily within the private health sphere, our pricing is invariably influenced by tariff negotiations with various medical aids. We believe that building and maintaining long-term relationships with MAFs is integral to making rates and prices as affordable as we can. By continually striving to improve on cost-effective service delivery, we ease the cost burden on our patients and attract the interest of MAFs.

Technology

To revise standards, we have developed Centres of Excellence in certain hospitals. These nodes of excellence develop processes and protocols that we then roll out across the Group to enhance patient experiences at all of our hospitals. We continually assess the need for updated technology in various specialties, supported by feedback from doctors on their medical requirements.

Lenmed's in-house clinical engineering department ensures that the Group is kept updated of advances in medical technology. They regularly attend international medical conferences to assess and report back on the latest developments in medical technology. As and when required and within budgetary limits, we acquire medical equipment to ensure that our facilities continue meeting international healthcare standards.

Corporate citizen

Being a responsible corporate citizen is integral to the Lenmed ethos of being embedded in the communities we serve. We consider the long term impact of our actions and work to include and empower our communities through our operations.

We employ a significant number of community members and support local businesses, which makes Lenmed a major contributor to community economies.

Reducing our impact on the environment is fundamental to the Group's long term sustainability. More importantly, interruptions in electricity or water supply have life-threatening consequences for patients. To mitigate the risk of unstable electricity and water supply, we have installed generators, solar panels and sunk boreholes at certain hospitals where the risk was deemed to be more prevalent.

ETHICS, LEADERSHIP AND CORPORATE GOVERNANCE

At Lenmed, we believe that sound corporate governance is based on ensuring best practices in ethics, quality assurance, efficiency and accountability. As a result, we adhere to the King IV Code.

During the year, we conducted an internal Board evaluation to ascertain whether the current members possess the requisite collective skills and experience in order to perform their responsibilities, including amongst others, to achieve the Group's objectives and create shareholder value over the long term.

We are confident that Lenmed's current Board does possess these skills and functions effectively with integrity and accountability.

DIVIDENDS

Lenmed will not pay dividends this year. Doing so will not be prudent in the light of bank funding that has underpinned organic growth and its consequent increases in revenue. Most of our shareholders are long term investors who will gain more from strengthening value of Lenmed's shares than from the immediate benefit of a dividend payout.

PROSPECTS AND OUTLOOK

Our 2019 focus will be on organic growth. Aligned to this is internal quality improvement – moving beyond measurement to actual delivery. Our patients should receive maximum value for their money. We actively seek ways to reduce cost and waste, increase the efficiency of healthcare delivery, and allocate resources astutely to create value through operational processes.

The Board and I are asked time and again if Lenmed will eventually list on the JSE. The idea has appeal, but its timing and offering must be right, so our current strategy is to build critical mass through organic and acquisitive growth. We are constantly on the lookout for opportunities to grow the Group. Despite this, we continue to govern ourselves as though we are a listed entity, thus affording transparency and accountability to all stakeholders, especially our funders and shareholders.

CONCLUSION

Our desire to serve people and change lives, while enhancing shareholder value, has always guided our growth. Going forward, we are positive that the funds and energy invested in recent projects will deliver the anticipated rewards. We are hopeful that newfound political and economic optimism will accelerate economic activity, grow demand for private healthcare and enable a larger slice of the local population to afford it.

THANKS

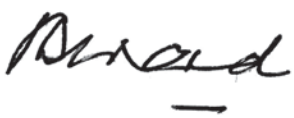
Healthcare, at its core, will always be about building and maintaining trust.

I would like to thank all our staff for the energy, innovation and patient-focus they bring to this necessary and ongoing task.

To our doctors and nurses, thank you for your unwavering dedication. Your talents, skills and compassion bring hope to our patients and families, and I am truly grateful for your enduring commitment to finding new treatments and cures.

To our Board of directors, thank you for trusted guidance and expertise in ensuring we meet our strategic objectives.

My heartfelt appreciation goes to our valued shareholders for your steadfast confidence and faith in the Lenmed Group. Your interests are at the heart of Lenmed and we will do our utmost to continue creating sustainable value for you.



Mr Prakash Devchand
Chairman and Chief Executive Officer

Business environment

ECONOMIC ENVIRONMENT

South Africa stands at a political crossroads, which may determine whether our economy strengthens, or will continue deteriorating as in the recent past. In the first half of 2018, ratings agency Moody's affirmed South Africa's investment-grade credit rating and revised its credit outlook from negative to stable, due to its analysis that the previous weakening of national institutions was gradually reversing. Standard & Poors (S&P) reaffirmed South Africa's rand debt at 'BB+' and kept the country's foreign-currency debt unchanged at 'BB'. The prospect of turning around the country's institutions under new leadership, supported by financially astute politicians in key roles, were probably the main factors behind these ratings agencies adopting a 'wait and see' approach. South Africa's economic growth has shown signs of recovery, expanding by an unanticipated 3.1% in Q4 2017. The run-up to the 2019 elections will undoubtably produce volumes of rhetoric aimed at assuring investors and voters, though may also cause another phase of economic and political uncertainty.

While South Africa's economic future appears more promising now its economic growth remains slow with unemployment at persistently dangerous levels. Medical aid membership is directly impacted by the continuing lack of mainstream jobs and economic growth in the country.

COMPETITIVE LANDSCAPE

South Africa's public sector healthcare services are presently responsible for 80% of the population's healthcare and account for approximately 48% of total healthcare spending. The country's private healthcare providers look after 20% of the population, which spends approximately 50% of South Africa's healthcare spend per annum. The remaining 2% is contributed by non-governmental organisations.

Of the private-sector spending, approximately 81% is funded from private prepaid plans and 14% from out-of-pocket payments.

Netcare Limited, Life Healthcare Group Limited, and Mediclinic Southern Africa (a division of Mediclinic International) rank first, second and third by size respectively as providers of private healthcare in the country.

In South African healthcare, these independently owned private groupings are regarded as the 'big three'. No major healthcare providers dominate in the rest of Africa, whilst locally, the healthcare sector outside of the 'big three' is split between independently owned private healthcare groupings, individual hospitals, and independent hospitals who all belong to the National Hospital Network (NHN).

Consolidation of independently held beds is inevitable and we are continuously looking out for acquisitions or management contracts that will build Lenmed's critical mass and competitive volumes.

Private healthcare in South Africa is a dynamic landscape that shifts from year to year, with the country's healthcare groups preparing themselves for the incoming National Health Insurance (NHI) regime. Positioning for NHI by the industry players remains uncertain until more clarity becomes apparent on funding the scheme and how NHI will impact public and private healthcare.

Major healthcare groups are presently struggling to gain licences for expanding current facilities or for building new hospitals. Healthcare groups are trying to maintain profitability by developing primary health and psychiatric care facilities at their South African hospitals, while seeking expansion opportunities off-shore. In some instances, these expansion strategies haven't yet worked, causing share prices and profit ratios to drop.

The Department of Health (DoH) and other regulatory authorities appear to be granting hospital and bed licences to B-BBEE applicants on request and possibly without considering impacts on existing hospitals or their management capabilities. Allowing medical facilities to concentrate and compete in specific areas won't benefit the existing or incoming healthcare providers, as well as diverting medical resources from areas that really need them.

AVAILABILITY OF SKILLS

Doctors and medical specialists are increasingly purchasing their own healthcare facilities, which reduces the availability of skills to Lenmed and other hospital groups. Communities are also demanding employment in hospitals sited in their areas. Unless the required skills are locally available, this trend can disrupt our recruiting of skilled staff and hamper service standards.

On a positive note, government may consider relaxing or scrapping policies that prevented healthcare groups from directly employing doctors and specialists. Allowing hospital groups to employ their own specialists in various medical specialities may enable hospital groups to merge with Medical Aid Funders (MAFs).

On the downside, government is being surprisingly slow to licence medical training facilities, such as the nursing college licence Lenmed applied for over three years ago. If young South Africans in sufficient numbers aren't being trained in medical disciplines, then invaluable jobs are lost, and healthcare groups will have to cope with ageing skills sets.

Constricting the flow of qualified medical professionals into the healthcare industry will inevitably drive up salaries with consequent costs to MAFs and our patients.

MEDICAL AID FUNDERS

South Africa's MAFs are under financial pressure due to stagnant member growth, rising costs, an ageing member population and stricter regulations. Their response is to discourage the development of new hospitals, as these apparently increase patient visits and medical aid claims. The MAFs are pushing for greater efficiencies from hospitals and specialists, along with shorter hospital stays and treatment programmes. This trend places pressure on maintaining our standards and margins.

General healthcare trends are also shifting, with growing demand for services such as primary healthcare, day hospitals, oncology, mental health and rehabilitation facilities.

TECHNOLOGY

Medical technology is evolving so quickly that the industry will be continually disrupted for years into the future. We foresee that automated systems and artificial intelligence will fundamentally redefine the industry within the next five years.

OUTLOOK

Lenmed, along with much of the industry in South Africa and the broader continent, has been constrained by unfavourable economic and political realities, and political and economic stability is required to return to our past growth trajectory.

Interest rate hikes, possibly due to further ratings downgrades, are a risk. Nevertheless, Lenmed is attracting keen interest from fund managers and investors who have assessed our business model and track record. We look forward to partnering with investors who grasp the Lenmed ethos in new acquisitions and bolt-on specialities and facilities.

Our principal risks

COUNTRY RISK	INDUSTRY REGULATION	HOSTILE HEALTHCARE FUNDER REGIME
South Africa and Mozambique have in the past years experienced a loss of confidence in government policies. The risk of a further downgrade to credit ratings in both countries was a real possibility. Recent political developments have caused some relief, however a turnaround still requires some circumspection.	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	Medical schemes work to drive hospital tariffs lower and influence the manner in which hospitals operate. Aspects of these changes include: • Discovery and Government Employees Medical Scheme (GEMS) dominance of the medical scheme sector • Medical scheme consolidation • Alternative reimbursement models
CONSEQUENTIAL EFFECTS		
A decline in Southern African economic realities hampers Lenmed's expansion policy.	Tighter industry regulations within the healthcare landscape result in poorer expansion opportunities and an erosion in stakeholder returns.	Operational changes in the healthcare industry lead to poor tariff increases and profit margin erosion.
RISK RESPONSE/MITIGATION		
• Constant monitoring of the situation • More circumspect on growth opportunities • Raise our internal investment hurdle rate and only invest in projects offering the highest potential within our risk parameters	• Strategy on negotiating through the National Health Network (NHN), with our Deputy CEO elected as chairman of the NHN • Hospital efficiency drive to reduce costs per admission • Ongoing monitoring includes submissions required by the DoH	• 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
OPPORTUNITY ARISING		
Seek expansion opportunities arising beyond Southern African borders.	Continuous engagements, both formal and informal, to address the DoH.	Lenmed can assist NHN in achieving its Black Economic Empowerment objectives. This may be favourably received by government, which could result in less aggressive price discussions with medical schemes.
LINKS TO MATERIAL MATTERS		
• Economy • Increasing competition	• The growing complexity of healthcare regulation • Relationships with medical schemes	• Relationships with medical schemes • Increasing competition • Making healthcare more efficient for patients and providers • Strategic differentiation • Economy • Technology

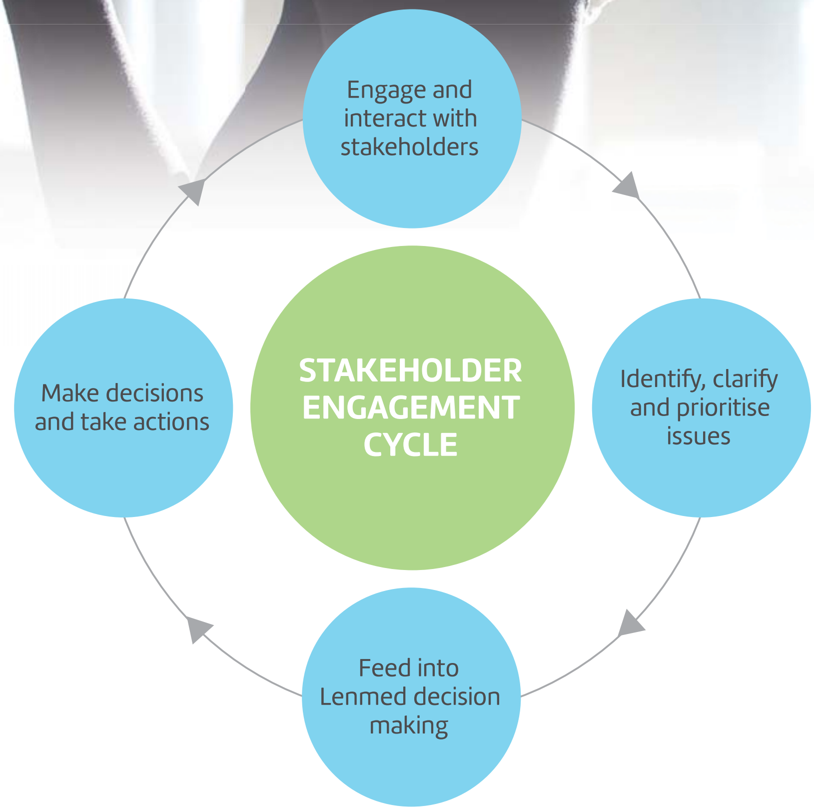
MEDICAL PRACTITIONERS	SKILLED LABOUR RESOURCES
South African law currently prohibits healthcare groups from directly employing doctors. Lenmed therefore competes rigorously for competent medical practitioners, as too few doctors and specialists are being trained to meet the healthcare requirements in Southern Africa. South Africa's public sector continues to discourage doctors from working in both the public and private sector, which also reduces the supply of needed medical practitioners.	Skilled medical personnel are in short supply in South Africa. Recruiting experienced theatre and ICU nursing staff, as well as competent hospital and pharmacy managers, is a challenge Lenmed must overcome.
Due to insufficient doctors graduating, quality doctors emigrating, and larger groups being able to provide incentives for their doctors, Lenmed is unable to offer a comprehensive healthcare programme across the full spectrum of disciplines. This may lead to patients seeking treatment at other hospitals.	A lack of appropriately qualified staff hinders our capacity to provide quality patient healthcare and operational efficiencies.
• Lenmed works constantly to maintain strong relationships with its doctors • Investment in infrastructure and modern equipment to attract and retain sought-after medical personnel • Recruit expatriate doctors for our hospitals in Botswana and Maputo • Share scheme in place for loyal doctors • Marketing initiatives aimed specifically at recruiting doctors and specialists	• Lenmed has implemented training programmes to upgrade employee skills • Urgent shortages are addressed through nursing agencies • We are awaiting a government licence for our planned nursing academy • Introducing competitive remuneration benefits, particularly for managers and pharmacists • A share scheme is in place for long-serving employees
Lenmed has the opportunity to truly distinguish itself as a hospital provider who is as committed to patient care as our doctors. By investing in our facilities, creating ownership models for doctors and forming partnerships to achieve clinical excellence, Lenmed hopes to ensure the attraction of high calibre professionals to improve the sustainability of our business.	Lenmed's own nursing academy should ensure a sustainable supply of trained nurses for our hospitals. Constant networking with the major healthcare groups provides access to highly experienced managers.
• Scarcity of skills in the Southern African healthcare sector • Increasing competition • The growing complexity of healthcare regulation • Strategic differentiation • Technology	• Increasing competition • Scarcity of skills in the Southern African healthcare sector • Economy • Technology

Our key relationships

Lenmed's stakeholder relationships directly impact our ability to create value. Our growth and profitability is underpinned by the management of our relationships with investors, employees, medical practitioners, patients, suppliers and the broader communities in which we operate.

By establishing good lines of communication with our various stakeholders and maintaining constructive relationships, we are better equipped to identify opportunities and risks early on and address these timeously.

Our material stakeholders are those stakeholders with a significant level of influence on our business or those who are heavily impacted by our presence. As a result, we engage with them regularly. Our strategies and business planning are heavily influenced by understanding our stakeholders' concerns and expectations.



STAKEHOLDER	STAKEHOLDER CONCERNS	OUR RESPONSE
Medical practitioners	• Access to professional teams • Competitive, high quality and well-maintained hospital facilities • Latest technology and equipment	Ongoing communication between Lenmed's Chief Medical Officer (CMO) and our resident medical professionals to make Lenmed facilities conducive working environments for nurses, doctors and specialists.
Employees	• Fair remuneration • Training and development/career development • Reward and recognition for high-quality performance	The Group Nursing Services Manager ensures optimum attention to the needs and motivation of our nursing staff. Local, regional and Group-wide human resources personnel are available to support all staff members.
Patients and communities	• Cost of healthcare • Positive hospital experiences • Ease of admission, billing and discharge procedures • Timeous and efficient service • Quality nursing and pharmacy care • Low infection rates and good clinical outcomes	Patient feedback is channelled through regular questionnaires and surveys. We try to continuously upgrade our offerings in response to these inputs. All complaints are investigated and acted on. We endeavour to keep our hospital fees affordable for more patients to access private quality healthcare. Special rates and payment arrangements are available for non-medical aid patients. Lenmed regularly participates in community events such as co-sponsored fun runs, sports tournaments and community wellness days.
Suppliers	• Fair and transparent tender and pricing processes	Our Group Procurement and Engineering Manager oversees our standardised tender process to ensure fair competition and equal opportunities.
Medical aids	• Cost-effective medical services • Efficient case management, billing and payment • Good patient experience • On-site case management • Control of fraud, abuse and inappropriate admissions	Lenmed liaises with MAFs through our National Hospital Network (NHN) membership and works diligently to operate efficiently and keep medical aids updated on patient treatment. We are presently implementing an alternative reimbursement model for the major medical aid schemes.
Government	• Compliance with laws and regulations • Providing access to cost-effective healthcare • Aligning to transformation imperatives • Critical skills shortages in the industry • Development of appropriate healthcare regulation	Lenmed engages with government through the Hospital Association of South Africa (HASA). We rigorously comply with legislation and maintain the highest ethical standards. The Group is participating in the Competition Commission's market inquiry into the cost of private healthcare.

What impacts on value

HOW WE DETERMINE OUR MATERIAL MATTERS

We consider a matter to be material to Lenmed when it has, or could have, notable influence on our financial performance, our reputation, impact on our licence to operate or our overall sustainability.

We follow a three-step process to determine matters we deem to materially impact our ability to create value. These are:

01 Identify and assess

Matters are brought to light:

- directly by stakeholders, such as patient insights through day-to-day engagement, or through communications with regulators
- through internal deliberations and/or independent research
- by continuously monitoring the external environment for trends signalling opportunities and risks that could impact our business model and operations

02 Prioritise

Through the lens of our vision and values, we consider the prioritised matters within the context of:

- our purpose of growing through acquisitions, hospital management contracts and new hospitals
- our goal of delivering quality patient experience and clinical outcomes, while remaining true to our roots, the communities and the people we serve
- expected behaviours as informed by our values and our code of conduct
- our strategy, business model and the risks associated with our business model
- the operating environment challenges and priorities (international, regional and local)
- our risk and capital management framework
- opportunities, and risks and trade-offs between capitals and risks or opportunities

03 Respond and monitor

We decide on specific actions to respond appropriately. The consequences of our responses are monitored by our Executive Committee, Board and the various Board subcommittees in accordance with their terms of reference.

OUR MATERIAL MATTERS

Increasing competition

Why this is important to Lenmed

Competition between healthcare providers is intensifying as other groups establish hospitals near Lenmed facilities.

Increasing competition also increases demand for doctors, which is not being met by South Africa's educational institutions.

Attracting and retaining competent medical professionals is vital to our long-term sustainability.

Risks and opportunities

The most constructive response for defending market share is ongoing innovation.

Lenmed constantly evaluates how to improve customer services, reduce costs and add in differentiators. Retaining market share requires increasing our competitive strength and value-add to customers.

We are presently exploring opportunities to diversify into acute care.

Our response

To protect and grow our market share, we are raising service levels and reviewing all our operations for efficiency, affordability and costs.

Lenmed aims to ensure a consistently superior experience for patients and medical professionals.

Making healthcare more efficient for patients and providers

Why this is important to Lenmed

Rising healthcare expenses and systemic economic instability require traditional models of care to update in the face of increasing demand and costs.

One specific change required is the interface between acute care and alternative care settings in traditional day hospitals or rehabilitation centres.

Certain specialities, such as ophthalmology, gastroenterology, chemotherapy and nephrology (especially dialysis), utilise relatively short procedures that do not require prolonged hospital stays.

Refocusing on day healthcare centres will not only substantially reduce patient expenses, but also decrease operational costs.

Short-stay facilities are less capital-intensive than traditional hospitals and require fewer beds.

Risks and opportunities

Day clinics cost significantly less to operate than that of regular hospitals. Day clinics don't require operating theatres that are equipped for complex heart or orthopaedic surgeries.

Day clinics are affordable, convenient and practical in that procedures are pre-planned and do not require overnight stays.

While short-stay clinics will not solve the healthcare industry's shortage of built infrastructure and medical professionals, these do provide an alternate interface for efficient patient care.

Our response

Where feasible, Lenmed's aim is to establish day clinics near our current hospitals.

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 authentically make them feel important and well taken care of. Healthcare brands are compelled to position themselves in offering superior service and unique propositions.

Location is important, and Lenmed will remain true to our roots and the communities we serve by championing quality patient experiences and clinical outcomes.

Our response

Lenmed continuously addresses all internal operations and processes to refine the quality levels required to support our brand promise.

Our emphasis is on quality patient experience rather than increasing bed occupancy rates.

Economy

Why this is important to Lenmed

Stagnant South African economic growth year after year reduces employment, which slows or halts membership growth in medical schemes. Healthcare providers have to compete more vigorously for medically insured lives, often through discounting or other means that reduce margins. In addition, Rand volatility makes imported equipment more expensive.

Competition for medical expertise is global, which tempts many healthcare professionals to leave South Africa for higher earnings.

However, should recent political shifts stimulate South Africa's economic growth, Lenmed will benefit from heightened activity and renewed investor interest.

Risks and opportunities

South Africa's hitherto lethargic economy has impacted on Lenmed's profitability, as the cost of care rises when profits decrease.

Even so, Lenmed has a well-managed balance sheet and challenging economic times offer high value acquisition opportunities. We will continue evaluating acquisitions or management contracts, particularly those offering exceptional value.

Our response

We are hopeful that South Africa's economic environment will incrementally improve in the foreseeable future under new political leadership. We have adopted a cautiously optimistic approach in seeking robust projects by constantly monitoring the economies of all geographies where we are already present.

Lenmed continues striving to improve our internal efficiencies to lower costs and remain sustainably competitive.

What impacts on value continued

OUR MATERIAL MATTERS continued

Relationships with medical schemes

Why this is important to Lenmed

Medical schemes, also known as medical aids, fund the medical schemes of most private healthcare consumers. 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 numbers of medical scheme contributors. Existing members are also choosing to downgrade to cheaper schemes.

The South African medical scheme population is statistically ageing, which will naturally 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. To maintain our occupancy levels, Lenmed must broaden our appeal to potential patients and medical scheme partners.

Our response

We are continually reassessing our internal efficiencies and examining means for reducing costs to stay within the parameters of medical scheme cost frameworks.

