Life HEALTHCARE Group

Integrated annual report 2011

Making life better

Report overview	
Scope and boundary of the report	1
Feedback	1
Governance	1
Disclosure	1
Board responsibility	1
Assurance	2
Forward-looking statements	2
Group overview	
Purpose, vision, values, culture and brand	5
Business model	6
Organisational structure	10
Performance	12
Six-year review	13
Statement of value added	18
Strategy	19
Life Healthcare as an investment	21
Board of directors	22
Executive management	25
Stakeholder reports	
Chairman's statement	29
Chief executive officer's review	32
Chief financial officer's review	39
Strategic issues	
Growth	51
Efficiency	54
Sustainability	57
– Quality and clinical governance	58
– Environmental impact	63
– Human capital and relationships	65
– Transformation	65
– Employee empowerment and skills development	66
– Corporate social investment	70
– Stakeholders	72

Governance and accountability	
Corporate governance report	79
GRI report	91
Remuneration report	94
Risk management report	98
Life Healthcare facilities	104
Annual financial statements	
Administration	111
Statement of director's responsibility	112
Statement from company secretary	112
Report of the audit committee	113
Independent auditors' report	115
Director's report	116
Consolidated statement of financial position	120
Consolidated statement of comprehensive income	121
Consolidated statement of changes in equity	122
Consolidated statement of cash flows	123
Notes to the group annual financial statements	124
Annexure A: Subsidiary undertakings	202
Annexure B: Associate undertakings	205
Annexure C: Shareholder distribution	206
Company statement of financial position	208
Company statement of comprehensive income	209
Company statement of changes in equity	210
Company statement of cash flows	211
Notes to the Company annual financial statements	212
Shareholder information	
Notice of annual general meeting	216
Form of proxy	227

Report overview

An ongoing integrated reporting process

In 2010 our process of integrated reporting began. We continue this journey within the framework for integrated reporting and we simultaneously take cognisance of the King III disclosure principles, the Companies Act of 2008 and the JSE Listings Requirements.

Scope and boundary of the report

The Life Healthcare Group reports on its financial performance twice a year. The Group's interim report covers the period beginning October to end March, and the Group's annual report covers the period beginning October to end September of every year. This report covers all Life Healthcare Group operations in South Africa and in Botswana. The information in this report covers the year ended 30 September 2011. However, where it is informative to add information post 30 September 2011, this has been included and noted.

We have endeavoured to integrate the financial and non-financial elements of our reporting to facilitate a fuller understanding by our stakeholders.

Since the release of the Life Healthcare Group annual report for the year ended 30 September 2010, there has been no material change to the structure, ownership or products and services of the organisation. Therefore, the scope of the 2011 report has remained largely unchanged.

In defining the report and the information included, we have been guided by the principles of the Global Reporting Initiative (GRI) (G3.1 guidelines), the governance guidelines outlined in the King III Code and Report on Governance for South Africa, as well as the reporting requirements as per the Johannesburg Stock Exchange (JSE) Listings Requirements, the integrated report discussion document and the Companies Act, 71 of 2008.

Governance

To assist in meeting the recommendations of the King III Code and the Companies Act of 2008, the board, while retaining overall accountability, has delegated authority to the chief executive officer (CEO) to run the day-to-day affairs of the Group. The board has also created sub-committees to enable it to discharge its duties and responsibilities and to fulfil its decision making process effectively.

Disclosure

The Group aims to achieve the highest standards in all the disclosures included in this report in order to provide meaningful, accurate, complete, transparent and balanced information to stakeholders. The board and board committees were actively involved in finalising disclosures made in this report.

Board responsibility

It is the board's responsibility to ensure the integrity of the integrated report. The board has accordingly applied its mind to the integrated report and in the opinion of the board, the integrated report addresses all material issues and fairly presents the integrated performance of the Group and its impacts. The integrated report has been prepared in line with best practice pursuant to the recommendations of the King III Code (principle 9.1).

Signed by the chairman of the board, **Prof GJ Gerwel,** and the chief executive officer, **CMD Flemming,** who have been duly authorised thereto by the board.

Feedback

We need your feedback to ensure that we report on the Life Healthcare Group specifics that matter to you – our stakeholders. Please go to the weblink: **www.lifehealthcare/investors/feedback.co.za** to download or print out our feedback form.

Report overview continued

Assurance

The financial information contained in this report has been prepared according to International Financial Reporting Standards and has been independently assured by PricewaterhouseCoopers Inc. However, this report has not been independently assured as a whole. We have commenced on our external assurance journey and have obtained limited assurance on certain aspects.

About this report

The JSE Limited (JSE) has granted Life Healthcare Group Holdings Limited a listing in respect of 1 042 209 750 shares (the listing) in the Health Care Providers sector under the abbreviated name LifeHC, share code LHC and ISIN: ZAE000145892.

Financial year end: 30 September of each year

Notice of annual general meeting is featured on pages 216 to 226 of this report. Tear-out form of proxy is on pages 227 to 228.

Forward-looking statements

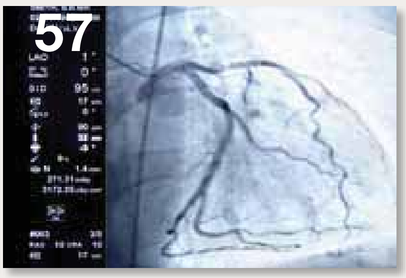
The integrated report contains forward-looking statements that, unless otherwise indicated, reflect the Group's expectations as at 30 September 2011. Actual results may differ materially from the Group's expectations if known and unknown risks or uncertainties affect its business, or if estimates or assumptions prove inaccurate. The Group cannot guarantee that any forward-looking statement will materialise and, accordingly, readers are cautioned not to place undue reliance on these forward-looking statements. The Group disclaims any intention and assumes no obligation to update or revise any forward-looking statement even if new information becomes available as a result of future events or for any other reason.

Case studies

Growth

Efficiency

Sustainability



Group overview

Purpose, vision, values, culture and brand	5
Business model	6
Organisational structure	10
Performance	12
Six-year review	13
Statement of value added	18
Strategy	19
Life Healthcare as an investment	21
Board of directors	22
Executive management	25

Purpose, vision, values, culture and brand

Our purpose

Making life better

Our vision

To be a world-class provider of quality healthcare for all

Our values

We have five core values:
- Passion for people
- Q^e = quality to the power of e (ethics, excellence, empowerment, empathy and energy)
- Performance pride
- Personal care
- Lifetime partnerships

Our culture

We believe the provision of world-class healthcare is achieved by working closely with our medical professionals in delivering unparalleled quality and clinical excellence, and by caring for the personal needs of our patients and their families.

Our brand

Life Healthcare offers world-class facilities, expertise and a unique focus on Health and Care, which gives added impetus to Life.

Our name, Life Healthcare, embodies our beliefs.

We are dedicated to:

Life

Well-being and quality of life

Health

Clinical excellence in world-class facilities

Care

Quality service, respect and empathy for those entrusted to our care

Business model

Diversified healthcare businesses

Life Healthcare's core business is the provision of acute private hospital care. Our acute care hospitals are complemented by related healthcare services businesses, in particular mental health, acute rehabilitation and occupational health.

Life Healthcare's diversified healthcare business is organised into two divisions:

Hospital division: representing 93% of the Group's revenue for the year, comprising the core acute care hospital business and services for acute physical rehabilitation, acute mental healthcare and chronic renal dialysis.

Healthcare services division: representing 7% of the Group's revenue for the year, comprising acute and long term hospitalisation services to public sector patients provided by Life Esidimeni, as well as contracted occupational and primary healthcare provided by Life Occupational Health.

Group overview

7 916	registered beds in total (excluding associates and Life Esidimeni*)
308	operating theatres
664	ICU beds
316	high care beds
40	emergency units
35	maternity units
12	cardiac units
6	dedicated acute rehabilitation units
6	dedicated acute mental healthcare facilities
6	dedicated renal dialysis units
43	radiology units
7	fertility units
12	Life Esidimeni facilities
4 165	Life Esidimeni beds
307	Life Occupational Health on-site clinics

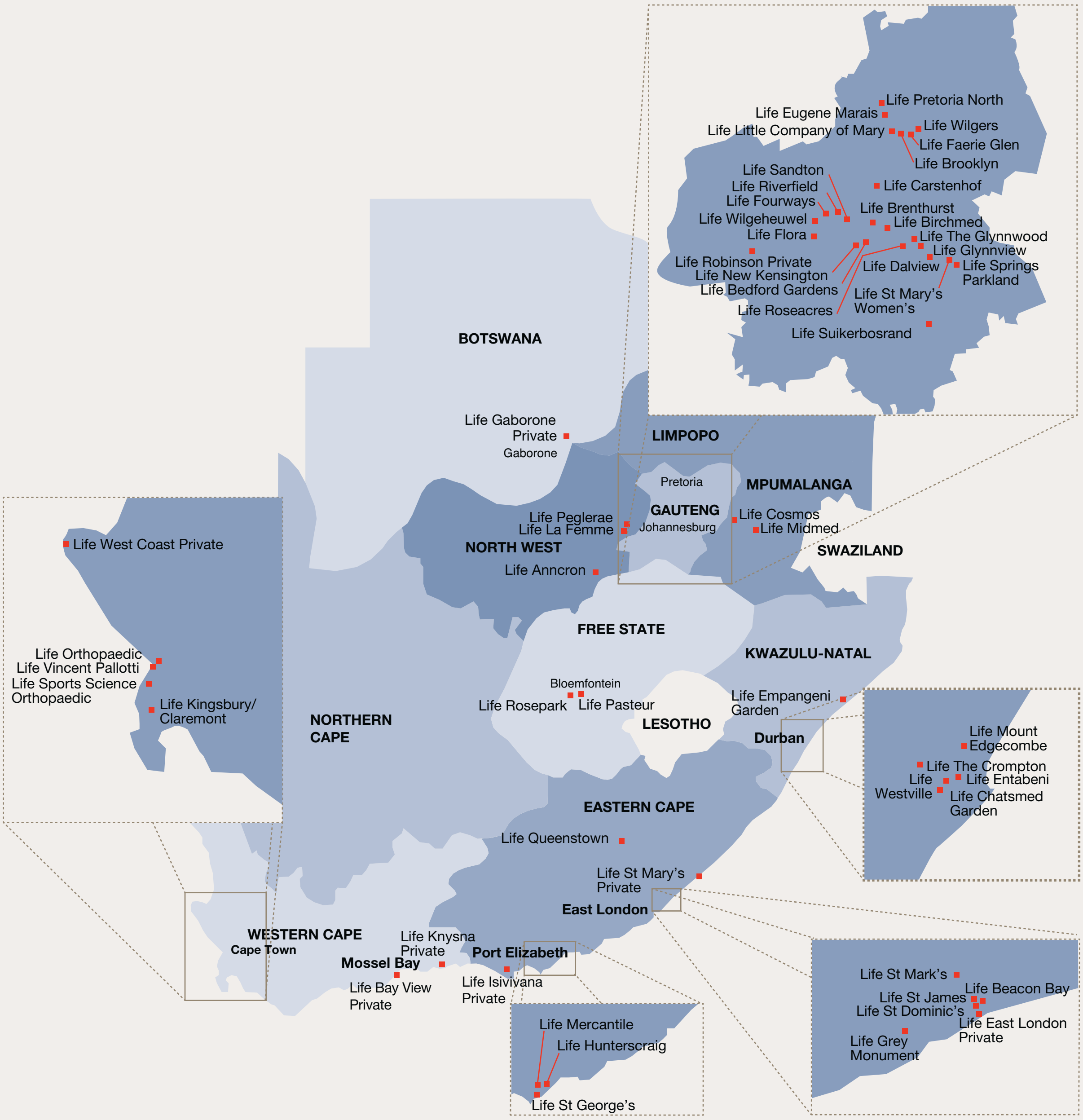
* *The Group has a minority shareholding in six hospitals.*

Head office

The Group's head office is situated in Sandton, at Oxford Manor, 21 Chaplin Road, Illovo, 2196

Geographical representation

Geographic spread of acute care hospitals, rehabilitation and mental health facilities.



Business model continued

Hospital division

Life hospitals

Life Healthcare's hospitals extend over seven of South Africa's nine provinces and Botswana. These facilities, comprising 7 916 registered beds, are located in the country's most populous metropolitan areas. The facilities range from high technology, multi-disciplinary hospitals offering highly specialised medical disciplines, to community hospitals, sameday surgical centres and dedicated niche facilities, thereby providing the appropriate scale and scope of healthcare services. The Group also has a minority shareholding in six other hospitals.

Life Healthcare hospitals admitted over 570 000 patients in the 2011 financial year, mainly from the private medically insured market.

Life Healthcare enjoys the support of approximately 2 700 specialists and other healthcare professionals and over 14 000 staff.

Life Healthcare strives to maximise its hospital utilisation by maintaining excellent working relationships with its supporting doctors and other healthcare professionals providing medical care within its facilities by supporting them with the latest technology, equipment and quality nursing care, and by meeting the needs of patients with respect and empathy. Other factors which positively impact utilisation of our hospitals include an increasing disease burden, local economic conditions, our alternative reimbursement pricing model (ARM) and preferred network agreements with private medical insurers.

In addition to continuing to provide world-class medical care in South Africa, the Group's strategy is to become a pre-eminent hospital operator in selected offshore emerging markets.

Life Rehabilitation (6 facilities)

Life Rehabilitation complements and lends strategic support to some of the services offered in Life Healthcare hospitals. It provides acute, outcomes-driven physical and cognitive rehabilitation for adult and paediatric patients disabled by brain or spinal trauma, stroke, or other disabling injuries or conditions. It has consolidated its position as the leader in the provision of private acute rehabilitation services, operating approximately 60% of the private rehabilitation beds in South Africa.

Life Rehabilitation has six rehabilitation units, situated in four provinces, with a total of 219 beds.

Life Mental Health (6 facilities)

Life Healthcare is currently the largest provider of private acute mental healthcare, with six dedicated facilities located in the Eastern Cape, KwaZulu-Natal and Gauteng, comprising a total of 223 beds. Plans are in place to increase the number of beds in the Group's network, with an additional 137 beds becoming available in the 2012 financial year.

Chronic renal dialysis (6 facilities)

A growing demand for renal dialysis prompted Life Healthcare's entry into this business in 2000. The Group now has six dedicated facilities with 73 stations in Gauteng, the Eastern Cape and Western Cape.



Healthcare services division

Life Esidimeni and Life Occupational Health are managed in the healthcare services portfolio.

Life Esidimeni (12 facilities)

Life Esidimeni (meaning "place of dignity") operates a network of care centres and a hospital in five provinces through a public private partnership with the South African government. Life Esidimeni provides its services under contract to provincial health and social development departments. Established over 50 years ago, Life Esidimeni has been involved in the largest and longest running public private partnership (PPP) in the South African healthcare sector.

Life Esidimeni operates 12 long term care facilities with 3 987 beds. These facilities provide long term clinical care to chronically ill public sector patients, catering for mental health (3 337 beds) and frail care (650 beds) patients, providing approximately 1.4 million patient days a year.

Life Esidimeni also operates an acute care community (district) hospital with 178 beds near Hazyview. This hospital offers clinical services to public sector patients in support of the government's objective of providing care to people who do not have access to private facilities, and thereby strengthens the public sector healthcare delivery system.

Life Occupational Health (307 on-site clinics)

Life Occupational Health is South Africa's leading provider of contracted on-site occupational and primary healthcare services to large employer groups in the commercial, industrial, mining and parastatal sectors, as well as to a government correctional services facility.

Life Occupational Health currently operates in 307 on-site customer clinics throughout the country and provides services to approximately 165 000 employees. It also provides contracted off-site and mobile occupational and primary health services to clients.

Utilisation in Life's occupational health clinics is driven largely by Occupational Health and Safety Act requirements and the needs of corporate clients. Life Occupational Health contracts with corporate employers or institutions to provide a tailor-made range of services to suit their individual needs.

Life Occupational Health was the first South African occupational healthcare organisation to achieve ISO 9001:2000 certification and, in January 2010, followed this up with ISO 9001:2008 certification. It is rated at Level 3 BEE by Empowerlogic.

Organisational structure

Life HEALTHCARE Group

- **Hospital division**
  - 7 916 beds
  - ***Inland*** – 32 facilities, 4 591 beds
    - **Central region** – 6 facilities, 708 beds
    - **East region** – 8 facilities, 921 beds
    - **North region** – 9 facilities, 1 608 beds
    - **West region** – 9 facilities, 1 354 beds
  - ***Coast*** – 25 facilities, 3 325 beds
    - **Western Cape** – 7 facilities, 705 beds
    - **Port Elizabeth** – 4 facilities, 553 beds
    - **Border** – 8 facilities, 789 beds
    - **KwaZulu-Natal** – 6 facilities, 1 278 beds
- **Healthcare services division**
  - ***Life Esidimeni***
    - 12 facilities, 4 165 beds
  - ***Life Occupational Health***
    - 307 clinics serving 165 000 employees

A brief history

Life Healthcare has operated hospitals for 27 years, incrementally growing the business.

1983	1994	1995	1997
Life Healthcare was founded as the hospital division of African Oxygen Limited, with the acquisition of the Ammed Group comprising four hospitals.	Established the first operation outside of South Africa with the purchase of the Gaborone Hospital in Botswana.	Acquired Afrox Occupational Healthcare and launched the occupational health business.	Opened its first acute rehabilitation unit for patients recovering from severe trauma, neurological damage or other disabling conditions, and later continued to expand its rehabilitation business through the establishment of additional units based in Johannesburg, Bloemfontein, Durban, Pretoria and East London.
1998	**1999**	**2000**	**2001**
Expanded into acute mental healthcare with a facility in Port Elizabeth, and subsequently established mental healthcare facilities in East London, Johannesburg and Durban.	Acquired the listed Presmed hospital group, comprising 38 hospitals and healthcare facilities in a transaction structured as a merger and reverse listing on the JSE. The business was known as Afrox Healthcare Limited.	Launched the renal dialysis business, and continued to expand the offering of renal dialysis services through the establishment of renal units across Johannesburg and in East London and Port Elizabeth.	Entered into a public private partnership with the South African government, following the acquisition by Afrox Healthcare of a 55% stake in Life Esidimeni.
2002	**2004**	**2005**	**2006**
Acquired the Amahosp Group, comprising four hospitals and an emergency unit in Durban.	Operated the UK business, Partnership Health Group (PHG), established as a 50-50 joint venture with Care UK plc, a healthcare services company in the United Kingdom listed on the London Stock Exchange. PHG successfully obtained contracts to construct and operate a number of independent sector treatment centres on behalf of the UK National Health Service. Life Healthcare sold its 50% stake in 2008.	In January, following the conclusion of transactions commenced in November 2003, the group was delisted, sold to a private consortium led by Brimstone and Mvelaphanda, and changed its name from Afrox Healthcare Limited to Life Healthcare Group Holdings Limited.	Built the Life Fourways Hospital in Sandton.
2007	**2008**	**2009**	**2010**
Commissioned the new Life Cosmos Hospital in eMalahleni.	Acquired the remaining 45% stake in Life Esidimeni.	Built two new facilities – the Life Orthopaedic Hospital in Cape Town and Life Beacon Bay Hospital in East London.	Listed as Life Healthcare Group Holdings Limited in the Health Care Providers sector on the JSE. Acquired Life Bay View Private Hospital in Mossel Bay.

2011

Opened the 80 bed Life Glynnview mental healthcare unit in Benoni, a renal unit at Life Vincent Pallotti Hospital in Cape Town, and increased our shareholding in Life Midmed from 45% to 57%.

Performance

	2011	2010
Business performance and ratios		
Number of acute hospitals	**57**	56
Number of beds (registered)	**7 916**	7 685
Paid patient days (PPDs)	**1 903 951**	1 806 730
Occupancy (%)	**71.0%**	69.6%
Length of stay (LOS) (days)	**3.34**	3.27
Number of Life Occupational Health clinics	**307**	289
Number of lives covered through the Life Occupational Health clinics	**165 000**	155 000
Number of Life Esidimeni facilities	**12**	12
Number of Life Esidimeni beds	**4 165**	4 349
Quality metrics		
Patient satisafaction (%)	**98.2**	98.0
Net promoter score (%)	**94.8**	94.6
Clinicial indicators		
– Ventilator associated pneumonia (VAP) (per 1 000 VAP days)	**6.00**	8.81
– Surgical site infections (SSI) (per 1 000 theatre cases)	**1.09**	1.26
– Central line associated bloodstream infections (CLABSI) (per 1 000 central lines)	**1.15**	2.55
– Catheter related urinary tract infections (CAUTI) (per 1 000 catheter days)	**0.95**	2.25
Patient incident rate (per 1 000 PPDs)	**4.17**	4.27
Employee incident rate (per 200 000 labour hours)	**7.10**	7.25
Social performance		
Number of employees	**14 213**	14 024
Number of nurses enrolled in training	**1 444**	1 300
% black employees	**67%**	61%
Environmental		
Electricity usage (kWh)	**168 328 736**	124 367 994
Water usage (kilolitres)	**1 566 149**	1 194 552
Medical waste generation (kilograms – ’000)	**2 927**	2 701

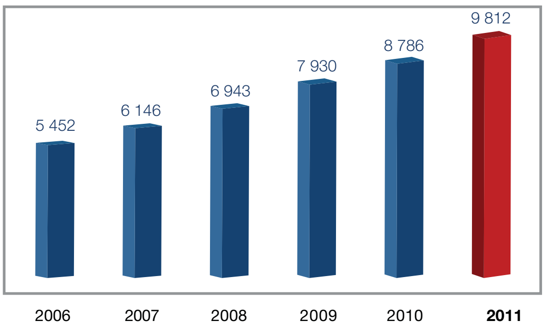
Six-year review

years ended 30 September

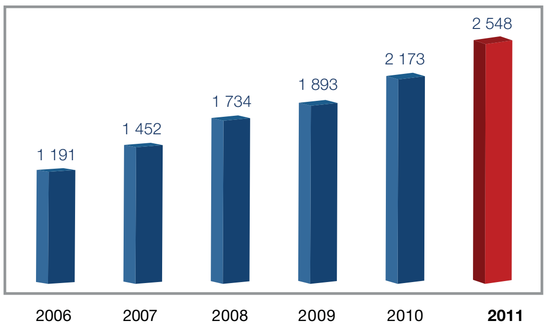
Group statements of comprehensive income

	Compound annual growth since 2006 %	**2011 R'm**	2010 R'm	2009 R'm	2008 R'm	2007 R'm	2006 R'm
Continuing operations							
Revenue	13	**9 812**	8 786	7 930	6 943	6 146	5 452
Operating profit	22	**2 173**	1 867	1 555	1 546	1 008	788
Normalised EBITDA[1]	16	**2 548**	2 173	1 893	1 734	1 452	1 191
Net finance cost	(10)	**(199)**	(327)	(346)	(320)	(335)	(343)
Share of associates' net profit after tax	13	**115**	100	101	88	70	64
Profit before tax	33	**2 089**	1 640	1 310	1 315	744	509
Profit after tax from continuing operations	35	**1 492**	835	937	964	505	334
Discontinued operations							
Profit/(loss) from discontinued operations		**–**	–	–	34	31	(4)
Profit for the year	35	**1 492**	835	937	998	536	331
Attributable to:							
Ordinary equity holders of the parent		**1 287**	664	759	865	418	255
Non-controlling interest[2]		**205**	171	178	133	118	76
Normalised EBITDA[1]	16	**2 548**	2 173	1 893	1 734	1 452	1 191
Operating profit		**2 173**	1 867	1 555	1 614	1 080	806
Profit on sale of businesses		**–**	(10)	(1)	(153)	(9)	(12)
Additional receipt on previously disposed business		**(5)**	–	–	–	–	–
Gain on remeasuring of fair value of equity interest before business combination		**(92)**	–	–	–	–	–
Depreciation on property, plant and equipment		**299**	263	223	239	262	241
Impairment of intangible assets		**65**	–	9	–	–	36
Amortisation of intangible assets[3]		**110**	122	123	125	119	119
Employees Trust accelerated charge[4]		**–**	36	–	–	–	–
Retirement benefit asset		**(2)**	(103)	(9)	(91)	–	–
Post-retirement medical aid		**–**	(3)	(7)	–	–	–

Revenue contributing operations – CAGR 13%
R'm



Normalised EBITDA – CAGR 16%
R'm



Six-year review continued

years ended 30 September

Group statements of financial position

	2011 R'm	2010 R'm	2009 R'm	2008 R'm	2007 R'm	2006 R'm
ASSETS						
Non-current assets						
Property, plant and equipment	**3 753**	3 258	2 905	2 585	2 769	2 631
Intangible assets	**2 296**	2 220	2 156	2 293	2 299	2 406
Retirement benefit asset[5]	**205**	203	100	89	–	–
Post-retirement medical aid benefit[5]	**77**	75	76	1	11	7
Other non-current assets	**444**	438	426	575	362	341
Total non-current assets	**6 775**	6 193	5 664	5 543	5 441	5 385
Current assets						
Inventories	**193**	185	166	144	140	134
Trade and other receivables	**1 100**	1 012	955	839	908	767
Cash and cash equivalents	**400**	482	101	412	517	275
Total current assets	**1 693**	1 679	1 223	1 396	1 566	1 176
Non-current assets held for sale	**–**	–	–	–	25	–
Total assets	**8 468**	7 872	6 887	6 939	7 032	6 561
EQUITY AND LIABILITIES						
Capital and reserves	**3 518**	2 849	2 320	1 813	915	406
Non-controlling interest	**867**	666	610	536	544	519
Total shareholders' equity	**4 385**	3 515	2 930	2 350	1 459	924
Non-current liabilities						
Interest-bearing borrowings	**1 565**	2 024	1 631	1 997	2 516	2 741
Deferred income tax liabilities	**368**	376	305	568	373	418
Preference shares	**–**	–	–	24	76	104
Post-retirement medical aid liability[5]	**67**	65	69	–	0	0
Other non-current liabilities	**84**	101	68	66	39	99
Total non-current liabilities	**2 084**	2 566	2 074	2 655	3 004	3 363
Current liabilities						
Trade and other payables	**1 260**	1 154	1 005	906	806	699
Current portion of interest-bearing borrowings	**460**	450	723	476	328	264
Shareholders' loans	**–**	–	–	313	1 005	1 001
Other current liabilities	**279**	187	155	241	429	310
Total current liabilities	**1 999**	1 790	1 883	1 935	2 568	2 273
Total equity and liabilities	**8 468**	7 872	6 887	6 939	7 032	6 561

Notes

1 *The Group defines normalised EBITDA as operating profit plus depreciation, amortisation of intangibles, impairment of goodwill as well as excluding profit/loss on disposal of businesses and surpluses/deficits on retirement benefits.*

2 *Non-controlling interest represents the shareholders without control interests in subsidiaries.*

3 *Amortisation of intangibles arose on the intangible assets recognised during the leverage buy-out business combination in 2005.*

4 *The IPO constituted a liquidity event for the Employees Trust and the unamortised future cost of R36 million had to be recognised in terms of IFRS 2 during 2010.*

5 *Post retirement benefits*

The Group operates a number of retirement benefit plans, but all new employees can only join either a defined contribution pension fund or a provident fund. New employees do have the option at inception to elect dual fund membership where their contribution is paid into the provident fund and the Group's contribution is paid into the defined contribution pension fund.

Surplus apportionment schemes on three of the five defined benefit pension funds have been approved, and consequently the surplus assets have been recognised on the statement of financial position. All the defined benefit pension funds are closed for new members.

In prior years up to 2008 the Group has disclosed the net assets for the post-retirement medical aid subsidy. This was done as it was the Group's intention to settle the liability with the participants of this benefit. However, due to the adverse market conditions at the time and requirements of the individual beneficiaries it was not possible. Therefore the asset and liability are disclosed separately. The post-retirement medical aid subsidy is also closed for new members.