Scarcity of skills in Southern African healthcare

Why this is important to Lenmed

Providing superior private healthcare requires qualified and experienced personnel. Individuals equipped to meet exacting medical standards are presently in short supply across Africa and being targeted by all our competitors.

Risks and opportunities

A shortage of high calibre employees can result in mediocre clinical outcomes and service levels, resulting in reputational damage.

Our response

Lenmed continually upgrades or expands its medical facilities to attract respected doctors and specialists to our hospitals.

We offer generous packages to suitable medical professionals. Internal skills development remains a priority and we are currently awaiting government licencing for our nursing academy which, when licenced, will deliver a much-needed pipeline of nurses into both our facilities and the industry.

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.

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), the Pharmacy Act, 53 of 1974, and various environmental laws.

Risks and opportunities

- Non-compliance may lead to penalties or withdrawal of operating licences
- Poorly designed regulations can prevent efficient healthcare and dissuade new investment
- The Competition Commission's protracted investigation into private healthcare is delaying sector planning

Our response

- Lenmed constantly reviews medical scheme Prescribed Minimum Benefits (PMBs)
- We engage with South African national and provincial health authorities through all available channels to find the best possible outcomes for South African residents and our stakeholders

Technology

Why this is important to Lenmed

Accurate and comprehensive data on patients has become a top priority. Data must be harnessed to drive more efficient service, clinical and financial operations.

Risks and opportunities

Migrating to new systems can 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 is intended to be leveraged to extend our outreach to patients, solicit feedback and enhance the hospital experience.

Our response

In 2016 Lenmed commenced installing a SAP Enterprise Resource Planning (ERP) system to channel all data streams through a world class management platform. SAP technology has now been implemented in all but two of our hospitals.

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.

DELIVERING ON OUR STRATEGY

Deputy Chief Executive Officer's statement

The past financial year was challenging for Lenmed and the sector at large. Emanating from the surge in demand experienced in late 2016, funders instituted various interventions to reduce hospital admissions, level of care and associated length of stays.

On a principle basis, Lenmed took the position that unwarranted admissions, fraud and the over-servicing of patients have no place in our health eco-system and we will assist funders in eradicating the same, in the interest of the sustainability of our sector.

South Africa's economic woes persisted for much of the year, with growth lagging far behind our sub-Saharan counterparts, fellow emerging markets and global peers by some margin, with unemployment reaching record high levels. The newly elected leadership of the ruling party has a tough task at hand to rein in corruption, provide policy certainty and improve business confidence.

Despite these difficult trading conditions, Paid Patient Days (PPDs), on a like for like basis, remained static compared to last year, with revenue per PPD increasing by 10%. This mainly resulted from a focused drive for more complex and high-end disciplines at our facilities. These results underscore not only Lenmed's resilience, but also serve as a good litmus test of our operational strategy against our peers.

The Group's normalised EBITDA margin increased to 18% from 17.5% in the prior year. On a segmental basis, the EBITDA margin for South African hospitals was 18% (2017: 19%), while the EBITDA margin achieved for the rest of the Africa operations was 18% (2017: 15%).

EBITDA margin decreased for South Africa mainly as a result of the revenue loss associated with the removal of Ahmed Kathrada and Shifa Private Hospitals as full-cover Discovery Keycare hospitals, as well as initial operating losses incurred at the newly commissioned Royal Hospital and Heart Centre.

African operations' profitability improved on the back of a stronger performance at Maputo Private Hospital, together with a reduction in rental charge at Bokamoso Private Hospital in Botswana.

Management continues to focus on identifying areas of the business to unlock further value through leveraging existing infrastructure, improving inter-facility referrals, conversion of under-utilised beds to in-demand specialities, and transferring of excess bed capacity to high demand facilities.

Business Heads are empowered to drive innovation and new thinking throughout operations, focussing on centralisation, process re-engineering and leveraged procurement. Staffing levels and associated costs remain a core focus area of the Group. The implementation of SAP will also greatly assist towards building a standardised patient administration platform aimed at improving billing efficiencies, case management effectiveness, and better stock control.

The engineering and technical department drive the proper management of equipment and infrastructure throughout the Group, as well as minimising the impact of the Group's operations on the environment. All new and replacement plant and equipment are procured taking into consideration environmental impact and operational costs. The implementation of the photovoltaic solar installation at Ahmed Kathrada Private Hospital yielded the desired results of reduced electricity costs, with further roll-out dependent on Group capital allocation.

OPERATIONAL HIGHLIGHTS

Lenmed commissioned its 11th facility, the Royal Hospital and Heart Centre, in Kimberley during August 2017. The response from both the public and the medical fraternity has been positive, with utilisation exceeding expectations to date. This is the only facility in the Northern Cape to offer cardiology and radiotherapy services.

The Group increased its stake in Ethekwini Hospital and Heart Centre to 76.7% in August 2017. In addition, a paediatric centre of excellence, including paediatric cardiac surgery, the first of its kind in KwaZulu-Natal, was introduced during the year. The Children's Cardiac Foundation of Africa has also been launched, aimed at raising funding to perform this life-altering surgery on indigent patients.

Oncology remains a key focus area for the Group, with the opening of the Ahmed Kathrada Cancer Institute at the Ahmed Kathrada Private Hospital in Lenasia. This centre offers comprehensive oncology diagnoses and treatment facilities, including chemotherapy, radiotherapy, nuclear medicine and oncology related surgery.

A revamp and extension of the Intensive Care and High Care Unit at Randfontein Private Hospital was completed during the year, doubling the capacity of the unit to 20 beds. The new facility has been well received and bodes well for future growth at the hospital.

PATIENT OUTCOMES AND SATISFACTION

Our patients are the reason for our existence with the delivery of quality care and superior outcomes our priority. The Group's Customer Experience Management system provides real-time insights into patient satisfaction, allowing for issues to be resolved promptly and measures taken to prevent re-occurrence. We continue to invest in our people and infrastructure to enhance our patients' journey throughout all our facilities.

During the year, Ethekwini Hospital and Heart Centre was recognised as a top 20 hospital by Discovery Health. Both Discovery MESH and our internal patient satisfaction scores have showed positive trends, with the aim to have further representation in the top 20 within the next two years.

The Group continues to support its doctor base by providing the necessary facilities 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, patient satisfaction and address key industry concerns from medical aids around cost efficiencies in the market. A number of new quality initiatives and systems are being implemented, of which further detail is available in the Chief Medical Officer's report.

HUMAN RESOURCES

Human resources, specifically the availability of skilled specialists and nursing staff, continues to pose a challenge. While Lenmed remains competitive in attracting and retaining quality staff and doctors, the shortage of these skills will become more challenging going forward 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. We continue to engage with the relevant authorities in this regard. In the interim, the Group has committed to increasing its investment in training and development of existing staff to ensure the availability of appropriate resources to service business needs.

Deputy Chief Executive Officer's statement continued

An employee engagement survey was conducted across four hospitals in the Group, with an overall response rate of 76%. Reward and recognition, career development and lack of communication were key concerns raised – these areas will be prioritised by our Human Resources team in the next year.

FUNDER RELATIONS

According to the latest Council for Medical Scheme's report, medical aid membership has remained stagnant for the last three years. We continue to see an increase in the number of Designated Service Provider (DSP) and Efficiency Discount Options (EDO) arrangements being introduced, with medical aid members more amenable to restricted choice in return for discounted premiums. The lower tariffs expected by funders are a necessary trade-off to secure volumes required to maintain margins. Lenmed, through its membership of the National Hospital Network (NHN), successfully secured participation in these arrangements.

Negotiations with funders are increasingly complex, with various efficiency, utilisation and quality metrics coming to the fore. To ensure we are negotiating from a position of strength, the Group strives to enhance efficiencies on a total cost per event basis and improve on key quality metrics, including patient satisfaction, so creating a strong value proposition to schemes. Lenmed is in the process of implementing profiling tools for measuring doctor efficiency, clinical performance and patient satisfaction against their peers. We engage regularly with key funders, both in our own capacity and through the NHN, to discuss concerns and forge close working relationships.

Broad-Based Black Economic Empowerment (B-BBEE) is becoming increasingly important in our industry, especially in the area of DSP and EDO tenders. Lenmed has prioritised the achievement of a suitable B-BBEE rating under the new code, the result of which is expected at the end of the 2018 calendar year.

REGULATORY MATTERS

Government continues on its commitment to achieve universal healthcare coverage through the implementation of a National Health Insurance (NHI). Seven workstreams dealing with various aspects of the scheme have been proposed, with private sector representation nominations for all committees forwarded to the Department of Health for its consideration. The Hospital Association of South Africa (HASA) is representing the interests of the sector in this regard.

The health market inquiry into the cost of private healthcare have published their provisional report. Lenmed is in the process of studying the findings and will make further submissions to the commission in this regard.

There are various other regulatory amendments in progress. These are all managed by the industry as a whole through HASA.

CONCLUSION

We remain optimistic that the improved business sentiment will set the economy onto a positive trajectory increasing employment. Demand for quality private healthcare services are expected to remain strong due to the ageing medically insured population and Southern Africa's 'quadruple burden of disease'. We will strive relentlessly to fulfil our vision of being a relevant and growing hospital group championing quality patient experiences and clinical outcomes, while remaining true to our roots, the communities and the people we serve.

Mr Amil Devchand
Deputy Chief Executive Officer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24 HOUR EMERGENCY

Our value creation strategy

Lenmed takes a pragmatic and risk-informed approach to steady growth, based on a solid balance sheet and constant enhancement of management capacity and systems. We continually build the Lenmed brand by providing affordable and quality healthcare.

Our development strategy of recent years is to acquire, develop or manage hospitals in underserved communities in Southern Africa. We position hospitals and medical specialities where we identify the gaps between public and private health facilities. In principle, we avoid developing greenfield hospitals or entering mature urban markets, unless especially attractive opportunities that fit the Lenmed business model become available. The new hospital we built in Kimberley and our increased shareholding in the Lenmed Ethekwini Hospital and Heart Centre are good examples of taking up attractive opportunities outside of Lenmed's primary market positioning.

Implementing the Lenmed strategy of driving efficiencies, patient satisfaction and quality going forward, we will continue creating a strong value proposition for Medical Aid Funders (MAFs).

Lenmed will continue working to attract quality medical practitioners to our medical facilities. South African regulations require that medical practitioners perform independently of hospitals, whereas in other African countries, hospitals are unimpeded by such regulations and freely employ doctors. Both systems, however, require us to provide state-of-the-art medical and nursing equipment, well-equipped operating theatres, dedicated nursing teams, top-level ward facilities and efficient administration.

STRATEGIC OBJECTIVES

BUILD CRITICAL MASS

OPERATE EFFICIENTLY

GROW REPUTATION

ACTIONS REQUIRED FOR ACHIEVING STRATEGIC OBJECTIVES

- Determining the critical mass required to achieve relevance, growth and a reduction in debt risk
- Identifying potential acquisition targets that will achieve the determined expansion envisioned
- Conducting a brand audit to ensure Lenmed has the brand awareness and status to underpin our expansion
- Identifying the professionals who will best guide and assist the Lenmed Board to deliver against our goals

- Improving efficiencies and capacity at our existing hospitals to better negotiate more advantageous medical aid tariffs. To reduce costs we need to bring these on a par with South Africa's three largest hospital groups
- Introducing and employing cutting-edge technology and equipment, including artificial intelligence, and implementing these technologies in operating systems and wards
- Employing doctors and specialists in casualty, pathology, radiology, fertility, maternity and home care
- Auditing the Group's resources, including:
  - senior and middle management efficacy
  - the recording of and adherence to internal controls
  - hospital performance against Council for Health Service Accreditation of Southern Africa (COHASA) standards
  - relationships with the MAFs
  - measurement of performance and gap analysis against King IV
  - adherence to bank covenants
  - assessment and revision of financial policies, targets, objectives, Charters and other corporate functions
  - compliance with statutes, regulations and government policies
  - review of licences for compliance and status
  - assurance of B-BBEE rating and status

- Improving patient outcomes and service standards to attract doctors and patients
- Promoting a settled and enthusiastic staff base, supported by expert and experienced doctors
- Adding hospitals and other health related services into Gauteng and KwaZulu-Natal to create further critical mass
- Expanding our footprint across South Africa where we are underrepresented with investors and medical schemes
- Establishing a new consultancy team with the specific mandate of implementing a business model for guiding third parties in establishing healthcare facilities in Africa
- Marketing medical tourism to foreign tourists and establishing additional facilities where demand is identified
- Seeking out those features that will make Lenmed truly distinctive

SUSTAINABLE PERFORMANCE

Financial capital

Creating value

How we utilise financial capital is fundamental to creating sustained value for our shareholders and other stakeholders. Our ability to self-fund and access cost-effective funding through equity or debt is vital to commercial success. Lenmed can remain sustainable and expand by continuously managing our cost of capital and working capital effectively.

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

HIGHLIGHTS

The Group's revenue **INCREASED** by 42.0% from R1 558.5 million to R2 220.8 million year on year

Core headline earnings at R162.6 million (2017: R174.0 million) decreased by 6.5%

Lenmed **INVESTED** R337.2 million into growth opportunities

Operating activities generated R360.8 million (2017: R253.3 million), which reflected **IMPROVED CASH MANAGEMENT** during the current year

Lenmed increased its **SHAREHOLDING** in Lenmed Ethekwini Hospital and Heart Centre from 53.61% to 76.72%

CHALLENGES

- Restraints on the raising of loan capital given the high gearing at present
- Challenge in debt collection from non-South African medical schemes
- Interest rates significantly higher than inflation constrains future investment

OPPORTUNITIES

- A strong asset base (R3 billion) that can release capital and an excellent rating with banking institutions
- Effective cost controls
- Investor demand for healthcare assets in SA

Lenmed adds value by:

- continually investigating potential investment opportunities, both locally and elsewhere
- engaging with industry players to form strategic alliances
- monitoring all processes for efficiencies to maintain profitability
- introducing innovative methods, policies and processes to differentiate us from our competitors
- establishing good governance for our own sake, rather than for mere compliance
- staying abreast of technological developments
- modelling our facilities according to world-class standards
- closely monitoring events likely to impact the industry, such as the NHI proposals and the Competition Commission investigation into the cost of private healthcare
- complying with legislation and paying due taxes and levies
- maintaining a strict code of ethics throughout the organisation
- conducting ourselves in accordance with the principles and practices set out in this report

LOOKING AHEAD

During 2018 we will focus on:

- a strong asset base with permanent equity capital and continuing support from the lending institutions to provide a ratio of 40% debt and continuing liquidity
- a strong income statement from increased profit margins due to higher bed occupation rates, effective cost controls, a good case mix and excellent patient outcomes
- associating with a fund manager
- bedding down of the Ethekwini Hospital and Heart Centre acquisition and opening of the Royal Hospital and Heart Centre in Kimberley
- restructuring of the debt to create headroom
- working capital improvements
- communication around EAP utilisation and benefits is important at management level. By providing insight into the problems being experienced by the workforce, management can develop interim, medium and long-term people strategies

Lenmed's financial capital performance is discussed in greater detail in the CFO's report on pages 34 to 36

Chief Financial Officer's report

This report must be read in conjunction with the Group annual financial statements commencing on page 81 of this Annual Integrated Report

CORPORATE ACTION IN 2018

The Group performance has been positively impacted by a number of corporate actions during the year.

On 1 August 2017, the Group increased its shareholding of its investment in Lenmed Ethekwini Hospital and Heart Centre when it increased its shareholding from 53.61% to 76.72% of the equity of the company. The amount invested was R313.5 million and the majority of the funding was obtained from Rand Merchant Bank by way of a six-year loan of R260 million. The results of Ethekwini Hospital and Heart Centre were consolidated for the full year for the first time in this financial year. In the previous year, the results of Ethekwini Hospital and Heart Centre were equity accounted until 18 January 2017. The non-controlling interests of the Group decreased by R99.4 million. Equity attributable to the Group decreased by R179.9 million representing the additional cost of acquisition of the shares. Group EBITDA increased from R22.1 million to R122.4 million, while associate earnings decreased by R27.2 million. The Group incurred additional interest as a result of the financing costs incurred in obtaining the loan.

The Group results for the Royal Hospital and Heart Centre in Kimberley post opening yielded an EBITDA loss of R3.4 million and a loss to Lenmed shareholders of R40 million. The Group remains confident that the long-term value of the hospital remains intact and results post year-end are encouraging.

STATEMENT OF COMPREHENSIVE INCOME

The Group's revenue increased by 42.0% from R1 558.5 million to R2 220.8 million. The major reason for the increase was the R498.9 million increase in revenue arising from the Ethekwini Hospital and Heart Centre acquisition. Further strong increases came from Zamokuhle, Randfontein and Kathu Private Hospitals with all recording higher than 40% increase in revenue.

Normalised EBITDA reconciliation

	2018	2017
EBITDA	**393 598**	486 423
Less: Fair value uplift on associate investment in EHHC	–	(209 002)
Loss/Profit on disposal of assets	732	(663)
Currency (losses)/gains due to depreciation of the rand	4 830	(4 031)
	399 160	272 727
Variance	**46.4%**	

The Group continues to use the concept of normalised earnings before interest, taxation, depreciation and amortisation (EBITDA), as well as normalised 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, except for unrealised exchange gains and losses arising from the African operations which are eliminated. The reason why these losses are eliminated is due to the policy of the Group which is not to hedge the currency of the Africa operations.

The adjustments to earnings flowing from the definition above include removing the fair value uplift as a result of obtaining control of Ethekwini Hospital and Heart Centre in 2017. Similarly, currency losses of R4.8 million arising due to the weakening of the US Dollar against the Metacais have also been stripped out of the normalised earnings calculation. (2017: gain of R4.0 million) The functional currency of the Maputo Private Hospital is the US Dollar.

The Group performed satisfactorily at the operational level with the large increase in EBITDA of 46.4% due primarily to R100.3 million increase from the Ethekwini Hospital and Heart Centre acquisition. Strong earnings growth from Zamokuhle, Randfontein and Kathu Private Hospitals also enhanced profits. Royal Hospital and Heart Centre recorded a small loss, while Ahmed Kathrada and Shifa Private Hospitals delivered weaker results than last year due to increased competition and lower numbers of patients.

Core headline earnings

	2018	2017
Profit for the year attributable to Lenmed	**157 398**	340 864
Add/Less: (Profit) on disposal of assets net of taxation and minority interests	439	(256)
Less: Fair value uplift on associate investment EHHC net of taxation	–	(162 186)
Add/Less: Currency losses and gains	4 753	(4 460)
	162 590	173 962
Variance	**(6.5%)**	

Core Headline Earnings at R162.6 million (2017: R174.0 million) decreased by 6.5% against the prior year. This was attributable to primarily the large increase in the financial expense R65.5 million, arising from increased borrowings. These borrowings were incurred to finance the Royal Hospital and Heart Centre which cost the Group R408.4 million. Additionally, the Group financed the acquisition of the increase holding in Ethekwini Hospital and Heart Centre through debt financing.

The Ethekwini Hospital and Heart Centre results are no-longer equity accounted which resulted in the large decrease of share of profits from associates. The remaining equity accounted earnings arose due to the Group's investment of 30% investment in Lenasia Renal Centre and 40% in Renal Care Holdings. The two companies achieved satisfactory earnings of R1.6 million which was 29% higher than the prior year.

Finance costs amounted to R105.2 million, which was substantially higher than the previous year. The Group continues to invest heavily in the future of the business, with R324.6 million spent on capital expenditure. In line with IAS 23 'Borrowing Costs', as well as the Group's accounting policy. R21.5 million (2017: R23.4 million) was capitalised due to interest incurred on the capital spend at the new hospital in Kimberley which opened in July 2017.

The effective tax rate of 22.2% was higher than last year's rate of 20.5%. The fair value uplift on the Ethekwini Hospital and Heart Centre acquisition in 2017 has been provided for at the capital gains rate of taxation and not the normal rate of taxation. Additionally, the Group also benefitted from income from the Maputo Private Hospital which is not taxable due to a large assessed loss in the hospital.

Chief Financial Officer's report continued

'Non-controlling interests' reflected the minority share of profits in Ethekwini Hospital and Heart Centre, and Kathu and Bokamoso Private Hospitals.

No dividend was declared this year in line with the growth strategy of the Group.

STATEMENT OF CASH FLOWS

The Group generated R369.2 million from operating activities (2017: R264.9 million), reflecting a much improved cash management during the current year, due to the consolidation of Ethekwini Hospital and Heart Centre and the resultant cash flows from the operations of that hospital. The Group's cash generated by operating activities as a percentage of normalised EBITDA decreased from 97% to 92%. This is a strong result, exceeding the Group's target of 90%. Maintenance of working capital levels remain a critical area within the Group and much improvement across all the local hospitals was achieved. The only hospital that has elevated debtor levels is Bokamoso Private Hospital. This remains a focus area of the Group, but pleasingly large amounts of the outstanding debtors were collected in March 2018. The implementation of SAP continues and the project has been well co-ordinated with minimal disruption to the operations. Implementation of the remaining South African hospital will commence in October 2018. The roll-out to the two non-South African hospitals will commence during 2018 and 2019. Management are confident that the longer-term benefits of SAP will be achieved through standardisation and synergies in the Group. An intangible asset of R12.6 million was recognised during 2018 representing the cost of implementation.

The Group continues to invest in its operations and spent R324.6 million in capital expenditure. This capital was mainly spent on the new hospital in Kimberley (R119.2 million) (2017: R214.0 million) as well as capital expenditure on brownfields projects at the Ahmed Kathrada Private Hospital of R42.0 million (2017: R54.7 million). This includes capital expenditure on the new Radiotherapy centre, and upgrades to a number of existing wards and general improvements. Additionally, R48.9 million was spent on expanding Ethekwini Hospital and Heart Centre on a new wing which will cater for further expansion in due course. The Group's heavy investment in capital expenditure has tapered off post the expansion of the projects. Capital commitments of R34.8 million relate primarily to refurbishment and upgrades of the theatres at La Verna Private Hospital. Capital expenditure for the rest of the year will be spent mainly on new equipment and minor projects.

The Group obtained a composite borrowing facility of just over R1.4 billion from Rand Merchant Bank during the course of the past two years. This allowed it to acquire a further 23.11 % stake in Ethekwini Hospital and Heart Centre as well as complete its capital expenditure programme. Net cash and cash equivalents decreased from R127.7 million to an overdraft of R29.7 million. The Group had VAT receivable of R64.5 million which is the major reason for the overdraft. Most of the amount owing was received in the month of March.

STATEMENT OF FINANCIAL POSITION

Assets

The Group's property, plant, equipment, furniture, fittings and vehicles increased in value to R2 825.8 million (2017: R2 605.7 million). These increases are due to the previously mentioned expansion projects.

Debt management

As mentioned previously, during the financial year under review, Lenmed obtained an R1.4 billion composite facility from Rand Merchant Bank to allow it to continue its expansion projects. Interest bearing borrowings (excluding shareholder loans) increased from R902.5 million to R1 262.5 million.

Lenmed's total interest bearing debt to equity ratio (excluding loans from minorities) has increased to 60.6% (2017: 35.0%). The interest ratio coverage decreased in line with increased debt levels to 3.5 times (2017: 6.6), with cash flow from operations to net interest expense dropped from 7.7 times to 3.8 times. As mentioned this should be the peak of the borrowing cycle in the Group and debt levels will decrease over the forthcoming years.

RISK MANAGEMENT

The Group adequately met covenant hurdles at end of the financial year and the current forecasts indicate that this will continue into the next financial year as well as the following years. However, the Group prudently has requested and obtained a R100 million overdraft facility as well as R100 million instalment sale facility. The instalment sale facility will allow the Group to acquire medical equipment should a compelling request arise.

Post the completion of the Royal Hospital and Heart Centre and a number of smaller operations at Ahmed Kathrada Private Hospital, the capital expenditure should be largely completed. Compelling acquisitions will be treated on a case by case basis but within acceptable borrowing levels. However, the focus for the next 18 months will be to reduce debt levels to ensure that the Group remains prudently geared.

Currently dollar receipts from patients in Mozambique are sufficient to meet the Rand Merchant Bank (RMB) loan obligations in that country.

Mr VE Firman
Chief Financial Officer

Human capital

Creating value

Our employee practices are designed to cultivate and harness the power of employee skills and commitment. By living the Lenmed brand promise and values, we can differentiate ourselves through a people-centric approach and excellence beyond the call of duty.

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

HIGHLIGHTS

IMPLEMENTING SAP has enhanced our payroll processes and efficiencies

Appointment of the Group Chief Medical Officer

Lenmed's **WELLNESS WEEK**, held in October 2017, screened nearly 2 000 employees for HIV, cholesterol, glucose and BMI

Staff engagement **SURVEYS** were conducted at four of our hospitals to gauge our staff satisfaction levels. The results enabled us to identify and address areas of concern

CHALLENGES

- Scarcity of skills
- Retention of doctors is an increasing concern as new hospitals create demand for more professionals than currently graduating from medical colleges
- Maintaining and improving B-BBEE ratings under the new code

OPPORTUNITIES

- Enthusiastic and loyal staff
- Establishing highly motivated, competent, and empowered middle management teams at every hospital
- Training nursing practitioners

540
male
2017: 557

1 970
female
2017: 1 950

2 510
total
2017: 2 507

1 549
nurses
2017: 1 493

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.

Human capital continued

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.

EMPLOYEE ENGAGEMENT

Employee surveys

Staff engagement surveys took place at four hospitals in the Group – this was an effort to gauge our staff satisfaction levels in the Group so that we identify areas of concern and address within the specific hospitals.

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.

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 by the Health and Welfare Sector Education and Training Authority (HWSETA).

Adult Basic Education and Training (ABET)

Employees meeting qualifying criteria may register for a range of adult education and adult training programmes. Multimedia and other tools enable our employees to complete their Matric education online within 40 weeks.

During the reporting period 14 employees across the Group received ABET training.

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.

Wellness days

2017 uptake	Total number of employees	Estimated uptake	Actual uptake	Actual uptake based on staff count
Ahmed Kathrada Private Hospital	383	300	291	75.9%
Daxina Private Hospital	80	64	61	76.2%
Ethekwini Hospital and Heart Centre	512	400	265	51.7%
Head Office	40	32	31	81%
Kathu Private Hospital	54	40	44	81.4%
Royal Hospital and Heart Centre	60	40	8	13.3%
La Verna Private Hospital	184	100	60	32.6%
Randfontein Private Hospital	130	130	88	67.7%
Shifa Private Hospital	295	238	149	50.5%
Zamokuhle Private Hospital	121	96	86	71.0%
Total	**1 859**	**1 440**	**1 083**	**58.2%**

Employee Assistance Programmes

Lenmed has commissioned Kaelo Consulting to manage our Employee Assistance Programme (EAP).

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 personnel:

- 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.

Social and Relationship capital

Creating value

Healthcare is our commodity, but people are our business. We differentiate ourselves through a people-centric approach that focuses on excellence in relationships as well as clinical outcomes. The trust built up with our customers, employees, suppliers and communities, in and around our hospitals and over many years, is a cornerstone of our medium to long term sustainability.

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

HIGHLIGHTS

GROUP VALUES launched at all Lenmed hospitals

Developed our 2018 brand and communication strategy

Expanded on aesthetic and branding standardisation across the Group, with **UPGRADES AND UPDATED SIGNAGE** commenced or completed at most of our hospitals

An average **2% IMPROVEMENT** in patient experience across the Group

Total CSI spend of over R4.1 million

DISCOUNTS to financially disadvantaged patients of over R2.1 million

86 **FREE CATARACT SURGERIES** performed

The Royal Hospital and Heart Centre in Kimberley opening as the first complete **100% LENMED SPECIFICATION** hospital

Lenmed's marketing team drove a change management strategy to support a Group-wide buy-in into the **SAP IMPLEMENTATION**

CHALLENGES

- The Lenmed brand remains relatively unknown outside of our communities
- Maintaining staff morale and enhancing engagement
- Socio-economic challenges faced by the communities surrounding our hospitals
- Ensuring that our hospital fees remain affordable for patients and medical aid funds

OPPORTUNITIES

- Implementing the 2018 brand and communication strategy
- Influence thinking of authorities and in workstreams to create a workable and equitable NHI
- Work with MAFs to develop innovative re-imbursement models
- Lenmed enjoys 'best hospital status' in most geographic locations where we operate
- Shareholder support

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.

Our interaction with key stakeholders is described in greater detail on pages 20 and 21

Social and Relationship capital continued

COMMUNICATION 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.

GROWING AWARENESS OF THE LENMED BRAND

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.

Our current advertising, public relations and communications strategy is aimed at achieving:

- A trusting relationship with the public based on continually building the Lenmed reputation
- Recognition for Lenmed as a thought leader in healthcare
- Top of mind awareness of our brand and hospitals
- Lenmed brand awareness among the broader public

Overview 2018

Group marketing strategy

BRAND STRATEGY

The emotional benefits associated with Lenmed, the place we hold in our market's mind, determines how we differentiate ourselves

- Patient-centric – the patient experience and quality are paramount

- 'Embrace every day' – Every day is an opportunity to make a difference to each other, our patients and communities, we sell life, health and time

- 'Lenmed is the warm, approachable health expert whom we can trust'

POLICY COMPLIANCE

Communicated at all touch points – 'Living Lenmed'

Internal
- Values Campaign
- Newsletter
- Monthly internal news blasts

Hospital aesthetics
- Included as part of Group audit tool
- Signage updates
- Uniform and nursing unit policy compliance

Doctors
- Promoted as part of social media plan
- Promoting specific departments and SOE – newsletters and newsblasts
- GP Focus

Patient experience (Px)
- 2017 CEM and MESH scores to be discussed with hospitals – Q1
- Action plans developed to improve – Q1
- Weekly Px meetings at hospitals

Community
- Community campaigns executed by hospital, aligned to Group calendar
- Supported by Group marketing – collateral and promotion

Traditional media
- Local publications

Online
- Website revamp
- Social media campaign

ADVERTISING AND PUBLIC RELATIONS

Until recently, Lenmed focused primarily on improving the customer experience and advertising in local or community publications. We have since updated our approach in line with current practices by coordinating advertising and public relations (PR) initiatives with Lenmed calendar and hospital-specific campaigns.

Social media and online advertising will feature prominently, and Group Marketing has compiled a social media and online marketing strategy based on international best practice.

ONLINE CAMPAIGN

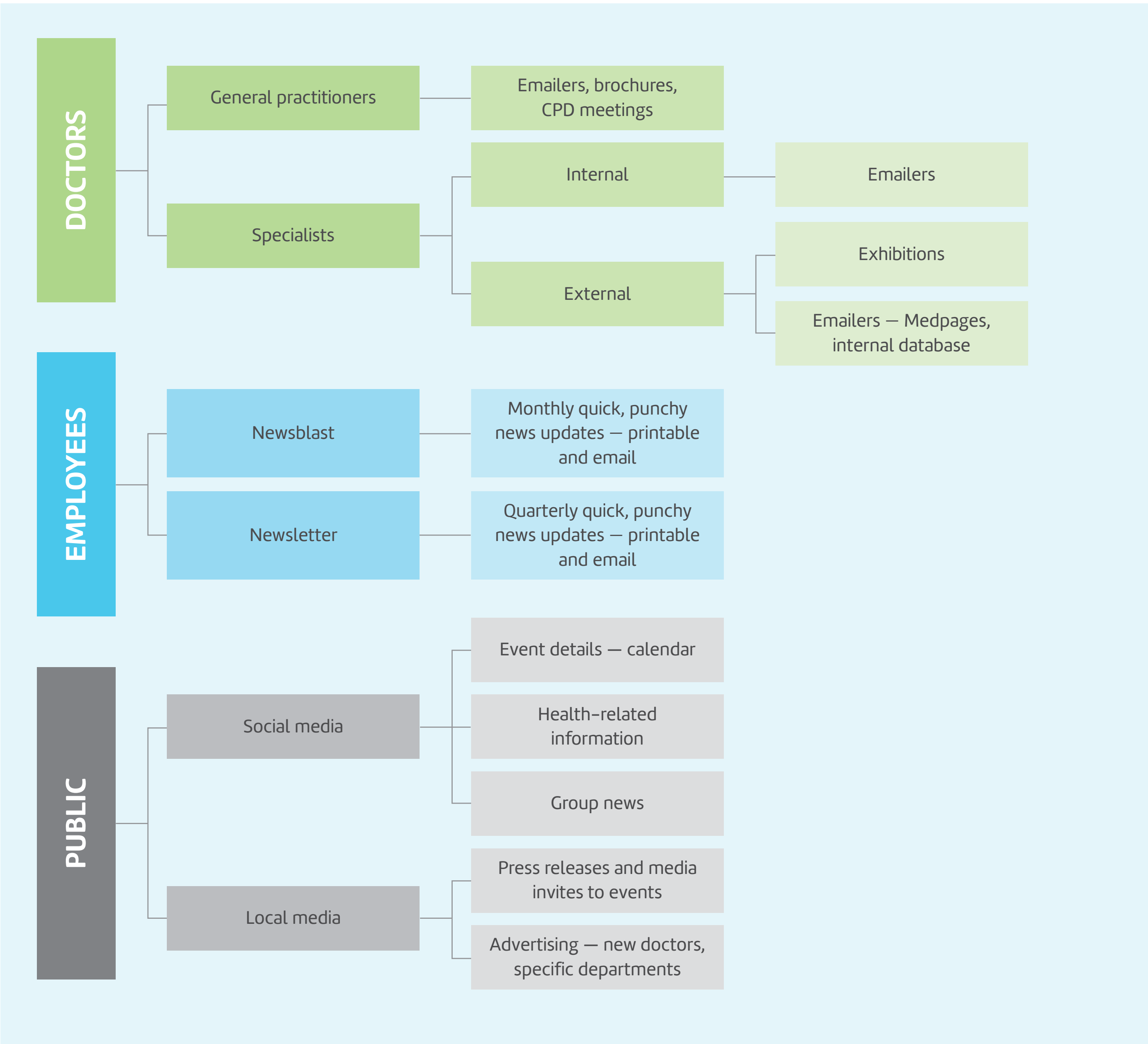
A revamped and sophisticated Lenmed website was launched in March 2018 following a thorough redesign based on current global trends.

COMMUNICATIONS

We are presently refining our communication interactively with key stakeholder groups such as employees, the general public and doctors (GPs and specialists – both those we wish to attract as well as those who practice at our hospitals).

Practically, each hospital was requested to compile a list of the departments they wish to promote, the specialists who serve these departments and their key offerings. This information will be communicated to the public and relevant doctors in specific geographic locations.

Specific messaging is being created for each stakeholder group.



Social and Relationship capital continued

CARING FOR OUR PATIENTS

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 medical needs.

GROUP ACHIEVEMENTS

AHMED KATHRADA PRIVATE HOSPITAL	• Opened Ahmed Kathrada Sports Medical Centre
SHIFA PRIVATE HOSPITAL	• Launched an oncology centre at Shifa Private Hospital in Durban in early 2017
ROYAL HOSPITAL AND HEART CENTRE	• Opened in mid-2017, the only oncology and cardiac surgery facilities in Northern Cape • Performed first open-heart surgery in Northern Cape in March 2018
MAPUTO PRIVATE HOSPITAL	• Performed first neuro-surgery in March 2018
ETHEKWINI HOSPITAL AND HEART CENTRE	• Achieved Discovery top 20 status for 2017 • Launch of The Children's Cardiac Foundation of Africa in 2018 • Only hospital to offer paediatric cardiac surgery in KZN and 11 paediatric specialities

Oncology facilities and cancer treatment was a major focus in the reporting period. Lenmed opened an oncology centre at Shifa Private Hospital in Durban in early 2017, 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.

We introduced a Best Care... Always! programme to ensure that all quality indicators relating to patient safety are adequately implemented and monitored.

Customer Experience Management (CEM)

The EYERYS® Customer Experience Management (CEM) system measures patient satisfaction levels at various hospital points, including admissions, casualty and patient rooms.

The Lenmed CEM system enables rapid responses to immediate issues, while also generating data that Lenmed personnel can't influence. Visitors are encouraged to provide anonymous feedback by making use of a Quick Response (QR) or Unstructured Supplementary Service Data (USSD) code. 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.

By 2018 our CEM system has matured and is providing sufficient data to perform trend analyses based on year on year comparisons. Our results showed a 2% improvement in average patient experiences over the prior year.

AHMED KATHRADA CANCER INSTITUTE

Lenmed is proud to announce the opening of the Ahmed Kathrada Cancer Institute. Patients will have access to a full multi-disciplinary team to manage each individual's treatment plan in a warm, comforting environment.

- Medical oncology
- Radiotherapy
- Oncology counsellor
- Nuclear medicine
- Breast centre

Group average ratings (/10) for 2017:

Accident and Emergency Departments	Admission Experience Rating	Overall Hospital Rating
7.1	8.0	7.8

Key areas of focus which have been highlighted and subsequent initiatives put in place to improve:

- Catering
- Doctors
- Maintenance
- Nursing

Accident and emergency waiting time. Lenmed has also adopted the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) post-care patient survey. The HCAHPS initiative provides a standardised survey instrument and data collection methodology for measuring patients' perspectives on hospital care.

Post-discharge survey results show that our:

- response rate has improved by 21% year on year
- overall hospital rating has remained constant, but improvements can be seen across most categories.

COHSASA accreditation

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

Lenmed is working to obtain international accreditation through the Council for Health Service Accreditation of Southern Africa (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.

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 a large portion of this budget usually allocated to free cataract surgeries.

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)

Social and relationship capital continued

86
free cataract surgeries
= R0.7 million

2017
91 surgeries
= R0.8 million

2017
= R1.3 million

R2.1 million worth of discounts were awarded to **94 patients** who genuinely lacked the funds to pay their full fees

COMMUNITY INVOLVEMENT

Our hospitals also participate in wellness days and awareness campaigns.

Ahmed Kathrada Private Hospital

- TIBA Cataract Campaign
- Donations
- Gandhi Walk
- CSI
- Discounts to 47 patients

Daxina Private Hospital

- 70 cataracts procedures
- Pro bono surgery
- Community involvement
- External project support

La Verna Private Hospital

- Right to Sight Campaign
- Hospice Golf Day project
- Arthur Cresswell project
- Community involvement
- Hospice Funwalk

Royal Hospital and Heart Centre

- Pregnancy Awareness Day
- CANSA Day

Bokamoso Private Hospital

- Health campaigns at three major shopping locations
- Sponsorship for the Netball Youth World Cup 2017
- Donations
- Discounts to patients

Ethekwini Hospital and Heart Centre

- Blood clinic
- Discounts to 39 patients
- Community involvement
- Donations

Zamokuhle Private Hospital

- Discounts to eight patients
- Nelson Mandela Day

Randfontein Private Hospital

- Nelson Mandela Day

Shifa Private Hospital

- Aryan Benevolent Home donation
- Donations
- Community involvement
- Discounts to seven patients

Maputo Private Hospital

- Celebrated Pregnancy Awareness Day
- Charity Golf Day at Calanga Beach
- Breast cancer awareness
- Prostate cancer awareness
- Radiology Day

Kathu Private Hospital

- Anglo-American Health Awareness Day
- Pregnancy Awareness Day
- Nelson Mandela Day

LOOKING AHEAD

For the current 2018/2019 financial year, we have prioritised:

- Further implementing the updated advertising, public relations and communications strategy already underway
- Continuing to provide free cataract surgery for members of the community who cannot afford it
- A brand audit to ensure Lenmed possesses the brand awareness and status for an enlarged Lenmed aimed at a listing

Intellectual capital

Creating value

In an industry heavily reliant on scarce skills and intellectual property, our economic value is not based solely on our 'bricks and mortar' healthcare facilities. How we extract the greatest value from operating these assets is a key to long term viability. Leveraging our intellectual capital, whether learned within and outside of healthcare, enables us to implement our value creation strategy.

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

HIGHLIGHTS

Maputo Private Hospital performs its **FIRST NEURO-SURGERY** in March 2018

Royal Hospital and Heart Centre performs its **FIRST CARDIAC CATHETERISATION** laboratory procedure in March 2018 and its **FIRST OPEN-HEART SURGERY** the following month

LENASIA CLINICAL TRIALS CENTRE (LCTC) nearing completion

A **90% COMPLETE SAP IMPLEMENTATION** at our South African facilities

133 NEW MEDICAL SPECIALISTS are making use of our facilities this year including the following fields: neurology (7), cardiology (9) and oncology (6)

CHALLENGES

- Continually introducing cutting edge technology and equipment, including artificial intelligence
- Implementation of new technologies in operating systems and the wards
- Compliance with statutes, regulations and government policies

OPPORTUNITIES

- Improvements in patient outcomes will attract doctors and patients
- Training nursing practitioners
- Secure medical product lines
- Develop models that provide lower risk and lower costs to patients
- Expand the capacity of existing facilities

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, features cutting-edge technology and the first specialised cardiac and oncology services in the Northern Cape.

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 pages 54 to 57

LEVERAGING TECHNOLOGY

Lenmed is implementing a new workforce management system that has already gone live in our Durban and Gauteng facilities. We will continue rolling this system out until the entire Lenmed workforce is consolidated onto one management platform.

A particular challenge is that medical employees, especially nurses, do not work regular hours and may be transferred to other Lenmed facilities. The incoming digital system will reduce management time and effort, improve statistical accuracy and integrate employee data into management reporting.

Employees log into this system biometrically, which enables accurate record keeping. Management gains an accurate, consolidated view of employee productivity, while being able to identify trends and activities within each medical specialty.

Certain HR functions have moved online, such as applying for leave.

Lenmed has monitoring technology in place to measure water and energy efficiency at our facilities. At present, readings are taken to establish baselines, based on which Lenmed can drive informed cost savings.

IMPLEMENTATION OF SAP ERP

A phased rollout of the SAP Enterprise Resource Planning (ERP) system commenced in 2016.

Implementation in our South African facilities is 90% complete and has been well managed for minimal disruption to these operations. The SAP rollout to the remaining South African hospital and our facilities in Botswana and Mozambique will be completed in 2018 and 2019.

The bedded down SAP system offers numerous operational enhancements, such as:

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

SAP will enable Lenmed to compete more keenly in customer experiences and clinical outcomes. All information captured is stored securely, in accordance with local legislation and global best practices.

LENASIA CLINICAL TRIAL CENTRE (LCTC)

The Lenasia Clinical Trial Centre (LCTC) is being constructed at the Ahmed Kathrada Private Hospital. With construction and fitting out nearly complete, the LCTC has already begun clinical trials in diabetes and cardiology. The LCTC aims to provide a centralised research facility for various medical and surgical sub-specialties to research new therapies, collaborate with fellow colleagues and facilitate affordable access to innovative medication. It would also serve to help understand some of the newer developments in medical research and development.

Six principal clinical investigators are already performing research at the LCTC and Lenmed invites more healthcare professionals to make use of this facility.

RADIATION ONCOLOGY

The Kimberley-based Royal Hospital and Heart Centre recently opened its radiotherapy centre as part of a larger oncology treatment offering. This hospital is the only facility in the Northern Cape to offer both chemotherapy and radiotherapy.

LOOKING AHEAD

For the current 2018/2019 financial year, we have prioritised:

- Optimising information-sharing platforms
- Encouraging a culture of innovation

Natural capital

Creating value

Our business activities inevitably deplete natural capital resources and generate waste. We accept that we are morally obliged to reduce or mitigate our negative impact on natural resources. Ultimately, we are working towards a more sustainable environment for all.

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

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

CHALLENGES

- Balancing natural and financial capital tradeoffs. For example, the economic feasibility of projects such as renewable energy. A financial investment into renewables depletes financial capital in the short term yet delivers long term cost savings in an environmentally friendly manner
- Instability of power and water supply

OPPORTUNITIES

- Optimise energy management and efficiency opportunities in our buildings
- Continue rolling out smart electricity and water metering to manage our usage patterns better and possibly identify further savings opportunities
- Continue implementing renewable sources of energy

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.

Recognising power and water shortages in Southern Africa as an ongoing reality, Lenmed is evaluating solar energy, boreholes and other measures to further reduce usage of natural capital.

ENVIRONMENTAL REPORT

Although we have not yet formalised our environmental management system, we acknowledge that project must be prioritised soon. The healthcare industry is classified as relatively low impact in environmental terms, but all economic sectors are compelled to reduce their environmental impacts.

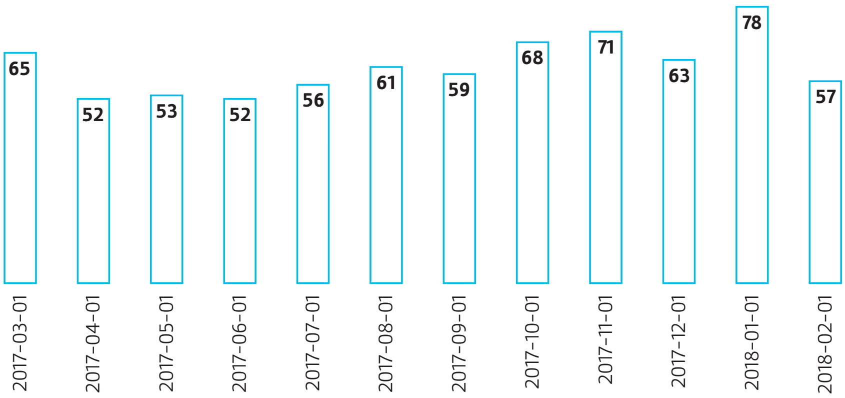
Lenmed has instituted several initiatives to reduce our environmental risks and impacts.

Reducing energy consumption

The installation of PV solar systems at Ahmed Kathrada Private Hospital reduced our fossil-derived energy consumption by over 735MWh in the last year. This equates to reduced carbon emissions of over 520 tons that can fulfil the energy needs of over 105 households.

SOLAR SYSTEM TOTAL YIELD

(MWh)



ENVIRONMENTAL CONTRIBUTION

571.85 BARRELS **oil saved**	105.27 HOUSEHOLDS **energy needs for four people**	91.10 TREES **saved**	3.02 KG **reduced nuclear waste**	19.6 M mi **trip with a Segway**	4.6 M mi **trip with an electric car**

Waste

Over the past year, Lenmed made significant strides to reduce its production of hazardous waste. Using strategic procurement and increased awareness training, Lenmed managed to reduce the cost of disposal of waste.