Group statements of cash flows

	2011 R'm	2010 R'm	2009 R'm	2008 R'm	2007 R'm	2006 R'm
Cash operating profit	**2 567**	2 284	2 050	1 860	1 617	1 320
Changes in working capital	**(5)**	(50)	(154)	4	(52)	29
Cash generated from operations	**2 562**	2 233	1 895	1 865	1 565	1 349
Income tax paid	**(617)**	(396)	(493)	(341)	(258)	(270)
Net cash inflow from operating activities	**1 945**	1 837	1 402	1 524	1 308	1 079
Net cash outflow from investing activities – investments to expand	**(633)**	(684)	(480)	(495)	(336)	(444)
Net cash outflow from investing activities – investments to maintain	**(144)**	(93)	(81)	(81)	(72)	(62)
Net cash inflow from investing activities – disposals	**8**	26	4	260	29	42
Net cash inflow from investing activities – other	**81**	55	91	12	22	79
Net cash outflow from financing activities	**(1 378)**	(788)	(1 249)	(1 296)	(708)	(691)
Net (decrease)/ increase in cash and cash equivalents	**(121)**	354	(312)	(77)	242	4
Cash and cash equivalents – beginning of the year	**482**	101	412	517	275	271
Cash balances disposed of through disposal of joint venture	**–**	–	–	(28)	–	0
Cash balances acquired through business combination	**39**	27	2	–	–	–
Cash and cash equivalents – end of the year	**400**	482	101	412	517	275

Six-year review continued

years ended 30 September

Hospital business performance and metrics

	2011	2010	2009	2008	2007	2006
Financial metrics						
EBITDA margin (%)	**26.0**	24.7	23.9	23.7	22.2	21.0
Tax rate excluding secondary tax on companies (%)	**25.7**	27.5	27.3	26.0	29.7	31.3
Effective tax rate (%)	**28.6**	49.1	28.4	26.9	32.1	34.9
Debtors' days	**31**	33	36	34	37	37
Stock cover (days)	**24.6**	24.3	23.7	25.8	27.6	27.6
Quick ratio (:1)	**1.10**	1.25	1.05	0.96	0.70	0.58
Current ratio (:1)	**0.97**	1.11	0.91	0.86	0.64	0.52
Gearing net of cash (%)	**25.3**	33.3	42.6	42.7	54.1	69.5
Total debt (R'm)	**2 024**	2 475	2 354	2 473	2 844	3 005
Net debt (R'm)	**1 624**	1 992	2 252	2 061	2 327	2 730
Interest bearing debt (R'm)[6]	**1 478**	1 900	1 800	1 911	2 258	2 478
Debt related to finance leases raised in terms of IAS 17 (R'm)[7]	**546**	574	554	563	586	527
Net debt:EBITDA	**0.66**	0.92	1.19	1.19	1.60	2.29
Interest cover	**10.9**	5.7	4.5	4.8	3.0	2.2
Return on net assets (RONA) (%)	**42.7**	40.7	38.1	39.7	32.4	29.0

[6] *The debt negotiated in 2005 was refinanced in May 2010 reducing interest costs, increasing flexibility in respect of future funding and extending the debt term.*
[7] *IAS 17 requires lessees at the commencement of the lease term, to recognise finance leases as assets and liabilities in their statement of financial position at amounts equal to their fair value of the leased property.*

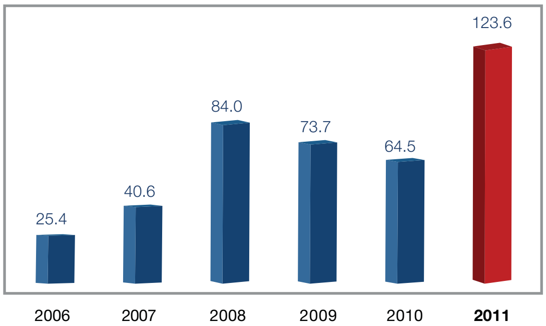
Shareholder returns

	Compound annual growth since 2006 %	2011	2010	2009	2008	2007	2006
Earnings per share (cents)	37	**123.6**	64.5	73.7	84.0	40.6	25.4
Diluted earnings per share (cents)	38	**123.6**	64.5	72.0	82.0	39.6	24.8
Headline earnings per share (cents)	33	**119.5**	63.5	74.5	71.1	39.6	28.8
Diluted headline earnings per share (cents)	34	**119.5**	63.5	72.7	69.4	38.6	28.1
Normalised earnings per share (cents)	38	**119.3**	92.7	73.5	64.9	39.9	24.4
Normalised earnings per share excluding amortisation (cents)	31	**126.9**	101.2	82.1	73.6	48.1	33.0
Weighted average number of shares in issue ('000)		**1 041 523**	1 029 883	1 029 747	1 030 000	1 030 000	1 003 123
Weighted average number of shares for diluted earnings per share ('000)		**1 041 523**	1 029 883	1 055 166	1 055 750	1 055 750	1 028 543
Total number of shares in issue ('000)		**1 042 210**	1 042 210	1 016 790	1 030 000	1 030 000	1 030 000
Distributions per share (cents)		**60.0**	50.8	25.6	–	–	–
Net asset value per share (cents)	54	**337.5**	273.3	228.2	176.1	88.8	39.4

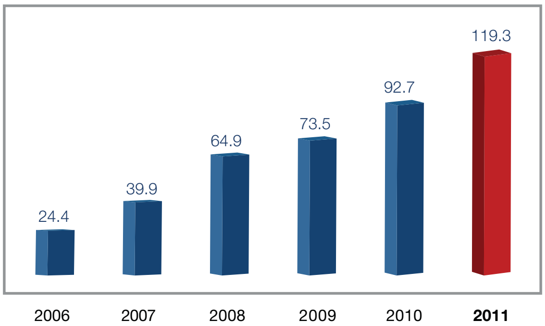
Shareholder returns continued

	2011 R'm	2010 R'm	2009 R'm	2008 R'm	2007 R'm	2006 R'm
Normalised earnings	**1 243**	954	756	668	411	245
Profit attributable to ordinary equity holders	**1 287**	664	759	865	418	255
Adjustments (net of tax):						
Retirement funds	**(2)**	(76)	(12)	(66)	–	–
STC on listing	**–**	322	–	–	–	–
Employee Trust accelerated charge	**–**	36	–	–	–	–
Listing cost	**–**	17	–	–	–	–
Gain on remeasuring of fair value of equity interest before business combination	**(92)**	–	–	–	–	–
Impairment of intangible assets	**54**	–	–	–	–	–
Excess of fair value over the purchase price	**–**	–	9	–	–	–
Profit on disposal of businesses	**–**	(9)	(1)	(131)	(8)	(10)
Additional receipt on previously disposed business	**(4)**	–	–	–	–	–

EPS – CAGR 37.2%
Cents



Normalised EPS – CAGR 37%
Cents



Market indicators

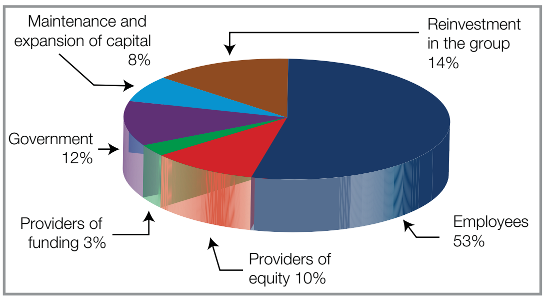
	2011	2010	2009	2008	2007	2006
Market price – high (R) per share	**19.30**	14.59	n/a	n/a	n/a	n/a
Market price – low (R) per share	**14.00**	12.83	n/a	n/a	n/a	n/a
Market price – year end (R) per share	**19.30**	14.44	n/a	n/a	n/a	n/a
Market capitalisation – year end (R'm)	**20 115**	15 050	n/a	n/a	n/a	n/a
Number of shares traded ('000)[8]	**1 100 302**	n/a	n/a	n/a	n/a	n/a
Value of shares traded (R'm)[8]	**18 130**	n/a	n/a	n/a	n/a	n/a
Price-earnings ratio	**15.62**	22.39	n/a	n/a	n/a	n/a

[8] *Life Healthcare listed on the JSE on 10 June 2010 and therefore a full year's volumes and value traded is not available for 2010.*

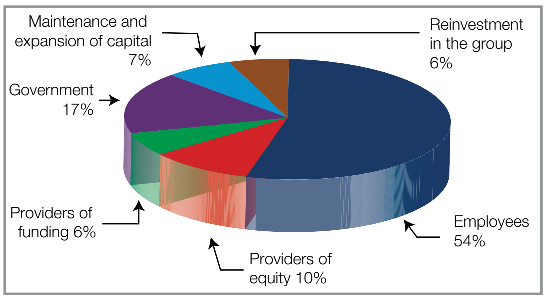
Statement of value added

	%	30 September 2011 R'm	%	30 September 2010 R'm
Revenue		**9 812**		8 786
Less: purchased cost of goods and services		**(4 082)**		(3 727)
Value added	94.8	**5 730**	96.1	5 059
Other income	5.2	**317**	3.9	206
Wealth created	100.0	**6 047**	100.0	5 265
Employees	52.7	**3 189**	53.7	2 827
Providers of equity	10.3	**625**	10.1	530
Providers of funding	3.3	**199**	6.2	327
Government	11.4	**689**	16.9	890
Maintenance and expansion of capital	7.8	**474**	7.3	386
Reinvestment in the Group	14.4	**871**	5.8	305
Wealth distribution	100.0	**6 047**	100.0	5 265
Average number of employees		**13 599**		12 911
Wealth created per employee (R'000)		**445**		408
Weighted average number of shares ('000)		**1 041 523**		1 029 883
Wealth created per share (R)		**5.81**		5.11

Distributed wealth created – 2011
%



Distributed wealth created – 2010
%



Strategy

The goals of Life Healthcare are to continue providing high quality, cost effective healthcare in South Africa, and to become a leading private hospital operator in other selected emerging markets. These goals are encapsulated in our three key focus areas: growth; efficiency; and sustainability. In order to achieve these goals, Life Healthcare seeks to implement the following key strategies:

Develop the breadth and depth of Life Healthcare's existing hospital network

Life Healthcare has detailed plans to grow the capacity of its existing facilities in order to meet increased demand and enhance the profitability and competitiveness of these facilities. These plans are centred on:

- expanding facilities within existing hospitals through adding additional beds, wards and/or operating theatres; and
- adding new lines of business to existing hospitals. Life Healthcare intends to introduce new services and disciplines at selected hospitals where there is the opportunity to create niches. In particular, the new lines of business will focus on mental healthcare, acute rehabilitation and renal dialysis.

for further information see
pages 33 and 52 – 53

Expand our coverage and penetration of the South African market

Life Healthcare plans to expand the geographic reach of its coverage within South Africa in the acute hospital care, mental healthcare and rehabilitation sectors in order to meet the increasing demand for private healthcare in South Africa. This expansion of our geographic footprint will occur through:

- the acquisition of select facilities which complement our existing geographic spread of hospitals; and
- the building of new facilities where we have no existing coverage.

Through this expansion, Life Healthcare aims to improve its national network and increase its attractiveness in negotiating preferred network arrangements with medical schemes.

for further information see
pages 33 and 52 – 53

Position Life Healthcare for international expansion

Life Healthcare plans to take advantage of opportunities to expand within its existing lines of business in selected attractive emerging markets which display similar characteristics to those experienced in South Africa, such as:

- a rapidly growing middle class;
- increasing disease burden;
- underdeveloped public sector healthcare systems;
- an expanding private health insurance market;
- a rapidly growing but fragmented private hospital sector; and
- a suitable supply of medical professionals and personnel.

Life Healthcare believes that emerging markets such as India, Turkey and the west coast of Africa offer opportunities for us to leverage our skills, systems and experience.

for further information see
pages 34 and 53

Maintain Life Healthcare's commitment to world-class healthcare

Life Healthcare believes that it delivers world-class, high quality healthcare comparable to private healthcare available at hospitals in developed economies. Life Healthcare aims to maintain this commitment to world-class healthcare by continued improvements in quality benchmarks, including patient satisfaction, clinical outcomes, patient health and safety, and employee health and safety.

for further information see
pages 35 and 57 – 63

Strategy continued

Continue to enhance operational efficiencies

While maintaining this commitment to quality, Life Healthcare will continue to focus on the improved management of all hospital costs. Our alternative reimbursement model (ARM) and cost efficiency align our incentives with medical schemes, enabling us to conclude preferred network deals. In this context, Life Healthcare plans to take advantage of this additional patient growth to leverage its fixed cost base and continue to improve occupancy and margins.

for further information see
pages 34 and 54 – 56

Implement sustainable human capital strategies and practices that meet the challenges of a dynamic commercial and legislative environment

Life Healthcare acknowledges the need to have a trained and skilled workforce and continues to make a considerable investment in education, training and development in order to create competent and motivated employees who will deliver quality service. Life Healthcare recognises that the shortage of critical skills globally, particularly in healthcare, makes retention, development and motivation of employees and doctors a priority.

for further information see
pages 35 – 36, 65, 66 – 67, and 68 – 69

Ongoing partnership with government and engagement in healthcare reform in South Africa

Life Healthcare will continue to actively engage with the South African government in the development of healthcare policy and proposed healthcare reforms in South Africa. Life Healthcare plans to leverage its position as the leading South African operator of hospital PPPs in future opportunities to provide services to government.

for further information see
pages 29, 36, 38 and 75

Life Healthcare as an investment

Strong market position in a defensive industry

- One of three leading private hospital operators in attractive South African healthcare market
- Market share of ± 27% of South African acute hospital beds
- Market leader in private acute mental healthcare and rehabilitation services
- Largest provider of contracted occupational healthcare
- Owns Life Esidimeni, largest healthcare PPP in South Africa
- Extensive geographic network of healthcare facilities
- Market leader for preferred provider agreements with medical schemes

Good track record of shareholder wealth creation

- Solid track record of operational excellence
- 12.5% compound annual growth in revenue from operations over six years
- Strong balance sheet with high cash generation
- CAGR of 16% for normalised EBITDA over six years
- CAGR of 37% for normalised earnings per share (EPS) over six years
- Strong cash distribution

Focus on improving efficiencies

- Normalised EBITDA margin has increased from 21% to 26% over six years
- An alternative pricing model strategy which enables improvement in margins through cost eficiencies
- Occupancies increased from 68% to 71% over six years despite the addition of nearly 1 200 beds

Good governance

- Board structure has strong independent element
- Compliant with JSE Listings Requirements
- Substantial compliance with the King III Code

Clinical excellence

- Life Healthcare strives to deliver world-class healthcare which is driven by quality. In pursuing quality in all its endeavours, Life Healthcare has achieved international quality certification and is benchmarking selected practices against global clinical, nursing, and health and safety best practices.
- Track record of providing high quality, cost effective healthcare in South Africa

Board of directors

From left to right top: Prof Jakes Gerwel, Michael Flemming, and **bottom:** Roger Hogarth

Prof GJ (Jakes) Gerwel (65)

Chairman
South African
BA (Hons), LicGermPhil, DLitt et Phil
Professor Jakes Gerwel gained his degrees in South Africa and Belgium, and has received honorary doctorates from numerous local and foreign universities. He was vice-chancellor and rector of the University of the Western Cape from 1987 to 1994, after which he served as director-general in the Office of the President for five years and as secretary of the cabinet in the government of national unity. Professor Gerwel is non-executive chairman of Aurecon Singapore (Pte) Limited, Media 24 Limited and Brimstone Investment Corporation Limited. He chairs the boards of trustees of the Nelson Mandela Foundation, the Nelson Mandela Rhodes Foundation, the Allan Gray Orbis Foundation and is vice-chairman of the Peace Parks Foundation. He was appointed to the Life Healthcare board of directors in 2003.

CMD (Michael) Flemming (54)

Chief executive officer
South African
BCom, BJur, BProc, AMP (Harvard)
Michael Flemming joined African Oxygen Limited (Afrox) in 1985 and transferred to its healthcare division in 1994. He has held several senior finance and line management positions with both Afrox and Afrox Healthcare. He managed the business finance function and then moved into managing a 300 bed hospital in the West region. A year later he was promoted to regional manager and shortly thereafter to general manager. In 2001, he was appointed managing director of Afrox Healthcare, which became Life Healthcare in 2005.

RJ (Roger) Hogarth (57)

Chief financial officer
South African
BAcc (Wits), CA(SA)
After qualifying as a chartered accountant, Roger Hogarth joined Afrox in 1980. He has a wealth of experience in tax, accounting, systems and financing in both the industrial and healthcare businesses. He was manager corporate finance for Afrox, before transferring to Afrox Healthcare as general manager finance and administration in August 2004. He was appointed to the Life Healthcare board of directors in 2007.

From left to right top: Mustaq Brey, Fran du Plessis, Peter Golesworthy, and **bottom:** Ketso Gordhan and Louisa Mojela





MA (Mustaq) Brey (57)
Non-executive director
South African
BCompt (Hons) CA(SA)
Mustaq Brey is a founder member and chief executive officer of Brimstone. He is a chartered accountant and currently serves on the boards of Oceana Fishing Group Limited, the Scientific Group, Lion of Africa Insurance Company Limited and Nedbank Limited. He serves on the audit committees of the South African Revenue Service and Mandela Rhodes Foundation and chairs the capital and risk committee for Nedbank. He was appointed to the Life Healthcare board of directors in 2003.

Adv F (Fran) du Plessis (56)
Independent non-executive director
South African
BCom LLB, CA(SA), B. Com Taxation
Adv Fran du Plessis is an advocate of the High Court of South Africa. She holds a number of current board positions namely Sanlam, Naspers and ArcelorMittal. Fran has previously held non-executive directorships at SAA and Industrial Development Corporation of South Africa Limited. Fran is a chartered accountant and has worked extensively in both commercial and academic settings. She is a director of the auditing firm LDP Incorporated in Stellenbosch and an ad hoc lecturer in the department of accounting at the University of Stellenbosch, where she lectures the Masters Degree in Taxation. She was appointed to the Life Healthcare board of directors in 2010.

PJ (Peter) Golesworthy (53)
Independent non-executive director
British
BA (Hons) (first class), Accountancy Studies, CA
Peter Golesworthy graduated from Exeter University in the UK and qualified as a chartered accountant with the Institute of Chartered Accountants of Scotland. He currently serves as a director of a number of private companies and as a member of various investment committees of certain Old Mutual businesses. He was previously the finance director of Old Mutual (South Africa), and prior to joining Old Mutual was a finance manager in the Corporate & International Finance Department of Anglo American Corporation of South Africa Limited. He was appointed to the Life Healthcare board of directors in 2010.

K (Ketso) Gordhan (50)
Independent non-executive director
South African
BA, MPhil (University of Sussex)
Ketso Gordhan is currently consulting to the Office of the President. Up until recently he was head of the private equity division of Rand Merchant Bank. Ketso held various senior roles in the FirstRand Group between 2001 and 2009. His prior experience includes that of director-general of the Department of Transport, a member of the ANC's Department of Economic Policy and a national election manager. Ketso has held non-executive directorships in the FirstRand Group including the Momentum Group. In an academic role, Ketso is a senior visiting fellow at the Wharton Business School, University of Pennsylvania. He was appointed to the Life Healthcare board of directors in 2010.

LM (Louisa) Mojela (55)
Independent non-executive director
South African
BCom
Louisa Mojela is group CEO of WIPHOLD of which she is a founder member. She holds non-executive directorships inter alia in ABB SA, Adcorp Holdings, Distell Group, Lesotho Pension Fund, Afrisun Gauteng, Afrisun Leisure, Emfuleni Resorts and USB-ED United. She previously held positions at the Lesotho National Development Corporation, DBSA and SCMB. She was appointed to the Life Healthcare board of directors in 2010.

Board of directors continued

From left to right top: Trevor Munday, Joel Netshitenzhe, and **bottom:** Dr Peter Ngatane and Garth Solomon




TS (Trevor) Munday (62)

Lead independent non-executive director
South African
BCom
Trevor Munday completed his BCom at the University of Natal, and served in several commercial, financial and accounting roles in his formative years, both locally and overseas. He was appointed chief executive of Polifin Limited in 1996. In 2001, he was appointed an executive director and chief financial officer of Sasol Limited. He later served as deputy CEO of Sasol prior to his retirement in 2006. He serves as a non-executive director on the boards of several JSE-listed companies including ABSA Group Limited, Reunert Limited and Illovo Sugar Limited. He was appointed to the Life Healthcare board of directors in 2010.

JK (Joel) Netshitenzhe (54)

Independent non-executive director
South African
MSC (University of London), Postgraduate Diploma in Economic Principles, Diploma in Political Science
Joel Netshitenzhe left South Africa to join the ANC in exile. He served in various capacities within the ANC: Radio Freedom, Mayibuye editor, member of the ANC Politico-Military Council and Deputy Head of the Department of Information and Publicity, and as part of the ANC negotiating team. He has been a member of the National Executive Committee (NEC) of the ANC since 1991. Post-1994, Joel was head of communications in President Nelson Mandela's office, and then joined the Government Communication and Information Systems (GCIS) as CEO in 1998. In addition to being GCIS CEO, he was in 2001 appointed head of the Policy Co-ordination and Advisory Services (PCAS) in the Presidency. He headed the PCAS on a full-time basis from 2006 until his retirement in 2009. He now works as an independent researcher, and is the executive director of the Mapungubwe Institute for Strategic Reflection (MISTRA). He is a member of the National Planning Commission of the South African government, the advisory board of the Nelson Mandela Trust and the board of CEEF Africa (a non-profit company dealing with tertiary education opportunities). He was appointed to the Life Healthcare board of directors in 2010.

Dr MP (Peter) Ngatane (57)

Independent non-executive director
South African
BSc, MBChB, FCOG
Dr Peter Ngatane is a specialist obstetrician and gynaecologist. He has served as a consultant obstetrician and gynaecologist, as well as superintendent of the Chris Hani Baragwanath Hospital. He also served as the head of obstetrics and gynaecology at Natalspruit Hospital. He is currently in private practice. Dr Peter is the chairman of the South African Boxing Commission and is the medical director of Boxing South Africa. He serves on the board of governors of the World Boxing Council and is the vice-president of the African Boxing Union. He serves as treasurer for the International Planned Parenthood Federation in Nairobi and is a trustee of the Commonwealth Boxing Council based in London. He was appointed to the Life Healthcare board of directors in 2007.

GC (Garth) Solomon (45)

Non-executive director
South African
BCom, BCompt (Hons), CA(SA)
Garth Solomon graduated from the University of Cape Town and qualified as a chartered accountant while completing articles with Deloitte & Touche. Thereafter he served in various commercial and corporate finance roles with the South African Revenue Service, Group Five Properties and African Harvest Limited before joining Old Mutual Private Equity in 2003. He is currently a portfolio manager in the Old Mutual Private Equity team and in this capacity serves on the boards of the Tourvest Group (Pty) Limited and Liberty Star Consumer Holdings (Pty) Limited. Garth was appointed to the Life Healthcare board of directors in 2005.

Executive management

From left to right top: Michael Flemming, Roger Hogarth, Colin Davidson and Janette Joubert
From left to right bottom: Jonathan Lowick, Fazila Patel and Dr Nilesh Patel

Michael Flemming (54)
BCom, BJur, BProc, AMP (Harvard)
Chief executive officer
27 years' service
Michael Flemming joined African Oxygen Limited (Afrox) in 1985 and transferred to its healthcare division in 1994. He has held several senior finance and line management positions with both Afrox and Afrox Healthcare. He managed the business finance function and then moved into managing a 300 bed hospital. A year later he was promoted to regional manager and shortly thereafter to general manager. In 2001, he was appointed managing director of Afrox Healthcare, which became Life Healthcare in 2005.

Roger Hogarth (57)
BAcc (Wits), CA(SA)
Chief financial officer
32 years' service
After qualifying as a chartered accountant, Roger Hogarth joined Afrox in 1980. He has a wealth of experience in tax, accounting, systems and financing in both the industrial and healthcare businesses. He was manager corporate finance for Afrox, before transferring to Afrox Healthcare as general manager finance and administration in August 2004. Roger was appointed to the board of directors in 2007.

Colin Davidson (54)
Group information management executive
11 years' service
Colin Davidson spent more than 20 years in the IT consulting industry before joining the Group as manager of healthcare information management. He was appointed to his current position in 2002 and is responsible for information management strategy and delivery to all lines of business.

Janette Joubert (51)
DipPharm
Group pharmacy and procurement executive
27 years' service
Janette Joubert joined the Group in 1984 and has gained a wealth of knowledge and wide experience in the healthcare industry through the various positions she has held including operations manager, national operations manager and national pharmacy practice manager. She was appointed to her current position in 2010. Her responsibilities include professional and legal operations and pharmaceutical procurement.

Jonathan Lowick (41)
BCom, HDip (Acc), CA(SA)
Advanced Cert in Taxation
Group strategy and development executive
14 years' service
Jonathan Lowick has been with the Group since 1997, and has gained wide experience through the various positions he has held at head office and hospital operations, including finance and administration, as well as national credit, patient services and funder management. His last position before his appointment to the executive in April 2009 was that of regional hospital manager: Cape region.

Fazila Patel (43)
BA LLB, Cert Programme in Corporate Governance
Company secretary
5 years' service
Fazila Patel gained extensive experience as legal adviser for the Greater Johannesburg Metropolitan Council before joining City Power as general manager legal services in 2001. In this position she managed the legal department and was company secretary. She was appointed as company secretary at Life Healthcare in August 2006.

Dr Nilesh Patel (42)
MBBCh, MPhil (cum laude)
Chief operating executive – healthcare services
12 years' service
Dr Nilesh Patel has gained extensive clinical and management experience in both the public and private healthcare sectors. He joined Life Healthcare in 1999 as national rehabilitation manager and established the Group's first acute rehabilitation unit. He was managing director of Life Esidimeni from 2007 until his appointment to his current position in 2009. He is responsible for Life Esidimeni, Life Occupational Health and Life Healthcare's rehabilitation and mental healthcare businesses, as well as for the Group's quality management department. Nilesh served as the founding chairperson of the Southern African Neuro-rehabilitation Association from 2005 to 2009.

Executive management continued

From left to right top: Adam Pyle, Chris Redfern and Denis Scheublé
From left to right bottom: Peter Scott, Dr Keith Shongwe and Dr Sharon Vasuthevan






Adam Pyle (45)
BCom, LLB
Group marketing executive
8 years' service
Adam Pyle's responsibilities include investor relations, health policy, funder relations, marketing, product development, national patient services and communications. He has worked in the healthcare industry for several years and was previously marketing director at HealthBridge. He is a director of the Hospital Association of South Africa (HASA).

Chris Redfern (63)
Chief operating executive – inland
41 years' service
Chris Redfern joined Afrox in 1971, transferring to the hospital division in 1987, and worked in hospital management before assuming his current postion in 2002. He is responsible for the Group's inland hospitals.

Denis Scheublé (57)
DipPharm, Advanced Diploma in Personnel Management (IPM), Certificate in Labour Relations (UNISA SBL)
Chief operating executive – coastal
28 years' service
Denis Scheublé joined the Group in 1983 in human resources, specialising in national, high level recruitment, resource development and placement. He moved to the healthcare division in 1992 and held a number of hospital management positions before being appointed regional manager – east region in 2000. Denis assumed responsibility for the Group's hospitals in the coastal region in 2010. He serves on the boards of a number of associates.

Peter Scott (47)
BA
Group human resources executive
9 years' service
Peter Scott heads human resources and employee services. His experience in human resources has spanned several years in a corporate and consulting environment with organisations that included Accenture (Pty) Limited, Standard Bank Limited and CNA Limited (CNA). Prior to his current position, which he has held since 2002, Peter was human resources director at CNA. He is a director of HASA.

Dr Keith Shongwe (48)
BSc, MBChB, Dip Ed
Group health policy executive
2 years' service
Dr Keith Shongwe has extensive clinical, business, as well as government experience. Before his appointment to the Life Healthcare executive management team in January 2010, he held the position of deputy director-general in the Department of Communications. His responsibilities in his present position include matters relating to the healthcare regulatory environment, health research and economics, and government relations and strategy.

Dr Sharon Vasuthevan (52)
PhD, MSc, BCur Honours, BCur
Group nursing executive
10 years' service
Dr Sharon Vasuthevan joined the group in 2001 as national training and development manager, a position she held until her appointment to the executive in 2010. She is currently responsible for the national nursing function as well as for the Life College of Learning. Sharon serves on various committees and societies and is currently president of the Nursing Education Association (NEA); chairperson of the Hospital Association of South Africa (HASA) nursing committee; and member of the Advisory Council for Monash University, School of Health Sciences. She also serves on the South African Nursing Council (SANC) and on the SANC's education accreditation and human resources sub-committees and is chairperson of the SANC's education committee.

Stakeholder reports

Chairman's statement 29
Chief executive officer's review 32
Chief financial officer's review 39


Baneng Care Centre
Life Esidimeni

Chairman's statement

World-class healthcare

Life Healthcare provides world-class acute care, high technology private hospital services mainly to the medically insured population. We also continue to show that public private partnerships such as Life Esidimeni can improve access to critical health services, including hospital care for many more South Africans.

Our 2011 financial report is Life Healthcare's first integrated report, in accordance with the King III Code. We have worked towards providing our stakeholders with what we hope is valuable information regarding our social, environmental, economic and financial performance and impact.

Increasing returns for shareholders

Since listing in 2010, Life Healthcare has grown into a R20 billion business and continued to deliver value to our shareholders. Our performance during 2011 demonstrates that we are on track to meet the objectives of our strategy – focused on growth, efficiency and sustainability.

Life Healthcare provides world-class acute care, high technology, private hospital services predominantly to the medically insured population. We also continue to show that public private partnerships (PPPs) such as Life Esidimeni can improve access to critical health services, including hospital care, for many more South Africans. During 2011, our foreign shareholding increased from 15% to 27%, showing increased confidence in our business model as well as the private healthcare sector in South Africa.

Regulatory environment

Sustainability is a strategic issue considered at board level and drives our business decisions at the highest level. By its nature, healthcare contributes to the well-being of patients and communities and plays an important role in creating an enabling environment that fosters economic growth.

With the publication of the Green Paper on National Health Insurance (NHI), we have the beginnings of a blueprint for a transformed healthcare system in South Africa. We are

Chairman's statement continued

encouraged by the recognition of the role that the private sector can play in this new landscape and with the collaborative approach adopted by government. Through our industry body, the Hospital Association of South Africa (HASA), we hope to continue making a useful contribution to the formulation and implementation of this ambitious initiative.

Life Healthcare has for many years partnered with government to provide healthcare services through PPPs and we believe that there are numerous opportunities for the public and private hospital sectors to work together to find workable solutions to South Africa's pressing healthcare challenges. In particular, the private sector can play a more meaningful role in increasing the number of healthcare professionals in the country, particularly doctors, nurses and pharmacists. The current shortage of healthcare professionals is a significant hindrance to the implementation of a successful NHI. We therefore welcome the Health Resources Plan 2030, which aims at addressing this problem. However, the Health Resources Plan 2030 needs the active support of the private sector if it is to achieve its objectives. More than 15% of our total workforce is now involved in training and education initiatives through the Life College of Learning as well as universities.

We are also involved in constructive and transparent engagement with regulators regarding potential price regulation of tariffs in the private hospital sector. Our approach is to promote an operating environment which encourages competition between healthcare providers and allows for innovative funding mechanisms to make healthcare as affordable as possible for more South Africans. In recent years we have seen the success of our alternative reimbursement model (ARM) through our market leadership in preferred provider network agreements.

We welcome the proposed amendments contained in the National Health Amendment Bill of 2011 which proposed an Office of Health Standards Compliance. We support the principle of measuring the quality of healthcare establishments and setting national standards, but look forward to further clarity on how the norms and standards will be defined and applied. During the year, a number of Group policies and practices were revised in order to comply with the Consumer Protection Act, although we don't believe this will have a major impact on our business.

Transformation and commitment to communities

We are committed to sustainable transformation and have aligned ourselves with the Codes of Practice under the Broad-based Black Economic Empowerment (B-BBEE) Act. We are in the process of finalising the Group's B-BBEE rating.

Employee and management equity ownership in Life Healthcare has been channelled through various trusts and forms an important part of our staff retention strategy. The Life Healthcare Employees Trust enabled eligible employees to participate in the Group's listing. During 2010, the balance of the R470 million held by the trust was distributed to approximately 12 000 employees, 61% of whom are disadvantaged. This trust is in the process of being deregistered. An employee investment structure for investing in Life Healthcare is with the board for consideration as a replacement for the employees trust.

Particularly encouraging in our drive towards transformation is our changing staff profile. Historically disadvantaged individuals account for 67% of employees, with 67% black and 85% female employees. Employment equity targets are set and managed on a national basis in consultation with executive management and the national employment and training committee, with oversight by the board's social, ethics and transformation committee.

Our well established corporate social investment (CSI) programme continues to focus on health and education, particularly in assisting disadvantaged communities. Projects included providing surgery for indigent patients, community outreach initiatives and the sponsorship of mobile clinics to serve disadvantaged rural areas.

Governance

We remain committed to good corporate governance and regard this as critical to the success of our business. The board strives to provide strong leadership, strategic direction and a productive environment that can sustain the delivery of value to our shareholders and other stakeholders. During 2011, we conducted a review of our corporate governance framework in terms of the King III Code, the Listings Requirements of the JSE Limited and the Companies Act of 2008. We continue to work towards ensuring compliance with the key requirements of these regulations.

Changes to the board

In November 2010 we welcomed to the board Ketso Gordhan, Joel Netshitenzhe and Adv Fran du Plessis as independent non-executive directors. Dr Paul Dalmeyer and Yolanda Cuba retired as directors at the annual general meeting held on 27 January 2011.

Prospects

Our focus on providing hospital care in highly specialised treatment areas such as rehabilitation, mental health and renal dialysis differentiate us from our competitors and positions our Group for future growth. We continue to invest in upgrading existing facilities and expanding our presence in South Africa through appropriate acquisitions, new builds and organic growth. There are numerous opportunities to work with government through more PPPs to provide critical health services, including hospital care. Developing products and funding models to enable more of these potential consumers to access affordable private healthcare presents an exciting growth opportunity.

Since our listing, we have stated our intention of expanding into select emerging markets, particularly focusing on India, Turkey and West Africa. We are hoping to conclude a 26% investment in Max Healthcare. Max Healthcare is India's third largest hospital group and presents an exciting opportunity for us into one of the world's fastest growing private healthcare markets.

Appreciation

I would like to thank Life Healthcare's committed leadership team under the guidance of Michael Flemming, which continues to take the company from strength to strength. My colleagues on the board have provided valuable input into the strategic, financial and operational facets of the business that again has ensured that we are able to report a solid set of financials, despite the difficult economic environment. I would also like to extend my appreciation to our employees and other stakeholders for their continued support.

Jakes Gerwel
Chairman

Chief executive officer's review

Our strategy

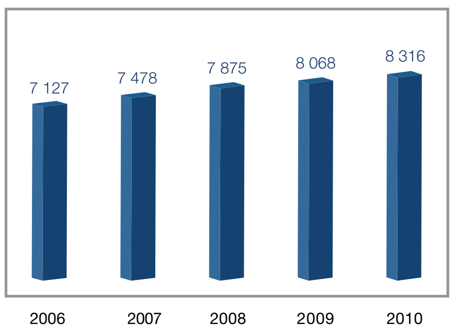
Our strategy continues to focus on the key elements of growth, efficiency and sustainability.

Life Healthcare's results reflect the significant operational progress made during the year, with all businesses contributing positively to Group profits. Revenue increased by 11.7% to R9 812 million (2010: R8 786 million), while group operating profit was up 16.4% to R2 173 million (2010: R1 867 million).

Operating environment

Despite job losses in the South African economy since 2008/2009 and increasing pressure on consumer spending, demand for private healthcare continued to increase, with medical scheme membership growing 3.1% during 2011 to more than 8.3 million members. This reflects the priority and importance South Africans place on private health insurance. Demand for private medical insurance also remains fairly income inelastic, showing its resilience in difficult economic conditions. This growth was largely the result of the growth in both the Government Employees Medical Scheme (GEMS) and the growth in low income schemes such as Discovery's Keycare scheme. Cost containment remains an important consideration to ensure future growth in the industry.

Number of medical scheme beneficiaries
'000



Steady economic growth has led to a growing middle class in South Africa opting for private medical insurance, a trend we expect to continue. Hospital occupancies were also driven by an ageing medically insured population, an increased disease burden and demand for the latest medical technologies.

Wage inflation of healthcare professionals, particularly nurses, was reigned in to some degree compared to 2010, with public sector nurses accepting increases of 6.8% for 2011, although this was still higher than CPI. This was partially offset by the zero % increase in the Single Exit Price for pharmaceuticals and our aggressive management of surgical costs.

Operational review

Increased demand for hospital services combined with additional beds and preferred network arrangements resulted in an increase in paid patient days (PPDs) of 5.4%.

Hospital division

We increased the number of hospital beds to 7 916 registered beds (excluding associates). Capital expenditure was R740 million, R40 million on acquisitions, giving a total of R780 million.