Exploring opportunities to reduce domestic and hazardous waste will remain an ongoing exercise.

Water

Although the healthcare industry is classified as having a relatively low impact on water resources, we are paying attention to managing our water usage. Lenmed's facilities management team is presently evaluating the feasibility of introducing aerated taps and low flow shower heads throughout our hospitals.

The Royal Hospital and Heart Centre has a total water storage capacity of 268 000 litres, which equates to a four-day water supply.

Water storage capacity has been increased at Randfontein Private Hospital and Maputo Private Hospital by 20 000 and 40 000 litres respectively.

Boreholes have been drilled at the Ahmed Kathrada, Randfontein, Daxina, Maputo and Shifa Private Hospitals. The Shifa Private Hospital project yield is significant enough to sustain the hospital independently. The two boreholes at Bokamoso Private Hospital were commissioned to irrigate the ground around the hospital.

The Gauteng central laundry system at Randfontein Private Hospital has implemented a water recycling process to minimise our usage of municipal water.

Green facilities

The Royal Hospital and Heart Centre in Kimberley was built as a highly energy-efficient facility. Its external envelope reduces the environmental load of the internal areas. The HVAC (air-conditioning) technology used is highly efficient, supported the facility. This hospital was designed for the easy and cost-effective installation of PV solar systems.

Facilities such as Zamokhule and Ahmed Kathrada Private Hospitals implemented energy saving lighting for their outside areas, which has significantly impacted on electrical demand at night.

Lenmed's ongoing renovation programme incorporates green design principle and, among other actions, removes original asbestos structures where these are found.

LOOKING AHEAD

During 2018 we will be focusing on:

- Water initiatives
- Waste initiatives
- Renewable energy initiatives

CLINICAL GOVERNANCE REPORT

The Lenmed Clinical Governance Framework fosters an environment of clinical care excellence. We accept our accountability for continuously improving our service quality and safeguarding high standards of care.

OUR CLINICAL GOVERNANCE FRAMEWORK

Lenmed's Clinical Governance Framework was formally introduced during the period under review and is overseen by the members of the Clinical Governance Committee. This committee is responsible for:

- Keeping Lenmed focused on clinical risk management, quality and patient safety issues
- Overseeing clinical performance and improving outcomes
- Reviewing staffing challenges and the general shortage of qualified and experienced nurses
- Ensuring that Lenmed responds to clinical issues raised in internal and external reports, customer experience feedback, serious or untoward clinical incidents and potential medico-legal cases
- Assessing the impact of industry developments on Lenmed and making recommendations to the Board.

Our new Clinical Governance Framework is aligned to Lenmed's vision to devote itself to remaining a relevant and growing hospital group, championing quality patient experience and clinical outcomes, remaining true to our roots, the communities and the people we serve.

- Clinical governance helps refine processes that improve quality of service delivery, satisfy customers, motivate employees and an improve efficiency
- It also helps define standards upon which trust relationships can be built between Lenmed, potential customers and patients, funders and stakeholders
- The Clinical Governance Framework will also support accurate and transparent reporting to all stakeholders.

Over time, formal clinical governance will bring about consistently high standards.

CLINICAL GOVERNANCE FRAMEWORK ILLUSTRATED

The overarching umbrella is the Lenmed vision and strategic objectives supported by our management systems and leadership practices. The six pillars of the framework each have specific focus areas with the key objective of excellence in clinical care. The framework is supported by the Group's values and its enabling functions. At the heart of the framework are our patients, our specialists and, importantly, our people. The six pillars and specific focus areas are described below.

Customer Excellence

- Continually improve customer experiences and our management of complaints
- Establish productive relationships with key specialists to ensure that our clinical policies, efficiency initiatives and quality outcome improvements are implemented

Clinical Risk Management

- Entrench incident and risk management processes and systems
- Conduct compliance audits against priorities and risks aligned to South Africa's National Core Standards and legislative frameworks
- Target reduction of Hospital Acquired Infections (HAIs) to zero across all hospitals, thereby avoiding harm
- Standardise practices for medico-legal claims and all complaints escalated to statutory bodies

Clinical Outcomes

Improve standards in healthcare and the clinical outcomes for our patients, as shown in the following table:

OUTCOME/INITIATIVE	KEY ACTION/RESULT
Cardiac Excellence	Measure the implementation of current best practices and mortality for all patients admitted for ST elevation acute myocardial infarction to cardiac and non-cardiac hospitals.
Maternal and Neonatal Outcomes	Compare performance to international benchmarks in neonatal ICUs by implementing Vermont Oxford Network (VON), an international group of neonatal ICUs. Support the implementation of the Best Care Always (BCA) NICU bundles of care for neonatal ICU and measure compliance. Measure performances and outcomes of elective C-section, Maternal Mortality Rate (MMR) and Perinatal Mortality Rate (PNMR) procedures.
Orthopaedics	Support the implementation of Patient Reported Outcomes Measures (PROMs), which is a before/after measure of patient outcomes before/after hip and knee replacement surgery.
Acute Stroke Pathway Management	Introduce current best practices that should improve outcomes for patients suffering from acute strokes.
Antimicrobial Stewardship	Recommend, develop and implement clinical standards, policy guidelines and appropriate metrics regarding the rational use of antimicrobial agents. Suggest improvements from time to time.

The Lenmed Way – Best Practices

Implement best practice through *The Lenmed Way*:

BEST PRACTICE	DESCRIPTION
Clinical Training and Development	Support the implementation of a comprehensive risk-based training programme for inclusion of the Workplace Skills Plan (WSP).
Management Development	Sponsor the implementation of an overall management development programme focusing on the development of Unit Managers upwards.
Clinical Policy	Oversee the review and enhancement of clinical policies, protocols and standards, or the further development of clinical policies and protocols, across nursing, pharmacy and medical disciplines to support the delivery of quality patient care.
Industry Best Practice	Support the implementation of current industry best practices to drive the continuous improvement of clinical outcomes of patient safety and the reduction of harm.
Nursing and Pharmacy	Oversee the review of current policies and procedures and identify clinical process improvement and policy gaps, specifically in Infection Prevention, ICU, Theatre, Maternity and Emergency Units.

Compliance

- Implement the Clinical Governance Framework throughout Lenmed and review the effectiveness of committees and sub-committees at hospital level
- Implement a compliance audit process and methodology

Clinical Efficiency

- Reduce the overall cost per event to maximise network and DSP opportunities
- Entrench internal efficiency and profiling outcomes reports by doctor, discipline and hospital to support cost per event efficiencies
- Entrench a comprehensive Group formulary for surgical and ethical products achieving a shift change in compliance

PUTTING OUR CLINICAL GOVERNANCE FRAMEWORK INTO PRACTICE

Since late 2017, Lenmed's Chief Medical Officer has focused on embedding a new Clinical Governance Framework. Once priorities had been established, implementation commenced with presentation sessions to all hospital management teams. At these, we launched various improvement initiatives and engaged with key stakeholders in clinical governance on their roles and responsibilities. Certain improvement initiatives are:

Risk assessment – developing a risk assessment methodology for Lenmed is currently underway. Key stakeholders will be trained on risk assessment and its implementation in the second half of 2018/19. This will culminate in risk action plans to mitigate operational risks related to patient and employee health and safety.

Incident management – developing an incident reporting system to report and record information on patient and employee incidents. These incidents will be categorised and reporting will include the investigation process, identified root causes and how to prevent or act on these in future.

Compliance with Group standards and priorities – identifying the key requirements by function and developing an audit tool for conducting internal audits across hospital operations, with the overriding objective of assessing compliance to Lenmed standards, policies and procedures, as well as compliance to any relevant legislative/regulatory framework. The outcomes of these internal audit processes will be to identify gaps implementing Lenmed protocols and how to address failings.

Infection surveillance and prevention – reviewing current infection prevention practices and identifying best available practices for enhancing this critical function. We are evaluating an online clinical decision support system that integrates, in real time, the location, laboratory and prescribing data of infections. Clinicians can focus on at-risk patients and make interventions that the Group can review if necessary. If selected, this system could result in improved patient safety through infection prevention.

Specialist profiling – to cut costs, the Medical Aid Funders (MAFs) are driving efficiencies through reporting on cost per admission metrics by group, hospital discipline and specialist. These measures have now been extended to radiology and pathology costs. Lenmed has reviewed various MAF reports and has started preparing comprehensive specialist profiling reports. Relevant information regarding each specialist's practice and their fees charged are benchmarked to industry averages for their specialties. This exercise is intended to create an analysis of which of these costs make Lenmed less competitive.

NURSING PRACTICE

Healthcare Associated Infection

HAI rates across Lenmed's hospitals remained below mean industry rates for the third year in a row, as shown in the following table:

GROUP HAI RATES 2016 – 2018

MEASURE	BENCHMARK	2018	2017	2016
Ventilator-associated pneumonia	0.65 – per 1 000 ventilated days	**0.40**	0.55	0.51
Surgical site infection	1.30 – per 1 000 theatre cases	**0.35**	0.53	0.25
Central line-associated blood stream infection	2.00 per 1 000 central line days	**0.23**	0.12	0.56
Catheter-associated urinary tract infection	2.25 – per 1 000 catheter days	**0.15**	0.39	1.06

Lenmed's overall HAI was 0.49 infections per 1000 ppds, compared to 0.55 per 1000 ppds for the previous year.

Training and development

After three years, the proposed registration of The Lenmed Nursing College still lay in abeyance. While substantial progress has been made, the South African Nursing Council now needs to schedule a visit to the facility as a final step in obtaining formal accreditation and registration.

Lenmed has developed a detailed Workplace Skills Plan (WSP) for nursing. We are developing over 50 specific training interventions for the next WSP cycle (2018/2019), including a specific project to improve the competence and efficacy of our ICU professional nurses. This ICU project is already underway.

Resource planning

A detailed tender process was undertaken to source reputable service providers that can provide suitably qualified and competent nursing professionals for peak periods of healthcare activity. We have completed service level agreements with three service providers, who have been appointed for two years.

Documentation review

A detailed review of all legal and professional nursing documentation was undertaken. We have standardised all nursing and patient documentation across the Group.

Commissioning of the Royal Hospital and Heart Centre

In 2017 we commissioned and opened the Royal Hospital and Heart Centre in Kimberley. The Department of Health (DoH) completed its inspections without any adverse findings. The hospital is phasing in medical and support staff as occupancy and patient activity rises.

COHSASA Accreditation

The Ahmed Kathrada Private Hospital and Bokomoso Private Hospital in Botswana achieved COHSASA accreditation in 2017. As a second accreditation round, these accreditations remain valid until 2021 for Ahmed Kathrada Private Hospital and 2020 for Bokomoso Private Hospital.

Clinical outcomes projects: Obstetrics

Our nursing function has completed the first round of implementing the BetterObs programme, which is an industry driven initiative for promoting excellence in maternal outcomes and enhancing the delivery of healthy babies through clinical protocols endorsed by the SA Society of Obstetricians and Gynaecologists. Evidence-based training of all our midwives was completed in interpretation of Cardiotocography (CTG) and Essential Steps in the Management of Obstetric Emergencies (ESMOE).

PHARMACY

Systems

SAP Implementation – the SAP ERP is now functional in several of our South African hospital pharmacies, with retail pharmacy systems replaced by the SAP Materials Management and Finance Information module. The Price File Management function was successfully centralised and all hospital stock listings integrated into a master price file.

Efficiency

Lenmed achieved a 5% reduction in stock days in this period, while surgical procurement for Bokamoso Private Hospital and Maputo Private Hospital was streamlined and aligned to Lenmed's preferred suppliers.

Resourcing – an activity-based resourcing tool was developed to measure and manage hospital pharmacy resource requirements and utilisation.

Pharmacy integrations

The pharmacy at the Ethekwini Hospital and Heart Centre was integrated into Group Pharmacy. The pharmacy at the Royal Hospital and Heart Centre was staffed and fully stocked.

Pharmacy management reporting

Pharmacy monthly reporting was enhanced through developing a detailed clinical report (inclusive of clinical efficiencies, quality improvements and CPD training). Group Pharmacy financial reporting was enhanced to allow for comparative analysis across hospitals and now includes a dashboard summary.

Formulary compliance reports were developed, indicating the achievement per facility and providing guidelines for improvement on ethical and surgical formulary compliance.

Training and development

Sixteen Pharmacists Assistants were successfully trained as Basic and Post Basic Pharmacist Assistants.

General

The ownership of all Lenmed's South African pharmacies was re-allocated to the hospitals where they are located. The Group obtained a Category A grading for 75% of our South African pharmacies. Standard operating procedures and documents were developed and implemented across all Group pharmacies.

During their COHSASA accreditation evaluations, the pharmacy at the Ahmed Kathrada Private Hospital achieved a 90% score, while the Bokamoso Private Hospital's pharmacy scored 96%.

CORPORATE GOVERNANCE

The Board of Directors is committed to high standards of corporate governance and it endorses the four governance outcomes set out in King IV, namely an ethical culture, good performance, effective control and legitimacy.

During 2018, the Company conducted a detailed assessment of King IV. This was done by a multi-disciplinary team including the CFO and Company Secretary, where each of the 16 principles and numerous sub-practices were considered and documented. Following this, a King IV workshop comprising Board members, management and the Company Secretary was held. Debate and interrogation focused on, among others, areas of King IV to apply and those not to apply. The end result has been a rigorous process which will stand Lenmed in good stead from a governance perspective in the years ahead. However, it is also noted that governance is not static and continuous improvement is expected.

In addition to the above, during the past financial year, further corporate governance improvements were achieved. Some of these developments are highlighted below:

- Open risk discussions at every Board meeting (in addition to similar discussions at the Audit and Risk Committee meetings)
- Presentations at the Audit and Risk Committee on special topics of interest
- Quarterly meetings of the newly established Clinical Governance Committee
- Benchmark of the Share Appreciation Rights scheme (SARs) and amendments to the rules of that scheme.

King IV overview

The register set out below provides an overview of Lenmed's application of the principles contained in King IV. The register should be read in conjunction with Lenmed's Integrated Report, including the individual reports of the Board committees.

LEADERSHIP	
Principle 1 The governing body should ***lead ethically and effectively***.	The Board leads ethically and effectively. In this regard, the philosophy of this Board is to ensure compliance with the principles of King IV, ensure sustainability of the Company and to be a good corporate citizen. Although Lenmed is not a listed company it voluntarily chose to appoint independent directors of a high standing who serve on other prominent boards. The Board leads with a clear set of ethics and morals and sends a clear message on ethics throughout the Group. At meetings there are robust discussions and Board members challenge and hold each other accountable. Disclosure of interests is a standard agenda item at Board and committee meetings and there is an annual declaration by all directors. 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. There is also a Director Induction and Training Programme, which is reviewed annually. Training is made available to directors on a needs basis. There is two-day annual strategy session and strategic targets are monitored at every meeting. Also, risks and opportunities are monitored at every meeting. Further, various aspects of Principle 1 are covered in Lenmed's Board Charter and other key documents.
ORGANISATIONAL ETHICS	
Principle 2 The governing body should govern the ethics of the organisation in a way that supports the establishment of ***an ethical culture***.	The ethical tone at Lenmed is set by the Board and applies throughout the organisation. Although Lenmed's Code of Ethics applies to all directors and employees, it has not yet been extended to other stakeholders. Key ethical risks of the organisation are monitored via the Code of Ethics and Whistle Blowing Line. The relevant legal processes are followed for any ethical breaches. 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 COO and CFO, and anything on directors and the Executive Committee (Exco) goes to the Chairman of the Audit Committee and a summary is provided to the Audit and Risk Committee. Results are monitored on an ongoing basis by the Audit Committee and any complaints are sent to the Chairman of the committee.
RESPONSIBLE CORPORATE CITIZEN	
Principle 3 The governing body should ensure that the organisation is and is seen to be a ***responsible corporate citizen***.	Lenmed's hospitals are of international standard and many of them are located in previously underserved and outlying areas. These hospitals serve the community and are also one of biggest employers in these areas, stimulating the local economy. Further, the healthcare sector is highly regulated which places greater levels of demand and vigilance on the Board and management. The Board's approach to being a responsible corporate citizen is also supported by various policies and the work done by the Social and Ethics Committee and the Clinical Governance Committee. These committees consider and evaluate the sustainability of the Group with reference to the rigid demands of: • 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 The committee reports back to the Board on these matters and makes recommendations.

King IV overview continued

STRATEGY AND PERFORMANCE	
Principle 4 The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development ***are all inseparable elements*** of the value creation process.	The Board recognises that all these elements are inseparable throughout the organisation, and Lenmed follows the six capitals approach as described in this report. This integrated approach is taken by the Board at its meetings, strategy sessions and committee meetings. The Board and senior management attend a two-day annual strategy session and strategic targets are monitored at every meeting. Also, risks and opportunities are monitored at every meeting of the Audit and Risk Committee and the Board. The Board agenda and meeting structure focuses on strategy, business performance monitoring and governance matters, with emphasis on strategy and business performance. All budgets and strategic plans (medium and longer term and which take account of risks and opportunities) are approved by the Board.
REPORTING	
Principle 5 The governing body should ensure that ***reports issued*** by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects.	The Board is responsible for the integrity of the information contained in this report and other reports, including the annual financial statements and interim results presentations. It is assisted in this regard by the various Board committees which review and recommend their respective reports to the Board in accordance with their terms of reference. The annual financial statements and Integrated Reports reviewed by all members of the Board are provided in printed and online form and are published on the website. The reporting framework is set out on the inside front cover of this Integrated Report. Regarding external assurance of external reports, Lenmed does not consider it necessary to appoint third party consultants to provide assurance. We are satisfied that assurance is provided by a combination of management, internal audit and external audit. Independent oversight is also provided by the Board (majority of independent non-executive directors).
PRIMARY ROLE OF THE BOARD	
Principle 6 The governing body should serve as the ***focal point and custodian of corporate governance*** in the organisation.	The Board is the focal point and custodian of corporate governance in the company. Various key policies supporting the strategy are in place. The Board has a Board Charter which is reviewed annually against best practices. An outline of the Board Charter is set out under Principle 7. 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 in this Integrated Report.
COMPOSITION OF THE BOARD	
Principle 7 The governing body should comprise the ***appropriate balance of knowledge, skills, experience, diversity and independence*** for it to discharge its governance role and responsibilities objectively and effectively.	Assisted by the Remuneration and Nominations Committee (Remco), the Board reviews its knowledge, skills, experience, diversity and independence annually, or as circumstances change. The Board considers gender and race in any new appointments and the composition of the Board in general. The Board comprises a majority of non-executive members, most of whom are independent. 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 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 • two executive directors — the Deputy Chief Executive Officer (CEO) and Chief Financial Officer (CFO)

COMPOSITION OF THE BOARD continued

Principle 7 continued
The governing body should comprise the ***appropriate balance of knowledge, skills, experience, diversity and independence*** for it to discharge its governance role and responsibilities objectively and effectively.

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 a Lead Independent Director, Mr MG Meehan. Although the Chairman is also CEO, at Board meetings he fulfils and understands the role of Board Chairman, with the executives presenting various reports from their functional areas. 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 Remco, based on the independence requirements of King IV.

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.

Rotation and tenure – Directors are appointed through a formal process led by the Remuneration and Nominations Committee. 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 appointments of directors appointed at the previous Annual General Meeting (AGM) are confirmed at the subsequent AGM.

The directors retiring and offering themselves for re-election at the 2018 AGM can be found in the notice of AGM commencing on page 123

Induction and training – All new Board members will be provided with an induction and orientation programme on appointment. This covers key policies, terms of reference, Charters, engagements with management and visits to hospitals.

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 61, 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. The service is provided by CorpStat Governance Services (Pty) Ltd, represented by Mr Somerville. The firm, which has been in business for over 17 years, provides company secretarial and corporate governance advisory services to a range of prominent unlisted and JSE listed companies. It has a senior team of four qualified and experienced company secretaries.

Board Charter – The established Board Charter has been in place 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 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 decisions and the frequency and proceedings of Board meetings. The Charter is reviewed annually by the Board to ensure alignment to best practices.

Succession planning – The Remuneration and Nominations Committee (Remco) annually reviews the succession plan for the Chairman/CEO, Board of Directors and senior management, and makes recommendations to the Board as required.

King IV overview continued

COMMITTEES OF THE BOARD	
Principle 8 The governing body should ensure that its arrangements for ***delegation within its own structures*** promote independent judgement and assist with balance of power and the effective discharge of its duties.	Lenmed has four standing Board committees as described below and the composition of the committees are in line with King IV and the Companies Act as applicable. 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 Board committees in place: • Audit and Risk Committee • Remuneration and Nominations Committee • Social and Ethics Committee • Clinical Governance Committee Each of the committees is chaired by a different non-executive director which further addresses independent judgement aspects. 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. The Remuneration and Nominations Committee has a majority of independent non-executive directors. 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, and further, are entitled to get external independent professional advice which also enhances independent judgement and balance of power in regard to Board deliberations and processes. The Chairman of each Board committee is required to attend Annual General Meetings to answer questions raised by shareholders. Further details of the committees can be found in the respective committee reports.
BOARD PERFORMANCE EVALUATION	
Principle 9 The governing body should ensure that the ***evaluation of its own performance*** and that of its committees, its chair and its individual members, supports continued improvement in its performance and effectiveness.	Lenmed has a process to evaluate the effectiveness of the performance of the Board and the committees. In this comprises an open discussion held annually by the Board and each committee to assess their effectiveness. In addition, the Audit Committee was independently assessed by internal auditors PwC and external auditors PKF Durban. The outcomes were positive and affirmation that the committee is working effectively. This assessment was based on a range of criteria and best practices applicable to audit committees and included commentary from PwC and PKF Durban based on their observations. Individual director evaluations for non-executive directors have not been implemented, however there is a review of KPIs against the strategy, which also is a form of an evaluation. Also, the Board is mature and issues are raised in the open. The names of under-performing directors will not be submitted to shareholders for re-election.
APPOINTMENT AND DELEGATION TO MANAGEMENT	
Principle 10 The governing body should ensure that the appointment of, and ***delegation to, management*** contributes to role clarity and the effective exercise of authority and responsibilities.	The Board Charter sets out matters reserved for the Board and is reviewed annually. In addition, there is a Delegation of Authority (approved by the Board and reviewed annually) which sets out matters delegated to management and those reserved for the Board. The Lenmed Board appoints the CEO and the incumbent is accountable to the Board for leading the implementation of strategy, policy and running the day to day business of the Company. The King IV recommendations for the CEO in respect of appointment, roles and responsibilities, succession planning and performance evaluation are complied with. On a bi-annual basis, Remco reviews the organogram and interrogates all aspects of the business relative to the roles and responsibilities of the executive and senior management team. Lenmed has a Company Secretary with the necessary experience, expertise and qualifications to discharge the role effectively. The King IV recommendations in respect of the appointment, reporting lines, independence, duties and performance evaluation are met. Details of the Company Secretary are set out under Principle 7.