Acute hospitals

The acquisition of Life Bay View Hospital in Mossel Bay in June 2010 enabled us to benefit from their activities. Furthermore, we increased our shareholding in Life Midmed Hospital in Middelburg from 45% to 57%, effective 1 August 2011. We added on 234 hospital beds during the year, less than expected as a number of projects were delayed. Despite this we still achieved our growth in PPD targets. The majority of the delayed beds will come on stream in the first quarter of 2012.

Acute mental healthcare

In the area of mental health, it is estimated that 14% of the global burden of disease is attributable to neuropsychiatric disorders, with depressive illness, anxiety disorders, substance abuse and psychotic disorders contributing the greatest proportion. Through proper diagnosis and treatment, patients accessing quality mental healthcare in specialised facilities are likely to experience better long term outcomes.

We have expanded the geographic coverage of our mental health business with the opening of the 80 bed Life Glynnview mental healthcare facility in Benoni, in March 2011. In November 2011, we opened an 80 bed facility, Life St Joseph's, in Durban. This new facility incorporates the mental health beds previously housed in the dedicated annex at Life Entabeni Hospital. In the 2012 reporting period we will open another 80 bed facility, Life Poortview, on Johannesburg's West Rand. Life Healthcare will then have seven dedicated mental healthcare facilities with 360 beds in Johannesburg, Durban, Port Elizabeth and East London.

Acute rehabilitation

Our dedicated rehabilitation units offer quality, cost effective, outcomes driven acute physical and cognitive rehabilitation for patients affected by stroke, spinal cord injury, brain injury and other disabling illnesses or conditions. Well researched and specialised rehabilitation programmes for orthopaedic, paediatric and pulmonary conditions have also been introduced to address the ever increasing demand for these services. The model can be further expanded into areas such as frail care and treatment of tuberculosis.

We opened our seventh acute rehabilitation facility in October 2011, bringing the number of beds in dedicated acute rehabilitation units to 255, representing nearly 60% of all private acute rehabilitation beds in South Africa.

Healthcare services division

Life Esidimeni

Life Esidimeni's revenue for the year was impacted by the loss of two contracts in 2010, the effects of which were felt in 2011. The business has, however, stabilised in 2011 and remains the largest PPP in SA, with 12 facilities offering 4 165 beds.

Occupational Health

Life Occupational Health experienced strong growth in 2011, increasing revenue by 20%. This growth has been driven not only by acquiring new clients, but through the sales of new product lines to existing clients. As we continue to review innovative options in terms of reducing the cost of healthcare, we believe occupational health has a key role to play in this regard.

Chief executive officer’s review continued

Delivering on our objectives

Our strategy continues to focus on the key elements of growth, efficiency and sustainability.

Growth

Our strategy for growing the business in South Africa is based on:

- developing the breadth and depth of Life Healthcare’s existing hospital network by:
  - adding additional beds, wards and/or operating theatres; and by
  - adding new lines of business to existing hospitals, particularly in the fields of acute mental healthcare, acute rehabilitation and chronic renal dialysis; as well as by
- expanding our geographic coverage and penetration of the South African market through:
  - the acquisition of select facilities which complement our existing geographic spread of hospitals; and
  - the building of new facilities where we have no existing coverage.

Through this expansion, Life Healthcare aims to improve its national network and increase Life Healthcare’s attractiveness in negotiating preferred network arrangements with medical schemes.

Regarding the Group’s offshore growth we have focused on three areas: West Africa, Turkey and India. In West Africa we signed an agreement with a Nigerian healthcare group, subject to due diligence. Unfortunately, we could not reach agreement post the due diligence and have since walked away from this opportunity.

Life Healthcare is currently in the process of completing a 26% investment in Max Healthcare, an Indian hospital group, subject to due diligence being completed and the necessary other approvals being received. Max Healthcare, a subsidiary of Max India, is one of the largest hospital groups in India with over 1 800 beds, and the leading hospital group in Delhi.

The 26% shareholding will cost R850 million (516.7 Cr.Rs) with the Group providing a pro rata guarantee of debts. The Group believes that this transaction will allow us to enter the Indian healthcare market, which has excellent growth dynamics, in a measured and low risk way and with the potential to significantly grow this investment while not putting strain on the South African business.

In addition the Group will assist Max Healthcare in improving its efficiency through leveraging off Life’s processes, systems and operating model, focusing on:

- functional business processes;
- operational systems;
- management information systems and reporting;
- functional and line structures; and
- pricing and productivity measures.

Efficiency

To promote affordability and accessibility, we continue to focus on cost containment and extracting operational efficiencies across our businesses.

Our cost of sales management resulted in an improvement in our EBITDA margin from 24.7% to 26%. Our cost of sales management has been assisted by our investment in systems, analysis and reporting, leveraging the favourable procurement purchasing conditions and through improved product utilisation management. The increase in our occupancies from 69.6% to 71% allows us to further leverage off our fixed cost base.

A new case management operating system which introduced a more efficient staffing model, the ability to access patients’ records across the Group, as well as the implementation of time and attendance monitoring, further assisted in driving business efficiencies. The continued roll-out of the Impilo IT system saw efficiency improvements start to flow through the business. Impilo comprises five modules, namely patient admissions, case management, billing, credit management and infection control, and is scheduled for completion by the end of 2013. The accommodation module, which is part of the overall billing module, is almost complete and is scheduled for roll-out in 2012.

Life Healthcare took the decision to acquire our rented properties where possible, and we now own 83% of our beds. During the year, we purchased the properties of Life Springs Parkland Clinic, Life Anncron Clinic, Life Knysna Private Hospital and some additional property around Life The Glynnwood.

Sustainability

The Group's focus on growth and efficiency has been achieved alongside improvements in our clinical quality outcomes while taking into account the social, environmental and regulatory environments in which we operate.

Quality

Life Healthcare has established a balance between clinical excellence (health) and patient experience (care). Clinical excellence (iQ) ensures that patients receive world-class clinical care. This is balanced against the patient experience (Q^e) which addresses the needs of patients and their families. We benchmark ourselves against international best practices, with the ultimate aim of enhancing patient outcomes.

Over the past few years, a number of quality improvement programmes which monitor and measure not only the effectiveness of clinical interventions, but the experience of our patients, have been implemented and our operations continue to show improvement across a range of scores. We have been measuring our compliance to a range of bundles which aim to reduce hospital acquired infections and we continue to produce excellent results.

Clinical indicators	Hospital indicator compliance*	Clinical indicator outcome 2011	Clinical indicator outcome 2010	Measure
Ventilator associated pneumonia (VAP)	94%	**6.00**	8.79	Per 1 000 VAP days
Surgical site infections (SSI)	90%	**1.09**	1.25	Per 1 000 theatre cases
Central line associated bloodstream infections (CLABSI)	91%	**1.15**	2.54	Per 1 000 central line days
Catheter related urinary tract infections (CAUTI)	94%	**0.95**	2.26	Per 1 000 catheter days

* *The hospital indicator compliance measures a hospital's compliance to the specific intervention bundles per clinical indicator.*

Life Healthcare has also implemented within its hospitals with cardiac units, internationally proven interventions which reduce morbidity and mortality in patients with acute myocardial infarction (AMI). These interventions have resulted in decreased mortality, and will now be rolled out to all Life Healthcare hospitals. One of the fastest growing diseases experienced in our hospitals is the incidence of stroke. In this regard we will be implementing international best practice for the treatment of patients who have had a stroke and this best practice will be combined with rehabilitation services in our acute rehabilitation units to ensure reduced mortality and improved patient outcomes.

We also achieved our targets of reducing incident rates amongst our employees (7.10 per 200 000 labour hours) and patients (4.17 per 1 000 PPDs), demonstrating that our comprehensive, consistently applied and measured approach to health and safety is paying off.

Human capital

The shortage of skills remains a major concern in the healthcare sector in South Africa and a significant obstacle to implementing a sustainable NHI system. With a ratio of 0.5 doctors per 1 000 people, South Africa faces an acute shortage of doctors. We would need to treble the number of doctors in order to reach Brazil's doctor ratio per 1 000 people. Yet we are still training the same number of doctors every year (1 200) that we have been training for the last 20 years. This is despite a growing population, an increasing disease burden and the emigration of key specialist skills. In this regard we support the Department of Health focus on training and increasing the number of healthcare professionals in the country.

Chief executive officer's review continued

Life Healthcare currently sponsors a trainee cardiologist at the University of the Witwatersrand and a cardiologist specialising in electro-physiology at the University of Cape Town. This is the first time this is being done in South Africa. However, to further increase the number of specialists being trained, Life Healthcare has entered into a partnership with the College of Medicines. The Group will contribute R78 million over six years to the college for the training of select specialists. Despite this additional funding, far more is required to dramatically increase the number of doctors being trained. We believe South Africa won't achieve this dramatic increase in doctor trainee numbers unless the private sector is involved.

Life Healthcare, through its Life College of Learning which has a geographical spread of 10 learning centres, trains over 1 000 nurses a year, with 1 444 nurses enrolled this year. The college is registered with the Department of Education as a private higher and further education institution, and accredited by the Council for Higher Education as well as by the Council for Quality Assurance in General and Further Education (Umalusi). We welcome government's intention to re-open 122 nurse training colleges as per the Health Resources Plan 2030 and remain committed to assisting government where we can. Our pharmacy management services' resource development programme has 12 pharmacist interns, 24 basic level pharmacist assistants and 10 post-basic pharmacist assistants in training, helping to increase the pool of qualified pharmacists. Collaborative efforts between the public and private sectors can increase these numbers further, which is essential as the country is facing a severe shortage of pharmacists. The ratio of pharmacists per 10 000 people is 2.4 in South Africa versus 5.8 in Brazil and the World Health Organization's (WHO) recommendation of 4.4 per 10 000.

National Health Insurance (NHI)

The long awaited Green Paper on National Health Insurance (NHI) was released in August and sets timelines of 14 years for the implementation of NHI, beginning in 2012. The first five years are likely to see the introduction of pilot projects across the country, more detailed analysis of the total costs involved, the legislative process and the first steps towards introducing some form of diagnostic related grouping (DRG) coding system.

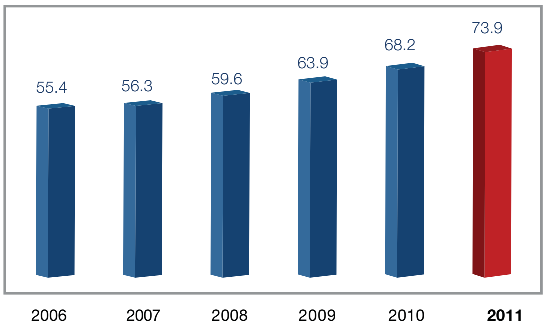
While the green paper recognises many of the challenges facing the healthcare system in the country, including improving the quality of care in the public sector, increasing the number of healthcare professionals and improving the standards of management within public facilities, more detail and clarification are required on how these obstacles are to be overcome in this short timeframe.

There is also acknowledgement that the private sector will have an important role to play in the NHI's success. We believe the private sector could contribute in numerous ways, from assisting government with the training of nurses, doctors and pharmacists to providing clinical services, management and IT systems support, quality enhancement programmes and ultimately delivering affordable healthcare to state patients through PPPs. We look forward to engaging government in this complex endeavour and coming up with sustainable, appropriate solutions that could make quality healthcare affordable to all South Africans.

Pricing regulations

In the absence of a National Health Reference Price List (NHRPL), the Department of Health has proposed collective bargaining as a potential solution. Although there is some merit to their proposal as regards medical schemes and doctors, due to the current unwieldy process that exists, we do not believe this is the case for hospitals. Their concept is based on the view that pricing power remains with the hospital groups and not the medical schemes. We do not subscribe to this view as five medical administrators (who negotiate on behalf of the medical schemes they administer) represent nearly 74% of Life Healthcare's turnover. Indeed, Discovery Health and GEMS represent 41% of our turnover. The consolidation of the medical scheme industry has been occurring for years and will continue to do so. We believe that collective bargaining as it has been proposed in the discussion document will stifle competition, protect inefficient schemes, and make ARMs and preferred network arrangements difficult to implement. Life Healthcare is, however, prepared to engage the Department of Health on this issue.

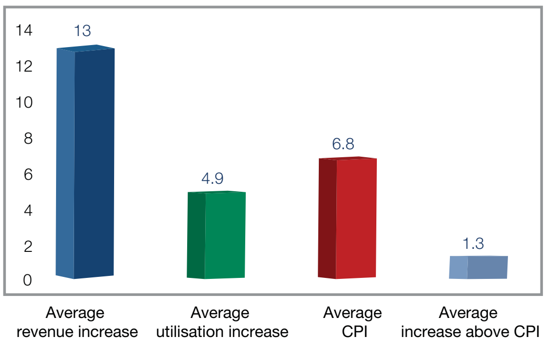
Revenue from top five medical scheme administrators
%



Hospital pricing

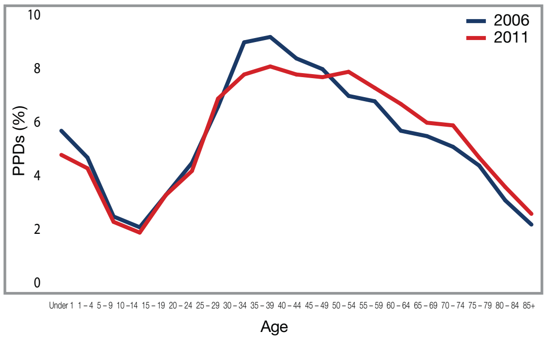
Much attention continues to focus on the high costs of private hospital care; however, the issue of pricing remains largely misunderstood for a number of reasons. Firstly, increases in hospital revenue are seen to be purely because of price increases and no reference is made to the increase in utilisation. The costs associated with new technology are also ignored. Our 2011 results, for example, show a 12.2% increase in hospital revenue. However, this is made up of a 5.4% increase in PPDs and a 6.5% price increase. There have been numerous studies showing the increasing disease burden in South Africa, medical schemes acknowledge the issue and the National Department of Health frequently refers to this issue. Yet there seems to be a reluctance to accept that this results in an increase in visits to hospitals.

Sustainability: pricing
2006 – 2011



Secondly, our private medical aid population is ageing and this results in more admissions to hospital and higher costs. The average cost per hospital admission for people aged over 50 years is 67% higher than for those of patients younger than 50 years.

PPDs per age category
%



Thirdly, there is a lack of accurate information within the public sector as to what hospital procedures actually cost. Reference is sometimes made to what the public sector charges for a particular procedure but this often has little bearing on what it actually costs. Finally, the costs of procedures are sometimes based on anecdote rather than the actual costs.

Providing affordable, accessible healthcare

With medical scheme contribution increases outstripping inflation by 2.5% over the last nine years, a mind shift amongst patients has taken place, with a new generation of patients willing to forgo some choice in return for more affordable medical cover. Life Healthcare's early commitment to medical schemes, offering preferred network options, means we now account for the largest market share of patients on these benefit packages.

Chief executive officer's review continued

We continue to look for ways to make private healthcare affordable and accessible to more South Africans, by engaging medical schemes to initiate innovative models to ensure more affordable hospital care. We remain committed to managing and containing costs as well as passing on a portion of the savings to patients through ARMs which consist of a mix of per diems, fixed fees and DRGs.

Public private partnerships (PPPs)

PPPs represent an untapped opportunity for providing quality healthcare at affordable prices to state patients. However, most current PPPs are co-location projects, where the private sector offers operational support, such as cleaning, security, maintenance and catering, but not the clinical management.

Life Esidimeni shows what can be achieved when synergies between the public and private sector are exploited. Provision of affordable healthcare to the low income sector requires solid primary healthcare as well as ensuring that patients access health services at the correct level. The result is that quality care in a community hospital setting (covering disciplines such as maternity, general surgery and internal medicine) can be provided at approximately a quarter of the cost charged by a typical acute private hospital.

Looking forward

We will continue to focus our growth strategy in South Africa and select offshore emerging markets. Investment in future bed capacity across our acute hospitals, acute mental health facilities, and rehabilitation units is planned in order to meet higher demand due to the increasing disease burden, ageing population, the increase in private medically insured lives as well as the preferred network arrangements negotiated with funders. Over the next year we plan to invest R686 million in capacity expansion projects excluding acquisitions, with the aim of increasing our number of beds by nearly 350.

We believe that our strategy of focusing on growth, efficiency and sustainability will again result in Life Healthcare being able to add value for our stakeholders and improve the quality of care offered to our patients.

My sincere appreciation to the executive team for their continued hard work and dedication as well as to the board for their guidance and support to Life Healthcare during the past year. I must also extend my thanks to all our staff for living the values and ethics of our organisation, to the doctors and other healthcare professionals for their support of Life Healthcare's facilities, to shareholders for their continued support and to our patients who are at the centre of everything we do.

Michael Flemming
Chief executive officer

Excellent financial results

The low inflationary environment and a strong currency resulted in a favourable procurement environment for consumables. This environment, combined with increased occupancy levels and the containment of central costs improved efficiencies, resulted in the normalised EBITDA margin improving from 24.73% in 2010 to 25.97% in 2011.

Life Healthcare continued to grow its business and improve operational efficiencies during 2011, delivering excellent financial results. Increased demand for services, as measured by paid patient days (PPDs) in the core hospital division, underpinned the results. The growth in PPDs led to higher bed occupancies, which together with the low international inflationary environment and strong local currency limited increases on imported items, and the control of costs resulted in improved operating efficiencies. The sound working capital management resulted in strong cash generation, facilitating the continued investment in facilities and the acquisition of a majority stake in Middelburg hospital and property (Midmed) during the fourth quarter of the financial year. The Group has low gearing and is in an excellent financial position to execute its future plans.

Trading results

Hospital PPDs increased by 5.4%. This increase was driven by:

- 1.84% from acquired beds and organic growth;
- 1.35% from preferred networks; and
- 2.21% from an increase in the length of stay, associated with the ageing medically insured population and growing disease burden.

Revenue increased by 11.7% to R9 812 million (2010: R8 786 million), with the hospital division contributing 93% (2010: 93%) and healthcare services 7% (2010: 7%). Hospital revenue increased by 12.2% as a result of the 5.4% in PPDs, a 6.5% increase in tariff and changes in case mix. The hospital division has expanded its acute rehabilitation and mental healthcare services, which grew their revenue by 20% during the year.

Chief financial officer's review continued

These lines of business, while representing 3% of the hospital division revenue, are underserviced areas. The healthcare services division's revenue was assisted by a strong demand for occupational health services and the stabilisation in the Life Esidimeni business following the completion of two contracts during 2010.

The low inflationary environment and a strong currency resulted in a favourable procurement environment for consumables. This environment, combined with increased occupancy levels and the containment of central costs, improved efficiencies, resulting in the normalised EBITDA (earnings before interest, depreciation and amortisation) margin improving from 24.73% in 2010 to 25.97% in 2011.

The Group continued to expand its facilities as well as upgrading existing facilities to ensure that we are able to meet increasing demand for hospital and associated services. The national footprint was expanded through the acquisition of a majority stake in Midmed in Mpumulanga and the new Life Piet Retief Hospital which will start admitting patients before the end of 2011. A total of 234 new beds were added to the business during 2011, increasing our portfolio to 7 916 registered beds (excluding associates). The Group invested R780 million during 2011 (2010: R813 million) comprising capital projects of R740 million (2010: R516 million) and acquisitions of R40 million (2010: R297 million). A further R686 million has been allocated for capital projects, excluding acquisitions, in the 2012 financial year. In total another 304 beds are expected to come on stream during the new financial year. In line with the Group's strategy to own key properties, hospital facilities previously rented at Life Springs Parkland Clinic, Life Anncron Clinic and Life Knysna Private Hospital together with additional buildings at Life The Glynnwood were acquired at a cost of R140 million. The Group now owns 83% of its hospital beds, with further acquisitions of selected rented properties planned.

Operating profits before taxation increased by 16.4% to R2 173 million (2010: R1 867 million) after amortisation of intangibles of R110 million (2010: R122 million) and retirement benefit surpluses of R2 million (2010: R105 million). The intangibles are amortised over a maximum period of 15 years.

R million	30 September 2011	%	30 September 2010
Normalised EBITDA			
Operating profit	**2 173**		1 867
Profit on sale of businesses	**–**		(10)
Additional receipt on previously disposed business	**(5)**		–
Gain on measuring of fair value of equity interest before business combination	**(92)**		–
Depreciation on property, plant and equipment	**299**		263
Impairment of intangible assets	**65**		–
Amortisation of intangible assets	**110**		122
Employee trust accelerated charge	**–**		36
Retirement benefit asset movement	**(2)**		(102)
Post-retirement medical aid movement	**–**		(3)
Normalised EBITDA	**2 548**		2 173
Normalised EBITDA as % of turnover	**25.97%**		24.73%

We continued to focus on improving the quality and efficiency of our processes, especially around administration systems and working capital management, which contributed to the cash generated from operations before interest and taxes of R2 562 million (2010: R2 233 million). This is an increase of 14.7% and represents 101% of normalised EBITDA.

The Group's effective tax rate was 28.6% (2010: 49.1%). The reduction in the effective tax rate is mainly due to the recognition in 2011 of the fair value adjustment relating to the acquisition of Midmed, which is non-taxable, and the 2010 results include charges relating to the initial public offering (IPO) comprising non tax deductible expenses and a secondary tax on companies (STC) charge of R322 million in respect of the share repurchase.

Earnings per share (EPS) increased by 91.6% to 123.6 cents per share and headline earnings per share (HEPS) increased by 88.2% to 119.5 cents per share. This increase was primarily due to the costs, including the STC charge in respect of the share repurchase, relating to the IPO and lower net financing costs following the refinancing of debt in May 2010. The normalised earnings per share increased by 28.7% to 119.3 cents per share, reflecting the trading performance and lower net finance costs.

R million	**30 September 2011**	Change %	30 September 2010
Normalised earnings			
Profit attributable to ordinary equity holders	**1 287**		664
Adjustments (net of tax):			
Profit on disposal of businesses	**–**		(9)
Additional receipt on previously disposed business	**(5)**		–
Gain on re-measuring of fair value of equity interest before business combination	**(92)**		–
Impairment of intangible assets	**54**		–
STC on listing	**–**		322
Employee Trust accelerated charge	**–**		36
Retirement funds	**(2)**		(76)
Listing costs	**–**		17
Normalised earnings	**1 243**	30,3	954
Amortisation of intangible assets	**79**		88
Normalised earnings excluding amortisation	**1 322**	26,9	1 042
Normalised EPS (cents)	**119,3**	28,7	92,7
Normalised EPS – excluding amortisation (cents)	**126,9**	25,4	101,2

Chief financial officer's review continued

Statement of financial position

The Group is in a strong financial position, owning 83% of its hospital beds and with net debt to normalised EBITDA of 0.66 times (2010: 0.92 times). This is well within the debt covenants, providing the capacity to undertake the strategic plans and investments.

The Group has good liquidity in its working capital. The Group has a working capital facility of R250 million and uncommitted revolving credit facility of R1 billion. In addition, negotiations are in progress to increase the funding facilities available to the Group. The Group uses interest rate hedges to manage part of its exposure to variable interest rate movements. This exposure is reviewed quarterly by the audit committee. Currently R750 million is hedged at a fixed rate of 8.18% until February 2012.

The Group is well covered in terms of the debt covenants:

Ratio	As calculated	Covenant
Total interest cover ratio (times)	10.1	3.00 (minimum)
Net debt to EBITDA ratio	0.66	3.00 (maximum)

Distributions to shareholders

The Group has revised its distribution policy. The distribution will be determined taking into account the trading results, financial position, commitments to third parties, and the requirements in respect of the business plans and investment opportunities, subject to the JSE Listings Requirements. The intention is to consider distributions twice annually. The board has approved a distribution to shareholders of 54 cents per share (2010: 29 cents) consisting of a dividend of 18 cents per share (2010: 29 cents) and a distribution of capital out of share premium, of 36 cents per share.

Distribution	Cents/share	R million
2011		
Interim	**31**	**323**
Final	**54**	**562**
Total	**85**	**885**
2010		
Interim	23	240
Final	29	302
Total	52	542

Roger Hogarth
Chief financial officer

Basis of presentation and accounting policies

These consolidated condensed financial results have been prepared in accordance with IAS 34, "Interim Financial Reporting" and in the manner required by the Companies Act of South Africa and Section 8.57 of the JSE Listings Requirements. The financial results have been prepared in accordance with those IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective or issued and early adopted as at 30 September 2011. The consolidated condensed financial statements should be read in conjunction with the annual financial statements for the year ended 30 September 2011 which have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

These financial results have been prepared under the supervision of Roger Hogarth (CA)(SA), the chief financial officer of the Group.

Annual financial statements

The Group's annual financial statements are featured on pages 111 to 215 of this report.

Chief financial officer's review continued

Segmental report

During the reporting periods all the operating segments operated in Southern Africa and therefore no geographical segments are presented.

Assets and liabilities are not reviewed on an individual segment basis but rather on a Group basis and are therefore not presented.

There are no inter-segment revenue streams.

R million	**Year ended 30 Sept 2011 Audited**	Year ended 30 Sept 2010 Audited
Operating segments		
Revenue		
Southern Africa		
Hospitals	**9 136**	8 140
Healthcare Services	**674**	636
Other	**2**	10
Total	**9 812**	8 786
Profit before items below		
Southern Africa		
Hospitals	**1 917**	1 595
Healthcare Services	**141**	118
Other	**191**	161
Operating profit before amortisation, disposals and impairment of intangible assets	**2 249**	1 874
Amortisation of intangible assets	**(110)**	(122)
Impairment of intangible assets	**(65)**	—
Profit on disposal of businesses	**—**	10
Retirement benefit asset	**2**	102
Post-retirement medical aid	**—**	3
Gain on remeasuring of fair value of equity interest before business combination	**92**	—
Additional receipt on previously disposed business	**5**	—
Operating profit	**2 173**	1 867
Fair value gains/(losses) on derivative financial instruments	**14**	(26)
Finance income	**37**	41
Finance costs	**(250)**	(342)
Share of associates' net profit after tax	**115**	100
Profit before tax	**2 089**	1 640

Operating profit before amortisation, disposals and impairment of intangible assets includes the segment's share of shared services and rental costs. These costs are all at market related rates.

Condensed consolidated statement of comprehensive income

for the year ended 30 September 2011

R million	12 months 30 Sept 2011 Audited	Change %	12 months 30 Sept 2010 Audited
Revenue	**9 812**	11,7	8 786
Other income	**102**		94
Operating expenses	**(7 838)**		(7 023)
Gain on remeasuring of fair value of equity interest before business combination	**92**		—
Additional receipt on previously disposed business	**5**		—
Profit on disposal of business	**—**		10
Operating profit	**2 173**	16,4	1 867
Fair value gains/(losses) on derivative financial instruments	**14**		(26)
Finance income	**37**		41
Finance cost	**(250)**		(342)
Share of associates' net profit after tax	**115**		100
Profit before tax	**2 089**		1 640
Tax expense	**(597)**		(805)
Profit after tax	**1 492**	78,7	835
Other comprehensive income			
Currency translation differences	**2**		(3)
Total comprehensive income for the year	**1 494**	79,6	832
Profit after tax attributable to:			
Ordinary equity holders of the parent	**1 287**	93,8	664
Non-controlling interest	**205**		171
	1 492	78,7	835
Total comprehensive income attributable to:			
Ordinary equity holders of the parent	**1 288**		661
Non-controlling interest	**206**		171
	1 494		832
Weighted average shares in issue ('000)	**1 041 523**		1 029 883
Earnings per share (cents)	**123,6**	91,6	64,5
Headline earnings per share (cents)	**119,5**	88,2	63,5
Diluted earnings per share (cents)	**123,6**	91,6	64,5
Diluted headline earnings per share (cents)	**119,5**	88,2	63,5
Headline earnings			
Profit attributable to ordinary equity holders	**1 287**		664
Headline earnings adjustable items (net of tax)			
Impairment of intangible assets	**54**		—
Gain on remeasuring of fair value of equity interest before business combination	**(92)**		—
Additional receipt on previously disposed business	**(4)**		—
Profit on disposal of businesses	**—**		(9)
Profit on disposal of property, plant and equipment	**(1)**		(1)
Headline earnings	**1 244**	90,2	654

Chief financial officer's review continued

Condensed consolidated statement of financial position

for the year ended 30 September 2011

R million	30 Sept 2011 Audited	30 Sept 2010 Audited
Assets		
Non-current assets	**6 775**	6 194
Property, plant and equipment	**3 753**	3 258
Intangible assets	**2 296**	2 220
Other non-current assets	**726**	716
Current assets	**1 693**	1 678
Other current assets	**1 293**	1 196
Cash and cash equivalents	**400**	482
TOTAL ASSETS	**8 468**	7 872
Equity and liabilities		
Capital and reserves		
Capital and reserves	**3 518**	2 849
Non-controlling interests	**867**	667
TOTAL EQUITY	**4 385**	3 516
Liabilities		
Non-current liabilities	**2 084**	2 566
Interest-bearing borrowings	**1 565**	2 024
Other non-current liabilities	**519**	542
Current liabilities	**1 999**	1 790
Other current liabilities	**1 539**	1 340
Current portion of interest-bearing borrowings	**460**	450
TOTAL LIABILITIES	**4 083**	4 356
TOTAL EQUITY AND LIABILITIES	**8 468**	7 872

Condensed consolidated statement of changes in equity

for the year ended 30 September 2011

R million	Total capital and reserves	Non-controlling interest	Total equity
Balance at 1 October 2010	2 849	667	3 516
Total comprehensive income for the year	1 288	206	1 494
Profit for the year	1 287	205	1 492
Other comprehensive income	1	1	2
Transactions with non-controlling interests	12	—	12
Non-controlling interests arising on business acquisition	—	128	128
Change in ownership that does not result in loss of control	—	16	16
Distribution to shareholders	(625)	(150)	(775)
Treasury shares	(6)	—	(6)
Balance at 30 September 2011	**3 518**	**867**	**4 385**
Balance at 1 October 2009	2 320	610	2 930
Total comprehensive income for the year	661	171	832
Profit for the year	664	171	835
Other comprehensive income	(3)	—	(3)
Share-based payment reserve movement	75	—	75
Deferred tax on share-based payment reserve modification	20	—	20
Transactions with non-controlling interest	(19)	—	(19)
Capital repayments to non-controlling interest	—	(28)	(28)
Distribution to shareholders	(530)	(86)	(616)
Issue of shares at listing	4 341	—	4 341
Share repurchase	(4 019)	—	(4 019)
Balance at 30 September 2010	2 849	667	3 516

Chief financial officer's review continued

Condensed consolidated statement of cash flows

for the year ended 30 September 2011

R million	12 months 30 Sept 2011 Audited	12 months 30 Sept 2010 Audited
Cash generated from operations	**2 562**	2 233
Income tax paid	**(617)**	(396)
Net cash inflow from operating activities	**1 945**	1 837
Net cash outflow from investing activities	**(688)**	(695)
Net cash outflow from financing activities	**(1 378)**	(788)
Net (decrease)/increase in cash and cash equivalents	**(121)**	354
Cash and cash equivalents – beginning of the year	**482**	101
Cash balances acquired through business combinations	**39**	27
Cash and cash equivalents – end of the year	**400**	482

Strategic issues

Growth	51
Efficiency	54
Sustainability	57
– Quality and clinical governance	58
– Environmental impact	63
– Human capital and relationships	65
– Transformation	65
– Employee empowerment and skills development	66
– Corporate social investment	70
– Stakeholders	72

Growth

Case study

Mental health – Life Glynnview

Specially designed facilities, a multi-disciplinary approach to treatment catering for the needs of all types of mental healthcare users, and internationally validated clinical programmes form the basis of the services provided at Life The Glynnview.

Life Glynnview

Life The Glynnview in Benoni offers 80 dedicated beds for general as well as adolescent mental healthcare. Life Glynnview caters for private mental healthcare users suffering from mental health disorders and psychiatric conditions across the entire spectrum of severity. In addition to voluntary admissions, Life Glynnview is the largest provider in the private sector of mental healthcare for assisted and involuntary admissions, as legally defined by the Mental Health Act. Completed in March 2011 at a cost of R43 million, the facility's indoor and garden areas have been designed to provide a therapeutic environment, conducive to the recovery and well-being of users.

Specialised approach

A team of nationally and internationally recognised psychiatrists treats users who receive comprehensive group as well as individual therapy. They are supported by a team of dedicated multi-disciplinary mental health professionals comprising mental health nursing practitioners, psychologists, occupational and physiotherapists, dieticians, general practitioners and social workers. Clinical efficiency and accountability is at the centre of the mental healthcare provision model, with users' mental health status scored against internationally validated outcomes measures.

Growth continued

Aquisitions/expansions

Our growth includes:

- **developing the breadth and depth of Life Healthcare's existing network**
- **expanding our coverage and penetration of the South African market, and**
- **positioning Life Healthcare to expand within the private Indian healthcare market.**

South Africa

Infrastructure expansion and organic growth

Life Healthcare has grown from four hospitals in 1983, to our current portfolio of 63 acute care facilities (comprising 57 which are majority owned by Life Healthcare and six in which the Group holds substantial minority ownership), with a total of 7 916 registered beds (excluding associates). We have expanded into acute mental healthcare, acute rehabilitation, renal dialysis, occupational healthcare and PPPs with government to provide healthcare to indigent patients.

Changing market conditions have dictated different strategies over time and our adaptability has proved successful in ensuring sustainable growth for our organisation. This growth is being achieved in the following ways:

- Capacity expansion within existing facilities
  - We add capacity to existing facilities through targeted brownfield expansion plans. This growth is generally lower risk, offering higher returns.
- The addition of new lines of business
  - We are actively pursuing our strategy of growing the niche markets of acute mental health, acute rehabilitation and chronic renal dialysis, and we have a strong pipeline of brownfield expansions, new buildings and acquisitions in these niche areas.
- Construction of new hospitals
  - By the end of 2012, we will have constructed an additional acute care hospital and two additional mental health facilities.
- Acquisitions
  - We will continue to capitalise on opportunities to acquire facilities that will complement our existing geographic network of facilities and service offerings.

Investment 2011

Capital expenditure and investments for the year amounted to R780 million and capital investment projects included the following:

Capacity expansion within existing facilities

- Life Anncron Clinic in Klerksdorp added three paediatric ICU beds, one ICU bed and three general ward beds.
- Life Wilgeheuwel Hospital on Johannesburg's West Rand added seven new ICU beds for R4.2 million.
- Life Faerie Glen Hospital in Pretoria was repositioned as a spinal and orthopaedic hospital at a cost of R17 million which included an increase of four high care beds.
- Life Suikerbosrand Clinic in Heidelberg added 20 new general ward beds for R14 million.
- Life Roseacres Clinic in Germiston added six neonatal ICU beds.
- Life St Dominic's Hospital in East London added six general ward beds as part of the re-configuration of the hospital, which included the relocation of the cardiac unit from Life East London Private Hospital and the opening of the new cardiac catheterisation laboratory.
- Life Beacon Bay Hospital in East London added six neonatal ICU beds.
- The addition of 36 medical beds at Life East London Private Hospital.
- Joint Medical Holdings (associate) added 31 new beds during 2011.

New lines of business

Acute mental health

- The R43 million, 80 bed mental health facility at Life Glynnview in Benoni was completed in March 2011.

Acute rehabilitation

- The 36 bed adult acute physical rehabilitation unit opened at Life Vincent Pallotti in October 2011. This is the seventh acute rehabilitation facility within the Life Healthcare network, representing 255 beds or nearly 60% of all private acute rehabilitation beds in South Africa.

Renal dialysis

- Renal dialysis units were opened in Life Mercantile Hospital (10 stations) in Port Elizabeth in January 2011 and at Life Vincent Pallotti Hospital in Cape Town (eight stations) in June 2011.

In the 2012 financial year, major capital investment projects will include:

Capacity expansion within existing facilities

- An additional 36 beds (12 ICU beds and 24 general ward beds) costing R27 million at Life The Glynnwood in Benoni.
- 26 extra beds and a new theatre complex at Life Eugene Marais Hospital in Pretoria, costing R58 million.
- At Life Empangeni Garden Clinic, the extension of the theatres and an additional 28 medical beds and five ICU beds, costing R21 million.
- At Life St Mary's Private Hospital in Mthatha, a new maternity ward and an additional 19 beds, for R17 million.

Construction of new hospitals

- Completion of the 45 bed Life Retief hospital in November 2011.

New lines of business

Acute mental health

- The R45 million, 80 bed mental health facility at Life St Joseph's adjacent to Life Entabeni Hospital in Durban opened in November 2011.
- The R35 million, 80 bed Life Poortview mental health facility on Johannesburg's West Rand will open in the first half of 2012.

These new units will significantly expand the geographic coverage of our mental health business and enable Life Healthcare to provide dedicated mental health facilities in Johannesburg, Durban, Port Elizabeth and East London. The number of dedicated mental health beds will increase to 360 in 2012.

Offshore expansion

Life Healthcare has adopted a cautious approach to expansion outside of South Africa's borders. Our strategy is to leverage our expertise and experience in select emerging markets with high growth potential. Key considerations include:

- whether we can add significant value;
- the growth of the private healthcare market;
- the fragmentation of the private hospital sector; and our ability to drive consolidation;
- expanding private health insurance;
- availability of key healthcare skills; and
- the regulatory environment.

The proposed Max Healthcare investment provides the Group with the opportunity to leverage its expertise in a high growth market. The Indian healthcare market is currently valued at US$62 billion and is expected to double by 2015. The private sector accounts for 80% of India's healthcare spend. The hospital market is highly fragmented with the top hospital groups representing less than 10% of private hospital beds. In addition, hospital insurance is growing fast and is expected to account for nearly 10% of hospital revenue in 2013.

Preferred provider networks

Life Healthcare took the view a number of years ago that apart from the GEMS, growth in the medical scheme market will be primarily driven by growth at the lower income end of the market, and that in this market opportunities exist for Life Healthcare and medical schemes to offer products that restrict members to particular options in terms of service providers. Although slow at first, growth in these network options has been significant over the last number of years, and these options are now firmly entrenched in the market. Discovery Key Care, the largest of these network options, has used Life Healthcare as the basis of its hospital network, and Life Healthcare estimates that it receives over 45% of the hospital spend of this option. This compares to the 27% market share that Life Healthcare has of the overall market. Life Healthcare also forms the basis of the hospital network for Delta, another Discovery network option, and expects to continue to enjoy the benefits of an increased market share from these network options.

Case study

Preferred provider networks

A focus on leveraging business efficiencies together with our ARM strategy, has enabled Life Healthcare to achieve a leadership position in the fast growing preferred provider network market.

Preferred provider networks

The private healthcare market has seen an increase over the last five years in preferred provider networks where a member's choice of hospital is limited in exchange for lower pricing. These preferred networks have provided Life Healthcare with an opportunity to increase the number of patients visiting Life Healthcare facilities and as a result increasing hospital occupancies.

To position the Group for preferred networks requires:

- an ARM pricing strategy which creates the right incentives for the Group;
- a clear and concise focus on cost of sales management and efficiency;
- leveraging our fixed cost base through increasing occupancies and brownfield expansion;
- driving efficiency programmes across the Group utilising improved systems and work processes; and
- gaining the support, input and buy-in of the Group's suporting doctors.

Information management

Life Healthcare continues to invest significantly in the latest information technology and systems to enable analysis of complex utilisation data. Aligned to our strategy of patient-centricity, which is passionately and meticulously focused on the patient, we recognise the need for our systems to support workflows and value streams aimed at continuously improving business efficiency.

Project Impilo

Project Impilo is a major, phased development of an updated hospital information system for our Group, and is replacing the iMeds system. The project comprises five modules, namely patient admissions, case management, billing, credit management and infection control, and is scheduled for completion by the end of 2013.

Impilo will equip our hospitals with patient-centric management information capability and is allied to increase process technology automation that focuses on continuous improvement while reducing costs without compromising on quality.

The case management module, together with the re-engineering of the case management process, was successfully implemented during 2011. This change enables a much more effective and efficient case management process, benefiting our patients and staff. It offers:

- easy classification of high priority cases;
- assignment and grouping of tasks aligned to hospital case management pools;
- identification of certain funder protocols and exclusions; and
- recognition and separation of predictables, reducing over case management.

The third module, billing, has been split into three parts: accommodation billing, dispensing, and theatre charges. The development of the accommodation module is almost complete and is scheduled for rollout early in 2012. The new Multi Touch system, which will manage and process accommodation charges, as well as create the platform to real time accommodation billing and will give the following benefits to the hospitals:

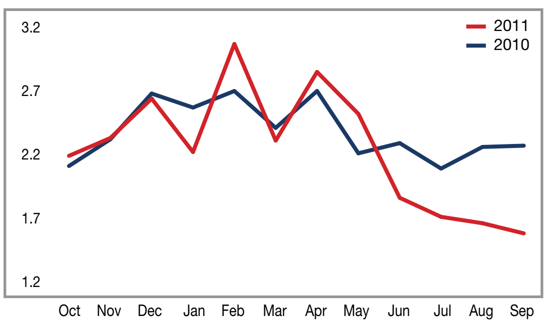
- Real time census management.
- Real time management of changes in level of care (LOC) and length of stay (LOS).
- Removes the dependency on tariff knowledge from the staff members.

Management and staff are committed to improving efficiency and reducing cost without comprising our quality care. This includes applying and implementing a methodology for driving sustainability and process improvement through effective value streams.

To ensure alignment to the new Impilo case management model, a complete re-engineering of case management was undertaken, which included a comprehensive review of our current staffing model and processes. The project benefits include:

- standardisation of processes and structures;
- effective utilisation of skilled resources;
- reduction in costs; and
- reduction in the billing cycle (IDSO).

Internal days sales outstanding (IDSO)



Efficiency continued

Business efficiency drives

Management and staff are committed to improving efficiency and reducing cost without comprising our quality care. This includes applying and implementing a methodology for driving sustainability and process improvement through effective value streams.
The billing process project aligned to Impilo will look at ways of reducing our internal days outstanding to zero days and presenting a bill on discharge. This will include improving current administrative and operational processes and restructuring current staffing models to fit our purpose of patient quality care.

Alternative reimbursement strategy

Life Healthcare is of the view that traditional fee for service billing creates the incorrect incentives for providers of healthcare services, and has adopted an alternative reimbursement strategy. Alternative reimbursement structures currently contribute approximately 65% of the acute hospitalisation revenue and take the form of either fixed fees or per diems. Under theses reimbursement structures, Life Healthcare is incentivised to reduce the utilisation and price of stock covered under these contracts.

Life Healthcare has invested substantial resources in analysis and reporting to ensure that the risk taken under these contracts is managed appropriately throughout the business and to enable operations to take advantage of opportunities that these arrangements offer. Life Healthcare has over seven years of data which is used to validate ARMs and also to identify where savings can be generated. Savings generated under these contracts are shared with the medical schemes, thus creating a partnership and aligning incentives with the medical schemes.

Life Healthcare has actively managed the increase in cost of sales to below revenue increase, in order to sustain business viability while ensuring quality affordable healthcare.

Cost of sales management

Effective product management is vital in order to sustain any healthcare business in the current economic environment. Life Healthcare has a well established evidence based formulary that focuses on reducing costs without compromising on quality. The development of a dynamic product classification system enabled procurement to effectively analyse data and enhance the quality product selection process.

The pharmaceutical procurement strategy provided substantial value through product management, together with the exploration of alternative business opportunities. Due to the aggressive management of price increases, Life Healthcare has again successfully contained annual price increases.

Life Healthcare's analysis capability has facilitated the development of numerous reports to assist the business in maximising product cost reduction opportunities.

Case study

Cardiac excellence project

Life Healthcare's adoption and implementation of internationally proven clinical interventions which reduce morbidity and mortality in patients with acute myocardial infarction (AMI) is showing positive results.

Cardiac excellence

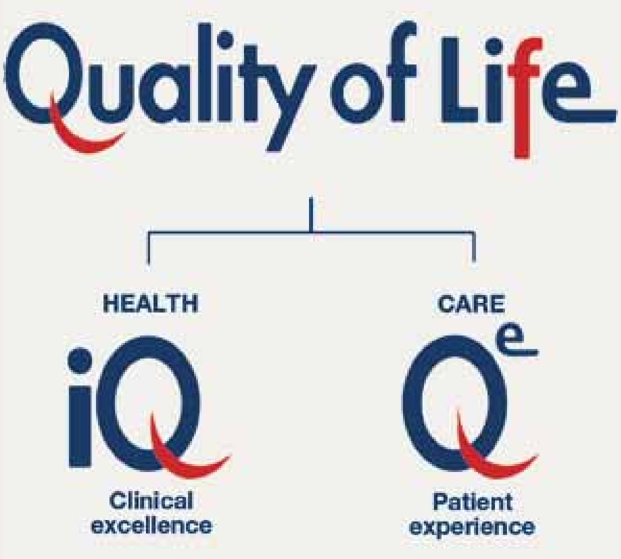
Life Healthcare has adopted and implemented the acute myocardial infarction (AMI) bundle, which comprises a number of clinical management interventions for patients coming into our cardiac facilities with acute chest pain.

In addition to the clinical appraisal, the bundle includes measures such as the performance of an electrocardiogram (ECG), administration of aspirin on arrival, the use of beta-blockers or ACE-inhibitors, the infusion of anti-thrombotic agents, doing a percutaneous coronary intervention (PCI) in a cardiac catheterisation laboratory, as well as prescribing aspirin, beta-blockers and statins on discharge.

The AMI bundle was launched successfully in 2008, in Life Healthcare hospitals with fully-fledged cardiac facilities and services. Adherence to the AMI bundle was assessed from the launch thereof, and outcomes were measured and reported on monthly. In September 2010, a formal evaluation of the impact of the AMI bundle was performed on the approximately 2 400 AMI patients whose records had been captured. Specifically, the aim was to determine if adherence to the AMI bundle had any effect on AMI mortality.

The findings highlighted, among others, that the use of beta-blockers, anti-thrombotic agents and doing a PCI on patients in a cardiac catheterisation laboratory within 90 minutes, significantly reduced mortality from AMI in Life Healthcare hospitals. This year, the Life Healthcare Group's AMI mortality rate has reduced from 7.8% in 2010 to 6.7% in 2011.

Sustainability continued



- › Infection control
- › Clinical governance
- › International benchmarking
- › Clinical improvement focus areas
- › Patient health and safety

- › Patient satisfaction
- › Staff at the heart of quality
- › Customer loyalty

Quality and clinical governance

Life Healthcare Group's vision is to be a world-class provider of quality healthcare for all. Quality is one of our deeply rooted core values and a key business strategy. Our approach to quality combines the concept of personal care and patient centredness with excellence in clinical care and service delivery at all levels. This balanced approach to quality is entrenched throughout the Group through our focus on clinical excellence (iQ), to ensure that patients receive world-class clinical care, and the patient experience (Q^e), which addresses the care needs of patients and their families.

Quality management system

Life Healthcare is the only organisation in South Africa to have achieved multi-site ISO 9001:2008 certification. Our quality management system is underpinned by these ISO 9001 standards, which set out specific requirements for managing quality and promoting compliance with procedures, thereby creating a culture of error prevention and continuous improvement. All Life Healthcare hospitals have met the standards based on yearly internal audits and, in addition, surveillance audits are conducted over a three-year cycle by an independent external ISO certification agent. This certification confirms Life Healthcare's standing as a world-class provider of quality healthcare.

The Life Healthcare quality management system is sustainable and consistent across all hospitals. It is based on factual assessment through continuous monitoring, measurement, management and reporting. Hospitals are assessed on their overall quality management, leadership responsibilities and quality aspects across the nursing, infection prevention, rehabilitation, pharmacy, patient services and engineering departments. Results are benchmarked and form part of the performance management of senior hospital leaders.

The National Department of Health has developed a set of national core standards that apply to both public and private hospitals. Life Healthcare has matched these standards to our existing quality management system audit criteria and meets the requirements of the National Department of Health.

Group quality scorecard and clinical outcomes

Quality scorecard

To ensure that quality in Life Healthcare is consistent and measured across all our units, we have developed a quality scorecard which reflects measurement indicators for the clinical excellence as well as the patient experience components of our quality programme.

Quality scorecard objectives and goals are reviewed annually to incorporate feedback from clients/patients and their families and to identify trends regarding major risks in our service delivery process and our clinical outcomes improvement objectives.

The quality scorecard measures patient/client satisfaction, patient and employee health and safety, clinical outcomes and environmental management, and reflects the Group average (shown below) which focuses attention and effort on continuous improvement in a manner that is measurable, quantifiable and sustainable.

Description	2011	2010	Measure
Patient experience			
Net promoter (highly likely to recommend)	**94.8%**	94.6%	–
Overall customer satisfaction	**98.2%**	98.0%	–
Positive comments	**93.6%**	94.3%	–
Health and safety measures			
Patient incident rate	**4.17**	4.27	Per 1 000 PPDs
Employee incident rate	**7.10**	7.25	Per 200 000 labour hours
Total incident rate (excluding employee incidents but including patient, property, environment and external stakeholders)	**5.77**	5.82	Per 1 000 PPDs
Clinical outcomes			
Infection prevention rates			
Healthcare associated infections (HAI)	**0.78**	1.06	Per 1 000 PPDs
Ventilator associated pneumonia (VAP)	**6.00**	8.81	Per 1 000 ventilated days
Surgical site infections (SSI)	**1.09**	1.26	Per 1 000 theatre cases
Central line associated bloodstream infections (CLABSI)	**1.15**	2.55	Per 1 000 central line days
Catheter related urinary tract infections (CAUTI)	**0.95**	2.25	Per 1 000 catheter days
Cardiac excellence (AMI)			
Aspirin given on arrival	**92%**	91%	–
Aspirin given on discharge	**99%**	98%	–
Mortality rate	**7.0%**	7.4%	–

Sustainability continued

Patient experience (Q^e)

Customer satisfaction

Life Healthcare measures patients' perceptions of the quality of our hospital care through a device called Q-evaluator, which is an interactive electronic patient monitoring and feedback system adopted from international customer loyalty measurement trends. This measures our patients' perception across a number of service aspects specific to individual departments and units within our hospitals, and enables management to gauge service levels and to bring focus to service recovery.

On average the Group receives more than 1.3 million responses per year on this system, which means that each patient averages two opportunities to provide feedback during hospitalisation. The overall customer satisfaction score for 2011 was 98.2%, achieving a Group goal of 98% for all hospitals.

This system is supported by a manual comment card process that patients and their families utilise to provide qualitative feedback and comments. During the year over 240 000 comment cards were returned, of which 94% contained positive feedback. Negative comments and complaints are treated with priority for quick resolution and service recovery.

Life Healthcare is expanding its complaint management system and will in future have the capability to report on customer complaints and comments electronically across the Group, as well as to identify trends and implement remedial action in the spirit of positively increasing our patient experience.

Net promoter score

Life Healthcare utilises this measure as the overall indicator of customer satisfaction. This loyalty measure is based on a single question: ***"How likely is it that you would recommend Life Healthcare to a friend or colleague?"*** A customer response indicating a high likelihood of recommending Life Healthcare is indicative of a patient whose needs and requirements have been met and such a patient is known as a promoter. A patient who is undecided is known as a passive and one who is unlikely to recommend Life Healthcare is known as a detractor. To achieve the net promoter score, the passives are ignored and the detractors subtracted from the promoters. During 2011, the overall net promoter score achieved by the Group was 94.8% against a Group goal of 95%.

Health and safety measures

Key to the Life Healthcare quality management system is a focus on addressing the major risks within its hospitals. Linked to this is a focus on preventative action. To ensure a continuous reduction in patient and employee incidents, Life Healthcare has implemented an alerts system, which in essence records the near misses within our service delivery process. This alerts system includes the identification of near misses and the immediate reporting of these to ensure that quick and effective preventative action is taken. We are happy to report that our alerts system has produced positive results this financial year, with a substantial increase in alerts and therefore a reduction in our patient and employee incidents.

Patient health and safety

All patient incidents or adverse events are reported and fully investigated by the responsible managers at both hospital as well as Group levels, where applicable. Corrective action is implemented to avoid recurrence or similar incidents from occurring in other units.

Through our electronic reporting system, Life Healthcare is able to categorise the incident by type, business unit and department, which allows statistics to be analysed in detail and trends identified at Group level, allowing for a factual approach to management of incidents and implementation of preventative measures.

The overall patient incident rate has decreased from 4.27 per 1 000 PPDs in 2010 to 4.17 per 1 000 PPDs in 2011. The overall patient incident rate is measured as a ratio of the number of incidents per 1 000 paid patient days. Two internationally accepted high risk areas receive specific and continuous management and attention at all hospitals. These are medication incidents and slips and falls.

Measure per 1 000 PPDs

	2011	2010
Overall patient incident rate	**4.17**	4.27
• Medication incident rate	**2.04**	2.00
• Slips and falls incident rate	**0.72**	0.71

Medication incidents

Life Healthcare continues to review all medication related incidents and involves the national nursing and pharmacy specialists, quality specialists and medical directorate in order to implement appropriate solutions to address identified trends. During the latter part of the year, Life Healthcare introduced a medication administration bundle, which contributed to a reduction in medication related incidents from the first to the fourth quarter.

Managing slips and falls

Globally, hospitals report that slips and falls cause the most common and serious injuries in hospitals. During our admissions and our patient assessment process, our nurses identify high risk patients and include preventative measures in the patients' care plans. We acknowledge that this is an area where continued focus and preventative action is required.

Employee health and safety

It is the responsibility of Life Healthcare and its senior hospital leaders to strive to minimise the potential impact of hazards in our environment and to prevent employee injuries in their daily operational activities. Annual risk assessments and periodic safety inspections are conducted to identify significant risks. This includes assessments of all pathogens that may cause disease and to which our staff may be exposed. There are various ways in which risks are mitigated; for example, by the use of personal protective equipment or isolation facilities, infection control precautionary measures, vaccines or prophylactic treatment.

We have trained incident investigators in all our hospitals who will report and investigate all occupational health and safety incidents to determine their root causes. Corrective actions are implemented to address the causes and prevent the recurrence of similar incidents. As with patient incidents, employee incident trends are monitored throughout the Group.

Sustainability continued

All new employees receive quality induction and training in health and safety awareness as well as in infection prevention and control. Certain employees act as health and safety representatives and link nurses who report to health and safety and infection control committees monthly.

Continued safety awareness training and campaigns from a Group as well as hospital level have resulted in a reduction in overall employee incidents across the Group. The needle-stick and sharps injury awareness campaign in particular, which was introduced towards the latter part of the year, has shown positive results leading to a reduction in the overall employee incident rate.

Measure per 200 000 labour hours

	2011	2010
Overall employee incident rate	**7.10**	7.25

Clinical excellence (iQ)

Life Healthcare focuses its clinical excellence on the following areas:

- Ensuring clinical care is provided by appropriately qualified, registered and competent practitioners.
- Continuously monitoring and evaluating patients' clinical care through regular clincal practice audits.
- Implementing evidence based practices to improve patient outcomes.
- Systematically collecting and analysing Group wide data on patient visits, hospital stays and outcomes to determine changes and trends.

Clinical outcomes improvement

Under the guidance of our medical directorate, and with the co-operation of our supporting doctors, we have implemented proven interventions and continue to measure our compliance to international evidence based practices. The Cardiac Excellence initiative which has at its foundation the work done by the Institute for Healthcare Improvement (IHI), Canadian Safer Healthcare Now AMI campaigns and the American Alliance for Cardiac Care Excellence (ACE) is one such initiative. In addition, we have leveraged off the infection prevention interventions of the IHI and prevention of healthcare associated infections in line with the World Health Organization (WHO) World Alliance for Patient Safety initiatives.

Healthcare associated infections (HAIs)

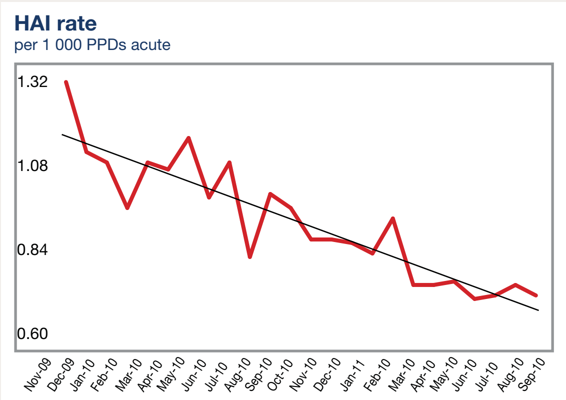
According to the WHO patient safety initiatives, HAIs remain the most frequent, costly and life threatening event in healthcare facilities. Life Healthcare's infection prevention and risk management system involves all relevant functions within the business in the identification and prevention of these infections. Functions involved include nursing, our Life College of Learning, procurement, hospital services, operating theatres, sterile services, engineering (clinical, operations and building projects) as well as occupational health.

USA estimates suggest that there are approximately 4.5 infections per 100 admissions. In reducing the incidence of HAIs, Life Healthcare continues to experience excellent results with the implementation of a bundle approach.

A bundle is an evidence based, well researched intervention implemented together for all patients, and has been proven to reduce infections in the following fields:

- Ventilator associated pneumonia (VAP).
- Central line associated bloodstream infections (CLABSI).
- Surgical site infections (SSI).
- Catheter related urinary tract infections (CAUTI).

The graph opposite indicates the success which Life Healthcare continues to experience in the reduction if its infection rates through the continuous measurement and monitoring of compliance to infection prevention bundle interventions.



Cardiac excellence

Following an intensive study of local and international guidelines, and wide consultations with cardiologists on best practices in the management of AMI, Life Healthcare adopted an AMI bundle, which is a number of clinical management interventions for patients coming into our facilities with acute chest pain.

In addition to the clinical appraisal, this bundle includes measures like the performance of an ECG, administration of aspirin on arrival, the use of beta-blockers or ACE-inhibitors, the infusion of anti-thrombotic agents, doing a PCI on the patient in a cardiac catheterisation laboratory as well as prescribing aspirin, beta-blockers and statins on discharge.

The AMI bundle was launched successfully in 2008, in Life Healthcare hospitals with fully-fledged cardiac facilities and services. Adherence to the AMI bundle was assessed from launch and outcomes were measured and reported on monthly. In September 2010, a formal evaluation of the impact of the AMI bundle was performed on the approximately 2 400 AMI patients whose records had been captured. Specifically, the aim was to determine if adherence to the AMI bundle had any effect on AMI mortality.

The findings highlighted, among others, that the use of beta-blockers, anti-thrombotic agents and doing a PCI on AMI patients in a cardiac catheterisation laboratory within 90 minutes, significantly reduced mortality from AMI in Life Healthcare hospitals. This year, the Life Healthcare Group's AMI mortality rate was reduced to 6.7% from 7.8% in 2010.

We are encouraged by this result and are currently implementing the AMI bundle in further Life Healthcare hospitals which we determine to be feeder hospitals.

Environmental impact

Life Healthcare acknowledges its responsibility in actively reducing its environmental risks and impacts not only to protect natural resources for future generations, but because it is essential for the planet, good for employees and the public.

Environmental management system

Life Healthcare is embarking on the implementation of an environmental management system, necessary from a legal and external reporting perspective as well as an economic and environmental perspective.

Life Healthcare has been classified as a low impact organisation in environmental terms. However, we bear responsibility for the environmental, health and safety consequences of our medical services. Our environmental obligations are managed through regular safety, health, environmental and quality audits.

We endorse the need to manage the consumption of our natural resources in a sustainable manner, to conserve energy and water, and to recycle in an effort to reduce our carbon footprint in line with international best practice.

Sustainability continued

Sustainability projects

Aside from our broader environmental management strategy, Life Healthcare is embarking upon a number of sustainability projects over the short term, focusing on managing and reducing the Group's energy consumption, reducing carbon emissions, reducing water consumption and recovering waste water. These projects include the following:

Reducing energy consumption

Life Healthcare aims to reduce its energy consumption. Current utilisation is approximately 168 328 736 kW hr per annum. The majority of the utilisation comes from heating, ventilation and air-conditioning at 40%, followed by water heating at 30%, lighting at 20% and other uses at 10%.

Life Healthcare has the ability to report on energy consumption across the Group. This has resulted in the creation of benchmarks and the development and implementation of conservation initiatives. Fifteen Life Healthcare hospitals will be incorporated into Phase I of the energy reduction project, with initiatives such as energy efficient lighting systems and occupancy sensors being implemented and behaviour change around degree settings of air-conditioners in our operating theatres being encouraged.

Reducing carbon emissions

Use of R22 refrigerant gas, which has been outlawed by the Montreal Protocol, will be phased out in Life Healthcare and replaced with a more appropriate gas (ie R134a) which will reduce our CO_2 emissions considerably. The same 15 hospitals as above will participate in Phase I of this sustainability project.

Reducing water consumption and recovering waste water

Life Healthcare consumes 1.56 billion litres of water per annum. Of this our autoclaves consume 125 million litres. Autoclave water will in future be recycled – not only will this reduce water usage across the Group, but the energy to heat the water can be recovered in heat exchangers.

Healthcare waste management

The Waste Act was enacted to protect health and the environment by providing reasonable measures for the prevention of pollution and ecological degradation. Facilities that generate medical waste may store such waste for short periods of time. Life Healthcare is sensitive to the potential impact that waste generated through our hospitals' activities could pose to the environment and to public health if not correctly handled, disposed of or destroyed. Waste includes infectious waste, drug waste resulting from cancer treatments, waste from the usage of X-rays, cleaning concentrates, diesel fuel or motor oil which represent a danger to the soil or groundwater, and chemicals such as those used in anaesthetics.

The healthcare waste industry in South Africa has a history of illegal dumping and insufficient incinerators, and contingency plans in the industry are not always effective due to lack of permitted and legally compliant treatment facilities. Following a report of illegal dumping in Welkom and, in order to ensure legal compliance by service providers in the disposal or destruction of waste, as well as tracking and tracing thereof, the Group contracted with a team of legal environmentalists to confirm by audit, that the Group was dealing with compliant service providers. Results indicated that the latest waste management tender process had resulted in a sensible granting of the tender based on limited choices of service providers within the South African setting.

A longer term solution that the Group is considering is to review the option whereby Life Healthcare assists in the capacity building in the industry. Life Healthcare is committed to reducing the amount of waste generated. All facilities have recycling initiatives and training is provided to enable staff to reduce the amount of waste through correct segregation.

Human capital and relationships

Human capital is vital to high quality healthcare and is at the heart Life Healthcare's operations and quality patient care. Life Healthcare recognises that the shortage of critical skills globally, particularly in healthcare, makes retention, development and motivation of employees a priority. We are a respected employer that strives to attract and retain calibre people, supporting and developing our employees. Life Healthcare provides a range of benefits that focus on recognition and reward, personal support, education and career development.

In line with business requirements, we develop our employees as leaders and competent professionals as part of the Life Healthcare team, while ensuring that their contribution to the Group is valued. Life Healthcare complies in all material respects with the Basic Conditions of Employment Act, the Labour Relations Act, the Employment Equity Act and the Skills Development Act, and is committed to achieving various employee related transformation targets.

The group employs 13 688 permanent staff as well as 525 sessional staff – see table below:

Year ended 30 September	2011	2010
Administrative employees	**2 738**	2 700
Nursing personnel	**9 181**	9 095
Pharmacy employees	**274**	270
Rehabilitation employees	**244**	240
Healthcare services employees	**1 061**	1 032
Other	**274**	189
Temporary personnel	**525**	498
Total employees	**14 213**	14 024

* *This excludes employees contracted through professional agencies*

Transformation

Life Healthcare is committed to sustainable transformation and aligns itself with the Codes of Practice under section 9(1) of the Broad-Based Black Economic Employment Act (Act 52 of 2003). Transformation and sound corporate responsibility strategies are fundamental to our business ethos and promote an equitable and non-discriminatory culture within the group.

Progress in each hospital or business unit is monitored against measurable targets. Our staff profile reflects our transformation drive, with 11 500 female personnel and 8 200 black personnel. Our progress is reviewed at monthly executive management meetings and this ensures that employment equity, legislative compliance and numerical target levels are set on a national basis in consultation with executive management, the employment equity steering committee, and consultative forums in the hospitals.

Employment equity

BEE participation at group level remains a strategic priority, particularly due to the shareholder changes post listing. The shareholder profile is contained in Annexure C on pages 206 and 207.

Life Healthcare's post listing empowerment rating, conducted by EmplowerLogic, is being finalised.

Life Healthcare espouses equal opportunity and fair treatment and strives for a transformed employee composition. The group has sound BEE credentials and a solid track record of attracting and advancing historically disadvantaged individuals (HDIs). Life Healthcare exceeded its BEE targets for the year. HDIs in the group accounted for 67% of employees.