RISK GOVERNANCE	
Principle 11 The governing body should ***govern risk*** in a way that supports the organisation in setting and achieving strategic objectives.	The Board governs and is responsible for the culture of managing risk at every level of the organisation. It is assisted by the Audit and Risk Committee, which 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 **Risk appetite determination –** King IV 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. 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. Lenmed has a detailed Risk Register and risk matters are a standard agenda item at every Audit and Risk Committee and Board meeting. It is regularly emphasised that risk is everyone's responsibility. In addition, risk mitigation happens on two levels – non-financial and financial – and sub-registers populate Group register. There are specific risk registers at bigger hospitals and compliance audits are done at certain hospitals by specific risk and functional area. There is clinical risk management training at hospitals and industry norms are monitored with a view to becoming ISO compliant in the future. There are also Finance Risk Registers in place. Opportunities flowing from risk assessments form part of the overall approach to risk governance. Emerging risk trends are identified and monitored regularly.
TECHNOLOGY AND INFORMATION GOVERNANCE	
Principle 12 The governing body should ***govern technology and information*** in a way that supports the organisation setting and achieving its strategic objectives.	IT governance is a standard agenda item at meetings of the Audit and Risk Committee. 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 and Risk Committee are regularly apprised of committee discussions. There is report back in terms of the SAP implementation to the Audit and Risk Committee and the SAP implementation and rollout is underpinned by the integration of multiple components that represent the healthcare solution for Lenmed. Management is of the view that outsourcing of various aspects of IT is beneficial to Lenmed rather than in-house, as there are numerous benefits in the service being provided by a professional and reputable service provider. Regular meetings are held with these services providers. Lenmed has done a lot of work on cyber security and is assisted in this regard by an outsourced service provider. Further, Lenmed constantly upgrades its software. As regards information governance, including Protection of Personal Information Act (POPI) and Promotion of Access to Information Act (PAIA), Lenmed is aware of need to protect client and corporate information. There is a Technology Risk Register which forms part of the Group Risk Register. There are Disaster Recovery and Business Continuity policies in place. Board level strategy is translated to tactical and operational activities which are governed by Steering Committees.
COMPLIANCE GOVERNANCE	
Principle 13 The governing body should ***govern compliance*** with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.	The Board is active in its pursuance of compliance and this is monitored by a combination of management controls and compliance monitoring via internal audit, external audit and the Company Secretary. Also, compliance is a standard agenda item for the Audit and Risk Committee, which reports to the Board. The healthcare sector is highly regulated which places greater levels of demand and vigilance on the Board and management. In this regard, the key legal and regulatory risks are monitored. Lenmed also has two COHSASA accredited hospitals and hospital compliance audits are also under way. The Company's financial managers are updated every quarter on key laws including the Companies Act, finance and tax laws. There are also experts within the Company who look at specific areas as regards applicable laws. A leading law firm made presentations on the NHI at the Board's strategy session and to the Audit and Risk Committee.

King IV overview continued

REMUNERATION GOVERNANCE	
Principle 14 The governing body should ensure that the organisation ***remunerates fairly, responsibly and transparently*** so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.	The Board takes responsibility for remuneration governance. It is assisted by the Remuneration Committee, which oversees that the organisation remunerates fairly, responsibly and transparently so as to promote the delivery of strategic objectives and the creation of value in a sustainable manner. It makes recommendations to the Board in this regard. 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 conducts external benchmarks across executive and senior Group management roles while hospital managers and nurses are done on a more informal basis. The scarce skills and competitive market dictate the remuneration levels and if Lenmed does not remunerate competitively, it will not be able to retain these skills. During the year, the SARS scheme was amended to align to market practices. *The Remuneration Report and Implementation report is set out on page 75*
ASSURANCE	
Principle 15 The governing body should ensure that ***assurance services and functions*** enable an effective control environment, and that these support the ***integrity of information*** for internal decision-making and of the organisation's external reports.	Lenmed follows a combined assurance model, with assurance being provided by management, the internal audit function (PwC) and the external auditors. Oversight on assurance is provided by the Audit and Risk Committee and, in addition, the Board tasks the CFO to implement an effective control environment and report back on this. Internal Audit is used to review the control environment and also assist with the establishment of a control environment. They are independent and objective and their plans and reports are reviewed by the Audit and Risk Committee. The Group has not utilised independent assurance to assess the competence and independence of internal audit and IT as both of these areas are serviced by outsourced service providers and therefore no assurance is required. 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.
STAKEHOLDERS	
Principle 16 In the execution of its governance role and responsibilities, the governing body should adopt a ***stakeholder-inclusive approach*** that balances the needs, interests and expectations of ***material stakeholders*** in the best interests of the organisation over time.	Lenmed has identified its key stakeholders and material issues and risks that could impact the stakeholders of Lenmed, as set out in the Annual Integrated Report. **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. This communication is two-way and includes employees, patients, doctors, funders, regulators, suppliers and shareholders. As regards employees, a newsletter from the CEO is sent to all staff members every quarter. As regards shareholders, there is ongoing engagement with shareholders via various mechanisms, including interim/year-end reports, the Integrated Report, presentations, the AGM, Lenmed's website and social media.

GOVERNANCE STRUCTURE

Lenmed's Board of Directors oversees, participates in and approves strategic decision-making, while ensuring that these actions do not breach our corporate values. The Board evaluates implementation of strategy against performance targets and risks.

The Board has established committees with individual directives to support fulfilling its duties, while retaining effective control and accountability. These committees report to the Board regularly and conduct their duties within mandates that stipulate their roles, authority and responsibilities.

OUR BOARD

Executive

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

Deputy Chief Executive Officer
CA(SA)

Amil Devchand joined the Group in 2011 and was appointed to the board in 2012. He has held numerous positions within Lenmed, most notably, Chief Financial Officer and, more recently, as Chief Operations Officer. He is a Chartered Accountant and has extensive industry experience, currently serving as the Chairman of the National Hospital Network (NHN), and as a director of the Hospital Association of South Africa (HASA).

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.

Non-executive

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.

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).

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 Nilesh Patel
Group Chief Medical Officer

Dr Morgan Mkhatshwa
Head: Group Operations

Dr Augusta Dorning
Head: Africa Business

Mr Ebrahim Asmal
Group Regional 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 Anilsing Sewraj

Group Working Capital manager

Ms Samantha Hall

Group Quality Systems Development Specialist

Mr Niresh Bechan

Hospital Manager:
Ethekwini Hospital and Heart Centre

Mr Rodney Naicker

Hospital Manager:
Ahmed Kathrada Private Hospital

Mr Joe van der Walt

Hospital Manager:
Bokamoso Private Hospital

Ms Leoni Beaurain

Hospital Manager:
Randfontein Private Hospital

Mr Hector Mackay

Hospital Manager:
Royal Hospital and Heart Centre

Mr Jan Scheepers

Hospital Manager:
La Verna Private Hospital

Mr Rubendren Naidoo

Hospital Manager:
Maputo Private Hospital

Mr Phil Rhyneveldt

Hospital Manager:
Kathu Private Hospital

Directors' attendance at Board and committee meetings

The following meetings were held in the last financial year:

A = apologies
(c) = chairman
(i) = invitee
NP = not present but may be invited to attend certain aspects of the meeting

Board meetings

DIRECTOR	8 JUNE 2017	27 JULY 2017	26 OCTOBER 2017
Mr P Devchand	✓ (c)	✓ (c)	✓ (c)
Mr A Devchand	✓	✓	✓
Mr VE Firman	✓	✓	✓
Ms B Harie	✓	✓	✓
Prof B Goolab	✓	✓	✓
Mr MG Meehan	✓	✓	✓
Mr NV Simamane	✓	✓	✓

Note: Board meetings were held on 23 February 2017 and 8 March 2018 — which fall outside the financial year.

Remco meetings

DIRECTOR	23 MAY 2017	8 JUNE 2017 SPECIAL	25 JULY 2017	24 OCTOBER 2017	22 FEBRUARY 2018
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	✓ (i)	✓ (i)	✓ (i)	✓ (i)	✓(i)
Prof B Goolab	A	✓	✓	A	✓
Mr MG Meehan	✓	✓	✓	✓	✓

Audit and Risk meetings

DIRECTOR	24 MAY 2017	26 JULY 2017	25 OCTOBER 2017
Mr MG Meehan	✓(c)	✓(c)	✓(c)
Ms B Harie	✓	✓	✓
Mr P Devchand	NP (i)	NP (i)	NP (i)
Mr A Devchand	NP (i)	NP (i)	NP (i)
Mr VE Firman	✓ (i)	✓ (i)	✓ (i)
Ms NV Simamane	✓	✓	✓

Note: Audit Committee meetings were held on 22 February 2017 and 7 March 2018 — which fall outside the financial year.

Social and Ethics meetings

DIRECTOR	15 MARCH 2017	19 MAY 2017	23 OCTOBER 2017	20 FEBRUARY 2018
Ms NV Simamane	✓(c)	✓ (c)	✓ (c)	✓ (c)
Mr E Asmal	A	✓	✓	A
Mr N Bechan	✓	✓	A	✓
Dr N Patel	n/a	n/a	✓	✓

Board committees

The Board has the following Board committees in place:

Audit and Risk Committee

Remuneration and Nominations Committee

Social and Ethics Committee

Clinical Governance Committee

Refer to the respective reports of these committees for details

Audit and Risk Committee report

The Audit and Risk Committee is a statutory committee of the Board of Directors charged with the responsibility of overseeing Audit and Risk matters. It is structured in accordance with the requirements of the Companies Act 2008, King III and King IV and consists of three independent non-executive directors, approved by the shareholders in 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 executive are invited as expedient.

The Chairman of the Audit and Risk Committee is the only Chartered Accountant amongst the independent directors; the other members being qualified in law, business administration and marketing. This provides a spread of disciplines as well as a diversity of knowledge, experience, race and gender.

The committee is conscious of the need for continuing education of its members and of the need to stay abreast of current events that affect the work of Audit Committees. To this end, the Audit Committee meeting agenda often includes addresses and presentations on subjects such as changes in legislation, taxation, insurance, IFRS, cyber security etc. In addition, the Chairman attended third party presentations on IFRS, cyber security and taxation during the year and being a member of the IoDSA and the Audit Committee Forum, engaged with peers and other specialists in corporate governance.

The external and internal auditors have unrestricted access to the committee and specifically, its Chairman. Private sessions are held without management being present at least once a year. At those sessions questions are asked to determine the robustness of the audits and to satisfy the committee that the objectives of combined assurance are being met.

With the appointment of PwC as internal auditors from March 2017, the extent and robustness of internal audit and the level of assurance received has developed considerably.

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 November 2010	Lead Independent Non-executive Director
Ms B Harie	BA, LLB, LLM	1 November 2010	Independent Non-executive Director
Ms NV Simamane	BSc (Hons)	1 October 2012	Independent Non-executive Director

Board committees continued

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. This was taken further by the Chairman visiting the managing partner of PKF Durban to test the audit practice policies on independence, partner succession planning and the robustness of the audit. This has led to the committee concluding that it is satisfied with the independence of the external audit
- Agreed the terms of engagement of the external auditors
- Reviewed the work program of the external auditors
- 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
- Approved the fees to be paid to PKF Durban
- Held discussions with and reviewed the reports of the external auditors of the foreign subsidiary companies that were not audited by PKF Durban. This included a visit by the Chairman of the committee to Botswana to hold discussions with the auditors on their independence, the robustness of the audit and their reports to management. The committee is satisfied on all these counts
- The partner of PKF Durban responsible for the audit is Tania Marti-Warren who has been in this position for four years. Tania will rotate off the audit after 2019 and PKF Durban are planning the audit succession with a partner with the requisite experience. PKF Durban will be required to withdraw as external auditors in 2023 in terms of the IRBA demands for Mandatory Audit Firm Rotation
- Received advice from PKF Durban that Tania Marti-Warren was selected for an IRBA review in July 2017. Tania received a satisfactory pass
- Received assurances from management and internal audit on the systems of internal control. New policies of internal controls were implemented through 2018 and are the benchmark against which the internal audit program is developed. Policies are randomly chosen for oversight by the committee at each meeting and recommendations made to management
- Received two reports of fraud and theft which have been dealt with appropriately
- Reviewed the Charter of the Audit and Risk Committee to ensure that it is consistent with best industry practice and approved by the Board
- Worked closely with PwC on their introduction as internal auditors and approved their work programmes
- Approved the Internal Audit Charter
- Reviewed the reports and recommendations of the internal auditor and where necessary made recommendations to management thereon
- Held separate discussions with the internal auditors and determined that there were no matters of concern
- Expressed their satisfaction on the performance of the internal auditors
- Approved the terms of the IT Charter and reviewed the work of the IT Governance Committee
- 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) The increase in control of Ethekwini Hospital and Heart Centre
  - (b) Accounting for leases which has been adopted in this year
  - (c) Currency movements in respect of the earnings at Maputo Private Hospital
- Expressed its satisfaction with the competence and effectiveness of the Financial Director, Vaughan Firman
- Reviewed the performance of the Company against its loan covenants
- Monitored the performance of the Company against the requirements of King III and recommended actions to close any gaps identified
- Commenced the process of adopting and complying with King IV
- 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 2018 financial year and recommended them for acceptance by the Board
- Conducted an assessment of the committee through the external and internal auditors and received a satisfactory result.

Matters of importance addressed by the committee included:

- **Debtors:** The investment in debtors has been improved but not been reduced significantly. While debtors in SA are well within accepted norms the additional exposure arises from slow payment practices by Medical Aid Funders in territories outside of South Africa. 35% of the total debt relates to debt due by government. R67,768 million is South African and R115,673 million due by the governments of Botswana and

Mozambique. 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 does not consider it necessary to recommend the appointment of third party consultants to advise the Board of the sustainability of the Company. 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 as the internal audit function is 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 has partially adopted some of the 16 principles as well as the reporting thereon in this 2018 Integrated Report.

Risk Committee

The committee plays an oversight role in respect of risk management:

At each strategic planning meeting, the Board and senior management consider risk as a separate matter; and consider factors which might prevent the Company from achieving its vision. Action plans are developed to eliminate these factors and to pursue opportunities that could arise from the identification of risk factors. These factors are introduced into the Risk Register to ensure proper management and control of the risks on an ongoing basis.

The Risk Register is developed from hospital level by hospital management and reported on a regular basis. The several most important of these risks are then escalated into the Company Risk Register which is debated at the management executive committee, while the top ten are debated by the Risk Committee and the Board quarterly, with a view to managing their elimination. While the majority of risks managed in this manner are financial in nature, the group is also developing its own clinical Risk Registers via the same structures.

The first matter on the Risk Committee agendas at most meetings is a wide-ranging discussion on factors that have arisen or changed since the previous meeting which would have an impact on the Company now or in the future, whether as a risk which needs to be eliminated or as an opportunity that might arise from that risk.

The Company identifies risks under the headings of:

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

The Company has an appetite for risk which is consistent with the operation of private hospitals in the healthcare industry in which it operates 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 Company 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 Company is not itself involved in conducting medical research or practicing medicine but provides facilities and equipment for procedures conducted by medical practitioners and nursing care for patients.

The Company operates in a field in which risk is ever present and is a fundamental part of business strategy. Accordingly, the Company adopts practices and procedures, which address risk in all facets of the business. 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.

The appointed insurance brokers, Marsh provide additional assurance on risk management through regular discussions with management and an annual presentation to the Risk Committee.

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 receives the reports of the IT Governance Committee as well as the minutes of that committee. The IT executive attends the deliberations of the Audit and Risk Committee when invited and makes presentations to the committee on progress on the implementation of SAP, cyber-crime and IT policies. A considerable proportion of IT management and operations are outsourced to ensure state of the art performance and to diversify risk. The performance of the outsourced services against SLA is reviewed annually by the IT Committee. During the year, the systems were tested by benign hacking programs. Any shortcomings found were the subject of additional program safeguards, controls and further system tests.

The Audit and Risk Committee also receives the reports of the Chief Medical Officer on Clinical Governance and performance, while the oversight of this critical aspect of Company operations is conducted by the newly formed Clinical Governance Committee under the Chairmanship of Professor Goolab.

Ongoing progress has been made by the Company in identifying and assessing the extent of compliance with the legislation that affects it. In this the Company receives guidance from its outsourced legal advisors and by completion of the requirements of COHSASA.

CONCLUSION

The committee confirms that it has fulfilled its responsibilities in accordance with all material aspects of its Charter for the year and has recommended the integrated report to the Board for distribution to members.

Risk management

RISK APPETITE DETERMINATION

The King IV Code 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 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 towards 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 as enterprise risks. They are capable of destroying the business, stakeholder perceptions, shareholder wealth and the credibility of the Group and its management.

Accordingly, 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 Remuneration Committee (Remco) addressed significant changes over the past year, in addition to its regular activities of bedding down its policies and procedures and aiming for consistent standards across the Group. Of note was a change in calculation of the Share Appreciation Rights Scheme (SARS), the appointment of Dr Nilesh Patel as the new Chief Medical Officer and the appointment of a Deputy CEO in light of the phased retirement of the CEO in February 2020. Our concern around the recruitment of scarce healthcare skills still remains a focus area.

Remco is now in its seventh 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), Nilesh Patel (CMO), Amil Devchand (Deputy CEO), 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 a Terms of Reference, which was last approved by the Board on 8 June 2017. The Terms of Reference were benchmarked against King IV, discussed and reviewed by Remco on 22 February 2018, with a view to being presented to the next Board meeting.

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 to ensure that the Board of Directors 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.

The Remco activities over past financial year have included, amongst others:

- Review of Exco service contracts for the CEO, CFO, CMO and COO and their respective letters of appointment
- Review of Board, Social and Ethics, Clinical Governance and Audit and Risk Committee membership
- 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 2019. 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 2018
- Approval of the executive annual remuneration increases effective 1 March 2018
- Oversight and discussion of the hospital managers' and Group functional heads' annual remuneration increases effective 1 March 2018
- Review of non-executive director fees. For the 2018 AGM it is proposed that the fees payable for the period from the 2018 to the 2019 AGM be amended as follows:
  - Independent non-executive director:
    Annual retainer – unchanged at R200 000 per annum
    Per meeting fee – increased to R15 500 per meeting
    Chairman's fee – R15 500 per meeting
  - Non-executive director: Non-executive director fees to match the fees of the independent non-executive directors
- Performance review of the Board and its sub-committees. Going forward, a discussion on the effectiveness of the Board and its subcommittees will be held annually at Board level, with questionnaires being completed every second year. This should encourage more open and robust debate. The Chairman is also free to hold one-on-one discussions with Board members on an ad-hoc basis
- 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 under 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 most significant change this year has been the appointment of Amil Devchand to the role of Deputy CEO in light of the pending retirement of the CEO in February 2020. The role of Deputy CEO will include strategy, stakeholder relations and building the Lenmed brand. The role will move away from operations, although there will remain an element of oversight
- Review and discussion of executive and senior management succession planning. In this regard, Dr Nilesh Patel joined as Chief Medical Officer on 1 August 2017. Dr Patel has successfully focussed his attention on clinical outcomes and standardising protocols across the Group

Remuneration and Nominations Committee report continued

- Further to an external benchmarking exercise on long term incentive schemes, the SARS scheme was modified to bring it in line with current trends, in order to attract and retain talent. Details of these changes are recorded under Risk portion of package, below. Further awards were also made under the Share Appreciation Rights Scheme
- Feedback from HR 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 where Patterson grades were assigned, and job descriptions have been standardised and linked to the job title and grade
- Director Training: King IV training was provided to directors by partners at PWC. This provided a practical view of implementing the remuneration aspects of the Code. 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 industry analyst, an actuary and an attorney, all of whom provided valuable insight and context into the healthcare environment
- Review of staff pension fund and funeral arrangements
- Discussion around the recruitment of scarce healthcare (especially nursing) skills. The skills shortage is an ongoing challenge and more will be invested in training. This is an industry-wide challenge and not unique to the Group. Presently, Lenmed has all logistics in place to open a nursing college. We (as with other applicants) await the approval of our curriculum from the South African Nursing Council. The situation is becoming dire as experienced and specialist nursing staff are opting to emigrate, with no new inflow into the field

REMUNERATION POLICY

In the context of the South African healthcare sector, where there is a shortage of staff generally, and a dire need to retain talented and higher-level staff, it is the task of Remco 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 its executive directors and hospital managers, based on current role/responsibilities, individual performance, and current market levels of similar job profiles.

Lenmed's remuneration philosophy is to pay a fair salary in exchange for fair work done. We believe that we pay a fair salary within industry norms and, where the business case demands, we are prepared to compete for scarce skills. Once in our employ, we extend the 'We Do Care' policy to our staff, where we aim to retain and motivate staff using the various benefits discussed below.

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 targeted to be equal to or higher than the median.

This year an external benchmarking exercise was conducted to gauge executive and certain management packages. This assisted Remco in setting increases for the 2019 financial year.

REMUNERATION PACKAGE FORMULATION

Packages for all key staff (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

The increase in remuneration packages of Lenmed executives was considered at the 22 February 2018 Remco meeting for implementation on 1 March 2018. 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. Consideration was placed on Lenmed not being listed, and as such, a benchmark was applied at below the median for total guaranteed package and above the median for the risk portion of package
- individual performance
- 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 headline earnings per share target and also include a measure of the performance of the Group as a whole. If the key performance areas are achieved, identified staff could earn bonuses ranging between a maximum of 25% and 100% of their individual packages, where the maximum thresholds are determined by job levels.

Short-term targets for the year ending February 2019 were adjusted as follows:

- Hard/measurable targets counted for at least 50% of the total weighting
- Targets that were more difficult to measure 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 so as to encourage delivery in these areas.

The following short term bonuses, relating to last year results (February 2017), were earned by executive directors in the financial year, against agreed KPAs:

– Prakash Devchand	R3 800 000 (100%)
– Vaughan Firman	R2 400 000 (100%)
– Amil Devchand	R2 300 000 (100%)

Remco noted that certain KPAs were not fully achieved, while others were achieved well above targets. As such, Remco applied its discretion in awarding the bonuses it did.

Remco has also had oversight of the implementation of the Long-Term Incentive Scheme (LTIS) which is now in its fifth year of operation. The scheme is based on a Share Appreciation Rights Scheme (SARS) and a Performance Share Scheme. Guidelines or practice notes are recorded as amendments are made to the scheme. These notes then form an annexure to the original policy.

As previously indicated the SARS rules were adjusted in order to bring the scheme in line with industry norms. The following changes were effected:

1. The strike price as agreed by Remco annually would not increase by a hurdle rate. Rather, it will remain static for the period of the share
2. The following performance measures apply:

   If performance achieved is CPI and 2% or less, then only 50% of the shares will vest, if CPI + 3%-6% is achieved, then 100% of the shares will vest and if CPI + 6% and above is achieved, then 125% of the shares will vest
3. 100% of the shares will vest at the end of year 3

The scheme is based on a Share Appreciation Rights Scheme (SARs) and a Performance Share Scheme. 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 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 plan
- 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 – Direct reports to category 1	750 000 to 1.5 million shares
– Category 3 – Direct reports to category 2	250 000 to 1 million shares.