Sustainability continued

Employee empowerment and skills development

Life Healthcare acknowledges the need to have a trained and skilled workforce and has made a considerable investment in education, training and development to create competent and motivated employees who will deliver quality service. The executive management team conducts monthly reviews of the training plans within the business, and further education leads to opportunities for career progression.

The Life College of Learning offers programmes in management development, hospital management, health sciences and life skills, as well as ongoing professional training of nurses. The college had another year of excellent results in the registered examinations, reflecting the professionalism of our clinical and management educators. Our training and personal development initiatives for staff at all levels are designed to develop and progress the talent within the Group.

Throughout the year, and across the Group's operations, workplace skills training events took place. All employees are inducted in a process which includes competency based training. New courses were developed in health sciences, incorporating occupational therapy assistant and occupational therapy technician modules. During the year the Life School of Health Sciences, which is part of the college, liaised with key stakeholders in developing qualifications for operating theatre assistants and institutional care workers, and the draft qualifications have been submitted to the South African Qualifications Authority. Twelve operating theatre technicians qualified in 2011. They are a new cadre of healthcare workers who assist nurses in the operating theatre.

Several public sector nurses and previously disadvantaged individuals have enrolled at the Life College of Learning. Close ties are maintained with the Health and Welfare Sector Education and Training Authority (HWSETA) and our Group is currently providing 82 nursing learnerships including skills development and basic training to people from previously disadvantaged communities. The Life School of Management, as part of the college, continues with its accreditation with the UK based Institute of Leadership and Management (ILM) to offer the Front Line Management Certificate, and 117 participants graduated during the year. 16 trainee managers completed the group's second hospital management programme.

Recognising the importance of education, Life Healthcare also provided 110 staff bursaries and 103 bursaries for employees' children to study for a tertiary qualification. On merit, managers may be offered education at master's degree level. The total contribution for these bursaries in 2011 was R2.5 million. We have also developed a pipeline of critical skills for our hospitals through the Life College of Learning.

As part of the International Nurses' Day celebrations, Life Healthcare distributed a Passport to Life booklet to all nurses outlining the Group's Gentle approach. The approach was adopted to reinforce professionalism in nursing as well as emphasizing the caring and compassion aspects of nursing. The booklets are also given to all staff joining Life Healthcare in an effort to sustain and reinforce the Gentle culture of nursing at Life. Gentle is an approach which we developed for nursing and primarily relates to how we interact with our patients, as outlined on the following page.

‘G’ **Greet all patients**

- Greet patients appropriately
- Demonstrate good manners

‘E’ **Engage your patients and their families/ significant others**

- Communicate effectively with patients and their relatives
- Be approachable
- Allow them to ask questions

‘N’ **Nurse every patient with pride**

- Demonstrate a caring attitude (touch, TLC, fluff pillow)
- Create safe moments for patients
- Make the patient feel good

‘T’ **Teach your patients about their condition and developments**

- Give complete and accurate information
- Educate patient and family on condition, medication, wound care

‘L’ **Lead the nursing care at all times**

- Be clinically competent
- Update your knowledge
- Better your best

‘E’ **Embrace patients of all groups, irrespective of race, religion or status**

- Respect all patients
- Be sensitive to diversity in terms of culture, language, and religion

Training of pharmacy professionals

Life Pharmacy Management Services (LPMS) is committed to the training and development of pharmacy professionals. In 2011 there were 12 interns – 75% of them from designated groups – who were placed in our pharmacies and participated in our comprehensive intern development programme. Three of these interns are students from our pharmacist bursary programme. When these young pharmacists qualify at the end of the year and move into community service, they will become part of the LPMS In Touch programme. Through this programme, LPMS maintains communication with the interns and provides them with support during their community service year.

The training of pharmacist assistants is also a focus for Life Healthcare, particularly in the light of the critical pharmacy professional skills shortage. There are 24 basic level and 10 post basic pharmacist assistants in training in our pharmacies this year, with over 70% being from designated groups.

A senior pharmacist development programme was initiated this year, with 20 of our senior pharmacists participating in this valuable process. The content has recently been expanded and formalised and our pharmacy management development programme will start early in the new financial year. We continued our pharmacy continuing professional development (CPD) programme in 2011. Pharmacy staff completed 568 online training interactions in modules developed for them by LPMS with specific focus on business and clinical objectives.

Employment benefits

Retirement funds

Life Healthcare operates two defined contribution fund retirement funds:

- The Life Healthcare Provident Fund (LHC Provident Fund)
- The Life Healthcare DC Pension Fund (LHC DC Pension Fund)

Membership detail of the DC funds is as follows:

- 10 345 are provident fund members.
- 667 are pension fund members.
- 2 086 are dual fund members (provident and pension funds).

Sustainability continued

All new employees join the LHC Provident Fund or may opt for dual fund membership, which channels employee contributions to the LHC DC Pension Fund and employer contributions to the LHC Provident Fund. In addition, the Company operates two defined benefit funds which have been closed to new membership since 1996. The Life Healthcare DB Pension Fund provides retirement benefits for approximately 220 active members and 320 pensioners.

The Company supported retirement funds offer group life cover and disability benefits to members. Both permanent disability and death are covered by lump sum payments which are underwritten by an insurer. The standard cover for new employees is three times annual salary death and three times annual salary disability cover. Some historical arrangements to this standard cover exist.

The Company has, as a result of historical acquisitions, been required to rationalise and consolidate a large number of retirement funds. This process is largely complete, but the liquidation and/or de-registration of funds will take time to complete.

Allocation and retention of employees are bolstered through fair representation in the workplace, structured succession planning, and competitive remuneration and compensation benefits. The Group offers a choice of medical aid cover, including a basic option for lower income staff, while a generous subsidy is offered to employees who are members of a medical aid supported by the Group. Life Healthcare introduced a life stage investment model which has assisted in the appropriate management of benefits for employees approaching retirement.

A wellness programme encourages and assists employees to manage their physical, mental and financial well-being. It extends to family members and has been enthusiastically embraced. We have contracted with an external service provider, ICAS, to provide a confidential support and information service to which employees and their family members have access. The service includes trauma debriefing, family and personal counselling, advice on legal and financial management, and substance abuse support. The programme is measured quarterly and is well utilised.

The Group has engaged the services of an external service provider to assist certain employees with the judicial management of their indebtedness. Response to this support has been very positive. Life Healthcare maintains competitive remuneration policies, monitored to respond to the developments in the market and providing appropriate pay and benefits for personnel in certain positions where the group faces shortages.

Healthcare professionals recruitment and retention

The global shortage of medical professionals has been well documented and the chronic shortage of skilled workers in South Africa is of national concern. The ability to recruit and retain staff of a high calibre is a critical success factor in our competitive healthcare industry and is vital to the provision of quality care.

Life Healthcare currently sponsors two fellowships for cardiology, at the University of the Witwatersrand and University of Cape Town. The fellowship at the University of Cape Town will enable the training of a cardiologist in diagnosing electrophysiological conditions of the heart and performing surgery on patients suffering from conditions. Electrophysiology, the fastest growing field within cardiology worldwide, relates to rhythmic disorders of the heart and this is the first time in South Africa that a cardiologist is being trained in this specific field.

Doctors

Life Healthcare depends on doctors and other healthcare professionals to provide clinical services, as patients can only be admitted to our hospitals on the instruction of an admitting doctor. The reputation, expertise and demeanour of the doctors and other healthcare professionals who provide clinical services in our hospitals are therefore instrumental in the Group's ability to attract patients. The doctors who are affiliated with, and use, Life Healthcare's facilities, are not employed by the Group. Exceptions to this are the 120 doctors in our rehabilitation units and hospitals or clinics in the healthcare services division, whom we employ under special dispensation from the Health Professions Council of South Africa (HPCSA).

Nevertheless, Life Healthcare enjoys a strong symbiotic relationship with the doctors practising at our facilities. These doctors benefit from our high quality infrastructure of personnel, facilities, technology and equipment. In addition, our excellent relationships with medical schemes including preferred network agreements, provide a constant flow of patients. Investment opportunities are offered that allow doctors at certain hospitals to own equity in Life Healthcare and/or the hospitals where they practise.

Doctors have a strong consultative role in the operation of our hospitals, participating in the medical advisory committees and/or hospital boards. During the past financial year, Life Healthcare has experienced a low rate of turnover of doctors practising at our facilities.

Nurses and pharmacists

Life Healthcare is committed to ensuring continuity of high quality nursing and pharmacy care through the adoption and implementation of innovative strategies to recruit, train, develop and retain our nurses and pharmacists. In excess of 15% of our total workforce is now involved in training and education initiatives through the Life College of Learning and universities. We have stepped up our recruitment of specialised and experienced nursing and pharmaceutical professionals in particular, and for the past three years we have recruited nurses from India to augment our nursing complement.

Employee share scheme

An employee investment structure for investing in Life Healthcare is under consideration. This is a replacement for the historical employees' trust.

Employee engagement and labour relations

Life Healthcare is committed to creating and maintaining sound labour relations. Formal and informal communication channels are used to shape behaviour and share information. These occur at both national and local level in a consultative style. Regular evaluation of our policies and procedures ensures fair treatment and a safe work environment. An employee climate survey is conducted every second year. Last year's results continue to be implemented and reviewed to mitigate areas that need attention and improvement. Sound industrial and employee relations are a critical component of the daily tasks of managers.

Cultural diversity

Life Healthcare takes pride in the cultural diversity of its people, and employee differences are appreciated. As set out in our code of conduct, we encourage tolerance and sensitivity to other cultures and are committed to maintaining a work place free from discrimination, where employees are selected on merit and an ability to perform. This is bolstered in education programmes, employee relations processes and policy.

Sustainability continued

HIV/Aids

HIV/Aids remains one of South Africa's most pressing challenges. Life Healthcare's HIV/Aids policy is well established and based on sound business principles as well as the obligations associated with our responsibility as an employer. Through the Life School of Health Sciences, training and ongoing peer education are encouraged. The Life Healthcare HIV/Aids programme dictates absolute confidentiality, compassion and fairness, including non-discrimination on the grounds of illness. The focus is on awareness, lifestyle education and the prevention of infection and re-infection. Employees are offered voluntary counselling and testing, monitoring, care and continuous support, as well as access to appropriate treatment for those on medical aid. All employees undergo HIV/Aids awareness training as part of their induction into the Group.

Corporate social investment (CSI)

Corporate social investment is an inherent part of Life Healthcare's business ethos. Our primary focus in CSI is on health and education, particularly in assisting disadvantaged communities. During 2011 the total value of our CSI projects was approximately R10 million.

Life Healthcare Foundation

The Life Healthcare Foundation was established in 2007 and is a registered public benefit association. Most of the group's CSI initiatives are channelled through the foundation. The foundation provides financial sponsorship, hospital and nursing services, and enlists the services of employees, supporting specialists and suppliers. It also collaborates with non-governmental organisations (NGOs), academic institutions and government to add impetus to its various initiatives.

The following are some of the initiatives undertaken by the Life Healthcare Foundation during the past year:

HIV counselling and testing campaign (HCT)

Life Healthcare has committed its support to the HCT campaign launched by government in April 2010, that aimed to have 15 million citizens tested for HIV and screened for other chronic conditions by June 2011. Selected Life Healthcare hospitals in each province and over 50 Life Healthcare occupational health sites offer free counselling, testing and screening services in an ongoing initiative. The campaign includes HIV rapid testing, blood glucose, blood pressure and blood haemoglobin screening and a TB questionnaire screening service. To date 12 350 screening tests have been undertaken.

Kangaroo mother care

In collaboration with the University of Witwatersrand Paediatric Fund, the foundation contributed to the Charlotte Maxeke Johannesburg Academic Hospital's kangaroo mother care initiative. This skin to skin intervention promotes physical contact between a mother and baby and assists in stabilising premature and low birth weight babies. A dedicated ward accommodates mothers who commit to spending 10 weeks at the hospital to offer this care. Support to this new unit has continued during the year.

Early childhood development

In support of early childhood development, the Life Healthcare Foundation, together with the Bright Kid Foundation, sponsored and equipped two classroom edutainers made from shipping containers, to the Akani Diepsloot Foundation, north of Johannesburg. These edutainers each accommodate 25 to 30 young children, providing a productive learning environment.

Mobile clinic for kids' heart health

Since 2007, the Life Healthcare Foundation has partnered the University of Cape Town's Department of Medicine/Groote Schuur Hospital in a research project aimed at promoting kids' heart health among disadvantaged school children in the Western and Eastern Cape. The foundation sponsored and equipped a mobile clinic, and the maintenance of the vehicle and its staffing for five years. To date, 2 500 learners have been screened by technologists and over 1 200 echo images have been reviewed by paediatric cardiologists. It has been concluded that at least 4% of learners screened have rheumatic heart disease, one of the highest burdens of disease in the world. Four post graduate students from the university are involved in the project as a platform for their research.

Mobile eye care units in partnership with the South African National Council for the Blind (SANCB)

The foundation has sponsored two vehicles, fully fitted with ophthalmic equipment, to serve as mobile eye care clinics, as well as the vehicles' maintenance for five years. The first mobile clinic was donated in October 2006 and to date has conducted 121 tours of rural hospitals, screened 21 506 patients, issued 6 877 spectacles, detected 936 cases of glaucoma and performed 4 020 cataract extractions and 61 other eye procedures. The second mobile unit is dedicated to render eye care services to 18 priority districts throughout the country, as identified by the Department of Health. To date 1 333 patients have been screened, 210 spectacles issued, 19 cases of glaucoma detected and 550 cataract extractions and 12 other eye procedures undertaken.

Surgery for indigent patients

- *Cataract extractions*

  Free cataract extractions have been performed on 200 indigent patients over the past year, bringing to 1 000 the total number of patients who have benefited from this initiative since its start five years ago. These procedures were done at a number of participating Life Healthcare hospitals throughout the country, with the support of ophthalmologists and anaesthetists.

- *Hip and knee replacements*

  33 hip and three knee replacements have been conducted on disadvantaged patients at Life Entabeni Hospital since the project was launched in 2006. The foundation's partners in this project include the KwaZulu-Natal (KZN) Department of Health, The Rama Krishna Society, which is a faith based organisation in KZN, and supporting orthopaedic surgeons and prosthesis suppliers to the hospital.

Play pumps (clean water for rural schools)

The foundation has sponsored eight play pumps at schools and communities without running water, in support of the Department of Water Affairs and Forestry's (DWAF) initative to give some 3 200 schools situated in rural villages access to clean drinking water. These pumps have been installed in schools in KwaZulu-Natal, Mpumalanga, North West Province and more recently in the Eastern Cape.

Neonatal and maternal care programme

Through the Life Healthcare Foundation, Life Esidimeni introduced a neonatal and maternal care training programme for public and private healthcare professionals and community and primary health nursing staff in the Mkhuhlu area surrounding Matikwana Hospital. This is aligned to other interventions planned for the most challenged districts. Owing to the high disease burden in the area, Matikwana Hospital and the Life Healthcare Foundation are undertaking an additional pilot intervention at improving neonatal and maternal outcomes in the district.

Sustainability continued

Rehabilitation outreach

Life Rehabilitation provided 7 800 hours of clinical placement and teaching to various undergraduate students studying nursing or occupational, speech and physiotherapy at the Universities of Pretoria, KwaZulu-Natal, Free State and the Witwatersrand. Life Rehabilitation's CPD accredited programme aimed at both internal and external rehabilitation professionals remains the leading rehabilitation CPD accredited series. It is our means of sharing our clinical expertise with our colleagues. This year, 600 CPD units were provided through seminars held at all of our rehabilitation facilities.

Hospitals' community health initiatives

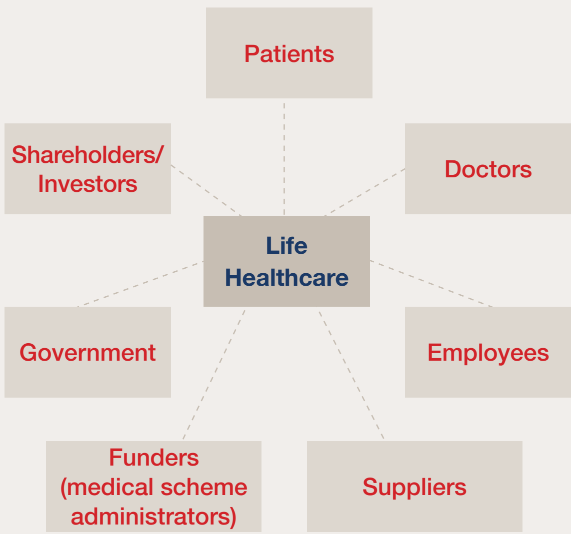
Our hospitals undertake various community health initiatives, conducting free health screenings and distributing educational material aimed at empowering the public with health information. Projects during the past year included free auditory screenings and assessments in conjunction with the South African Association of Audiologists (SAAA), and free cholesterol, blood pressure and blood sugar screenings in support of the Heart and Stroke Foundation South Africa (HSFSA). Hospitals also hosted educational talks, for example on heart health, the safe use of medication, and healthy pregnancy, and raised funds in support of the Cancer Association of South Africa (CANSA). Our hospitals are also involved with support groups for patients suffering from clinical depression, cancer, cardiac disease and diabetes. Other services provided include rape crisis intervention and counseling, drug awareness campaigns, as well as voluntary work with HIV and Aids patients.

Sizanani community involvement programme (CIP)

In 2010, the Group's Sizanani programme comprised 77 projects, reaching out to more than 12 000 disadvantaged children in orphanages, care centres, crèches, schools and institutions housing abused, abandoned and disabled children in South Africa and Botswana.
Sizanani has United Nations (UN) recognition as a meaningful, sustainable and employee driven CIP model based on consultation, empowerment and partnerships.

Stakeholders

Effective, transparent and sustainable communication with all our stakeholders is important to our brand and reputation, and is done according to our values and business principles. Our stakeholder wheel identifies our key stakeholders.



Patients

Key outcomes	Key strategies	Communication and engagement
• Ease of admission, billing and discharge procedures • Quality nursing and pharmacy care • Internationally based clinical best practice promoting quality care and improved patient outcomes • Well controlled infection rates • High technology facilities • Access to multi-disciplinary health services through a wide geographic spread • Access to affordable private healthcare through funders who have contracted with Life Healthcare in preferred network agreements • Positive hospital experience	• Promoting access to, and affordability of, healthcare • Facilitating quality nursing and pharmacy standards • Maintaining excellence in quality and clinical governance • Patient engagement through improved communications channels • Patient centric approach to facilitate a positive hospital experience	• Keeping the nurse at the bedside programme • Paper based comment cards (240 000 received annually) • Q-evaluator (electronic based patient satisfaction measuring system) • Post discharge telephone interviews • Life Healthcare website, brochures and information leaflets • Life magazine specifically for patients • Corporate monitoring of complaints and actions taken

Employees

Key outcomes	Key strategies	Communication and engagement
• Recognition and reward for quality performance • Training and personal development • Equal opportunity in non-discriminatory culture • Competitive remuneration and benefits package • Structured ethical working environment • Access to wellness programme • Tertiary bursary scheme for employees and bursaries for their children • Right to freedom of association • Work environment focused on safety and minimising of occupational risks	• Recruitment and retention of skills • Ongoing employee training and development • Accelerating transformation • Empowering employees and nurturing their career aspirations • Code of conduct focusing employees on standards expected of them • Creating an environment conducive to employee safety and health	• Consultative forums assist in providing open communication and constructive dialogue • Regular communication and meetings • Employee specific interim and annual results communications • Comprehensive induction programme

Sustainability continued

Doctors

Key outcomes	Key strategies	Communication and engagement
• High quality support with regard to nursing, hospital facilities, technology and equipment • Access to patients through preferred network agreements • Affordable hospital care through Life Healthcare's alternative reimbursement models • Investment opportunities within the Group • Access to multi-disciplinary health services • Participation in medical advisory committees • Life's clinical directorate keeps abreast of technological healthcare advances	• Offering best healthcare facilities and technology • Ensuring superior doctor support through excellence in nursing, administration and infrastructure • Maintaining strong doctor relations and minimising doctor turnover • Attracting and retaining new doctors to cater for future expansion • Implementing proven clinical interventions and measuring compliance to international evidence based best practices	• Hospital managers facilitate open communication with doctors on a daily basis • Clinical directorate supports doctors and managers to safeguard professional conduct • Doctors play a strong consultative role through participation in our medical advisory committees and/or hospital boards • Engagement with doctors in our quality drives and cost of sales project to our mutual benefit

Suppliers

Key outcomes	Key strategies	Communication and engagement
• A reputation for ethics and fairness in dealings with suppliers • Negotiations with suppliers built on mutual respect and fair pricing structures	• Well structured BEE procurement policy with guidelines for transforming supplier base • Making well evaluated product investments and adding value to operations and ultimately to shareholders • Fair procurement practices based on integrity and timeous delivery • Understanding of, and respect for, suppliers • Ongoing interaction with suppliers in reviewing and renewing contracts and procurement initiatives • Regular meetings and negotiations with strategic supply partners • Life Healthcare's code of conduct and ethics applied to all employees and suppliers	• Ongoing interaction with suppliers in reviewing and renewing contracts and procurement initiatives • Regular meetings and negotiations with strategic supply partners • Life Healthcare's code of conduct and ethics made available to all employees and suppliers

Funders (medical schemes)

Key outcomes	Key strategies	Communication and engagement
• A reputation for ethics and fairness in dealings with funders • Negotiations with funders built on mutual respect and fair pricing structures • Reputation for providing clinical excellence to their members • Implementation of our ARM pricing strategies • Largest market share with funders with regard to preferred network agreements • Efficient interaction as regards case management and payment	• Develop our ARM pricing strategy to ensure efficient pricing and sharing of savings with funders • Utilise the ARM pricing strategy to drive preferred network deals which enhance hospital occupancies • Implement electronic communication regarding case management to assist to driving efficiencies and faster payment	• Ongoing interaction and feedback regarding utilisation, pricing, contracts and preferred network agreements • Communicate our clinical and quality excellence and patient satisfaction scores with the funders

Government

Key outcomes	Key strategies	Communication and engagement
• Supporting government service delivery through quality long term healthcare services rendered by Life Esidimeni • Engaging in clinical and education initiatives e.g. Life's introduction of Isidima clinical risk management to Gauteng Department of Health • Supporting government's initiatives to transform South African society and build a healthier nation e.g. Life's participation in national HIV counseling and testing campaign • Assisting in the development of appropriate healthcare regulation	• Engagement on the National Health Insurance green paper • Engaging in information sharing and best clinical and administrative practices • Contributing to skills training through public private partnerships • Collaboration in drafting existing and new legislation e.g. pricing models and cost benchmarking • Increasing access to hospital services through public private partnerships • Facilitating and maintaining close interaction with government on healthcare regulatory matters and strategy	• Life Healthcare has a general business manager for health policy tasked with healthcare regulatory matters and government relations and strategy • Ongoing communication on private/public sector issues • Liaison with government health departments through HASA • Ongoing interaction on Life Esidimeni public private partnership matters

Sustainability continued

Shareholders/investors

Key outcomes	Key strategies	Communication and engagement
• Sustained growth and financial stability since 1983 • Depth of management expertise with record of solid results • Strong corporate and clinical governance to safeguard business • Commitment to provision of quality, cost effective healthcare • Track record in transformation and BEE • Well established and leading healthcare company with expanding operations in southern African healthcare	• Clear and ambitious strategy to create shareholder wealth • Improved access to capital • Structural clarity through focus on quality and affordability of healthcare services • Expanding coverage and penetration of local market • Positioning group for international expansion • Maintaining commitment to world-class healthcare • Maintaining and continuing to develop sound relations with key stakeholders e.g. government, funders and doctors • Continued interaction with shareholders locally and offshore via road shows, presentations, ad hoc executive meetings and engagements	• Continued interaction with shareholders locally and offshore via road shows, presentations, ad hoc executive meetings and engagements • General communications such as telephonic, web-based, e-mails, interim and annual reports, and through SENS

Governance and accountability

Corporate governance report 79
GRI report 91
Remuneration report 94
Risk management report 98
Life Healthcare facilities 104

Corporate governance report

Life Healthcare's board of directors is committed to the principles and practice of corporate governance and is cognisant of the role that corporate governance plays in the delivery of sustainable growth to all stakeholders.

The directors regard good corporate governance as critical to the success of Life Healthcare's business and stakeholder interests, and fundamental to discharging their stewardship responsibilities. The board strives to provide strong leadership, strategic direction and control, and a productive environment that can sustain the delivery of value to the Group's shareholders. The directors and executive management are committed to applying the principles necessary to ensure that the highest standards of governance and accountability are practised in the conduct of Life Healthcare's business. These principles include honesty, transparency, integrity, discipline and accountability in the conduct of business.

Statement of compliance

Life Healthcare is subject to the JSE Listings Requirements, which require that listed companies comply with the recommendations contained in the King III Code of Corporate Practices and Conduct. For the period under review, Life Healthcare has complied with the majority of the recommendations in the King III Code. The following are explanations for the areas where the Group does not fully apply the recommendations contained in the King III Code:

- **Disclosure of remuneration**
  King III recommends that the salaries of the three most highly paid employees who are not directors be disclosed. The Group deems this information to be sensitive and has therefore only disclosed the remuneration of the two executive directors.

- **The evaluation of the board, its committees and the individual committees should be performed every year**
  The nominations committee has recommended that the assessments take place in January 2012 to allow for the directors appointed on 30 November 2010 to have served a calendar year. In this way, a more reasonable assessment of performance would take place.

The board is committed to comply with the Companies Act, No 71 of 2008 which came into effect on 1 May 2011. The review of the Group and all the subsidiary companies' memorandum and articles of association has commenced and will be concluded in the 2012 financial year. Aspects of the Act not falling within the transitional arrangements provided for in the Act have been addressed.

Board of directors

Corporate governance within Life Healthcare is managed and monitored by a unitary board of directors and various board sub-committees. The key principles underpinning the governance of Life Healthcare are to ensure that the Group conducts its business as a responsible corporate citizen through the development and implementation of strategies and policies that are integrated into every area of its operations.

Board accountability

In accordance with its charter, the board has the following responsibilities:

- Approval and adoption of the strategic and annual business plans, the setting of objectives and the review of key risk and performance areas.
- Approval of commitments outside the authority delegated to executive management.
- Ensuring that the Group's ethics are effectively managed.
- The governance of risk.
- Overseeing of IT governance.
- Assessing the impact of the Group's business operations on the environment.
- Approval and adoption of Group policies, programmes and procedures in relation to safety, health, economic, social and environmental impacts, as well as remuneration and benefits.
- Approval and adoption of statutory communications to stakeholders and the investing public.

Corporate governance report continued

- Appointment of the chief executive officer (CEO).
- Approval of the appointment and removal of the company secretary.

While retaining overall accountability, the board has delegated authority to the chief executive officer to run the day-to-day affairs of the Group. The board has also created sub-committees to enable it to discharge its duties and responsibilities properly and to fulfil its decision-making process effectively. Each committee acts with appropriate terms of reference. Board committees may take independent professional advice at the Group's expense when necessary.

Composition of the board

The board comprised 12 directors as at 30 September 2011. There were:
- seven independent non-executive directors;
- three non-executive directors; and
- two executive directors.

Professor Jakes Gerwel, a non-executive director, is chairman of the board and in line with the King III Code, Trevor Munday is the lead independent non-executive director. Michael Flemming, an executive director, is the CEO.

The roles of chairman and CEO are not vested in the same person and there is a clearly outlined division of responsibilities.

In compliance with JSE Listings Requirements, non-executive directors do not participate in any share incentive or option scheme of the Group.

The names of the directors as at 30 September 2011 as well as their biographical details are set out on pages 22 to 24 of this integrated annual report. During the financial year ended 30 September 2011 the following changes were made to the board, thus strengthening the board's number of independent directors.

Appointments		
Adv F (Fran) du Plessis	Independent non-executive director	30 November 2010
JK (Joel) Netshitenzhe	Independent non-executive director	30 November 2010
KM (Ketso) Gordhan	Independent non-executive director	30 November 2010
Resignations		
LZ (Lawrie) Brozin	Alternate director	17 December 2010
CW (Craig) Lyons	Alternate director	17 December 2010
PN (Paul) Boynton	Alternate director	1 March 2011
Retirements		
YZ (Yolanda) Cuba	Non-executive director	27 January 2011
Dr JPF (Paul) Dalmeyer	Non-executive director	27 January 2011

The board ensures that no individual has unfettered powers of decision making and authority, and that shareholder interests are protected. The independent directors are Trevor Munday, Louisa Mojela, Peter Golesworthy, Dr Peter Ngatane, Adv Fran du Plessis, Ketso Gordhan and Joel Netshitenzhe. The board considers that there is an appropriate balance of knowledge, expertise and collective experience among the non-executive directors.

Any new appointments to the board involve a formal and transparent process and are a matter of consideration for the full board, assisted by the nominations committee. When appointing directors, the board considers its needs regarding expertise, experience, diversity and number of members. The articles of association stipulate that one-third of the board members will retire from office at the annual general meeting and will be eligible for re-election. The directors to retire are those who have been longest in office since their last election or appointment. The CEO and the chief financial officer (CFO) are not subject to retirement by rotation or taken into account in determining the rotation of retirement of directors.

Effective control is exercised through the CEO, who is accountable through regular reports to the board. The non-executive directors are considered to have the skills and experience to bring unrestrained judgement to bear on issues of strategy, resources, transformation, diversity and employment equity, standards of conduct, evaluation of results as well as on economic, social and environmental policies.

Roles and responsibilities

The board sets the strategic objectives of the Group, determines investment policy and performance criteria, and delegates to management the detailed planning and implementation of policies in accordance with the appropriate risk parameters. The board monitors compliance with policies and achievement against objectives by holding management accountable for its activities through quarterly performance reporting and budget updates.

It considers issues of strategic direction, large acquisitions and disposals, and approves major capital expenditure and financial statements as well as matters having a material effect on Life Healthcare. Board members are encouraged to debate and challenge issues in an atmosphere of mutual respect and co-operation.

The role of the board is regulated in a formal board charter which defines its authority and power. The charter has been updated during the period under review to ensure compliance with the King III Code and the Companies Act, 71 of 2008.

Senior executives have access to board meetings as and when necessary to apprise the directors of important events and to devise strategy. This encourages interaction, good communication and close co-operation between the directors and executive management.

The board meets quarterly as well as on an ad hoc basis to consider specific issues as the need arises. A separate strategic session takes place with the board annually. Where directors are unable to attend board meetings for any reason, every effort is made to obtain and communicate to the meeting any comments they may have regarding the agenda and general items. Four board meetings were held during the year. The record of attendance is contained in the table on page 82.

Corporate governance report continued

Directors' attendance at board meetings

Meeting	Board meetings	Board	Board	Board	Board
Date		30.11.10	09.02.11	09.05.11	25.07.11
Members					
MA Brey	4\4	1	1	1	1
YZ Cuba	0\1	Apology given			
Dr JPF Dalmeyer	1\1	1			
Adv F du Plessis	3\3		1	1	1
CMD Flemming	4\4	1	1	1	1
Prof GJ Gerwel	4\4	1	1	1	1
PJ Golesworthy	4\4	1	1	1	1
KM Gordhan	1\3		Apology given	Absent	1
RJ Hogarth	4\4	1	1	1	1
CW Lyons (alternate to YZ Cuba)	1\1	1			
LM Mojela	4\4	1	1	1	1
TS Munday	4\4	1	1	1	1
JK Netshitenzhe	2\3		1	Apology given	1
Dr MP Ngatane	4\4	1	1	1	1
GC Solomon	4\4	1	1	1	1

Directors are entitled, at the Group's expense, to seek independent professional advice regarding Group issues for the furtherance of their duties. All directors have access to the company secretary who is responsible for ensuring Group compliance with applicable legislation and procedures.

Conflict of interests

The directors are required to avoid a situation where they may have a direct or indirect interest that conflicts with the Group's interests. A conflict of interests policy ensures that directors disclose conflicts of interest at every meeting in terms of section 75 of the Companies Act 2008. In addition, directors present an updated list of their directorships and interests to the company secretary on an annual basis, or when a change has occurred.

Induction of directors

On appointment, new directors are briefed on their fiduciary duties and responsibilities by executive management. New directors also receive information on the JSE Listings Requirements and the obligations that they have to comply with. Directors are informed of relevant new legislation and changing commercial risks that affect the Group. The company secretary assists the chairman with the induction of directors and visits to selected Group hospitals.

Board self-assessment

Following the appointments of Joel Netshitenzhe, Adv Fran du Plessis and Ketso Gordhan, the nominations committee recommended that the board and sub-committee assessments, and director evaluations should take place after these directors have served a calendar year. The board and sub-committee assessments and director evaluations will be conducted in January 2012 as an in-house assessment under the auspices of the nominations committee.

Board sub-committees

The board sub-committees consist of the audit committee, remuneration and human resources committee, nominations committee, risk committee, social, ethics and transformation committee and investment committee. Each sub-committee, with the exception of the nominations, investment and social, ethics and transformation committees, is chaired by an independent non-executive director. Certain executives are required to attend sub-committee meetings by invitation. External auditors also attend the audit committee meetings.

The role of the board sub-committees is formalised by terms of reference which define their authority and scope. During the period under review, all sub-committee terms of reference were reviewed and amended to align with the King III Code.

Audit committee

Members

Peter Golesworthy (chairman – independent non-executive director)
Trevor Munday (lead independent non-executive director)
Louisa Mojela (independent non-executive director)
Adv Fran du Plessis (independent non-executive director)

Roles and responsibilities

The committee has an independent role with accountability to both the board and shareholders. The overall function of the committee is to assist the directors in discharging their responsibilities relating to the safeguarding of assets, the operation of adequate and effective systems and control processes, and the preparation of the integrated report and fairly presented financial statements in compliance with all applicable legal and regulatory requirements and accounting standards.

The committee performs its duties on behalf of all subsidiaries of the Group which do not have their own audit committee. In addition, the committee monitors the activities of the other audit and/or governance committees within the Group.

The audit committee's role is to ensure the integrity of the integrated and financial reporting and audit processes, and the maintenance of sound risk management and internal control systems. It has a wide range of powers to consult both internally and externally and must be provided with sufficient resources to examine financial reporting and other strategic issues according to its written terms of reference, as confirmed by the board.

In pursuing these objectives, this committee inter alia:

- monitors the integrity of the annual and interim financial statements and external financial reports;
- oversees relations with the external auditors, and reviews the effectiveness of the internal audit function;
- evaluates the findings of internal and external audits, the actions taken, the adequacy of the systems of internal financial and operational control, reviews accounting policies and financial information issued to stakeholders;
- recommends to the board, for approval by shareholders, the selection of the Group's external auditors, approves the remuneration and terms of engagement of the external auditors, considers and pre-approves non-audit services and monitors the external auditors' independence and effectiveness;
- reviews the integrated report to ensure that it is reliable and does not conflict with the financial information, and recommends the integrated report for approval to the board; and
- has the authority to seek information it requires from any employee.

As set out in the report of the audit committee, contained in the annual financial statements, the committee confirmed for the 2011 financial year, that it functioned in accordance with its terms of reference.

Corporate governance report continued

The audit committee met five times, including one special meeting, for the period under review. The record of attendance is contained in the table below.

Directors' attendance at audit committee meetings

Meeting	Audit meetings attended	Audit	Audit	Audit	Audit	Audit
Date		22.11.10	27.01.11	04.05.11	25.07.11	11.08.11 Special meeting
Members						
Adv F du Plessis*	3\4		1	1	1	Apology given
PJ Golesworthy	5\5	1	1	1	1	1
LM Mojela	5\5	1	1	1	1	1
TS Munday	5\5	1	1	1	1	1

**Appointed 30 November 2010*

The audit committee reports its activities and makes recommendations to the board. The audit committee is satisfied that the external auditors are independent of the Group and that the CFO has appropriate experience and expertise.

Remuneration and human resources committee

Members

Trevor Munday (chairman – lead independent non-executive director)
Louisa Mojela (independent non-executive director)
Garth Solomon (non-executive director)

Roles and responsibilities

The role of the committee is to assist the board to ensure that the Group has a clearly articulated remuneration philosophy and that:

- the design and implementation of remuneration structures are consistent, fair, legally compliant and equitable;
- the Group remunerates employees and executives fairly and responsibly, taking appropriate cognisance of short, medium and long term remuneration approaches and in ways that suitably recognise the interests of both employees and shareholders; and
- the disclosure of non-executive director and executive director remuneration is accurate and transparent.

The remuneration and human resources committee inter alia:

- oversees the establishment and implementation of remuneration policies;
- assesses and reviews employee short term and long term incentive schemes and performance bonuses;
- reviews the salary mandate on an annual basis and makes recommendations to the board in this regard;
- considers management proposals in respect of fees for non-executive directors, which are tabled for shareholder approval at the annual general meeting;
- determines executive and staff participation in the long term incentive schemes; and
- considers and makes recommendations to the board in respect of retirement fund matters.

This committee determines the framework, policy and costs of executive and senior management remuneration. The committee strives to achieve adequate, competitive and fair compensation in recognising and rewarding executive directors and senior employees to ensure their motivation and retention.

No person is involved in decisions as to his or her own remuneration. In fulfilling its duties, the remuneration and human resources committee pays due attention to succession plans and the retention of key executives.

The committee met thrice for the period under review. The record of attendance is contained in the table below.

Directors' attendance at remuneration and human resources committee meetings

Meeting	Remuneration meetings attended	Remuneration	Remuneration	Remuneration
Date		02.11.10	23.02.11	27.07.11
Members				
LM Mojela	3\3	1	1	1
TS Munday	3\3	1	1	1
GC Solomon	3\3	1	1	1

Nominations committee

Members

Prof Jakes Gerwel (chairman – non-executive director)
Dr Peter Golesworthy (independent non-executive director)
Louisa Mojela (independent non-executive director)
Dr Peter Ngatane (independent non-executive director)

Roles and responsibilities

The role of the committee is to assist the board to ensure that:

- the board has the appropriate composition for it to execute its duties effectively;
- directors are appointed through a formal process;
- induction and ongoing training and development of directors take place; and
- formal succession plans for the board, chairman of the board, CEO and CFO appointments are in place.

The board nominations committee inter alia:

- ensures the establishment of a formal process for the appointment of directors;
- oversees the development of a formal induction programme for new directors;
- seeks to ensure that the board has an appropriate balance of skills, experience and diversity;
- co-ordinates the board, individual director and committee appraisal process;
- develops effective succession planning for the board, chairman of the board, CEO and the CFO; and
- reviews the board sub-committees and committee membership.

While devising criteria for board membership and board positions, the nominations committee determines and recommends changes to the board and any adjustments required regarding the Group's governance policies and practices. The committee identifies, evaluates and nominates candidates to fill vacancies for executive, non-executive and independent directors of the Group for approval by the board, and also recommends the number of directors on the board and the various committee structures.

The committee holds a minimum of one meeting a year. The committee met twice during the period under review. The record of attendance is contained in the table on page 86.

Corporate governance report continued

Directors' attendance at nomination committee meetings

Meeting	Nomination meetings attended	Nomination	Nomination
Date		10.11.10	06.06.11
Members			
Prof GJ Gerwel	2\2	1	1
PJ Golesworthy	2\2	1	1
LM Mojela	2\2	1	1
Dr MP Ngatane	2\2	1	1

Investment committee

Members

Garth Solomon (chairman – non-executive director)
Peter Golesworthy (independent non-executive director)
Mustaq Brey (non-executive director)
Michael Flemming (CEO)
Roger Hogarth (CFO)

The committee was established to assist the Group to facilitate strategic investments. In this regard the committee considers:

- the investment strategy and framework of the Group;
- recommendations from management in relation to material projects, acquisitions and the disposal of assets, as well as capital expenditure related to any material acquisitions not within the mandate of management; and
- the incurring and refinancing of debt.

The committee evaluates such proposals and makes appropriate recommendations to the board. Following presentations to the board on annual budget parameters, the committee considers and makes recommendations to the board in respect of the annual budget and capital expenditure for the Group.

The committee holds a minimum of two meetings a year but meets if required to do so around major acquisitions or disposals. The committee met nine times during the period under review.

The record of attendance is contained in the table below.

Directors' attendance at investment committee meetings

Meeting	Investment meetings attended	Investment	Investment	Investment	Investment	Investment	Investment	Investment	Investment	Investment
Date		27.10.10	18.11.10	10.03.11 Special meeting	28.03.11 Special meeting	04.05.11	03.06.11 Special meeting	15.07.11 Special meeting	27.07.11 Special meeting	15.09.11
Members										
MA Brey	7\9	1	1	1	Apology given	1	1	1	Apology given	1
CMD Flemming	9\9	1	1	1	1	1	1	1	1	1
PJ Golesworthy	9\9	1	1	1	1	1	1	1	1	1
RJ Hogarth	8\9	1	1	Apology given	1	1	1	1	1	1
GC Solomon	8\9	1	1	1	1	1	1	1	1	Apology given

Social, ethics and transformation committee

Members

Prof Jakes Gerwel (chairman – non-executive director)
Louisa Mojela (independent non-executive director)
Adv Fran du Plessis (independent non-executive director)
Dr Peter Ngatane (independent non-executive director)

This committee was re-constituted as the transformation committee, dealing with issues related to inter alia; the Group's transformation plan, skills development, BEE and corporate social investment. As these are some of the functions prescribed in the Companies Act 2008 for the social and ethics committee, the nominations committee recommended to the board that the terms of reference of the committee be expanded to cover all aspects for the social and ethics committee as required by the Companies Act and that the name of the committee be changed to the social, ethics and transformation committee.

Roles and responsibilities

The role of the committee is to assist the board to ensure inter alia that:

- the functions prescribed in the Companies Act 2008 for the social and ethics committee are carried out;
- the Group's transformation objectives are accomplished and progress is made in accordance with the transformation plan; and
- inputs and advice is provided with regard to the social and political environment in as far as it affects the Group and the industry.

The committee met once during the year. The record of attendance is contained in the table below.

Directors' attendance at the social, ethics and transformation committee meetings

Meeting	Social, ethics and transformation meetings attended	Social, ethics and transformation
Date		06.06.11
Members		
Adv F du Plessis	1\1	1
Prof GJ Gerwel	1\1	1
LM Mojela	1\1	1
Dr MP Ngatane	1\1	1

Risk committee

Members

Ketso Gordhan (chairman – independent non-executive director)
Trevor Munday (independent non-executive director)
Joel Netshitenzhe (independent non-executive director)
Mustaq Brey (non-executive director)
Michael Flemming (CEO)
Roger Hogarth (CFO)

Roles and responsibilities

The role of the committee is to assist the board to ensure that:

- the Group has implemented an effective policy and plan for risk management that will enhance the Group's ability to achieve its strategic objectives; and
- the disclosure regarding risk is comprehensive, timely and relevant.

The risk committee inter alia:

- oversees the development and annual review of a policy and plan for risk management to recommend for approval to the board;
- makes recommendations to the board concerning the levels of tolerance and appetite, and ensures that risks are managed within the levels of tolerance and appetite as approved by the board;
- ensures that risk management assessments are performed on a continual basis;
- ensures that continual risk monitoring by management takes place; and
- expresses the committee's formal opinion to the board on the effectiveness of the system and process of risk management.

Corporate governance report continued

The committee met twice for the period under review. The record of attendance is contained in the table below.

Directors' attendance at risk committee meetings

Meeting	Risk meetings attended	Risk	Risk
Date		07.04.11	29.08.11
Members			
MA Brey	2\2	1	1
CMD Flemming	2\2	1	1
KM Gordhan	1\2	Absent	1
RJ Hogarth	2\2	1	1
TS Munday	2\2	1	1
JK Netshitenzhe	2\2	1	1

Company secretary

The role of Fazila Patel as company secretary is to guide the board on its duties and responsibilities, keeping directors abreast of relevant changes in legislation and governance best practices and working with the board to ensure compliance with Group policies and procedures, applicable statutes, regulations and the King III Code. She plays an active role in the Group's corporate governance process and ensures that the proceedings and affairs of the directorate, the Group itself and, where appropriate, shareholders are properly administered. The company secretary also oversees the induction of new directors. She is kept apprised of directors' dealings in Life Healthcare's shares and ensures that the appropriate disclosures are made in accordance with the Listings Requirements of the JSE.

Code of ethics

Life Healthcare's code of ethics commits employees to the highest standards of integrity, ethics and business conduct. In living our values we have earned a reputation in the industry for fairness and ethical behaviour in all our business dealings and processes.

Allegiance to our code of ethics is the starting point from which our employees draw guidance for behaviour within our Group. The code sets out policies and procedures to be followed in all aspects of our professional, clinical and business dealings and establishes a set of standards. It guides employees in their behaviour towards supporting medical professionals, patients, customers, suppliers, shareholders, co-workers and the communities in which the Group operates. The code of ethics also extends to safety, health, security, conflict of interests, environmental issues and human rights.

While common sense, good judgement and conscience apply in managing a difficult or uncertain situation, the code assists in detailing the standards and priorities within the Group. A confidential guidance and support hotline, operated by an international accounting firm, provides an independent facility for employees to report fraud or any form of malpractice. A policy of non-retaliation protects and encourages people wishing to share their concerns. The Group maintains a zero tolerance approach to fraudulent activity. Executives and line management are responsible for implementing procedures against fraud and corruption.

New staff members are familiarised with the guiding principles contained within the code, as part of their induction.

In tandem with the code of ethics, individuals from Life Healthcare are represented on the South African Nursing Council, as well as the Professional Conduct Committee, which monitors professional misconduct within the nursing profession. Staff members who are professionals are encouraged to take up membership of their associations.

The ethical standards of the Group, as stipulated in the code, are monitored and are being achieved. Where there is non-compliance with the code, the appropriate disciplinary action is taken as Life Healthcare responds to offences and aims to prevent recurrence.

Internal controls

Management maintains accounting records, and has developed systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements. Responsibility for the adequacy and operation of these systems is delegated to the CEO. These records and systems are designed to safeguard assets and minimise fraud. Our systems of internal control are based on established organisational structures, such as written policies and procedures, which include budgeting and forecasting disciplines and the comparison of actual results against these budgets and forecasts. A checklist has been developed for the key operational processes. Responsibilities for controls in the processes have been agreed with the appropriate senior managers. Compliance is tested by internal audit and external audit reviews.

Internal audit

Internal audit is an independent appraisal function. It examines and evaluates the Group's activities and the appropriateness, adequacy and efficiency of the systems of internal control and resultant business risks. In terms of the updated audit committee terms of reference, the senior internal audit manager is responsible for reporting to the audit committee and has unrestricted access to its chairman, the chairman of the Group and the CEO. Audit plans are formulated based on the assessment of the key risks. Every assignment is accompanied by a detailed report to management, which includes recommendations for improvement. Significant business risks and weaknesses in the operating and financial control systems are highlighted and brought to the attention of the audit committee, senior management and external auditors. The audit work plan is presented in advance to the audit committee. Employees and associates are able to report suspected irregularities anonymously to an independent service provider. The team is responsible for managing the investigation of reported incidents and informing the audit committee of the results.

Insider trading

Life Healthcare observes a closed period from the end of the accounting period to the announcement of the interim or annual results, during which time no employee or director may deal, either directly or indirectly, in the shares of the Group. Comprehensive guidelines on how to comply with insider trading restrictions and how to deal with analysts are provided in the insider trading policy.

Material litigation

During the financial year ending 30 September 2011, the Group was not involved in any material litigation or arbitration proceedings nor are the directors aware of any legal issues which are pending or threatened, which may impact materially on the Group's financial position. Institutions in the healthcare sector are subject to patient lawsuits and the directors are of the opinion that the Group has sufficient insurance to mitigate financial risk.

Stakeholder relations

The Group continually promotes dialogue with all its major institutional shareholders. Roadshows are arranged for senior executives to do presentations to them and to meet with them in person. Local shareholders are encouraged to attend the annual general meeting.

The CEO and CFO do presentations to investors and investment analysts following the publication of the interim and annual results. Both these executives make themselves available to interact with major investors and shareholders during the normal course of business. Other than at the annual general meeting, minority shareholders can express their opinions via shareholder resolutions.

Corporate governance report continued

Information technology (IT) security and governance – ISO 27001 certification

In 2006, Life Healthcare achieved the international ISO 27001 Information Security Management System (ISMS) certification. An independent review and recertification took place in July 2011. The ISO journey drives ongoing review of all control processes related to IT security within the business environment.

Within the framework of the ISMS the following IT governance issues are managed:

Information security, management and privacy

The ISMS ensures that data and information assets are managed securely and with appropriate consideration for privacy, both at a corporate and individual level.

IT risk management

The ISMS drives an overall risk management approach to IT security and operations. During 2011, a revised IT risk model has been developed with a number of independent inputs ensuring a process that provides a more comprehensive risk management model. These processes provide a company-wide perspective to IT risk.

Disaster recovery (DR)

A business continuity management sub-committee meets regularly to manage IT business continuity and disaster recovery issues. The DR model is currently under review with a view, within two years, to providing a DR model that delivers a more real time business continuity model.

IT legislation

Within the ISMS management forum, a management sub-committee with representation from Life Healthcare's legal team assesses the implications of relevant laws on IT processes. A broadened focus is being established where legal considerations are recorded, using an enterprise architecture tool, at a business function level.

IT audit

An independent ISO 27001 certified organisation audits the overall ISMS annually, ensuring adherence to the system and that there is a philosophy of ongoing improvement. Additionally, the external auditors conduct an extensive annual IT audit focused on infrastructure and data management controls and security, as well as processes that affect financial controls and reporting.

IT steering committee

Executive feedback of strategic IT issues is provided monthly to the executive meeting. Further, an executive IT steering committee meets quarterly to review significant IT expenditure and projects.

Enterprise development and preferential procurement

Life Healthcare ensures that, when contracting with external suppliers, they adhere to fair labour practices and fully comply with relevant labour legislation. The Group's formal broad-based black economic empowerment (B-BBEE) procurement policy sets the guidelines for transforming our supplier base by supporting joint ventures between traditional suppliers and black-owned businesses.

The Group assists black-owned businesses to enter the mainstream by inviting them to participate in our procurement processes, and helps in the development of small, historically disadvantaged and women-owned businesses. We encourage and support skills development and entrepreneurial talent among black-owned suppliers.

The Group uses the B-BBEE status of contending suppliers in identifying preferred suppliers and awarding contracts. The procurement department also evaluates suppliers based on feedback received mainly from healthcare professionals regarding product quality, lead time for increasing the volume of stock and the product distribution chain.

The development and support of black economic empowerment (BEE) initiatives have progressed steadily, resulting in increased preferential procurement. The Group's pharmaceutical procurement expenditure for the 2011 financial year was R2.7 billion, of which 58% was channelled through empowered companies. BEE suppliers accounted for 54% of non-pharmaceutical spend. 73% of our spend for catering, cleaning, security, medical waste and laundry services is attributed to BEE suppliers.

GRI report

Global Reporting Initiative (GRI) G3 disclosure

The Group is, for the first time, declaring its GRI G3 application level in the integrated 2011 annual report.

GRI Table

Disclosure	Description	Reference	Page
Strategy and analysis			
1.1	Statement from the most senior decision-maker of the organisation.	Chief executive officer's review	32
Organisational profile			
2.1	Name of the organisation.	Scope and boundary of report	1
2.2	Primary brands, products, and/or services.	Group overview	5
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	Group overview Life Healthcare's facilities Annexure A Annexure B	5 104 202 205
2.4	Location of organisation's headquarters.	Administration Group overview	111 5
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Scope and boundary of report Group overview	1 5
2.6	Nature of ownership and legal form.	Administration Annexure C Scope and boundary of report	111 206 1
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Group overview	5
2.8	Scale of the reporting organisation.	Group overview Chief executive officer's review Chief financial officer's review Annexure C	5 32 39 206
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	Chief executive officer's review Growth review Annexure C	32 51 206
Report parameters			
3.1	Reporting period (e.g. fiscal/calendar year) for information provided.	Scope and boundary of report	1
3.2	Date of most recent previous report.	Scope and boundary of report	1
3.3	Reporting cycle (annual, biennial, etc.).	Scope and boundary of report	1

GRI report continued

GRI Table

Disclosure	Description	Reference	Page
Report parameters continued			
3.4	Contact point for questions regarding the report or its contents.	Feedback	1
3.5	Process for defining report content.	Scope and boundary of report Sustainability review	1 57
3.6	Boundary of the report (e.g. countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	Scope and boundary of report Group overview Annexure A Annexure B	1 5 202 205
3.7	Limitations on the scope of the report.	Scope and boundary of report	1
3.12	GRI index.	Corporate governance report Sustainability review	79 57
3.13	Policy and practice on external assurance.	Independent auditors' report Audit committee report	115 113
Governance, commitments and engagement			
4.1 – 4	Governance structure.	Corporate governance report	79
4.5	Link between compensation and performance.	Remuneration report	94
4.6	Process for avoiding conflict of interest.	Corporate governance report	79
4.7	Expertise of board.	Group overview Corporate governance report	5 79
4.8	Internally developed statements of mission or values.	Group overview	5
4.9	Procedures for board oversight of economic, environmental and social performance.	Corporate governance report	79
4.10	Board performance.	Corporate governance report	79
4.14 – 17	Stakeholder groups.	Sustainability review	57
Economic			
EC1	Economic value generated and distributed (revenues, operating costs, employee compensation, donations and other community investments, retained earnings and payments to capital providers and governments) (Core).	Group overview Chief financial officer's review Sustainability review	5 39 57
EC3	Coverage of defined benefit plan obligations (Core).	AFS – Note 10	165

GRI Table

Disclosure	Description	Reference	Page
Economic continued			
EC6	Policy, practices and proportion of spending on locally based suppliers at significant operations (Core).	Corporate governance report Sustainability review	79 57
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement (Core).	Sustainability review	57
Environmental			
EN1	Materials used by weight or volume.	Group overview	5
EN4	Indirect energy consumption by primary source (Core).	Group overview Sustainability review	5 57
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives (Additional).	Sustainability review	57
EN7	Initiatives to reduce indirect energy consumption and reductions achieved (Additional).	Sustainability review	57
EN8	Total water withdrawal by source.	Group overview Sustainability review	5 57
Emissions, effluents and waste			
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved (Additional).	Sustainability review	57
EN24	Weight of transported, imported, exported or treated waste deemed hazardous under terms of Basel I, II, III, and VIII and percentage of transported waste shipped internationally (Additional).	Group overview Sustainability review	5 57
Social performance: labour practices and decent work			
LA1	Total workforce by employment type, contract and region (Core).	Sustainability review	57

Remuneration report

Introduction

The healthcare industry in South Africa competes globally for good quality clinical skills. The attractiveness of nursing as a career has diminished over time and as a result the quality and continued supply of nurses have decreased. First world economies with strong currencies attract resources from poorer countries; it is reported that this drain of African medical professionals has resulted in a shortage of 820 000 nurses, doctors and allied health workers on the African continent. The recent proliferation of retail pharmacies in supermarkets has placed huge strain on the available pharmacy resources. The introduction of occupational specific dispensation (OSD) has placed the state firmly as a real competitor for healthcare skills. In addition, the supply of healthcare professionals has not kept pace with demand. This situation has been exacerbated by the ageing of the healthcare workforce and the impact of HIV/Aids. It is within this environment that the private healthcare operator in South Africa has to function. Affordable quality private healthcare is a key business driver, but this objective is constantly challenged by the ever increasing cost and availability of good quality clinical staff.

Remuneration

The Group remunerates employees on the basis of a basic salary plus benefits. It is acknowledged that the modern trend is to base remuneration on a cost-to-company package. However, the healthcare industry has largely retained the traditional approach because employees in this market are familiar with, and prefer, this methodology. Benchmarking of all remuneration is done on the basis of total cost to company. The total cost of employment is measured and communicated to each employee.

Life Healthcare offers more senior employees a combination of guaranteed remuneration, benefits, as well as short and long term incentives. Short term incentives are paid to employees at middle management and higher grades who have line of sight to business objectives. Senior managers with strategic and/or tactical roles participate in the Group's long term incentive scheme. Executive employment contracts are subject to a six-month notice period as well as a six-month restraint of trade.

Guaranteed remuneration

The Group conducts appropriate peer group benchmarking of remuneration. The Group participates in a number of salary surveys to substantiate its remuneration data. Our pay is benchmarked at the market median, and adjusted where market imperfections distort the slope on the pay line. Individual pay rates per job are influenced by our pay line, market rates for such roles and current pay rates in the Group. In instances where specific roles are difficult to retain or attract, a premium is applied to such market rates. Individual salaries are benchmarked internally and externally to ensure competitiveness and fairness. The salary structure is reviewed during October and adjusted with effect from 1 January each year. The performance of employees is a key factor in determining their respective increases.

The attraction and retention of clinical skills is a key focus area. Salaries are benchmarked against healthcare market pay data. Specific areas of concern are addressed via a bespoke retention and specialist allowance structure. Such allowances are offered in addition to basic salaries and provide significant retention value.

In certain rural locations it is necessary to provide an additional incentive to attract key skills. This is done by paying an allowance that is specific to an occupation and location. All such allowances are industry benchmarked and tested on an annual basis for continued relevance.

Short term incentives

Life Healthcare firmly believes in the value that appropriate performance driven rewards will enhance its success. The variable compensation plan (VCP) applies a combination of:

- company measures;
- business unit measures; and
- personal performance targets.

Performance is measured on agreed targets and is calculated and paid twice-annually. Key business objectives form the basis for all targets and these are consistently applied to all participants in the scheme. The strongest emphasis is on business unit results as this provides the most direct line of sight for participants. The level of potential reward has been industry benchmarked and directly influences total remuneration. Incentive pay increases with responsibility. Business and/or personal performance below a set threshold will result in non-payment of incentives.

Long term incentives

The purpose of Life Healthcare's long term incentive scheme (LTIP) is to attract, retain, motivate and reward executives and key managers who are able to influence the sustainable performance of Life Healthcare. This is done by rewarding participants on the basis of Group performance against key long-term measures.

Life Healthcare operates a hybrid long term incentive scheme that combines a pure unit appreciation scheme and a performance share scheme. The revised scheme was introduced in January 2009 and the first payment in terms of this scheme is due in January 2012. The scheme is cash settled and no re-testing of performance is allowed in the scheme as a three-year cliff vesting rule applies. Key business objectives form the basis for performance targets and vesting rules. The performance of participants in this scheme influence the quantum of initial allocations. The quantum of reward increases with seniority and is industry benchmarked.

The alignment of management and shareholders' interests has been enhanced by the 2011 revision of the scheme, which allows managers the opportunity to defer payment from the scheme and invest in shares of the Group. This investment results in a co-investment by the Group on the basis that a higher manager commitment attracts a more generous co-investment from the Group. Managers are required to make a three-year commitment in respect of this investment. This enhancement will affect the 2009, 2010 and 2011 allocations that have been made in terms of Life Healthcare's 2009 long term incentive scheme.

In respect of future allocations in terms of the scheme, from January 2012 onwards, participants will be offered the election to extend the vesting period of a portion of any LTIP offer from three years to five years and, as a result of that election, receive a co-investment grant of restricted shares from the Group.

The co-investment shares, whether deferred or matching, will be purchased in the market and transferred to participants when vesting and settlement occurs.

Employee share ownership plan

An employee share ownership plan is currently under consideration by the board and is planned for implementation in 2012.

Employee benefits

Retirement funds

Life Healthcare operates two defined contribution retirement funds:

- The Life Healthcare Provident Fund (LHC Provident Fund)
- The Life Healthcare DC Pension Fund (LHC DC Pension Fund)

All new employees join the LHC Provident Fund or may opt for dual fund membership, which channels employee contributions to the LHC DC Pension Fund and employer contributions to the LHC Provident Fund. In addition, the Group operates two defined benefit funds which have been closed to new membership since 1996. The Life Healthcare DB Pension Fund provides retirement benefits for approximately 250 active members and 350 pensioners.

The Group supported retirement funds offer group life cover and disability benefits to members. Both permanent disability and death are covered by lumpsum payments which are underwritten by an insurer. The standard cover for new employees is three times annual salary for death cover and three times annual salary for disability cover. Some historical anomalies to this standard cover exist.

The Group has, as a result of historical acquisitions, been required to rationalise and consolidate a large number of retirement funds. This process is largely complete, however, the liquidation and/or de-registration of funds will take some years to complete.

Medical aid

It is a condition of employment for Life Healthcare employees to belong to a Group supported medical aid unless membership of a spouse's medical aid can be proven.

Membership of a principal member, spouse and two children is subsidised by the Group. The Group participates in the open medical scheme market, currently contracting with Discovery Health.

Post retirement medical aid liability

A continued medical aid subsidy, post retirement, is only enjoyed by a small number of employees who were Afrox employees on or before 1 November 1996. This limited liability is funded via investments held in the market.

Remuneration report continued

Other benefits

All other benefits are industry benchmarked and are granted on the basis that they aid employee retention and/or provide an efficient work environment for the employee. Such benefits are priced and form part of the annual salary review mandate process.

Executive directors' remuneration

Executive directors are subject to a six-month notice period as well as a six-month restraint of trade. Details of the remuneration of individual executive and non-executive directors are set out below and on page 97, as per the information in the annual financial statements on pages 198 and 199.

The King III Code recommends that the salaries of the three most highly paid employees who are not directors be disclosed. The Group deems this information to be sensitive and has only disclosed the remuneration of the two executive directors.

Non-executive directors' remuneration

Non-executive directors do not receive any benefits or share options from the Group apart from directors' fees. The fees in respect of non-executive directors are reviewed on an annual basis and data from an independent survey house is utilised for benchmarking purposes. Fees are paid as a combination of a retainer and a fee per meeting, to ensure alignment with the emerging market practice and Group culture. The non-executive directors' fees per meeting for the financial year ended 30 September 2011 as well as the proposed fee per meeting for the financial year ending 30 September 2012 are detailed in the table on page 97.

Directors' emoluments

Emoluments paid to the directors of the Company by the Company and its subsidiaries for the year to 30 September, are set out below:

2011 (R'000)	Directors' fees	Salaries	Bonus and performance-related payments	Other allowances	Gains on long-term incentive scheme	Medical aid contributions	Pension fund contribution	Total
Executive directors								
CMD Flemming	–	2 378	3 874	759	1 565	23	669	9 268
RJ Hogarth	–	1 294	1 526	425	747	18	364	4 374
	–	3 672	5 400	1 184	2 312	41	1 033	13 642
Non-executive directors								
MA Brey	302	–	–	–	–	–	–	302
YZ Cuba	21	–	–	–	–	–	–	21
CWJ Lyons	14	–	–	–	–	–	–	14
Dr JPF Dalmeyer	35	–	–	–	–	–	–	35
Prof GJ Gerwel	456	–	–	–	–	–	–	456
Dr MP Ngatane	218	–	–	–	–	–	–	218
GC Solomon	442	–	–	–	–	–	–	442
LM Mojela	376	–	–	–	–	–	–	376
PJ Golesworthy	484	–	–	–	–	–	–	484
TS Munday	413	–	–	–	–	–	–	413
Adv F du Plessis	208	–	–	–	–	–	–	208
JK Netshitenzhe	128	–	–	–	–	–	–	128
KM Gordhan	133	–	–	–	–	–	–	133
	3 230	–	–	–	–	–	–	3 230

Directors' emoluments continued

2010 (R'000)	Directors' fees	Salaries	Bonus and performance-related payments	Other allowances	Gains on long-term incentive scheme	Medical aid contributions	Pension fund contribution	Total
Executive directors								
CMD Flemming	–	1 967	3 780	676	2 850	21	565	9 859
RJ Hogarth	–	1 011	1 213	339	1 088	14	342	4 007
	–	2 978	4 993	1 015	3 938	35	907	13 866
Non-executive directors								
MA Brey	206	–	–	–	–	–	–	206
YZ Cuba	123	–	–	–	–	–	–	123
CWJ Lyons	173	–	–	–	–	–	–	173
Dr JPF Dalmeyer	126	–	–	–	–	–	–	126
Prof GJ Gerwel	320	–	–	–	–	–	–	320
EW Mbuthia	282	–	–	–	–	–	–	282
LZ Brozin	157	–	–	–	–	–	–	157
Dr MP Ngatane	105	–	–	–	–	–	–	105
RCM Laubscher	90	–	–	–	–	–	–	90
GC Solomon	433	–	–	–	–	–	–	433
NV Mokhesi	69	–	–	–	–	–	–	69
LM Mojela	85	–	–	–	–	–	–	85
PJ Golesworthy	123	–	–	–	–	–	–	123
TS Munday	27	–	–	–	–	–	–	27
	2 319	–	–	–	–	–	–	2 319

The directors' fees are paid by the subsidiary company of Life Healthcare Group Holdings Limited.

Prescribed officer

In line with the requirements of the new Companies Act, the Group discloses the remuneration paid to prescribed officers who are defined as the Group's chief executive officer (CMD Flemming) and the Group's chief financial officer (RJ Hogarth) in line with a legal opinion. Refer above for the directors' remuneration for the prescribed officers.