Scheme Rules, in addition to the changes recorded above:

- The performance criteria for the SARS is a minimum 50% average achievement of the participant's short term incentive bonus over the 3 years prior to vesting
- Settlement is in cash or shares, at the discretion of Remco
- Participants are not entitled to any dividends and have no voting rights
- Tranche 2 of the 2013 LTIS allocation and Tranche 1 of the 2014 LTIS had vested. At Remco's discretion, these were done at a valuation of R3.39 per share
- For the financial year ended February 2018, the fifth set of SARS were also issued at R3.39, per Remco's discretion not to apply the average OTC price for this period, due to the shares being illiquid. In both instances above, Remco applied its discretion to a price of R3.39 per share based on a presentation from our financial advisors who conducted a high level indicative valuation of Lenmed using different valuation methodologies. The internal valuation methodologies included forward price earnings ratio, discounted cash flow and forward EBITDA multiples
- The following SARS awards were made to executive management:

– Prakash Devchand	R2 500 000
– Amil Devchand	R1 000 000
– Vaughan Firman	R1 000 000
– Nilesh Patel	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, namely:

- a cash award payable six monthly to staff who have worked 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, on a once-off basis, R50 000 (pre-tax), either in cash or shares, once they have attained a service record of 15 years as at December 2017. If the share option is chosen, then these shares will be purchased on the OTC, at the prevailing price. This benefit is in addition to the cash award referred to above.

Lenmed will use its discretion to extend the above scheme to long serving staff at newly acquired hospitals after three years of 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.

Remuneration and Nominations Committee report continued

INDEPENDENT NON-EXECUTIVE DIRECTORS

The three independent non-executive directors and one non-executive director continue 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' and executive management fees are as follows:

Directors' and Executive Management Remuneration

NAME	EXECUTIVE/ NON-EXECUTIVE	ANNUAL PACKAGE 2018	ANNUAL PACKAGE 2019	RETAINER FEE	MEETING FEE PER MEETING	CHAIRMAN FEE
Mr P Devchand	Executive	R4.1 million	R4.1 million	–	–	–
Mr VE Firman	Executive	R3 million	R3.180 million	–	–	–
Mr A Devchand	Executive	R2.9 million	R3.180 million	–	–	–
Dr N Patel	Executive	–	R2.678 million	–	–	–
Mr MG Meehan	Non-executive	–	–	R180 000	R13 000	R13 000
Ms B Harie	Non-executive	–	–	R180 000	R13 000	R13 000
Mr NV Simamane	Non-executive	–	–	R180 000	R13 000	R13 000
Prof B Goolab	Non-executive	–	–	R180 000	R13 000	R13 000

STATEMENT OF VOTING AT AGM

The AGM of the Group was held on 21/09/2018 and the requisite non-binding vote (Resolution 6) was passed by a 99.6% majority.

IMPLEMENTATION REPORT

The implementation of the Remuneration Policy approved by shareholders at the AGM in September 2017 is set out in note 25 to the Annual Financial Statements. This covers total remuneration awarded to and realised by directors during the financial year.

FOCUS AREAS FOR 2018

For the year ahead, Remco intends focussing on the following:

- Getting a better understanding of King IV in relation to Remco matters and its application
- Monitoring the skills shortage in the sector and efforts to improve this
- Standardise staff benefits and policies across the Group

Social and Ethics Committee report

The Social and Ethics Committee (the committee) is pleased to present its report for the financial year ended 28 February 2018 to the shareholders of Lenmed Investments Limited.

This report is prepared in accordance with the requirements of the Companies Act (No. 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.

COMMITTEE MANDATE

The committee is responsible for assisting the Board with the monitoring and reporting of social, ethical, transformational and sustainability practices that are consistent with good corporate citizenship, and assisting the Group in discharging its business responsibilities in relation thereto.

The committee is governed by a formal Charter, which guides the committee in terms of its objectives, authority and responsibilities. The Charter incorporates the requirements of the Companies Act, specifically regulation 43(5).

The focus areas of the committee are detailed here. In discharging its duties, the committee takes into consideration any relevant legislation, other legal requirements or prevailing codes of best practice in all markets where the Group operates.

COMPOSITION OF THE COMMITTEE

The committee comprises suitably skilled and experienced members appointed by the Board. Mrs NV Simamane, who is an independent non-executive director, chairs the committee. Committee members include Dr N Bechan, the Hospital Manager for Ethekwini Hospital and Heart Centre and Mr E Asmal, the Regional Manager. Following the departure of Dr A Manning, Dr N Patel took over as the Chief Medical Officer. Invitees include senior managers in the areas of human resources, finance, marketing and internal audit, currently undertaken by PwC. The Group Company Secretary acts as the secretary of the committee.

THE COMMITTEE CHARTER AND WORK PLAN

The Board approved the committee Charter and work plan, 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 as is 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

Social and Ethics Committee report continued

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 various policies including Employment Equity Policy, Employee Wellness and Chronic Illness Policy, Human Rights Policy, Legal Ethics Policy, Tax Ethics Policy, CSI Policy and the Bursary and Learnership Policy.

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 timely.
- **Transformation**
  The committee reviewed the Company's performance against the new B-BBEE codes including ownership, skills development, preferential procurement, management control/employment equity, supplier development, enterprise development and socio-economic development. The Group undertook a gap analysis to ascertain areas requiring focus, leading to the establishment of action plans and targets.
- **Corporate social investment (CSI)**
  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 continued to be 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.
- **Employee engagement and wellness**
  The committee received and reviewed reports on the Kaelo Employee Wellness Programme and the utilisation trend is increasing. An employee engagement survey was undertaken to assess the level to which Lenmed employees are engaged and committed to the Group.
- **Legislation**
  The requirements of the Protection of Personal Information (POPI) Act were assessed and an action plan developed to ensure compliance when the Act becomes effective.

  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.

COMMITTEE SELF-ASSESSMENT

The committee assessed its performance and effectiveness and reported the results of this self-assessment to the Board for its consideration. The Board reviewed the self-assessment results and found the committee to be effective. The committee Chairman updates the Board bi-annually on the work done by the committee.

REPORT TO SHAREHOLDERS

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

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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

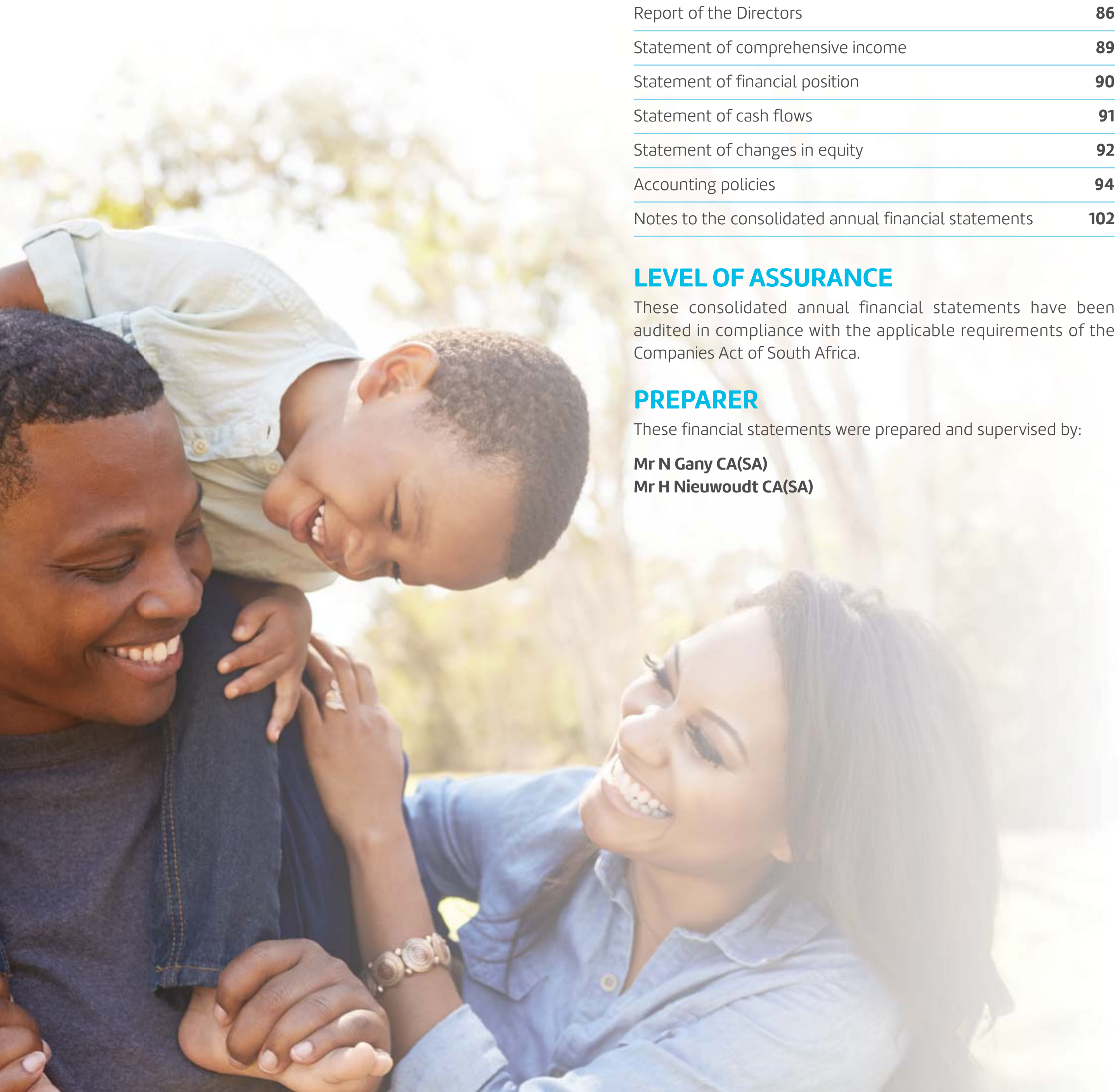
LEVEL OF ASSURANCE

These consolidated annual financial statements have been audited in compliance with the applicable requirements of the Companies Act of South Africa.

PREPARER

These financial statements were prepared and supervised by:

Mr N 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 consolidated 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 consolidated annual financial statements fairly present the state of affairs of 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 external auditor is engaged to express an independent opinion on the consolidated annual financial statements.

The consolidated annual 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 auditor during the audit were valid and appropriate. The external auditor's unqualified audit report is presented on pages 84 and 85.

The consolidated 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 in 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 consolidated 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 annual financial statements support the viability of the Group.

The consolidated annual financial statements of the Group as set out on pages 86 to 119, which have been prepared on the going concern basis, were approved by the board of directors on 7 June 2018 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 three occasions during the period under review and held further discussions with the external and internal auditors. 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 auditor and that they were properly appointed in terms of the Companies Act.

The committee reviewed the consolidated 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 consolidated annual financial statements and annual integrated report comply in all material respects with statutory disclosure requirements.
- The consolidated annual financial statements should be approved by the board and circulated to shareholders.

For further information on the composition and activities of the audit committee, please refer to the audit report on page 84

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

23 May 2018

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 appear to be true, correct and up-to-date.

Mr W Somerville
Company Secretary

07 June 2018

REPORT OF THE INDEPENDENT AUDITOR

To the shareholders of Lenmed Investments Limited and its Subsidiaries

Report on the Audit of the Consolidated Annual Financial Statements

OPINION

We have audited the consolidated annual financial statements of Lenmed Investments Limited and its subsidiaries set out on pages 89 to 119, which comprise the consolidated statement of financial position as at 28 February 2018, and the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated annual financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated annual 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 2018, 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 annual 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 annual 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 Report of the Directors, the Report of the Audit Committee and the Statement of Compliance by the Company Secretary, as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Annual Integrated Report, which has been made available to us. Other information does not include the consolidated annual financial statements and our auditor's report thereon.

Our opinion on the consolidated annual 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 annual 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 annual 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 ANNUAL FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated annual 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 annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual 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 ANNUAL FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated annual 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 annual 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 annual 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'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 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 annual 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 to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual financial statements, including the disclosures, and whether the consolidated annual 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 annual 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 ten years.

PKF Durban

PKF Durban
Partner: TC Marti-Warren
Registered Auditor
7 June 2018
Durban

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		
Ahmed Kathrada Private Hospital (Pty) Ltd (Previously Lenmed Health Lenasia (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 Health Management Company (Pty) Ltd	100%	Reg. No. 2010/004046/07
Royal Hospital and Heart Centre (Pty) Ltd	100%	Reg. No. 2009/011218/07
Maputo Private Hospital SA	100%	Reg. No. 17682
Nu-Yale Trust	100%	IT 29/1996
Lenmed Health Properties (Pty) Ltd	100%	Reg. No. 2012/103789/07
Lenmed Health Laverna (Pty) Ltd	95.4%*	Reg. No. 1988/004487/07
Lenmed Ethekwini Hospital and Heart Centre (Pty) Ltd (Previously Ethekwini Hospital and Heart Centre (Pty) Ltd)	77%**	Reg. No. 2002/002222/07
Lenmed Health Bokamoso Private Hospital (Pty) Ltd	70%	Reg. No. CO2011/4403
Lenmed Health Kathu Private Hospital (Pty) Ltd	67%	Reg. No. 2013/229376/07
Lenmed Health Kathu Properties (Pty) Ltd	60%	Reg. No. 2013/146831/07

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).

* *100% holding in the prior year*
** *54% holding in the prior year*

The changes in shareholding described above did not result in a change of control and the entities were consolidated as subsidiaries.

ASSOCIATE COMPANIES

	% holding	
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 R393 598 308 (2017: R486 423 044).

The Group's profit before taxation for the year amounted to R244 031 926 (2017: R427 925 725) before deducting taxation of R54 061 857 (2017: R87 615 126), resulting in profit after taxation for the year of R189 970 069 (2017: R340 310 599).

Lenmed Investments Limited share of aggregate profits after tax from subsidiaries is R157 399 065 (2017: R340 864 558).

The results described above reflect a decrease in EBITDA, profit before tax and profit after tax. This decrease on the prior year can be attributed to a once off gain on the fair value of the Group's investment in Lenmed Ethekwini Hospital and Heart Centre (Ethekwini hospital) on acquisition recognised in the prior year of R209 002 619 pre-tax. This gain was recognised in line with International Financial Reporting Standards (IFRS).

The Group continues to use the concept of normalised EBITDA, as a measure to provide consistent and comparable reporting. The Group's normalised EBITDA for the year was R399 160 694 compared to R272 726 779 in the prior year, after excluding the gain on fair value adjustment of R209 002 619 described above. The increase of 46% can be attributed primarily to R100 245 962 increase from Ethekwini hospital's first full year consolidation.

On the same basis of reporting, profit before taxation increased by 11% from R218 923 107 to R244 031 926 with profit after taxation increasing by 7% from R178 124 568 to R189 970 069.

The Group acquired a further 23.11% in Ethekwini hospital in the current year for R313 471 038. The goodwill element of R179 865 671 was recognised in equity under accumulate profits.

The full results of the Group are set out in the attached consolidated annual financial statements. For further commentary please refer to the other reports detailed in the annual integrated report. The separate company annual financial statements will be made available on the company website. The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards.

STATEMENT OF RESPONSIBILITY

The directors' statement of responsibility is addressed on the approval page of these consolidated annual 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 (2017: 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
Ms B Harie
Ms NV Simamane
Prof BD Goolab

SECRETARIES

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

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

The business and postal address is disclosed on the inside back cover of this Annual Integrated Report

SHARE CAPITAL

During the year under review, 1 975 000 (2017: 62 477 587) shares were issued by the company as follows:

i) Doctors – 1 975 000 shares
This share issue relates to a subscription for shares by doctors who currently practice at our facilities. During the year 21 doctors subscribed for shares at R2 per share.

Full details of authorised and issued share capital of the Group is contained in note 16 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.

Report of the directors continued

PROPERTY, PLANT AND EQUIPMENT

During the year the Group acquired property, plant and equipment to the amount of R324 619 831 (2017: R1 154 475 082). Refer to note 8 for further information.

Capital commitments at year end amounted to R34 782 437 (2017: R102 274 917). Refer to note 31.3 for further information.

ACQUISITIONS

Subsidiaries

i) During July 2017 the Group increased it's investment in Lenmed Ethekwini Hospital and Heart Centre (Pty) Ltd (Ethekwini hospital) by acquiring 23.11% from the Industrial Development Corporation (IDC) for R313.471 million. This included both the shares and shareholder loans held by them. As at 28 February 2018, the Group owns 76.72% of Ethekwini hospital. Refer to note 23 for further information.

ii) During the year the Group acquired the inventory of five hospital pharmacy companies from independent pharmacists for R10 404 612 after obtaining legislative approval.

FOREIGN CURRENCY TRANSLATION RESERVE

The Group incurred a foreign currency translation loss of R37 920 013 (2017: R77 184 990 loss). 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 SA 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. The directors did not exceed any authorised levels of borrowings or the Companies Act during the year under review.

GOING CONCERN

The consolidated 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.

The directors have reviewed the Group budget and cash flow forecasts and have satisfied themselves that the Group has sufficient borrowing facilities to meet the foreseeable cash requirements. The directors are satisfied that the Group is in a sound net asset position, the budgets and cash flows indicate positive cash flows and earnings for the next 12 months from approval of this report and that it is appropriate to adopt the going concern basis in preparing the Group's annual financial statements.

SPECIAL RESOLUTIONS

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

Annual general meeting of shareholders

- Approval of financial assistance in terms of Section 44 and 45 of the Companies Act.
- Future non-executive director fees.

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 consolidated annual financial statements which significantly affects the financial position at 28 February 2018 or the result of its operations or cash flows.

STATEMENTS OF COMPREHENSIVE INCOME

R'000	Notes	Group 2018	Group 2017
PROFIT AND LOSS			
Revenue	3.2	**2 220 764**	1 558 527
Cost of sales		**(642 592)**	(416 981)
Gross profit		**1 578 172**	1 141 546
Other income		**77 729**	268 364
Operating costs		**(1 316 972)**	(976 106)
Profit before interest and taxation	4	**338 929**	433 804
Share of profit from associates	11	**1 628**	28 474
Investment income	5	**8 680**	5 358
Finance costs	6	**(105 205)**	(39 710)
Profit before taxation		**244 032**	427 926
Taxation	7	**(54 063)**	(87 616)
PROFIT FOR THE YEAR		**189 969**	340 310
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit and loss			
Foreign currency translation reserve		**(37 920)**	(77 185)
TOTAL OTHER COMPREHENSIVE INCOME		**(37 920)**	(77 185)
TOTAL COMPREHENSIVE INCOME		**152 049**	263 125
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Non-controlling interests		**32 571**	(554)
Lenmed Investments Ltd equity holders		**157 398**	340 864
		189 969	340 310
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Non-controlling interests		**32 091**	(7 473)
Lenmed Investments Ltd equity holders		**119 958**	270 598
		152 049	263 125

STATEMENTS OF FINANCIAL POSITION

R'000	Notes	Group 2018	Group 2017
ASSETS			
Non-current assets			
Property, plant and equipment	8	**2 825 788**	2 605 660
Goodwill	9	**312 888**	315 052
Intangible assets	10	**18 969**	–
Investment in associates	11	**5 607**	4 429
Deferred taxation	12	**50 077**	35 653
		3 213 329	2 960 794
Current assets			
Inventory	13	**62 398**	38 837
Trade and other receivables	14	**600 693**	517 716
Taxation		**17 571**	6 860
Cash and cash equivalents	15	**65 270**	168 030
		745 932	731 443
TOTAL ASSETS		**3 959 261**	3 692 237
EQUITY AND LIABILITIES			
Equity and reserves			
Stated capital	16	**426 006**	422 407
Other reserves	17	**303 399**	342 160
Accumulated profits		**1 109 105**	1 134 401
Non-controlling interests	18	**135 624**	202 883
		1 974 134	2 101 851
Non-current liabilities			
Long-term liabilities	19	**1 054 930**	774 722
Loans from minorities	20	**63 832**	102 347
Deferred taxation	12	**286 056**	268 681
		1 404 818	1 145 750
Current liabilities			
Trade and other payables	21	**320 921**	270 101
Current portion of long-term liabilities	19	**112 511**	87 331
Provisions	22	**47 666**	36 376
Taxation		**4 221**	10 455
Bank overdraft	15	**94 990**	40 373
		580 309	444 636
TOTAL EQUITY AND LIABILITIES		**3 959 261**	3 692 237

STATEMENTS OF CASH FLOWS

R'000	Notes	Group 2018	Group 2017
Cash flows from operating activities			
Profit for the year		**189 969**	340 310
Finance costs	6	**105 205**	39 710
Income tax		**54 063**	87 615
Depreciation and amortisation	8	**54 669**	52 619
Interest income	5	**(8 680)**	(5 359)
Profit on disposal of property, plant and equipment	4	**–**	(663)
Fair value adjustment on investment in associate		**–**	(209 002)
Capital issued in respect of long service awards		**–**	405
Share-based payment (reversal)/accrual	17	**(1 321)**	3 320
Income from associates	11	**(1 178)**	(28 474)
Foreign currency translation adjustments		**(23 572)**	(15 596)
Operating cash flow before working capital changes		**369 155**	264 885
Working capital changes			
Increase in inventory		**(13 864)**	1 290
Increase in trade and other receivables		**(88 329)**	(114 097)
Increase in trade and other payables and accruals		**93 863**	101 177
Cash generated by operating activities		**360 825**	253 255
Interest income	5	**8 680**	5 358
Finance costs	6	**(103 825)**	(39 710)
Income tax paid	24	**(67 590)**	(76 144)
NET CASH FROM OPERATING ACTIVITIES		**198 090**	142 759
Cash flows from investing activities			
Property, plant and equipment acquired	8	**(300 311)**	(397 150)
– to maintain operating capacity		**(28 947)**	(85 165)
– to expand operating capacity		**(295 673)**	(347 900)
– Instalment sale agreements (non-cash)		**24 309**	35 915
Intangible assets acquired	10	**(12 594)**	–
Proceeds on disposals of property, plant and equipment		**–**	1 921
Increase in Investment in associates	23.2	**–**	(124 800)
Acquisition of business		**(10 404)**	–
Additional consideration for investment in subsidiary		**–**	(2 850)
NET CASH UTILISED IN INVESTING ACTIVITIES		**(323 309)**	(522 879)
Cash flows from financing activities			
Proceeds from equity issued	16	**3 599**	202 159
Net loans (repaid)/raised		**278 763**	268 373
Loans raised		**565 354**	704 433
Loans paid		**(286 591)**	(436 060)
Full control in subsidiary acquired	23.1	**–**	(98 860)
Additional investment in subsidiary	23.1	**(316 298)**	–
NET CASH (UTILISED IN)/GENERATED BY FINANCING ACTIVITIES		**(33 936)**	371 672
Decrease in cash and cash equivalents		**(159 155)**	(8 448)
Translation movement on cash and cash equivalents of foreign entities		**1 778**	1 234
Cash acquired on acquisition	23.1	**–**	28 475
Cash and cash equivalents at beginning of the year		**127 657**	106 396
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	15	**(29 720)**	127 657

STATEMENTS OF CHANGES IN EQUITY

R'000	Stated capital	Revaluation reserve	Foreign currency translation reserve
GROUP			
Balance at 1 March 2016	219 843	230 259	178 076
Profit for the year			
Other comprehensive income	–	–	(70 266)
Full control of subsidiary			(2 643)
Share-based payment reversal	–	–	–
Change in non-controlling interest			
Issue of share capital	202 564	–	–
Balance at 1 March 2017	422 407	230 259	105 167
Profit for the year	–	–	–
Other comprehensive income	–	–	(37 440)
Share-based payment accrual	–	–	–
Additional investment in subsidiary	–	–	–
Issue of share capital	3 599	–	–
Balance at 28 February 2018	426 006	230 259	67 727
Notes	16	17	17

Share-based payment reserve	Accumulated profits	Equity attributable to Group	Non-controlling interests	Total
3 414	830 512	1 462 104	31 304	**1 493 408**
	340 864	340 864	(554)	**340 310**
–	–	(70 266)	(6 919)	**(77 185)**
	(36 975)	(39 618)	526	**(39 092)**
3 320	–	3 320	–	**3 320**
		–	178 526	**178 526**
–	–	202 564	–	**202 564**
6 734	1 134 401	1 898 968	202 883	**2 101 851**
–	157 398	157 398	32 571	**189 969**
–	–	(37 440)	(480)	**(37 920)**
(1 321)	–	(1 321)	–	**(1 321)**
–	(182 694)	(182 694)	(99 350)	**(282 044)**
–	–	3 599	–	**3 599**
5 413	1 109 105	1 838 510	135 624	**1 974 134**
17			18	

ACCOUNTING POLICIES

1. BASIS OF PREPARATION

These consolidated annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), comply with 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. 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 in note 3. All amounts are rounded to the nearest thousand except where indicated.