Proposed non-executive directors' emoluments for 2012

			2011		2012	
Committee	Number of meetings in 2012	Entity	Current fee	Current annual cost	Proposed fee	New annual cost
Directors' fees	4	Chairperson	75 000.00	300 000.00	150 000.00	600 000.00
		Board member	35 000.00	140 000.00	37 500.00	150 000.00
Audit	4	Chairperson	42 500.00	170 000.00	45 600.00	182 400.00
		Committee member	25 000.00	100 000.00	26 800.00	107 200.00
Remuneration	3	Chairperson	43 333.33	130 000.00	46 500.00	93 000.00
		Committee member	21 666.67	65 000.00	23 300.00	69 900.00
Nominations	2	Chairperson	43 350.00	86 700.00	46 500.00	93 000.00
		Committee member	21 650.00	43 300.00	23 300.00	46 600.00
Risk	2	Chairperson	43 350.00	86 700.00	46 500.00	93 000.00
		Committee member	21 650.00	43 300.00	23 300.00	46 600.00
Investment	3	Chairperson	43 350.00	130 050.00	46 500.00	139 500.00
		Committee member	21 650.00	64 950.00	23 300.00	69 900.00
Social, ethics and transformation	2	Chairperson	43 350.00	86 700.00	46 385.00	92 770.00
		Committee member	21 650.00	43 300.00	23 300.00	46 600.00

Any additional meeting called will be remunerated as follows:
- Chairman: R26 750
- Board member: R13 375

It is proposed that the current travel and subsistence benefits remain unchanged.

Risk management report

A combined assurance model has been developed during the year by the Group risk manager which serves as a formal platform to facilitate the identification, prioritisation, assessment, mitigation and monitoring of operating, financial and business risks. The business unit managers, in conjunction with the Group risk manager and internal audit manager, are responsible for implementing control processes and for providing the necessary assurance that the controls are implemented and maintained. Appropriate action plans ensure that significant risks are reduced to acceptable levels.

The risk committee is satisfied that there is adequate, ongoing risk management processes in place, providing reasonable assurance that key risks are professionally identified, evaluated and managed. The following risks have been identified specifically related to conducting business in South Africa and the southern African region and financial market risks:

Risk	Description of risk	Risk mitigation	Responsible committee
Regulatory environment	• The healthcare industry is subject to government regulations relating to licences, conduct of operations, security of medical records and certain categories of pricing • That some form of regulated pricing remains	• The Group closely monitors and participates where possible in any new proposed legislation • The Group has a health policy executive dedicated to assist with government relations • The Group does pertinent research and analysis to assist in the debate regarding any proposed legislative initiatives	Risk committee
National Health Insurance (NHI)	• The government released a green paper on NHI in August 2011, which covers a high level strategic direction only	• The Group continues to monitor developments and will engage with stakeholders where appropriate • The Group will provide a response to the green paper, both as an individual organisation as well as through the Hospital Association of South Africa (HASA) • The Group will prepare for NHI accreditation at appropriate Life Healthcare facilities	Risk committee

Risk	Description of risk	Risk mitigation	Responsible committee
Doctor shortages	• Doctors are not employed by the Group and may terminate their association with the Group at any time • Insufficient doctors are being trained to address the health needs of, and general shortage in, the country	• The Group maintains strong relationships with its doctors and strives to provide quality infrastructural and nursing support as well as high technology facilities and equipment to attract and retain doctors • The Group currently sponsors a number of fellowships • The Group is significantly increasing its funding for the training of specialists through the College of Medicines in a R78 million, six-year programme • The Group's doctor shareholding model results in increased doctor loyalty	Risk committee
Skilled personnel shortages	• South Africa has an increasing shortage of nurses, pharmacists and other healthcare professionals • The effect of HIV/Aids on staff	• The Group offers competitive pay, opportunities for career advancement and ongoing training through the Life College of Learning. These benefits have assisted in employee retention • 1 444 nursing students are enrolled at the Life College of Learning this year • The Group supports staff via a variety of wellness programmes, including HIV/Aids education and support	Remuneration and human resources committee
Poor investment decisions	• Poor investment decisions (local and offshore) may impact on the Group's growth	• The Group's strategy and development team manages all investments, including due diligence reviews • Post investment reviews for all material investments are undertaken	Investment committee

Risk management report continued

Risk	Description of risk	Risk mitigation	Responsible committee
Competition from other healthcare providers	• The Group competes for patients with other providers of medical services	• The Group competes successfully by maintaining close relationships with medical schemes and by driving cost efficiency to secure preferred network agreements • The Group also continues to: – improve its geographical coverage of hospitals as well as adding new lines of business – invest in facilities and equipment to support the delivery of world-class healthcare – build on its quality programme and benchmark against international best practices	Risk committee
Payments from government	• Life Esidimeni operates under contract to Provincial Departments of Health and Social Welfare and is dependent on payments which are sometimes delayed • A small percentage of the Group's hospital revenue comes from compensation for occupational injuries and diseases (COID)	• Government contracts are monitored carefully and targets for payments are set, as reductions or delays could adversely affect the Group business and profits • We have a centralised COID office to assist with payments from COID. Payments are monitored on a monthly basis and regular meetings are conducted with representatives of COID	Audit committee
Equipment and facilities	• The Group must remain abreast of advancements in medical technology and equipment needs or will lag in healthcare delivery	• The Group continues to ensure that there are facilities, technology and equipment to attract doctors, nurses and patients in order to achieve the Group's growth, efficiency and sustainability strategies. A total of R686 million has been allocated for capital expenditure in 2012	Risk committee

Risk	Description of risk	Risk mitigation	Responsible committee
Industrial action	• Strikes or industrial action could impair the Group's business activities	• 16% of employees are members of trade unions. There were no strikes during 2011. The Group has established consultative forums and open channels of communication to maintain good relations with employees	Remuneration and human resources committee
Information technology	• Information management could be compromised with viruses or data corruption, posing a threat to the business • The Group's operations are dependent on uninterrupted performance of information systems; their failure could disrupt business operations	• The Group has achieved the international ISO 27001 information security management system certification and external agencies conduct regular ISO audits • The Group regularly reviews its information management technology and upgrades this where necessary to ensure optimal business efficiencies	Risk committee
Operational risks	• Risks related to dependence on suppliers of essential services, e.g. laundry, medical waste, water, etc; as well as environmental issues	• Preferred suppliers are selected, screened and regularly monitored and reviewed • Back-up and alternative response plans are in place to mitigate outages	Risk committee
Patient lawsuits	• The Group is subjected to lawsuits resulting from negligence, treatment errors and other claims	• The Group has extensive programmes, including ISO 9001 quality certification, to mitigate the risk • The Group has also taken out adequate insurance to cover potential losses	Risk committee

Risk management report continued

Risk	Description of risk	Risk mitigation	Responsible committee
Quality	• If the Group does not maintain and continuously improve quality of the healthcare provided, business operations may be affected	• Systems are in place to manage the quality of care provided to patients • The Group has implemented proven interventions and continues to measure our compliance to international evidence based practices	Risk committee
Real estate management	• If the real estate of the Group is not well managed, it may lead to adverse financial implications	• The Group's property is managed using appropriate property software	Risk committee
Reputational risk	• Adverse events and incidents may lead to a decline in confidence as a trusted health service provider by patients and supporting doctors	• There's a policy and plan to deal with incidents and adverse events • Staff are trained in respect of quality and company protocols to ensure that these are followed in provision of services to patients and supporting doctors	Risk committee
Credit risk	• The majority of hospital bills are paid by medical schemes to which the Group's patients belong. In South Africa, medical schemes are subject to regulation by the Council of Medical Schemes and are required to maintain reserves of 25% • Other payments include government insurance fund for workers injured on duty and private patients • A range of corporate employers under contracts in the occupational health business	• The Group has a well established and protocol driven case management system in each hospital to manage all medical scheme patients and interaction with the private medical insurer • The Group verifies patients' medical scheme coverage to prevent fraud • Management makes provision for potential losses during the year • Private (self-funding) patients pay deposits up front or make prior payment arrangements	Audit committee

Risk	Description of risk	Risk mitigation	Responsible committee
Liquidity risk	• The Group must maintain sufficient cash, marketable securities and working capital facilities with banks	• The Group has sufficient facilities to meet its operating requirements • Cash flow position is monitored monthly and forecasts done quarterly to ensure that adequate facilities are available	Audit committee
Interest rate risk	• The Group's working capital and loan facilities bear interest at variable rates	• The Group analyses its interest rate exposure, taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Interest rate hedges are used to manage exposure to this risk	Audit committee
Foreign exchange risk	• Pharmaceuticals, surgical supplies and medical equipment are generally imported. Although prices are denominated in rand, the rand prices are linked to US dollars or euros. The Group has a hospital in Botswana and is exposed to foreign currency movements there	• The Group has limited foreign exchange risk. Our policy is to take forward cover on any material currency exposure. Local suppliers are required to quote prices in rands	Audit committee

Life Healthcare facilities

Life hospitals, mental health and rehabilitation facilities

Botswana		
Life Gaborone Private Hospital	8448, Mica Way, Broadhurst, Gaborone, Botswana	00267 368 5600
Eastern Cape		
Life Beacon Bay Hospital	32 Quenera Drive, Beacon Bay, East London 5201	043 711 5100
Life East London Private Hospital	32 Albany Street, East London 5201	043 722 3128
Life Grey Monument Private Clinic	Lonsdale Street, King William's Town 5601	043 643 3522
Life Hunterscraig Private Hospital	22 Park Drive, Central, Port Elizabeth 6001	041 586 2664
Life Isivivana Private Hospital	Du Plessis Street, Humansdorp 6300	042 295 1100
Life Mercantile Hospital	Cnr Kempston and Durban Roads, Korsten, Port Elizabeth 6020	041 404 0400
Life Queenstown Private Hospital	Cnr Ebden and Griffith Streets, Queenstown 5319	045 838 4110
Life St Dominic's Hospital	45 St Mark's Road, Southernwood, East London 5201	043 707 9000
Life St George's Hospital	40 Park Drive, Central, Port Elizabeth 6001	041 392 6111
Life St James Hospital	36 St James Road, Southernwood, East London 5201	043 722 9685
Life St Mark's Clinic	16 St Andrews Road, Southernwood, East London 5201	043 707 4400
Life St Mary's Private Hospital	30 Durham Road, Mthatha, Transkei 5099	047 531 2911
Free State		
Life Pasteur Hospital	54 Pasteur Drive, Hospitaalpark, Bloemfontein 9301	051 522 6601
Life Rosepark Hospital	57 Gustav Crescent, Fichardt Park, Bloemfontein 9301	051 505 5111
Gauteng		
Life Bedford Gardens Hospital	7 Leicester Rd, Bedford Gardens, Bedfordview 2008	011 677 8500
Life Birchmed Surgical Centre	8 Tiger Street, Birchleigh Ext 16, Kempton Park 1619	011 391 3300
Life Brenthurst Clinic	4 Park Lane, Parktown, Johannesburg 2193	011 647 9000

Gauteng continued

Life Brooklyn Hospital	154 Olivier Street, Brooklyn 0181	012 346 6240
Life Carstenhof Clinic	21 Dane Road, Glen Austin, Midrand 1685	011 655 5500
Life Dalview Clinic	11 Hendrik Potgieter Road, Brakpan 1541	011 747 0747
Life Eugene Marais Hospital	696 5th Avenue, Les Marais, Pretoria 0084	012 334 2777
Life Faerie Glen Hospital	Cnr Atterbury Road and Oberon Avenue, Faerie Glen 0043	012 369 5600
Life Flora Clinic	William Nicol Drive, Floracliffe, Florida 1709	011 470 7777
Life Fourways Hospital	Cnr Cedar Road and Cedar Avenue West, Fourways 2055	011 875 1000
Life Glynnview	129 – 131 Howard Avenue, Benoni, 1501	011 741 5460
Life Little Company of Mary Hospital	50 George Storrar Drive, Groenkloof, Pretoria 0181	012 424 3600
Life New Kensington Clinic	23 Roberts Avenue, Kensington, Johannesburg 2094	011 614 7125
Life Pretoria North Surgical Centre	260 Burger Street, Pretoria North 0182	012 546 0322
Life Riverfield Lodge	34 Southernwoods Road, Nietgedacht, Randburg 2194	086 074 8373
Life Robinson Private Hospital	Hospital Road, Randfontein 1759	011 278 8700
Life Roseacres Clinic	Cnr Castor and St Joseph Streets, Symhurst, Primrose, Germiston 1401	011 842 7500
Life Sandton Surgical Centre	200 Rivonia Road, Morningside 2057	011 883 1400
Life Springs Parkland Clinic	Artemis Road, Pollak Park, Springs 1559	011 812 4000
Life St Mary’s Women’s Clinic	15 Middelsex Street, Springs 1559	011 815 6885
Life Suikerbosrand Clinic	Cnr HF Verwoerd and Maré Streets, Heidelberg 1441	016 342 9200
Life The Glynnwood	33 – 35 Harrison Street, Benoni 1501	011 741 5000
Life Wilgeheuwel Hospital	Amplifier Road, Radiokop Ext 13, Roodepoort 1724	011 796 6500
Life Wilgers Hospital	Cnr Lynnwood and Simon Vermooten Roads, Die Wilgers Ext 14, Pretoria 0040	012 807 8100

Life Healthcare facilities continued

KwaZulu-Natal		
Life Chatsmed Garden Hospital	80 Woodhurst Drive, Woodhurst, Chatsworth 4092	031 459 8000
Life Empangeni Garden Clinic	Cnr Biyela and Ukula Streets, Empangeni 3880	035 902 8000
Life Entabeni Hospital	148 Mazisi Kunene (South Ridge) Road, Berea, Durban 4001	031 204 1300
Life Hillcrest Accident and Emergency Unit	54 Old Main Road, Hillcrest 3610	031 765 7815
Life Mount Edgecombe Hospital	163 – 179 Redberry Road, Rockford, Phoenix 4068	031 537 4000
Life The Crompton Hospital	102 Crompton Street, Pinetown 3610	031 702 0777
Life Westville Hospital	7 Spine Road, Westville 3630	031 251 6911
Mpumalanga		
Life Cosmos Hospital	Cnr OR Tambo and Beatty Avenues, eMalahleni 1035	013 653 8000
Life Midmed Hospital	Cnr OR Tambo and Joubert Streets, Middelburg 1050	013 283 8700
North West province		
Life Anncron Clinic	Cnr Dr Yusuf Dadoo and Hartley Streets, Wilkoppies, Klerksdorp 2571	018 468 0000
Life La Femme Clinic	Cnr Kerk and Heystek Streets, Rustenburg 0299	014 594 9500
Life Peglerae Hospital	173 Beyers Naude Drive, Rustenburg 0299	014 597 7200
Western Cape		
Life Bay View Private Hospital	Cnr Alhof and Ryk Tulbach Streets, Mossel Bay 6506	044 691 3718
Life Claremont Hospital	Main Road, Claremont 7700	021 670 4300
Life Kingsbury Hospital	Wilderness Road, Claremont 7700	021 670 4000
Life Knysna Private Hospital	Hunters Drive, Hunters Estate, Knysna 6570	044 384 1083
Life Orthopaedic Hospital	Alexandra Road, Pinelands, Cape Town 7405	021 506 5400
Life Sports Science Orthopaedic Surgical Day Centre	Mariendahl Terrace, off Sports Pienaar Road, Newlands, Cape Town 7700	021 670 9920
Life Vincent Pallotti Hospital	Alexandra Road, Pinelands, Cape Town 7405	021 506 5111
Life West Coast Private Hospital	22 Voortrekker Street, Vredenburg 7380	022 719 1030

Associate hospitals (managed and/or shareholding)

Ascot Park Hospital	3 Ascot Road, Durban 4001	031 374 8000
Bloemfontein Ophthalmology Trust	Bloemfontein Eye Centre, Life Pasteur Centre, Pasteur Avenue, Hospitaalpark, Bloemfontein 9301	051 522 6601
City Hospital	83 Lorne Street, Durban 4001	031 314 3000
Durdoc Hospital	5th Floor, Durdoc Centre, 460 Smith Street, Durban 4001	031 301 8531
Isipingo Hospital	162 Old Main Road, Isipingo 4110	031 913 7000
Maxwell Clinic	79 Lorne Street, Durban 4001	031 314 3000

Life Esidimeni facilities

Coastal		
Algoa Frail Care Centre	Mission Road, Bethelsdorp, Port Elizabeth 6001	041 372 8013/4
Conradie Care Centre	Forest Drive Extension, Pinelands, Cape Town 7405	021 532 3940
Kirkwood Care Centre	Sonop Street, Kirkwood, Eastern Cape 6120	042 230 0333
Lorraine Frail Care Centre	3 Sedan Avenue, Lorraine, Port Elizabeth 6070	041 379 1213
Gauteng		
Baneng Care Centre	91 Leader Road, Robertville, Roodepoort 1709	011 474 0400
Randfontein Care Centre	Old South Compound, Randfontein Estate Gold Mine, 28 Maugham Street, Randfontein 1759	011 693 7263
Randwest Care Centre	Old South Compound, Randfontein Estate Gold Mine, 28 Maugham Street, Randfontein 1759	011 693 7263
Waverley Care Centre	Main Reef Road, Knights, Germiston 1413	011 776 8600
Witpoort Care Centre	185 Lemmer Road, Vulcania, Brakpan 1541	011 817 6901/2
Limpopo		
Shiluvana Hospital	Ezekhaya Farm, Ritavi District, Tzaneen 0850	015 355 7902/3
Mpumalanga		
Matikwana Hospital	Stand No 413, Main Street, Mkhuhlu 1246	013 708 6024
Siyathuthuka Care Centre	938 Zakheni Street, Siyathuthuka, Belfast 1100	013 255 0391

Life Healthcare facilities continued

Life College of Learning

Learning centres

Bay View Nursing School	Life Bay View Private Hospital, 12 Ryk Tulbach Drive, Da Nova, Mossel Bay 6500	044 691 3718
Bloemfontein Learning Centre	Life Pasteur Hospital, 54 Pasteur Drive, Hospitaalpark, Bloemfontein 9301	051 522 1828/9
Cape Town Learning Centre	First Floor, The Park, Park Lane Pinelands, Cape Town 6405	021 506 5310
East London Learning Centre	Life St Dominic's Hospital, 45 St Mark's Road, Southernwood, East London 5201	043 742 4438
East Rand Learning Centre	18 Lakeview Crescent, Kleinfontein Lake, Benoni 1501	011 744 8600
KwaZulu-Natal Learning Centre	Nazareth House, 82 Mazisi Kunene (South Ridge) Road, Berea, Durban 4001	031 204 1352/1455
Midmed Learning Centre	22 OR Tambo Street, Shop 1, Middelburg, Mpumalanga 1050	013 243 3924/1302
Port Elizabeth Learning Centre	Ground Floor, Oasim North Building, Havelock Street, Central, Port Elizabeth 6001	041 501 1851
Pretoria Learning Centre	Room 8 Denneboom Office Park, cnr Lynnwood and Simon Vermooten Roads, Die Wilgers Ext 14, Pretoria 0041	012 807 6140/1/2
West Rand Learning Centre	91 Leader Road, Robertville, Roodepoort 1709	011 474 0400

Life Healthcare Group

Annual Financial Statements 2011

Making life better

Annual financial statements

Administration	111
Statement of directors' responsibility	112
Statement from company secretary	112
Report of the audit committee	113
Independent auditors' report	115
Directors' report	116
Consolidated statement of financial position	120
Consolidated statement of comprehensive income	121
Consolidated statement of changes in equity	122
Consolidated statement of cash flows	123
Notes to the group annual financial statements	124
Annexure A: subsidiary undertakings	202
Annexure B: associate undertakings	205
Annexure C: shareholder distribution	206
Company statement of financial position	208
Company statement of comprehensive income	209
Company statement of changes in equity	210
Company statement of cash flows	211
Note to the company annual financial statements	212


AIR
CO2
N2O

Administration

for the year ended 30 September 2011

Company name	Life Healthcare Group Holdings Limited
Registration number	2003/002733/06
Date of incorporation	7 February 2003
Country of incorporation	Republic of South Africa
Registered business address	Oxford Manor 21 Chaplin Road Illovo 2196
Registered postal address	Private Bag X13 Northlands 2116
Composition of board of directors	Prof GJ Gerwel (chairman) CMD Flemming (chief executive officer) RJ Hogarth (chief financial officer) MA Brey Adv F du Plessis PJ Golesworthy KM Gordhan LM Mojela TS Munday JK Netshitenzhe Dr MP Ngatane GC Solomon
Company secretary	F Patel
Transactional bankers	First National Bank
Auditors	PricewaterhouseCoopers Inc. Johannesburg

Preparation of the annual financial statements

These financial statements have been audited by our external auditors PricewaterhouseCoopers Inc. The preparation of the financial statements was supervised by RJ Hogarth (chief financial officer).

Statement of directors' responsibility

for the year ended 30 September 2011

The directors are responsible for the preparation, integrity and fair presentation of the consolidated and company financial statements of Life Healthcare Group Holdings Limited and its subsidiaries (Group) in accordance with International Financial Reporting Standards (IFRS) and the Companies Act of South Africa.

The directors consider that in preparing the financial statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all International Financial Reporting Standards that they consider to be applicable have been followed. The directors are satisfied that the information contained in the financial statements fairly presents the consolidated and separate financial position of Life Healthcare Group Holdings Limited at 30 September 2011, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended. The directors also prepared the other information included in the annual report and are responsible for both its accuracy and its consistency with the financial statements.

The directors have responsibility for ensuring that accounting records are kept. The accounting records, disclose with reasonable accuracy, the financial position of the Group and the Company and enable the directors to ensure that the financial statements comply with the relevant legislation.

Life Healthcare Group Holdings Limited and its subsidiaries operated in a well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and the risks facing the business are being controlled. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The going concern basis has been adopted in preparing the financial statements. The directors have no reason to believe that the Group or any operating company within the Group will not be going concerns in the foreseeable future, based on forecasts, available cash resources and available banking facilities. These financial statements support the viability of the Group.

The Code of Corporate Practices and Conduct has been adhered to.

The Group's external auditors, PricewaterhouseCoopers Inc., audited the financial statements, and their unqualified audit report is presented on page 115.

Approval of financial statements

The financial statements were approved by the board of directors on 16 November 2011 and are signed on its behalf:

Prof GJ Gerwel
Chairman

CMD Flemming
Chief executive officer

Johannesburg

Statement from company secretary

In terms of the Companies Act of South Africa, all returns submitted as required by the Companies Act are true, correct and up to date and have been lodged with the Registrar.

F Patel
Company secretary

Report of the audit committee

for the year ended 30 September 2011

Introduction

The Life Healthcare Group Holdings Limited audit committee (the committee) is a formal committee of the board. The responsibilities of the committee are outlined in its written terms of reference which are reviewed annually and the terms of reference are in line with the Companies Act of South Africa, King III and the JSE Listings Requirements. The committee has an independent role with accountability to both the board and shareholders.

This report of the committee is presented to the shareholders in terms of section 94(f) of the Companies Act, No 71 of 2008 (the Companies Act).

Composition of the audit committee

The committee was appointed by the board for the 2011 financial year. Shareholders will be asked to approve the appointment of the chairman and members of the committee for the 2012 financial year at the annual general meeting of the Company which will be held on 26 January 2012.

The current committee comprises four independent non-executive directors who are all financially literate.

Messrs PJ Golesworthy (chairman) and TS Munday, Adv FA du Plessis and Ms LM Mojela currently serve on the committee. The chairman of the audit committee is not the chairman of the board.

The biographical details of the committee members appear on pages 22 to 24 of the integrated report. The fees paid to committee members are outlined in the table of directors' remuneration on pages 198 and 199.

The chief executive office, chief financial officer, head of internal audit, Group risk manager and senior management in the financial department attended meetings at the invitation of the committee, together with the external auditors.

Role of the audit committee

The overall function of the committee is to assist the directors in discharging their responsibilities relating to the safeguarding of assets, the operation of adequate and effective systems and control processes and the preparation of the integrated report and fairly presented financial statements in compliance with all applicable legal and regulatory requirements and accounting standards.

In respect of the year ended 30 September 2011, the committee executed its responsibilities in accordance with its terms of reference. The committee performed, among others, the following functions:

- Reviewed and recommended for approval the interim results and annual financial statements and the related SENS and press announcement.
- Considered the factors and risks that might impact the financial reporting.
- Confirmed the going concern basis of preparation of the annual financial statements.
- Reviewed and recommended for approval the integrated report, including the disclosure of sustainability issues.
- Assessed the effectiveness of internal controls systems and formed the opinion that there were no material breakdowns in internal control.
- Reviewed the internal audit charter in line with King III recommendations, and recommended the approval thereof to the board.
- Approved the internal audit plan for the 2011 financial year on a six month rolling basis.
- Reviewed the progress in the development of the combined assurance model.
- Reviewed and evaluated reports relating to internal audit and risk management.
- Nominated PricewaterhouseCoopers Inc. (PwC) as the Group's registered external auditors and FJ Lombard the designated partner, respectively to the shareholders for appointment as auditors for the financial year ended 30 September 2011.
- Approved the external audit engagement letter, the audit plan and the budgeted audit fees payable to the external auditors.
- Reviewed the quality and effectiveness of the external audit process.
- Obtained a statement from the independent auditors confirming that its independence was not impaired.

Report of the audit committee continued

for the year ended 30 September 2011

- Confirmed that no reportable irregularities had been identified or reported by the independent auditors under the Auditing Professions Act.
- Ensured no limitations were imposed on the scope of the external audit.
- Determined the nature and extent of non-audit services performed by the external auditors.
- Reviewed and recommended dividends/distributions to the board.
- Performed the functions required in terms of section 94 (2)(b) of the Companies Act on behalf of the subsidiary companies.
- Considered whether there were any concerns or complaints whether from within or outside the Company relating to the accounting practices and internal audit of the Company, the content or auditing of the Company's financial statements, the internal financial controls of the Company or any related matter.
- Made submissions to the board on matters concerning the Company's accounting policies, financial control, records and reporting.

External auditors

PricewaterhouseCoopers Inc. (PwC) served as the Group's registered external auditors for the 2011 financial year and FJ Lombard the designated partner.

The auditors' terms of engagement were approved prior to the year-end audit on a Group basis, taking into consideration factors such as the timing of the subsidiary audits, the extent of work required and scope of the audit. The fees paid to the external auditors are disclosed in note 26 to the annual financial statements. The committee satisfied itself that the external auditors' appointment complies with the Companies Act, the Auditing Profession Act and the JSE Listings Requirements.

The audit committee has satisfied itself through enquiry that both PwC and the audit partner are independent as defined by the Companies Act and as per the standards stipulated in the audit profession. The external auditors provided assurance that their internal governance processes within their audit firm support and demonstrate their claim to independence.

The committee has established a policy in terms of which the nature and extent of all non-audit services provided by PwC are reviewed and approved in advance. These services were limited to R1 133 000 for the current year and comprise mainly audit certificates required in terms of certain contracts and the review of compliance to quality standards and due diligence activities in relation to proposed acquisitions.

Expertise and experience of the chief financial officer and the finance team

As required by the JSE Listing Requirements, the committee is satisfied that the expertise and experience of the chief financial officer is appropriate to meet the responsibilities of the position.

The committee considered the expertise, resources and experience of the Group's finance function and concluded that these were appropriate to meet the requirements of the Group.

Approval of the report

The committee confirms for the 2011 financial year that it has functioned in accordance with its terms of reference and as required by the Companies Act and that its report to the shareholders has been approved by the board.

On behalf of the audit committee

P. J. Golesworthy

PJ Golesworthy

Chairman: audit committee
Johannesburg
16 November 2011

Independent auditors' report

for the year ended 30 September 2011

We have audited the consolidated annual financial statements and annual financial statements of Life Healthcare Group Holdings Limited, which comprise the consolidated and separate statements of financial position as at 30 September 2011, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies, other explanatory notes and the directors' report, as set out on pages 116 to 215.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Life Healthcare Group Holdings Limited as at 30 September 2011, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

PricewaterhouseCoopers Inc.
Director: FJ Lombard
Registered auditor
Johannesburg
16 November 2011

Directors' report

for the year ended 30 September 2011

The directors have pleasure in submitting their report on the annual financial statements of the Group and the Company for the year ended 30 September 2011. In the context of the financial statements, the term 'Group' refers to the Company, its subsidiaries, associates and joint ventures. The directors are of the opinion that stakeholders' interests are best served by presenting the Group's annual financial statements separately from those of the Company. The latter financial statements appear on pages 116 to 215.

Nature of the business

Life Healthcare Group Holdings Limited is an investment holding company and through its subsidiaries, associates and joint ventures operates and has extensive interests in private hospitals, sameday surgical centres and healthcare services companies in Southern Africa. The Group is listed on the main board of the JSE Limited.

Financial results

The financial statements from pages 116 to 215 fully set out the financial results of the Group and Company and do not require further comment in this report.

Special resolutions

The following special resolutions were passed during the course of the year:

Life Healthcare Group Holdings Limited

- General authority to repurchase shares.

Subsidiaries

- Subsidiary companies passed special resolutions related to financial assistance for purposes of viz. the provision of inter-company loans and in some instances name changes. A full list of the special resolutions can be obtained from the Company on request.

Share capital

Details of the authorised and issued share capital of the Company are disclosed in note 15 of the Group annual financial statements.

Distribution to shareholders

The Company's distribution policy is to consider an interim and final distribution in respect of each financial year.

The Company declared the following distributions during the current financial year:

Date paid	R'000	Dividend Cents per share	Distribution out of share premium Cents per share	Total Cents per share	Type of distribution
28 December 2010	302 241	29.00	–	29.00	Final 2010
6 June 2011	323 085	20.00	11.00	31.00	Interim 2011

The directors approved a final cash distribution of 54 cents per share on 16 November 2011 by way of a dividend of 18 cents per share and a capital reduction out of share premium of 36 cents per share in terms of the general authority granted to directors at the annual general meeting held on 27 January 2011. Distributions are only accounted for on the date of declaration. As a result the final distribution is not accounted for in the annual financial statements.

In compliance with the requirements of the JSE Limited, the following dates are applicable:

Last day to trade 'cum' the dividend	2 December 2011
Trading 'ex' the dividend commences	5 December 2011
Record date	9 December 2011
Payment date	12 December 2011

Interest in subsidiaries, associates and joint ventures

Material changes in holdings in subsidiaries, associates and joint ventures were:

- On 1 August 2011, the Group acquired a further 12.5% of the share capital in Middelburg Private Hospital (Pty) Limited and Middelburg Hospital Limited (Midmed) collectively bringing the holding in Midmed to 57.5%. Midmed was previously accounted for as an associate.
- The Group started up a psychiatric hospital Glynnview Wellness Centre (Proprietary) Limited on 1 April 2011.
- On 1 October 2010 the operations for the Cosmos Hospital and the Faerie Glen Hospital were transferred to separate legal entities. The Group sold 20% of the Cosmos Hospital and 40% of the Faerie Glen Hospital to non-controlling interests.

Details of holdings in subsidiaries, associates and joint ventures are disclosed in Annexure A, Annexure B and notes 7 and 8 in the annual financial statements.

Property, plant and equipment

The Group's property, plant and equipment is owned by its subsidiaries and the book value amounts to R3 753 326 000 (2010: R3 257 593 000). There were no changes in the nature of property, plant and equipment or in the policy regarding their use during the year.

Board of directors

The names of the directors in office at the date of this report are set out on page 111 and the company secretary's details are set out on page 111. The remuneration of the directors is set out in note 36 to the annual financial statements.

Appointments

Adv F du Plessis, JK Netshitenzhe and KM Gordhan were appointed as independent non-executive directors on 30 November 2010.

Resignations

LZ Brozin and CWJ Lyons resigned as alternate directors on 17 December 2010. PN Boynton resigned as alternate director on 1 March 2011. Dr JPF Dalmeyer and YZ Cuba retired as non-executive directors at the annual general meeting of the Company held on 27 January 2011.