The preparation of consolidated annual 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 consolidated annual financial statements, and significant estimates made in the preparation of these consolidated annual financial statements are disclosed in note 2.

1.1 Standards in issue, not yet effective

At the date of authorisation of these consolidated annual financial statements, the following standards and interpretations were in issue, but not yet effective.

Standard	Annual periods
IFRS 2: *Share-based Payment*	1 January 2018

– The directors have considered the impact of the standard above and believe its impact to be immaterial.

Standard	Annual periods
IFRS 9: *Financial Instruments*	1 January 2018

– IFRS 9 will not have a material impact on the initial classification and measurement on the financial assets except for the potential additional impairment on recognition of a trade receivable. The effect on the impact and additional disclosures is currently being assessed.

Standard	Annual periods
IAS 12: *Income Taxes*	1 January 2019

– The directors have considered the impact of the standard above and believe its impact to be immaterial.

Standard	Annual periods
IFRS 16: *Leases*	1 January 2019

– The Group is assessing the impact of the accounting changes that will arise under IFRS 16 and will apply the transitional application on adoption. The changes to lessee accounting will have the following material impact:

i) Right-of-use assets will be recorded for assets that are leased by the Group.
ii) Liabilities will be recorded for future lease payments in the Group's consolidated statement of financial position for the 'reasonably certain' period of the lease, which may include future lease periods for which the Group has extension options. Currently liabilities are not recorded for future operating lease payments, which are disclosed as commitments.
iii) Lease expenses will be replaced by depreciation of right-of-use assets and interest on lease liabilities. Interest will typically be higher in the early stages of a lease and reduce over the term. Currently operating lease rentals are expensed on a straight-line basis over the lease term within operating expenses.
iv) EBITDA and operating margins will increase.
v) Operating lease cash flows are currently included within operating cash flows in the consolidated statement of cash flows; under IFRS 16 these will be recorded as cash flows from financing activities reflecting the repayment of lease liabilities (borrowings) and related interest.

Standard	Annual periods
IFRS 10: *Consolidated Financial Statements*	1 January 2019
– The directors have considered the impact of the standard above and believe its impact to be immaterial.	
IAS 28: *Investment in Associates and Joint Ventures*	1 January 2019
– The directors have considered the impact of the standard above and believe its impact to be immaterial.	
IAS 23: *Borrowing Costs*	1 January 2019
– The directors have considered the impact of the standard above and believe its impact to be immaterial.	
IFRS 15: *Revenue from Contracts from Customers*	1 January 2018
– The effect of IFRS 15 has been considered and there is no anticipated change on implementation as the revenue transactions are short term in nature and not complex.	

2. 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

2.1 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 Group has reviewed its forecasts for the foreseeable future and compared that to its total tax losses.

2.2 Trade receivables

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

Accounting policies continued

2.3 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 8. 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 as the plant and equipment are not sellable at the end of its useful life. The Group changed it's estimated useful life of plant and equipment, being the period of time for which the assets can be utilised without significant modifications, replacements or improvements, from 10 years to between 10 and 20 years based on current levels of utilisation. Refer to note 28 for further information.

Motor vehicles

The entity has a policy of utilising all motor vehicles for a period of 5 years. This period is based on past experience of usage of the Group's motor vehicles.

2.4 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. Based on these calculations, no impairment loss is recognised.

2.5 Share-based payments

The fair value is calculated using the Black Scholes option pricing model. Please refer to note 17 for assumptions used in the model.

2.6 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.

2.7 Significant influence over an associate

Renal Care Holdings (Pty) Ltd is an associate of the Group as described in note 11. Significant influence arises from the Group's 40% interest.

Lenasia Renal Centre (Pty) Ltd is an associate of the Group as described in note 11. Significant influence arises from the Group's 30% interest.

2.8 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.

3. ACCOUNTING POLICIES

The accounting policies have been consistently applied to all years presented, unless otherwise stated.

Accounting policies for which no choice is permitted in terms of International Financial Reporting Standards have been included only if management concluded that the disclosure would assist users in understanding the consolidated annual financial statements as a whole, and taking into account materiality of the item being discussed. Accounting policies which are not applicable from time to time, have been removed, but will be included if the type of transaction occurs in future or becomes material.

3.1 Basis of consolidation

These financial statements are consolidated annual 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 statement of comprehensive income. 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 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 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 its share of further losses.

3.2 Revenue

Revenue for the services rendered and medical consumables sold in the ordinary course of business 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 accomm-odation, 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 from accommodation, equipment rental, theatre and ward fees are recognised when the service giving rise to this revenue are rendered. Revenue from medical consumables is recognised when consumed.

Accounting policies continued

3.3 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.

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.

3.4 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.

3.5 Inventory

Inventory is stated at the lower of cost or net realisable value on a weighted average 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.

3.6 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 deductible temporary differences as well as unused tax losses to the extent that it is probable that taxable profits will be available against which the deductible temporary difference can be utilised. The probability of taxable profits are calculated based on business plans which includes estimates and assumptions regarding economic growth, interest and competitive forecasts. 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.

3.7 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.

3.8 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.

3.9 Property, plant and equipment

Property, plant and equipment is initially recorded at cost including any costs directly attributable to bringing the assets to the location and condition necessary for them to be fully operational, less accumulated depreciation and any impairment losses except for land and buildings.

Property, plant and equipment include any costs directly attributable to bringing the assets to the location and condition necessary for them to operate.

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.

Property, plant and equipment is depreciated to estimated residual value on a straight line basis over the asset's expected useful lives. Land is not depreciated. Buildings are depreciated to their estimated residual value.

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 – 20 years
Motor vehicles	5 years
Computer Equipment	3 – 8 years
Office Equipment	10 – 20 years
Furniture and Fittings	10 – 20 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.

3.10 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.

3.11 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.

3.12 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 Group 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 Group contribute to defined contribution funds on behalf of its employees. Contributions are charged against profit or loss as incurred.

3.13 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.

Accounting policies continued

3.14 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.

Cash and cash equivalents

Cash and cash equivalents are initially measured at fair value and subsequently measured at amortised cost. In the statement of cash flows, bank overdrafts are offset against cash and cash equivalents

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.

3.15 Intangible assets

Intangible assets are initially recognised at cost.

Intangible assets are considered for impairment if there is any reason to believe that impairment may be necessary. Factors taken into consideration include the economic viability of the asset itself and where it is a component of a larger cash-generating unit, the viability of the unit.

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The amortisation methods and remaining useful lives are reviewed at least annually. The estimation of the useful lives of intangible assets is based on historic performance as well as expectations about future use and therefore requires a significant degree of judgement.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets.

The assumptions regarding estimated useful lives for the 2018 financial year were as follows:

Computer software	30 years
Licences	Indefinite

3.16 Stated 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.

3.17 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.

3.18 Share incentive scheme

The Group operates a share incentive scheme, under which it 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.

3.19 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.

3.20 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that take necessarily 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

R'000	GROUP 2018	2017
4. OPERATING PROFIT		
Operating profit is arrived at after taking into account the following items:		
INCOME		
Profit on disposal of property, plant and equipment	–	663
Exchange rate profits on foreign exchange	361	–
Rental Income	40 135	13 483
Fair value gain on investment in associate	–	209 002
EXPENDITURE		
Loss on disposal of property, plant and equipment	732	–
Exchange rate losses on foreign exchange	–	2 420
Depreciation	54 669	52 618
Secretarial fees	788	770
Employee costs	691 850	514 596
LEASE RENTALS		
Property	39 519	44 794
Equipment	5 361	4 231
Other	5 831	570
5. INVESTMENT INCOME		
Interest received	8 680	5 358
	8 680	5 358
6. FINANCE COSTS		
Long-term loans	93 677	32 624
Bank overdrafts	11 528	7 086
	105 205	39 710
7. TAXATION		
Current taxation	49 877	53 203
Deferred taxation		
Current year temporary differences	3 553	29 633
Underprovision in prior year	633	4 780
TAXATION FOR THE YEAR	54 063	87 616
Reconciliation of rate of taxation	%	%
South African normal tax rate	28.00	28.00
Adjusted for:		
Underprovision/(overprovision) in prior year	0.35	(1.09)
Disallowed expenditure	0.01	0.05
Income not taxable	(3.13)	(3.40)
Lower foreign tax rate	(3.08)	(0.35)
Capital gains tax	0.00	(2.74)
EFFECTIVE RATE OF TAXATION	22.15	20.47

The current tax charge for the year has been reduced by R6.940 million (2017: R2.412 million) as a result of the prior year tax loss of R24.788 million utilised at Lenmed Health Randfontein Private Hospital (Pty) Ltd and Lenmed Health Zamokuhle (Pty) Ltd.

Unused tax losses available for set-off against future taxable income are R183.048 million (2017: R137.256 million).

R'000	Cost/ valuation	Accumulated depreciation	2018 Carrying value	Cost/ valuation	Accumulated depreciation	2017 Carrying value
8. PROPERTY, PLANT AND EQUIPMENT						
Group						
Buildings	2 176 323	11 682	**2 164 641**	2 065 908	5 656	**2 060 252**
Land	257 324	–	**257 324**	202 959	–	**202 959**
Plant and equipment	602 987	274 055	**328 932**	531 744	256 417	**275 327**
Motor vehicles	4 307	1 928	**2 379**	3 028	2 304	**724**
Furniture and fittings	82 927	39 404	**43 523**	76 169	40 796	**35 373**
Leasehold improvements	7 432	3 992	**3 440**	7 432	2 399	**5 033**
Office equipment	13 952	9 219	**4 733**	14 315	8 931	**5 384**
IT equipment	78 840	58 024	**20 816**	96 259	75 651	**20 608**
	3 224 092	398 304	**2 825 788**	2 997 814	392 154	**2 605 660**

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

R'000	Carrying value at beginning of year	Additions	Disposals/ transfers	Depreciation	FCTR adjustment	2018 Carrying value at end of year
Group						
2018						
Buildings	2 060 252	142 346	–	(7 639)	(30 318)	**2 164 641**
Land	202 959	61 832	–	–	(7 467)	**257 324**
Plant and equipment	275 327	94 962	(746)	(36 062)	(4 549)	**328 932**
Motor vehicles	724	2 049	(37)	(353)	(4)	**2 379**
Furniture and fittings	35 373	12 990	–	(3 068)	(1 772)	**43 523**
Leasehold improvement	5 033	–	–	(1 593)	–	**3 440**
Office equipment	5 384	572	–	(1 223)	–	**4 733**
IT equipment	20 608	9 868	(4 763)	(4 731)	(166)	**20 816**
	2 605 660	324 619	(5 546)	(54 669)	(44 276)	**2 825 788**

Computer software with a carrying amount of R4.210 million was transferred to intangible assets in the current year.

R'000	Carrying value at beginning of year	Additions	Disposals	Depreciation	FCTR adjustment	2018 Carrying value at end of year
Group						
2017						
Buildings	1 158 609	980 867	–	(4 971)	(74 253)	**2 060 252**
Land	202 070	19 191	–		(18 302)	**202 959**
Plant and equipment	209 513	118 112	(132)	(32 450)	(19 716)	**275 327**
Motor vehicles	1 073	151	–	(482)	(18)	**724**
Furniture and fittings	31 372	11 904	–	(4 471)	(3 432)	**35 373**
Leasehold improvement	1 843	5 697	(1 125)	(1 382)	–	**5 033**
Office equipment	5 957	726	(1)	(1 298)	–	**5 384**
IT equipment	10 467	17 825	–	(7 564)	(120)	**20 608**
	1 620 904	1 154 473	(1 258)	(52 618)	(115 841)	**2 605 660**

Notes to the consolidated annual financial statements continued

8. 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. The directors have performed an assessment on the land and buildings and have determined that there is no material change in market conditions since the last valuation and that no impairment is required. 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 R240 593 (2017: R186 228) and the buildings would have been R1 618 189 (2017: R1 509 236).

Certain assets are encumbered as security for liabilities of the Group (refer to note 19). A register of land and buildings is available for inspection at the registered office of the company.

Borrowing costs, shown as additions above, have been capitalised on qualifying assets to the amount of R21.481 million (2017: R23.447 million) in terms of the Group's accounting policy 3.20. Interest is capitalised at rates linked to prime.

9. GOODWILL

R'000	Cost	Accumulated amortisation	2018 Carrying value
Group			
Carrying amount at beginning of the year	315 052	–	**315 052**
Transfer to other intangible assets	(2 164)	–	**(2 164)**
Carrying amount at the end of the year	312 888	–	**312 888**

The transfer to other intangible assets in the current year relates to licences at Lenmed Ethekwini Hospital and Heart Centre (Pty) Ltd. These licences are more appropriately disclosed under intangible assets.

R'000	Cost	Accumulated amortisation	2017 Carrying value
Carrying amount	315 052	–	**315 052**

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 Lenmed Ethekwini Hospital and Heart Centre (Pty) Ltd on acquisition as a subsidiary and is detailed below:

	2018	2017
Lenmed Health Laverna (Pty) Ltd	**5 125**	5 125
Lenmed Health Shifa (Pty) Ltd	**17 282**	17 282
Lenmed Health Kathu Private Hospital (Pty) Ltd	**10 378**	10 378
Lenmed Ethekwini Hospital and Heart Centre (Pty) Ltd	**280 103**	282 267
	312 888	315 052

An annual impairment test is conducted on goodwill. Directors determined that 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 management's 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 its cash flow projections covering a 10 year period.

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

- R186 rate was yielding 8.31% as at 28 February 2018 (2017: 8%).
- An appropriate market risk premium was used given the unlisted nature of the Group. Growth forecast for the following years is linked to inflation.

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.

R'000	Cost	Accumulated amortisation	2018 Carrying value

10. INTANGIBLE ASSETS

Group
2018

R'000	Cost	Accumulated amortisation	2018 Carrying value
Computer software	16 490	–	**16 490**
Licences	2 479	–	**2 479**
	18 969	–	**18 969**

The carrying amounts of intangible assets can be reconciled as follows:

R'000	Carrying value at beginning of year	Additions/ transfers	2018 Carrying value at end of the year
Computer software	–	16 490	**16 490**
Licences	–	2 479	**2 479**
	–	18 969	**18 969**

Intangibles are valued as per note 3.15 and tested annually for impairment. The estimation of the indefinite useful life of licences is based on historic performance as well as expectations about future use. Computer software relates to the Group's deployment of SAP software at it's various facilities. Computer software has not been amortised in the current year as the project was work in progress at year end. Amortisation will commence once the computer software has been fully implemented.

11. INVESTMENT IN ASSOCIATES

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

Lenmed Ethekwini Hospital and Heart Centre (Pty) Ltd (Ethekwini Hospital)
During the prior year the Group acquired a further 48 515 ordinary shares for R109.570 million as well as a loan account to the value of R15.229 million. 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. Refer to note 23 for further information.

R'000	GROUP 2018	GROUP 2017
Opening balance	**–**	203 494
Acquisition of shares	**–**	109 571
Increase in loan	**–**	15 229
Share of associate earnings	**–**	27 213
Fair value adjustment on remeasurement	**–**	209 003
Elimination of investment through business combination	**–**	(564 510)
CLOSING BALANCE	**–**	–

Lenasia Renal Centre (Pty) Ltd
The Group owns 30% of Lenasia Renal Care Centre (Pty) Ltd, a renal dialysis unit situated adjacent to Ahmed Kathrada Private Hospital.

R'000	GROUP 2018	GROUP 2017
Opening balance	**4 071**	3 393
Share of associate earnings	**799**	903
Dividends received	**(450)**	(225)
CLOSING BALANCE	**4 420**	4 071

Notes to the consolidated annual financial statements continued

R'000	GROUP 2018	2017
11. INVESTMENT IN ASSOCIATES continued		
Renal Care Holdings (Pty) Ltd		
The Group owns 40% of Renal Care Holdings (Pty) Ltd, a renal dialysis holding company.		
Opening balance	**358**	–
Share of associate earnings	**829**	358
CLOSING BALANCE	**1 187**	358
TOTAL INVESTMENT IN ASSOCIATES	**5 607**	4 429
The directors are of the opinion that the fair value of the above investments exceeds its carrying value.		
12. DEFERRED TAXATION		
Deferred tax asset		
Balance at beginning of year	**35 653**	27 841
Movements consisting of:		
Property, plant and equipment	**(532)**	(3 736)
Provisions	**6 013**	383
Leases	**(88)**	(53)
Assessed losses	**8 985**	8 021
Share-based payment accrual	**46**	838
Prior year over provision	**–**	1 802
Foreign currency translation adjustment	**–**	557
BALANCE AT END OF YEAR	**50 077**	35 653
The balance comprises of:		
Property, plant and equipment	**(4 067)**	(3 535)
Provisions	**11 854**	5 841
Leases	**–**	88
Assessed losses	**46 732**	37 747
Share-based payment accrual	**1 773**	1 727
Revaluation of land and buildings	**(6 215)**	(6 215)
BALANCE AT END OF YEAR	**50 077**	35 653
Deferred tax liability		
Balance at beginning of year	**268 681**	116 014
Movements consisting of:		
Property, plant and equipment	**15 973**	5 730
Provisions	**364**	(566)
Fair value adjustment	**–**	46 866
Business combination	**–**	115 833
Income received in advance	**(1)**	(1)
Lease smoothing adjustment	**334**	(86)
Share-based payment accrual	**157**	(90)
Prepaid expenses	**24**	543
Assessed loss	**619**	(448)
Prior year adjustment	**–**	(2 878)
Foreign currency translation adjustment	**–**	(8 858)
Foreign currency translation on loan	**(95)**	(3 378)
BALANCE AT END OF YEAR	**286 056**	268 681
The balance comprises of:		
Property, plant and equipment	**115 357**	99 384
Provisions	**(6 032)**	(6 396)
Investment in associate	**46 866**	46 866
Income received in advance	**(18)**	(17)
Lease smoothing adjustment	**408**	74
Share-based payment accrual	**–**	(157)
Revaluations	**126 946**	126 946
Prepaid expenses	**1 031**	1 007
Assessed loss	**(716)**	(1 335)
Foreign currency translation on loan	**2 214**	2 309
BALANCE AT END OF YEAR	**286 056**	268 681

Deferred tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable.

R'000	GROUP 2018	2017
13. INVENTORY		
Medical supplies and consumables	62 398	38 837
During the year the Group acquired the inventory of five hospital pharmacy companies from independent pharmacists for R10.404 million.		
Allowance for obsolete stock		
Balance at beginning of year	1 073	3 182
Increase/(decrease) in allowance	289	(2 109)
Balance at end of year	1 362	1 073
14. TRADE AND OTHER RECEIVABLES		
Trade receivables	522 913	483 497
Other receivables	58 336	65 515
Prepayments	6 890	2 702
Deposits	4 070	609
Value Added Tax	64 630	25 249
	656 839	577 572
Provision for bad debts	(56 146)	(59 856)
	600 693	517 716
Provision for bad debts		
Opening balance	(59 856)	(61 657)
Decrease in provision recognised in profit and loss	3 710	1 801
CLOSING BALANCE	(56 146)	(59 856)
Trade receivables past due but not impaired		
– One month past due	24 049	24 146
– Two months past due	20 894	21 342
– Three months and over past due*	101 142	68 550
	146 085	114 038

* *The majority relates to Government, Workmens Compensation and Road Accident Fund.*

Trade receivables to the value of nil (2017: R54.678 million) have been ceded as security to Rand Merchant Bank 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 Workmens Compensation, Private, Government and Road Accident Fund.

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

Notes to the consolidated annual financial statements continued

R'000	GROUP 2018	GROUP 2017
15. 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	**247**	91
Bank balances	**65 023**	167 939
	65 270	168 030
Overdraft		
Bank overdraft	**94 990**	40 373
Net cash and cash equivalents	**(29 720)**	127 657

Favourable cash balances to the value of R22.912 million (2017: nil) have been ceded to Rand Merchant Bank as security for facilities provided. In the prior year, R14.923 million of the cash and cash equivalents were pledged in favour of Rand Merchant Bank as a guarantee for the overdraft facility in Maputo Private Hospital SA.

16. STATED CAPITAL

	GROUP 2018	GROUP 2017
Authorised		
1 000 000 000 (2017: 1 000 000 000) ordinary shares at no par value		
Issued		
709 533 909 ordinary shares at no par value (2017: 707 558 909 ordinary shares)	**426 006**	422 407

R'000	No of shares	GROUP 2018	GROUP 2017
Share reconciliation			
Balance at the beginning of the year	707 558 909	**422 407**	219 843
Ordinary shares issued during the year	1 975 000	**3 950**	202 564
Share issue expenses	–	**(351)**	–
	709 533 909	**426 006**	422 407

During the year under review 1.975 million (2017: 62.478 million) shares were issued by the company as follows:

Doctors – 1.975 million shares

- This share issue relates to a subscription for shares by doctors who currently practice at our facilities. During the year 20 doctors were issued shares at R2 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.

R'000	GROUP 2018	GROUP 2017
17. OTHER RESERVES		
Revaluation reserve	**230 259**	230 259
Foreign currency translation reserve	**67 727**	105 167
Share based payment reserve	**5 413**	6 734
	303 399	342 160

17. OTHER RESERVES continued

Revaluation reserve

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

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 3.19.

Share-based payment reserve

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

1) 1.683 million (2017: 5.550 million) SARs

7.300 million 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 2018, 1.683 million (2017: 3.367 million) SARs were in issue. The reduction from the prior year is due to senior management attrition during the year. During the year R 2.154 million was paid out in cash as part of the 2nd tranche of the allocation.

2) Nil (2017: 6.200 million) SARs

7.750 million 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. During the current year 4.950 million SARs were settled in full with executive directors and senior management at a cost of R4.306 million.

3) 7.600 million SARs (2017: 8.100 million) SARs

9.600 million 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 2018, 7.600 million (2017: 8.100 million) SARs were in issue. The reduction from the prior is due to the senior management attrition during the year.

4) 8.250 million SARs (2017: 9.000 million) SARs

9.000 million 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. As at 28 February 2018, 8.250 million (2017: 9.000 million) SARs were in issue. The reduction from the prior is due to the senior management attrition during the year.

5) 8.600 million SARs

8.600 million SARs were issued on 1st of August 2017 to three executive directors and sixteen members of senior management, at a price of R3.39 each.

The following favourable changes have been effected to the scheme in the current period. These changes relate to all allocations except for the first allocation (August 2013):

i) The strike price as agreed by Remuneration committee annually would not increase by a hurdle rate as per the prior years. Rather, it will remain static for the period of the share.
ii) If performance achieved is consumer price index (CPI) and 2% or less, then only 50% of the shares will vest; if CPI + 3% – 6% is achieved, then 100% of the shares will vest and if CPI + 6% and above is achieved, then 125% of the shares will vest.
iii) 100% of the shares will vest at the end of year 3. (The prior year scheme policy read as follows: 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, one-third on the fifth anniversary 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 consolidated annual financial statements for the current year, in accordance with IFRS 2: *Share-based Payments*, is an expense reversal of R1 320 196 (2017: R3 319 708 – expense).

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 2018	R3.11	R3.11	R3.11	R3.11
Last traded price as at 28 February 2017	R2.65	R2.65	R2.65	R2.65
Risk-free rate	8.13%	8.13%	8.13%	8.13%
Volatility	21%	21%	21%	21%
Dividend yield	0%	0%	0%	0%
Long-term inflation	6%	6%	6%	6%

The risk-free rate of 8.13% (2017: 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 21% (2017: 22%) was determined based on the historic volatility of the Group's share price over the previous year.

Notes to the consolidated annual financial statements continued

R'000	GROUP 2018	2017
18. 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), Lenmed Health Laverna (Pty) Ltd (4.42% non-controlling interest) and Lenmed Ethekwini Hospital and Heart Centre (Pty) Ltd (23.27% non-controlling interest) and are made up as follows:		
Opening balance	**202 883**	31 304
Business combination	**–**	178 525
Additional investment in subsidiary	**(99 350)**	526
Profit for the year	**32 571**	(554)
Foreign currency translation	**(480)**	(6 918)
CLOSING BALANCE	**135 624**	202 883
Summary of financial information for Lenmed Ethekwini Hospital and Heart Centre (Pty) Ltd		
Non-current assets	**771 531**	726 429
Current assets	**108 887**	108 868
Non-current liabilities	**329 331**	363 894
Current liabilities	**75 141**	72 563
Revenue	**576 516**	514 854
Profit after taxation	**79 582**	78 777
Summary of financial information for other non-controlling interests		
Non-current assets	**205 700**	122 768
Current assets	**241 889**	224 404
Non-current liabilities	**165 797**	160 419
Current liabilities	**136 586**	127 139

R'000	GROUP 2018	2017
19. LONG-TERM LIABILITIES		
19.1 Mortgage bonds	**1 106 366**	801 001
Loans Payable to vendors These loans bear interest at 15.25% (2017: 15.25%) per annum and are secured over land and buildings, the cession of the Shifa hospital licence and general notarial bond over the movable assets of Lenmed Health Shifa (Pty) Ltd. Repayable in monthly instalments of R0.125 million (2017: R0.125 million).	**3 352**	4 264
First National Bank Limited These loans from First National Bank are secured by land and buildings with a carrying amount of R56.965 million (2017:R 736.965 million) (refer to note 8). Interest has been charged at rates linked to prime. This loan is repayable in monthly instalments of R0.572 million (2017: R3.123 million). Included in the loan amount is an amount of R20 million which is under a capital moratorium up until June 2018.	**38 780**	166 406
Rand Merchant Bank These loans are secured by a first ranking mortgage bond over the Group's land and buildings through a security vehicle with a carrying amount of R1.365 billion (2017: R1.1 billion) and a notarial bond of movable assets with a carrying value of R250.943 million (2017: R167 million). Interest has been charged at rates linked to JIBAR. The loan is split in 6 facilities. Facility A and E are six-year term loans and with balance outstanding of R414.9 million (2017: R313.5 million), with interest repayable quarterly and capital repayable every six months. Facility B, C and F are six-year term loans and with a balance outstanding of R590 million (2017: 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. Facility D is USD denominated loan with interest payable quarterly and a capital moratorium up until November 2018. Thereafter the loan is repayable over the remaining 41 months with capital payments every six months. The USD balance outstanding as at 28 February 2018 is USD5.050 million.	**1 064 234**	548 500
Deutsche Investitions-und Entwicklungsgesellschaft MBH (DEG) This loan was 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 bore interest at six months Libor plus 4.3% per annum. The balance was settled in the 2018 financial year (2017 balance in US dollar: $6.284 million).	**–**	81 831
19.2 Instalment sales	**61 075**	61 052
Nedbank Limited Repayable in monthly instalments of R0.233 million (2017: R0.188 million) Interest has been charged at rates of interest linked to the prime lending rate. Secured by plant and equipment with a book value of R4.012 million.	**2 880**	5 473
WesBank, a division of FirstRand Bank Ltd Repayable in monthly instalments of R1.814 million (2017: R1.039 million). Interest has been charged at rates of interest linked to the prime lending rate. Secured by plant and equipment with a book value of R51.124 million.	**38 832**	39 150
Centrafin (Pty) Ltd Repayable in monthly instalments of R0.613 million (2017: R0.614 million). Interest has been charged at rates of interest linked to the prime lending rate. Secured by plant and equipment with a book value of R20.840 million.	**19 363**	16 429
	1 167 441	862 053
Repayable within one year, transferred to current liabilities	**(112 511)**	(87 331)
	1 054 930	774 722

Notes to the consolidated annual financial statements continued

R'000	GROUP 2018	GROUP 2017
20. LOANS FROM MINORITIES		
Board of Public Officers Medical Aid Scheme (BPOMAS)	**18 934**	24 582
This loan is unsecured, bears interest at rates linked to prime in Botswana and is repayable within 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 P15.599 million (2017: P20.099 million).		
ATMG	**14 079**	12 700
The loan is unsecured, has no fixed terms of repayment and bears interest at prime rate.		
Lenmed Ethekwini Hospital and Heart Centre (Pty) Ltd non-controlling shareholders	**30 819**	65 065
These loans are unsecured, have no fixed terms of repayment and bears no interest.		
	63 832	102 347
21. TRADE AND OTHER PAYABLES		
Trade payables	**204 696**	152 970
Other payables	**103 488**	105 751
Value Added Tax	**12 737**	11 380
	320 921	270 101
The carrying value of trade and other payables approximated their fair value due to the short-term nature of these payables.		
22. PROVISIONS		
Carrying amount at the beginning of the year	**36 376**	29 782
Increase in accrual	**11 290**	6 594
Carrying amount at end of the year	**47 666**	36 376
Provisions are made up as follows:		
Bonus provision	**8 497**	10 604
Leave pay provision	**25 423**	19 195
Other provisions	**13 746**	6 577
	47 666	36 376

R'000	GROUP 2018	2017
23. BUSINESS COMBINATION		
23.1 Increase in investment in subsidiary		
23.1.1 During the year the Group increased its investment in Lenmed Ethekwini hospital and Heart Centre (Pty) Ltd (Ethekwini Hospital) by acquiring 23.11% from the Industrial Development Corporation (IDC) for R313.471 million. This included both the shares and shareholders loans held by them. As at 28 February 2018, the Group owns of 76.72% of Ethekwini hospital.		
Net asset value of Ethekwini hospital at 31 July 2017	429 901	–
Non-controlling interest of 23.11%	99 350	–
Consideration paid	310 608	–
Shareholder loan acquired	34 256	–
Shares	276 352	–
Additional control transferred to accumulated profits	177 002	–
Acquisition-related costs		–
Commission and legal costs	2 864	–
23.1.2 During the prior year the Group increased its investment in Maputo Private Hospital SA (Maputo hospital) by purchasing the remaining non-controlling interest from Invalco Limitada (40%) for R98.861 million. This included both the shares and shareholders loans held by them. In the current year the Group incurred costs related to the prior year transaction.		
Net asset value of Maputo hospital at 1st of February 2017	–	(722)
Non-controlling interest	–	(250)
Consideration paid	–	98 861
Shareholder loan acquired	–	62 136
Shares	–	36 725
Full control reserve transferred to accumulated profits	–	36 975
Acquisition-related costs	–	
Commission and legal costs	2 827	770

Notes to the consolidated annual financial statements continued

R'000	GROUP 2018	GROUP 2017
23. BUSINESS COMBINATION continued		
23.2 Obtaining control of associate		
The Group acquired shares in the prior 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 until year end. Please refer to movement for the year detailed below:		
Investment in associate: Opening balance – 29 February 2016	–	203 494
Increase in investment	–	124 800
Acquisition of shares	–	109 571
Increase in loan	–	15 229
Share of associate profit recognised until 18 January 2017	–	27 213
Fair value adjustment	–	209 002
Balance before share buy back @ 49.75%	–	564 509
Elimination of inter-company loan account	–	(78 096)
Balance before consolidation	–	486 413
At acquisition		
Trade and other receivables	–	75 894
Inventory	–	15 332
Cash and cash equivalents	–	28 475
Property, plant and equipment	–	574 578
Trade and other payables	–	(53 016)
Loans from shareholders	–	(137 306)
Loans from financial institutions	–	(128 112)
Deferred tax	–	(98 180)
Revaluation of land and buildings net of deferred tax	–	107 169
Net asset value of Ethekwini hospital as at January 2017	–	384 834
Lenmed share of net asset value after Ethekwini hospital buy back – @53.61%	–	206 310
Balance before consolidation	–	486 413
Lenmed share of net asset value after Ethekwini hospital buy back – @53.61%	–	206 310
Consideration paid for increase in percentage holding from 49.75% to 53.61%	–	–
Goodwill	–	280 103
Acquisition-related costs		
Commission and legal costs	–	650
24. INCOME TAX PAID		
Receivable/(payable) at beginning of the year	**(3 595)**	(1 434)
Expense for the year	**(54 063)**	(87 616)
Adjustment for deferred tax	**4 186**	12 404
Deferred tax foreign currency translation adjustments	**(768)**	(3 093)
Payable at end of year	**(13 350)**	3 595
	(67 590)	(76 144)

25. DIRECTORS' EMOLUMENTS

R'000	For services as directors	Short-term employee benefits	Bonuses	Long-term incentive bonus	Total
2018					
Mr P Devchand	–	4 100	3 800	3 241	11 141
Mr A Devchand	–	2 900	2 300	1 296	6 496
Mr VE Firman	–	3 000	2 400	435	5 835
Prof BD Goolab	265	–	–	–	265
Mr MG Meehan	364	–	–	–	364
Ms B Harie	364	–	–	–	364
Ms NV Simamane	351	–	–	–	351
	1 344	10 000	8 500	4 972	24 816
2017					
Mr P Devchand	–	3 800	2 451	1 066	7 317
Mr A Devchand	–	2 300	1 307	426	4 033
Mr VE Firman	–	2 400	1 503	–	3 903
Prof BD Goolab	262	–	–	–	262
Mr MG Meehan	398	–	–	–	398
Ms B Harie	374	–	–	–	374
Ms NV Simamane	349	–	–	–	349
	1 383	8 500	5 261	1 492	16 636

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 R16.187 million as at reporting date (2017: R12.554 million).

The Group is not aware of any current or pending legal cases that would have a material adverse effect on the Group.

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. All other transactions with related parties have been disclosed elsewhere in the consolidated annual financial statements.

The Group paid rentals to a non-subsidiary related party property company amounting to R1.367 million (2017: R1.559 million). The directors deem this rental to be market related.

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

28. CHANGE IN ESTIMATE

Property, plant and equipment

The useful life of certain medical equipment, plant and equipment, hospital furniture, kitchen equipment and computer equipment was reassessed in the current year to have varying useful lives. In the current period management have revised their estimate to the various categories of property, plant and equipment as per note 3.9. The effect of this revision has decreased the depreciation charge for the current period by R18 917 411.

Notes to the consolidated annual financial statements continued

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.

R'000	GROUP 2018	2017
Interest bearing loans payable	**1 139 379**	838 283
Instalment sale liabilities	**61 075**	61 052
Bank overdraft	**94 990**	40 373
	1 295 444	939 708
Sensitivity analysis		
Increase of 100 basis points would result in a reduction in profit before tax of	**(12 954)**	(9 397)
Decrease of 100 basis points would result in an improvement in profit before tax of	**12 954**	9 397

29.2 Credit risk

Credit risk arises from cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk is equal to the carrying amount of these assets. 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 14.

The Group only deposits its cash with high quality major banks.

29.3 Liquidity risk

Liquidity risk arises should the Group have insufficient funds or marketable assets available to fulfil its future cash flow obligations. 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 2018, based on contractual undiscounted payments.

	Less than 1 year	Between 1 and 5 years
Maturity analysis – 2018		
Borrowings	**112 511**	**1 118 762**
Bank overdraft	**94 990**	**–**
Trade and other payables	**308 184**	**–**
	515 685	**1 118 762**
Maturity analysis – 2017		
Borrowings	87 331	812 005
Bank overdraft	40 373	
Trade and other payables	246 357	–
	374 061	812 005

29. FINANCIAL RISK MANAGEMENT continued

29.3 Liquidity risk continued

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 hospital) and Lenmed Health Bokamoso Private Hospital (Pty) Ltd (Bokamoso hospital). A US dollar denominated long term loan exists at Maputo hospital. However, revenue at the hospital is partially US dollar denominated, thus forming a natural hedge. The net working capital at Maputo hospital is denominated in Mozambican Meticais. 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 hospital except for 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	
R'000	2018	2017
Foreign currency translation reserve	67 727	105 167
Sensitivity analysis		
Increase of 10% in functional currency rate would result in a reduction in reserve of:	(6 773)	(10 517)
Decrease of 10% in functional currency rate would result in an increase in reserve of:	6 773	10 517

Notes to the consolidated annual financial statements continued

30. FINANCIAL INSTRUMENTS

30.1 Categories of financial instruments

	GROUP		
	Loans and receivables	Assets at fair value through profit and loss	Available for sale
2018			
Financial assets per statements of financial position			
Investments in associates	–	–	5 607
Trade and other receivables*	529 173	–	–
Cash and cash equivalents	65 270	–	–
2017			
Financial assets per statements of financial position			
Investments in associates	–	–	4 429
Trade and other receivables*	513 875	–	–
Cash and cash equivalents	168 030	–	–

	GROUP		
	Liabilities at fair value through profit and loss	Financial liabilities measured at amortised cost	Derivatives used for hedging
2018			
Financial liabilities per statements of financial position			
Long-term liabilities	–	1 054 930	–
Loans from minorities	–	63 832	–
Trade and other payables^	–	308 184	–
Current portion of long-term liabilities	–	112 511	–
Bank overdraft	–	94 990	–
2017			
Financial liabilities per statements of financial position			
Long-term liabilities	–	774 722	–
Loans from minorities	–	102 347	–
Trade and other payables^	–	246 357	–
Current portion of long-term liabilities	–	87 331	–
Bank overdraft	–	40 373	–

The carrying amounts of the financial assets and financial liabilities approximates their fair value.

* *Prepayments and Value Added Tax are not defined as financial instruments and have been excluded from trade and other receivables.*
^ *Value Added Tax are not defined as financial instruments and have been excluded from trade and other payables.*

30. FINANCIAL INSTRUMENTS continued

30.2 Fair value hierarchy and measurements

Financial assets and liabilities that are not measured at fair value on a recurring basis.

	GROUP Level 1	Level 2	Level 3	Total
Fair value at 28 February 2018				
Financial assets				
Loans and receivables				
– Trade and other receivables	–	–	529 173	529 173
– Cash and cash equivalents	–	65 270	–	65 270
Financial liabilities				
Financial liabilities held at amortised cost				
– Long-term liabilities	–	1 054 930	–	1 054 930
– Loans from minorities	–	–	63 832	63 832
– Trade and other payables	–	–	308 184	308 184
– Current portion of long-term liabilities	–	112 511	–	112 511
– Bank overdraft	–	94 990	–	94 990
Fair value at 28 February 2017				
Financial assets				
Loans and receivables				
– Trade and other receivables	–	–	513 875	513 875
– Cash and cash equivalents	–	168 030	–	168 030
Financial liabilities				
Financial liabilities held at amortised cost				
– Long-term liabilities	–	769 675	5 047	774 722
– Loans from minorities	–	–	102 347	102 347
– Trade and other payables	–	–	246 357	246 357
– Current portion of long-term liabilities	–	87 331	–	87 331
– Bank overdraft	–	40 373	–	40 373

The fair value of assets and liabilities disclosed under level 3 have been determined in accordance with generally accepted pricing models. There were no transfers between level 1 and 2 during the year.

R'000	GROUP 2018	2017
31. COMMITMENTS		
31.1 Operating lease commitments – lessee		
Future minimum lease payments under non-cancellable operating leases are as follows:		
– Within 1 year	20 891	8 984
– Due thereafter but not later than 5 years	49 406	6 277
	70 297	15 261
The above lease commitments relate to both Lenmed Health Bokamoso Private Hospital (Pty) Ltd and Lenmed Health Management Company (Pty) Ltd 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 1 year	5 841	1 211
– Due thereafter but not later than 5 years	3 750	2 110
	9 591	3 321
31.3 Capital commitments		
The construction, renovation and upgrading of hospital buildings	23 246	79 333
The acquisition of plant and equipment	11 536	22 941
	34 782	102 274

32. GOING CONCERN

The directors have reviewed the cash flow forecasts and budgets and consider it appropriate to adopt the going concern basis in presenting these consolidated annual financial statements.

ACRONYMS AND GLOSSARY

Acronyms

ABET	Adult Basic Education and Training
AGM	Annual General Meeting
B-BBEE	Broad-based Black Economic Empowerment
BLS	Basic Life Support
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
KZN	KwaZulu-Natal
NGOs	Non-governmental organisations
NHI	National Health Insurance
NHN	National Hospital Network
OTC	Over-the-counter shares
POPI	Protection of Personal Information
QR	Quick Response
TIBA	Transvaal India Blind Association
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.
Brownfields	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.
Catheterisation laboratory (cath lab)	An examination room with diagnostic imaging equipment used to visualise the arteries of the heart and the chambers of the heart and treat any stenosis or abnormality found.
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.
Day Care Centres	A facility that offers professional healthcare, such as psychiatric care or rehabilitation services, to individuals who require service but are able to return to their homes overnight.
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).
Green buildings	Buildings with energy- and water-saving features.
Greenfields	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 issues	Issues 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.

Glossary continued

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 specialty 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 that can have an unlimited number of shareholders to raise capital for any commercial venture.

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 Thirty-Sixth Annual General Meeting 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, Johannesburg on **Thursday 20 September 2018 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 annual general meeting, to the "Companies Act" means the Companies Act, number 71 of 2008.

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 licenses and passports.

Electronic participation at the annual general meeting

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 annual 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 2018, 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 Annual General Meeting.

Ordinary resolution 2: Re-election of director

"RESOLVED THAT Mr A 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 MG Meehan 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 Professor BD Goolab 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 set out below be appointed. The membership as proposed by the Board of Directors 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: Re-appointment of external auditors of the Company

"RESOLVED THAT the re-appointment of PKF Durban as the external registered auditors of the Company, and being independent from the Company, be and is hereby approved and Tania Marti-Warren (IRBA number 906352E) be and is hereby appointed as the designated audit partner for the financial year ending 28 February 2019."

Percentage of voting rights to pass this resolution: 50% plus 1 vote.

ORDINARY RESOLUTIONS continued

Ordinary resolutions 7.1 and 7.2:

Non-binding Advisory Vote – Remuneration Policy and Implementation Report

Ordinary resolution number 7.1:
Non-binding advisory vote 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 76 of this Annual Integrated Report.

Ordinary resolution number 7.2:
Non-binding advisory vote on the Company's Remuneration Implementation Report

"To endorse on a non-binding advisory basis, the Company's remuneration implementation report."

The Company's remuneration implementation report and related information appears on page 76 of this the Annual Integrated Report.

Percentage of voting rights to pass this resolution: 50% plus 1 vote.

Notes to ordinary resolutions 7.1 and 7.2:

- Principle 14 and sub-practice 37 of King IV recommends companies to table their Remuneration Policy and Implementation Report every year to shareholders for a non-binding advisory vote at the Company's Annual General Meeting. This vote enables shareholders to express their views on the remuneration policies adopted and on their implementation.
- These resolutions are of an advisory nature only and failure to pass this resolution will therefore not have any legal consequences relating to existing arrangements. However, the Board of Directors of the Company will take the outcome of the vote into consideration when considering the Company's Remuneration Policy.

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 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 Annual General Meeting of the Company for the year ended 28 February 2019."

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 Annual General Meeting to the date of the next Annual General Meeting:

Rand	Fees per meeting	Retainer (per annum)
Non-executive director/ Independent non-executive director	15 500	200 000
Audit and Risk Committee chairman	15 500 (in addition to meeting fee)	
Audit and Risk Committee member	15 500	
Remuneration and Nominations Committee chairman	15 500 (in addition to meeting fee)	
Remuneration and Nominations Committee member	15 500	
Social and Ethics Committee chairman	15 500 (in addition to meeting fee)	
Social and Ethics Committee member	15 500	
Fee for work not specified above (per meeting rate)	15 500	

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 Annual General Meeting, the fees payable to non-executive directors until the next Annual General Meeting will be as set out above.

Any matters raised by shareholders, with or without advance notice to the Company

To deal, at the Annual General Meeting, with any matters raised by shareholders, with or without advance notice to the Company.

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 Annual General Meeting, 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

Mr W Somerville
Company Secretary

26 July 2018

Registered Office
Lenmed Investments Limited
2nd Floor Fountainview House,
Constantia Office Park,
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 memorandum of incorporation ("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 memorandum of incorporation 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 memorandum of incorporation 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 Thirty-Sixth Annual General Meeting 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 20 September 2018 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 Annual General Meeting, as my/our proxy to act for me/us and on my/our behalf at the Annual General Meeting 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 2018, including the directors' report and the report of the Audit and Risk Committee.			
2. To re-elect Mr A Devchand as a director of the Company.			
3. To re-elect Mr MG Meehan as a director of the Company.			
4. To re-elect Professor BD Goolab 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, Governance and Risk Committee.			
5.3 To appoint Ms NV Simamane as a member of the Audit, Governance and Risk Committee.			
6. To re-appoint the external auditors of the Company, PKF Durban, and to appoint Ms T Marti-Warren as the designated audit partner.			
7.1 Non-binding advisory vote on the Company's remuneration policy.			
7.2 Non-binding advisory vote on the Company's remuneration implementation report.			
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 on 2018

Shareholder's signature assisted by (if applicable)

NOTES TO THE 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 Annual General Meeting. 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 Annual General Meeting". The person whose name stands first on the form of proxy and who is present at the Annual General Meeting 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 Annual General Meeting, if the Chairman is the authorised proxy, to vote in favour of the ordinary and special resolutions at the Annual General Meeting, or any other proxy to vote or to abstain from voting at the Annual General Meeting 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 Annual General Meeting.

6. The Chairman of the Annual General Meeting 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 Annual General Meeting 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 Annual General Meeting, 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 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 87 087 0642 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 87 087 0644 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 7700/1/2/3 F. +27 11 924 2149

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

lenmed
Embrace every day

www.lenmed.com