Directors' report continued

for the year ended 30 September 2011

Interests of directors

At 30 September, directors owned ordinary shares in the Company, directly or indirectly, as follows:

	2011		2010	
	Direct	**Indirect**	Direct	Indirect
Non-executive directors				
Prof GJ Gerwel	**987 000[6]**	**5 474 225[6]**	–	6 448 922[1]
MA Brey	**685 463[6]**	**7 776 923[6,7]**	–	7 792 067[1,4]
GC Solomon	**107 000**	**–**	107 000[2]	–
PJ Golesworthy	**22 000**	**–**	22 000[2]	–
TS Munday	**–**	**19 400[8]**	–	–
LM Mojela	**–**	**–**	–	–
Adv F du Plessis	**–**	**–**	n/a	n/a
JK Netshitenzhe	**–**	**–**	n/a	n/a
KM Gordhan	**–**	**–**	n/a	n/a
Dr MP Ngatane	**–**	**–**	–	–
Dr JPF Dalmeyer*	**784 350**	**–**	783 008[3]	–
YZ Cuba*	**55 493**	**–**	55 460[5]	233 349
Executive directors				
CMD Flemming	**9 232 463**	**1 522 615**	10 715 078	40 000[1]
RJ Hogarth	**5 446 415**	**–**	5 446 415	
Alternate directors				
LZ Brozin~	**–**	**1 572 387**	–	1 572 387[1]
PN Boynton~	**–**	**–**	–	–
CWJ Lyons#	**–**	**135 021**	–	135 021[1]
	17 320 184	**16 500 571**	17 128 961	16 221 746

Retired on 27 January 2011.

~Resigned on 17 December 2010. The shares are shown as indirect. At the time of resignation these shares were still held through Health Strategic Investments Limited (HSI).

#Resigned on 1 March 2011.

In 2010, the direct and indirect holdings of certain directors have been affected by specific transactions related to the listing. Prior to the listing of the Company on the JSE Limited, a restructuring of certain shareholdings, share repurchases, share purchases and the release of shares in terms of the Performance Equity Scheme was completed.

Subsequent to the listing certain shareholders unbundled their interest in the Company. Brimstone Investment Corporation Limited (Brimstone) and Mvelaphanda Holdings Limited (Mvela) decided to unbundle their shareholding in the Company to their respective shareholders via Health Strategic Investments Limited (HSI). Life Doctor Investments Limited (Docvest), through which doctors had invested in the Company, distributed their holding *in specie* to its shareholders.

1 *Previously no direct or indirect shares were held. With the listing of the Company and the unbundling of interests in the Company by Brimstone and Mvela through HSI, which listed on the JSE Limited on 16 August 2010, a Brimstone or Mvela shareholder would have received HSI shares. The indirect shareholding reflects the holding held through HSI. The HSI shares were unbundled after the expiry of the 180 day lock-in period. This unbundling resulted in shareholders holding ordinary shares in the Company directly.*

2 *These shares were bought on or after the listing.*

3 *The holding is a result of the distribution in specie of shares in the Company by Docvest. These shares are subject to the 180 day lock-in period.*

4 *12 740 shares were held in Life Healthcare by associates of the director. These shares were bought on or after the listing.*

5 *These shares were bought as part of the book-build pre-listing.*

6 *Shares acquired on the unbundling of the HSI shares through various Brimstone structures.*

7 *141 774 shares are held in Life Healthcare by associates of the director and includes shares acquired on the unbundling of the HSI shares through various Brimstone structures.*

8 *An associate of the director acquired 18 300 shares after the end of the financial year and prior to the date of approval of the annual financial statements.*

A change in the interests as set out in the table on page 118 has occurred between 30 September 2011 and the date of this report (refer to footnote 8 on page 118). No arrangements to which the Company is a party existed at year end that would enable the directors, alternate directors or their families to acquire benefits by means of the acquisition of shares in the Companies.

There were no contracts of any significance during or at the end of the financial year in which any director or alternate director of the Company had a material interest.

The board of directors are of the opinion that the Group and the Company will be a going concern in the foreseeable future. The directors have considered the budget and cash flow forecast for the 2012 year. The Group is in a sound financial position and it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. Key management are in place. The directors therefore consider it appropriate to adopt the going concern basis in the preparation of the Group and Company annual financial statements.

Auditors

The board of directors recommend that PricewaterhouseCoopers Inc., are re-appointed as auditors of the Company and the Group in terms of the resolution to be proposed at the annual general meeting in accordance with section 90(1) of the Companies Act.

Secretary

The address of the Company's secretary is the same as the Company's registered address and appears on page 111 of the report.

Events after the reporting date

No other material events occurred between 30 September 2011 and the date of this report that need further comment, in addition to those already disclosed in note 39 to the annual financial statements.

Consolidated statement of financial position

at 30 September 2011

	Notes	2011 R'000	2010 R'000
ASSETS			
Non-current assets		**6 774 670**	6 193 470
Property, plant and equipment	5	**3 753 326**	3 257 593
Intangible assets	6	**2 296 023**	2 219 692
Investment in associates	7	**287 444**	285 448
Loans receivable	9	**4 755**	5 828
Retirement benefit asset	10	**205 086**	203 026
Post-retirement medical aid benefit	10	**77 012**	75 131
Operating lease asset	19	**686**	2 056
Deferred tax assets	11	**150 338**	144 696
Current assets		**1 693 347**	1 678 533
Inventories	12	**192 887**	184 795
Trade and other receivables	13	**1 091 909**	992 718
Cash and cash equivalents	14	**400 199**	482 156
Loans to associates	7	**6 398**	11 189
Derivative financial instruments	22	**584**	–
Current income tax assets		**–**	6 305
Operating lease asset	19	**1 370**	1 370
TOTAL ASSETS		**8 468 017**	7 872 003
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	15	**1**	1
Treasury shares	15	**(6 420)**	–
Share premium	16	**3 747 904**	3 956 346
Other reserves	17	**(15 310)**	(28 899)
Accumulated loss		**(208 253)**	(1 078 773)
		3 517 922	2 848 675
Non-controlling interest		**866 381**	666 498
TOTAL EQUITY		**4 384 303**	3 515 173
LIABILITIES			
Non-current liabilities		**2 084 027**	2 566 444
Interest-bearing borrowings	18	**1 564 637**	2 024 441
Deferred tax liabilities	11	**368 245**	376 030
Derivative financial instruments	22	**–**	21 938
Provisions	21	**28 280**	24 590
Operating lease liability	19	**55 560**	53 982
Post-retirement medical aid liability	10	**67 305**	65 463
Current liabilities		**1 999 687**	1 790 386
Trade and other payables	20	**1 260 739**	1 153 700
Provisions	21	**161 253**	124 584
Interest-bearing borrowings	18	**459 794**	450 082
Shareholders for dividends		**708**	–
Current income tax liabilities		**107 211**	56 614
Derivative financial instruments	22	**9 982**	5 406
TOTAL LIABILITIES		**4 083 714**	4 356 830
TOTAL EQUITY AND LIABILITIES		**8 468 017**	7 872 003

Consolidated statement of comprehensive income

for the year ended 30 September 2011

	Notes	2011 R'000	2010 R'000
Revenue	24	**9 811 964**	8 786 334
Other income	25	**101 767**	94 441
Ethicals and surgicals consumed		**(2 621 746)**	(2 430 197)
Employee benefits expense	27	**(3 227 692)**	(2 967 005)
Depreciation on property, plant and equipment	26	**(299 019)**	(263 208)
Amortisation of intangible assets	26	**(110 268)**	(122 446)
Impairment of intangible assets	26	**(64 798)**	–
Repairs and maintenance expenditure on property, plant and equipment	26	**(130 889)**	(110 227)
Retirement benefit asset	10	**2 060**	102 765
Post-retirement medical aid	10	**39**	2 584
Occupational expenses		**(284 230)**	(241 187)
Hospital service expenses		**(501 804)**	(474 245)
Communication expenses		**(113 724)**	(108 002)
Other expenses		**(486 122)**	(412 825)
Profit on disposal of businesses	35	**–**	10 449
Gain on remeasuring of fair value of equity interest before business combination		**92 454**	–
Additional receipt on previously disposed business		**4 713**	–
Operating profit		**2 172 705**	1 867 231
Fair value gain/(losses) on derivative financial instruments	22	**14 466**	(26 269)
Finance income	28	**37 290**	41 307
Finance cost	28	**(251 112)**	(342 152)
Share of associates' net profit after tax	7	**115 424**	99 862
Profit before tax	26	**2 088 773**	1 639 979
Tax expense	29	**(596 545)**	(804 767)
Profit after tax		**1 492 228**	835 212
Other comprehensive income			
Currency translation differences		**1 839**	(2 564)
Total comprehensive income for the year		**1 494 067**	832 648
Profit after tax attributable to:			
Ordinary equity holders of the parent		**1 287 221**	664 321
Non-controlling interest		**205 007**	170 891
		1 492 228	835 212
Total comprehensive income attributable to:			
Ordinary equity holders of the parent		**1 288 159**	661 757
Non-controlling interest		**205 908**	170 891
		1 494 067	832 648
Weighted average shares in issue ('000)	30	**1 041 523**	1 029 883
Earnings per share (cents)	30	**123.59**	64.50
Diluted earnings per share (cents)	30	**123.59**	64.50

Consolidated statement of changes in equity

for the year ended 30 September 2011

R'000	Notes	Ordinary share capital	Treasury shares	Share premium	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
		Attributable to equity holders of the Company							
Balance at 1 October 2009		1	–	23 350	224 610	2 072 480	2 320 441	609 851	2 930 292
Total comprehensive income for the year		–	–	–	(2 564)	664 321	661 757	170 891	832 648
Profit for the year		–	–	–	–	664 321	664 321	170 891	835 212
Other comprehensive income		–	–	–	(2 564)	–	(2 564)	–	(2 564)
Share based payment reserve movement		–	–	–	74 357	–	74 357	–	74 357
Realisation of share based payment reserve		–	–	–	(305 333)	305 333	–	–	–
Deferred tax on share based payment reserve modification		–	–	–	–	20 061	20 061	–	20 061
Transactions with non-controlling interests		–	–	–	(19 969)	–	(19 969)	–	(19 969)
Capital repayments to non-controlling interests		–	–	–	–	–	–	(28 423)	(28 423)
Distribution to shareholders		–	–	–	–	(529 708)	(529 708)	(85 821)	(615 529)
Issue of shares in terms of the Performance Equity Scheme		–	–	395 122	–	(395 122)	–	–	–
Issue of shares at listing		–	–	4 340 884	–	–	4 340 884	–	4 340 884
Share repurchase	15	–	–	(803 010)	–	(3 216 138)	(4 019 148)	–	(4 019 148)
Balance at 30 September 2010		1	–	3 956 346	(28 899)	(1 078 773)	2 848 675	666 498	3 515 173
Balance at 1 October 2010		1	–	3 956 346	(28 899)	(1 078 773)	2 848 675	666 498	3 515 173
Total comprehensive income for the year		–	–	–	938	1 287 221	1 288 159	205 908	1 494 067
Profit for the year		–	–	–	–	1 287 221	1 287 221	205 007	1 492 228
Other comprehensive income		–	–	–	938	–	938	901	1 839
Transactions with non-controlling interests		–	–	–	12 651	–	12 651	–	12 651
Non-controlling interest arising on business combination	35	–	–	–	–	–	–	127 943	127 943
Change in ownership that does not result in loss of control		–	–	–	–	–	–	15 798	15 798
Distribution to shareholders		–	–	(208 442)	–	(416 701)	(625 143)	(149 766)	(774 909)
Treasury shares	15	–	(6 420)	–	–	–	(6 420)	–	(6 420)
Balance at 30 September 2011		1	(6 420)	3 747 904	(15 310)	(208 253)	3 517 922	866 381	4 384 303
Notes		15	15	16	17				

Consolidated statement of cash flows

for the year ended 30 September 2011

	Notes	2011 R'000	2010 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	32	**2 562 605**	2 233 317
Tax paid		**(616 714)**	(396 291)
Net cash generated from operating activities		**1 945 891**	1 837 026
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment – expand		**(441 687)**	(411 504)
Purchase of property, plant and equipment – property acquisitions		**(140 413)**	–
Purchase of property, plant and equipment – maintain		**(144 369)**	(93 140)
Proceeds on disposal of property, plant and equipment	33	**8 117**	7 401
Subsidiaries acquired	35	**(37 677)**	(260 180)
Disposal of investments in associates and joint ventures	35	**–**	18 900
Dividends from associates	7	**47 735**	51 434
Associate loans received	7	**12 458**	5 960
Intangible assets acquired (software)	6	**(13 609)**	(11 907)
Additional receipt on previously disposed business		**4 713**	–
Cash movement in other investing activities		**16 528**	(2 493)
Net cash utilised in investing activities		**(688 204)**	(695 529)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest-bearing borrowings raised		**–**	2 365 000
Interest-bearing borrowings repaid		**(496 857)**	(2 285 581)
Loan and dividend payments to non-controlling interests		**(143 391)**	(106 499)
Cash flow on increases in ownership interests	35	**(2 168)**	(36 897)
Proceeds on decreases in ownership interests	35	**23 760**	6 022
Finance cost		**(165 458)**	(311 430)
Finance income		**37 290**	41 307
Issue of shares at listing		**–**	4 340 884
Ordinary shares repurchased	34	**–**	(4 268 017)
Treasury shares		**(6 420)**	–
Distributions to shareholders		**(625 143)**	(532 658)
Net cash utilised in financing activities		**(1 378 387)**	(787 869)
Net (decrease)/increase in cash and cash equivalents		**(120 700)**	353 628
Cash and cash equivalents – beginning of the year		**482 156**	101 417
Cash balances acquired through business combinations	35	**38 743**	27 111
Cash and cash equivalents – end of the year	14	**400 199**	482 156

Notes to the Group annual financial statements

for the year ended 30 September 2011

1. Accounting policies

The financial statements are presented in South African rand unless otherwise stated rounded to the nearest thousand, which is the Group's presentation and functional currency.

1.1 Presentation of annual financial statements

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Companies Act of South Africa. These financial statements have been prepared in accordance with those IFRS standards and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective or issued and early adopted as at 30 September 2011. The annual financial statements are prepared in accordance with the going concern principle under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss, and incorporate the principal accounting policies set out below.

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

1.2 Critical accounting estimates, judgements and assumptions

The preparation of the annual financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in note 3.

1.3 Consolidation

The consolidated annual financial statements include the results of Life Healthcare Group Holdings Limited and its subsidiaries, associates and joint ventures.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that the control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes directly attributable costs of investments.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

1. Accounting policies continued

1.3 Consolidation continued

Transactions in which combining entities are controlled by the same parties or parties before and after the transaction, and that control is not transitory, are referred to as common control transactions. Where there are common control transactions in the Group, predecessor accounting is applied.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in partnership capital accounts and trust beneficiary accounts under the control of the Group are consolidated in the Group annual financial statements.

(b) Associates

Investments in associates are defined as those investments in which the Group has a long-term interest and over which it exercises significant influence, but not control. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's interest in associates on the statement of financial position is carried at an amount that reflects its share of the net assets of the associates net of any accumulated impairment losses. Goodwill arising on the acquisition of associates is accounted for in the same way as goodwill on the acquisition of subsidiaries, and is included in 'Investment in associates' on the statement of financial position. The Group stops equity accounting associates when it does not exercise significant influence.

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movement in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. The Group does not recognise further losses, when the Group's share of losses in an associate equals or exceeds its interest in the associate, unless the Group has incurred obligations, issued guarantees or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the associates agree in all material aspects with the policies adopted by the Group.

(c) Joint ventures

Joint ventures are those entities over which the Group exercises joint control under a contractual agreement. Such investments are accounted for by using the proportionate consolidation method whereby the Group's proportionate share of the assets, liabilities, revenues and expenses of the joint ventures are combined, on a line-by-line basis, with similar items in the financial statements. The results of joint ventures are included from the effective dates of when joint control commences until the effective date when joint control ceases.

The accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Inter-company transactions and balances

To the extent that a loss on a transaction provides evidence of a reduction in the net realisable value of the current assets or an impairment loss of a non-current asset, that loss is charged to the statement of comprehensive income.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

1. Accounting policies continued

1.3 Consolidation continued

(e) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity. This reserve is a distributable reserve. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amount previously recognised in other comprehensive income in respect of that entity is accounted for as if the Group had directly disposed of the related assets and liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

1.4 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of acquired subsidiaries, businesses, associates or joint ventures at the date of acquisition. Goodwill on the acquisition of subsidiaries, businesses, associates and joint ventures is capitalised and shown as part of 'Intangible assets' on the face of the statement of financial position and carried at cost less accumulated impairment losses except for associates that are carried as part of the investment in associates. Separately recognised goodwill is tested for impairment on an annual basis. Impairment losses on goodwill are not reversed. Refer to the policy on impairment of non-financial assets for more details on impairment testing.

The profit or loss realised on disposal or termination of an entity is calculated after taking into account the carrying amount of any related goodwill.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Cash-generating units are defined as individual hospitals or healthcare service operating units. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

At the date of acquisition, acquired deferred tax assets may not be fully recognised under IFRS. Adjustments to the initial recognition of acquired deferred tax assets under IFRS, subsequent to the acquisition date, are recognised in profit or loss unless the adjustment qualifies as a measurement period adjustment in which it is recognised as an adjustment to goodwill.

Contingent consideration in a business combination is included in the cost of a business combination at the fair value and is initially recognised as a liability. Subsequent adjustments to the estimated amount of the contingent consideration resulting in a gain or a loss, is recognised in profit or loss in the statement of comprehensive income.

When the accounting for a business combination can only be determined provisionally at the date of reporting, provisional values are used. These provisional values are adjusted once the initial accounting has been completed, which must be within 12 months from the date of acquisition, by retrospectively adjusting the fair values of the net identifiable assets acquired and goodwill. Goodwill acquired on the acquisition of associates is included in the cost of the investment.

1. Accounting policies continued

1.5 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, except for land which is carried at cost less accumulated impairment losses.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in the statement of comprehensive income during the financial period in which they are incurred.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Land is not depreciated. All other assets are depreciated based on the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Item	Average useful life
Land	Not depreciable
Buildings	
– Owned	40 years
– Leased	Shorter of lease term or useful life
Motor vehicles	4 to 7 years
Leasehold improvements	Shorter of lease term or useful life
Other property, plant and equipment	
– Owned	3 to 15 years
– Leased	Shorter of lease term or useful life

The residual value and the useful life of each significant operating asset is reviewed, and adjusted if appropriate, at each financial year end and the useful lives of all other assets are reviewed annually.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The gain or loss arising from the derecognising of an item of property, plant and equipment is included in profit or loss in the statement of comprehensive income when the item is derecognised. The gain or loss arising from the derecognising of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Refer to the policies on impairment of non-financial assets for more details on impairment testing.

Replacements of linen, cutlery and crockery and certain medical instruments are also charged as an expense in the statement of comprehensive income over a 12-month period from the date of purchase.

Assets held under finance leases are depreciated over the shorter of the expected useful lives of the assets or the remaining period of the lease on the same basis as owned assets.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

1. Accounting policies continued

1.6 Intangible assets

An intangible asset is recognised when:
– it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group; and
– the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets that are reflected in the statement of financial position consist of purchased assets and internally generated assets.

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. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at every financial year.

For impairment testing refer to the policies on impairment of non-financial assets for more details.

(a) Customer relations and hospital licences

Customer relations and hospital licences are carried at cost less accumulated amortisation and any impairment losses. Cost is defined as the fair value as at the date of the business combination valued on the royalty method. The carrying amounts of these intangible assets are reviewed annually for indicators that these assets may be impaired. Amortisation is provided to write down the customer relations and hospital licences, on a straight-line method over the expected useful life, as follows:

Item	Useful life
Customer relations	15 years
Hospital licences	15 years

The Group is in the process of reviewing its view on the estimate life of hospital licences.

(b) Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring the specific software into use. These costs are amortised over their estimated useful lives on the straight-line method (three to five years), except for internally developed software that is amortised over a maximum of eight years. Computer software is carried at cost less accumulated amortisation and impairment losses.

Costs associated with the developing or maintaining of computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets when the following criteria are met:
– It is technically feasible to complete the asset so that it will be available for use or sale.
– There is an intention to complete or sell it.
– There is an ability to use or sell it.
– It will generate probable future economic benefits.
– There are available technical, financial and other resources to complete the development and to use or sell the asset.
– The expenditure attributable to the asset during its development can be measured reliably.

1. Accounting policies continued

1.6 Intangible assets continued

Direct costs include the software development employee costs and an appropriate portion of the relevant overheads. Development costs that are recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives not exceeding eight years unless a longer period is more appropriate.

(c) Preferred supplier contracts

These intangibles are shown at cost less accumulated amortisation and impairment losses. Cost represents fair value as at the date of the business combination. Amortisation is calculated using the straight-line method to allocate costs over the estimated useful life of the preferred supplier contracts.

(d) Other intangible assets

Other intangible assets are carried at cost less accumulated amortisation and any impairment losses. The carrying amounts of these intangible assets are reviewed annually for indicators that these assets may be impaired. Amortisation is calculated using the straight-line method to allocate costs over the estimated useful life of the intangible assets, as follows:

Item	Useful life
Restraint of trade payments	Duration of the respective agreements
Other intangible assets	Duration of the respective agreements

1.7 Financial instruments

(a) Initial recognition and measurement

Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Purchases and sales of financial assets are recognised on trade date; the date on which the Group commits to purchase or sell the asset. Financial assets and financial liabilities are initially recognised at fair value plus transaction costs for all financial assets and financial liabilities not carried at fair value through profit or loss. Financial assets and financial liabilities carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Available-for-sale financial assets and financial assets and financial liabilities at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

(b) Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

(c) Classification and subsequent measurement

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. The classification of financial assets depends on the purpose for which they were acquired. The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

1. Accounting policies continued

1.7 Financial instruments continued

(c) Classification and subsequent measurement continued

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Financial assets at fair value through profit or loss are measured initially and subsequently at fair value, gains or losses arising from changes in fair value are included in the statement of comprehensive income.

Transaction costs are recognised in the statement of comprehensive income. Dividend income is recognised in the statement of comprehensive income as part of other income when the Group's right to receive payment is established.

(a) Derivatives

Derivative financial instruments consisting of foreign exchange contracts and interest rate swaps are initially measured at fair value on the contract date and subsequently re-measured to their fair values.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract; the host contract is not carried at fair value with unrealised gains or losses reported in the statement of comprehensive income; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

The Group does not document at inception of each hedge transaction the relationship between the hedging instrument and the hedged item. The Group does, however, have a general policy to hedge items that significantly expose the Group interest rate risk and foreign exchange risk. The Group economically hedges to manage risk but does not hedge account.

Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the financial year. These are classified as non-current assets. The Group's loans and receivables comprise 'Loans to/(from) associate companies', 'Loans to/(from) shareholders', 'Trade and other receivables', 'Loans receivable' and 'Cash and cash equivalents'.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(a) Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value and bank overdrafts.

1. Accounting policies continued

1.7 Financial instruments continued

(c) Classification and subsequent measurement continued

(iii) Available-for-sale financial assets

These financial assets are non-derivatives that are either designated in this category or not classified elsewhere. They are included in non-current assets unless management intends to dispose of the financial asset within 12 months of the statement of financial position date.

These investments are measured initially and subsequently at fair value. Gains or losses arising from changes in fair value are recognised in other comprehensive income until the security is disposed of or is determined to be impaired.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income as part of 'finance income'. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income as part of 'other income' when the Group's right to receive payments is established.

(iv) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and with fixed maturities. Financial assets that the Group has the positive intention and ability to hold to maturity are classified as held-to-maturity.

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

(d) Impairment of financial assets

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or a class of financial assets is impaired. For loans receivable, the impairment is measured as the difference between the financial assets carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. The asset's carrying amount is reduced and the amount of the loss is recognised in the statement of comprehensive income.

A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

The criteria the Group uses to determine that there is objective evidence of an impairment loss on trade receivables includes:

- significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

1. Accounting policies continued

1.7 Financial instruments continued

(d) Impairment of financial assets continued

Impairment losses are reversed in subsequent periods when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised. The reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

1.8 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

1.9 Borrowings

Borrowings are initially measured at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption value is recognised over the term of the borrowings in terms of the effective interest method.

Borrowing costs are recognised as an expense in the period in which they are incurred unless required to be capitalised in terms of IAS 23.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

1.10 Tax

The tax expense for the period comprises current and deferred tax. Current tax, deferred tax and secondary tax on companies are recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case tax is recognised in other comprehensive income or directly in equity.

(a) Current tax assets and liabilities

Current tax comprises normal income tax and secondary tax on companies. Normal income tax is calculated on the basis of the expected taxable income for the year using tax rates enacted or substantively enacted at statement of financial position date in the countries where the Group's subsidiaries, associates and joint ventures operate and generate taxable income and any adjustments to tax payable for preceding years. Secondary tax on companies, that is payable on net dividends, is calculated and recognised, to the extent that underlying dividends have been declared or paid, using enacted rates applicable at the date of the dividend declaration.

Current tax for current and prior periods is, to the extent unpaid, recognised as a current liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as a current asset.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

1. Accounting policies continued

1.10 Tax continued

(b) Deferred tax assets and liabilities

Deferred income tax is recognised using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:
- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction which:
  - is not a business combination; and
  - at the time of the transaction affects neither accounting profit nor taxable profit/(taxable loss).

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:
- the parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and
- it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised only to the extent that future taxable profit will be available against which the temporary difference can be utilised.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the statement of financial position date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership to the lessee.

The Group is the lessee of various hospital and administration office properties under non-cancellable leases that are classified as operating leases and is the lessee of fixed property that meets the definition of finance leases.

(a) Finance leases – lessor

When assets are leased under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return. Lease income is recognised over the term of the lease on a straight-line basis.

Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the Group’s net investment in the finance lease.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

1. Accounting policies continued

1.11 Leases continued

(b) Finance leases – lessee

Finance leases are capitalised at the lease's commencement at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in payables. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

(c) Operating leases – lessor

Operating lease income is recognised as an income on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset.

Income from leases is disclosed under 'Other income' in the statement of comprehensive income.

(d) Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or operating lease liability. Neither the asset nor liability is discounted.

Any contingent rents are expensed in the period they are incurred.

1.12 Inventories

Inventories are measured at the lower of cost and net realisable value on the first-in, first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of inventories comprises costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.13 Impairment of non-financial assets

The Group assesses at each statement of financial position date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the Group also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.
- tests goodwill acquired in a business combination for impairment annually.

1. Accounting policies continued

1.13 Impairment of non-financial assets continued

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount and the impairment loss is recognised immediately in profit or loss. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

– first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and
– then, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

The Group assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increase in the carrying amount of an asset, other than goodwill, attributable to a reversal of an impairment loss is limited to the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss.

1.14 Share capital and equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options, other than in connection with a business combination, are shown in equity as a deduction, net of tax, from the proceeds.

1.15 Treasury shares

Treasury shares held by the subsidiary company are deducted from share capital on consolidation. These share are not included in the number of shares in issue for purposes of calculating earnings per share and other performance ratios.

1.16 Employee benefits

(a) Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered such as paid vacation leave, sick leave, bonuses and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance and the related liability, and a reliable estimate of the obligation can be made.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

1. Accounting policies continued

1.16 Employee benefits continued

Provision is made for accumulated leave and for non-vested short-term benefits when there is no realistic alternative other than to settle the liability, and at least one of the following conditions is met:

- There is a formal plan and the amounts to be paid are determined before the time of issuing the financial statements; or
- Past practice has created a valid expectation by employees that they will receive a bonus and the amount can be determined before the time of issuing the financial statements.

(b) Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

(c) Defined benefit plans

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method.

Actuarial accounting valuations are conducted on an annual basis by independent actuaries separately for each plan. Consideration is given to any event that could impact the funds up to statement of financial position date where the interim valuation is performed at an earlier date.

The liability or asset recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets, together with adjustments for unrecognised past-service costs. The present value of the defined benefit obligations is discounted using interest rates of government securities that have terms to maturity approximating the terms of the related liability. Actuarial gains or losses are recognised immediately in the statement of comprehensive income.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight-line basis over the average period until the amended benefits become vested.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised when the Group is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In the statement of comprehensive income, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

Any asset is limited to unrecognised actuarial losses, and unrecognised past service cost plus the present value of available refunds and reduction in future contributions to the plan.

(d) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it can demonstrate that it is committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

1. Accounting policies continued

1.16 Employee benefits continued

(e) Post-retirement medical aid costs

It is Group policy not to provide for post-retirement medical aid benefits. Due to a business combination transaction the Group, however, did become party to a contractual obligation to provide post-retirement medical aid benefits to certain employees.

The entitlement for an employee to receive these benefits is dependent on the employee remaining in service until retirement age. For past service, the Group recognises and provides for the actuarially determined present value of post-retirement medical aid employer contributions on an accrual basis using the projected unit credit method. Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are charged to profit or loss in the period in which they arise. Independent qualified actuaries carry out annual valuations of these obligations.

(f) Long-term incentive scheme

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the net growth in earnings before interest, tax, depreciation and amortisation (EBITDA) after certain adjustments and a hurdle rate. There was a modification to the bonus scheme in the 2009 financial year in which the bonus is now based on performance units and appreciation units. The scheme uses a fixed multiple of EBITDA and is accounted for using the projected unit credit method using the same accounting principles as for a defined benefit plan.

The Group recognises a provision where it is contractually obliged or where past practice has created a constructive obligation.

1.17 Share-based compensation

The Group operated two share-based compensation schemes. Both schemes were treated as equity-settled schemes on a Group basis. For both schemes the fair value of the services received in exchange for the instruments was expensed over the vesting period. The fair value of the services received was determined with reference to the fair value of the instruments at inception of the scheme. Both schemes were settled during the prior financial year.

1.18 Directors' emoluments

The directors' emoluments disclosed in note 36 of the Group financial statements represent the emoluments paid to, or receivable by directors in their capacity as director or any other capacity. All amounts in respect of the financial year reported on are presented, including bonuses accrued for in the annual financial statements. This disclosure is provided in terms of JSE Limited Listings Requirements.

1.19 Provisions and contingencies

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation. In determining the present value a pre-tax rate that reflects the current market assessments of the time value of money and risks specific to the obligation is used. The increase in the provision due to the passage of time is recognised as an interest expense.

Restructuring provisions comprise lease termination penalties and employee termination payments, and are recognised in the period in which the Group becomes legally or constructively committed to payment. Provisions are not recognised for future operating losses.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

1. Accounting policies continued

1.19 Provisions and contingencies continued

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
– the amount that would be recognised as a provision; and
– the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised unless the contingent liability is acquired as part of a business combination. Contingencies are disclosed in note 38.

1.20 Recognition of income

(a) Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax. Revenue is shown after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into account the type of customer, the type of transaction and the specifics of each arrangement.

(b) Sale of goods

The Group dispenses medication and medical supplies as part of the provision of their healthcare services. Sales of goods are recognised when a Group entity dispenses the products to their patients.

(c) Sales of services

The Group provides acute healthcare and operates sameday surgical centres. The revenue recognised relates to invoiced fees for private healthcare and fees for healthcare services. The services are provided on a fixed price basis. The revenue is recognised over the period during which the service is performed.

(d) Interest income

Interest income is recognised, in profit or loss, using the effective interest rate method, unless it is doubtful. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

(e) Rental income

The rental income arising from the operating leases is accounted for on a straight-line basis over the lease term.

(f) Dividend income

Dividends are recognised, in profit or loss, when the Group's right to receive payment has been established.

1.21 Translation of foreign currencies

(a) Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each statement of financial position date:
– foreign currency monetary items are translated using the closing rate;
– non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
– non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

1. Accounting policies continued

1.21 Translation of foreign currencies continued

(a) Foreign currency transactions continued

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in profit or loss in the period in which they arise.

Cash flows arising from transactions in a foreign currency are recorded in the functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

(b) Investments in subsidiaries, joint ventures and associates

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency using the following procedures:

- assets and liabilities for each statement of financial position item presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income item are translated at an average exchange rate which is a reasonable approximation of the prevailing exchange rate at the date of each transaction; and
- all resulting exchange differences are recognised in other comprehensive income.

Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation are recognised initially in other comprehensive income and recognised in profit or loss on disposal of the net investment as part of the gain or loss on the sale.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The cash flows of a foreign subsidiary are translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

1.22 Distribution

Distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the distributions are approved by the board.

1.23 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). The CODM who is responsible for allocating resources and assessing performance of the operating segments has been identified as the managing director.

1.24 Earnings and headline earnings per share

The Group presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders by the weighted average number of ordinary shares in issue during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares in issue for the dilutive effects of all share options granted to employees. The weighted average number of shares is adjusted for the weighted average number of treasury shares.

The calculation of headline earnings per share is based on the net profit attributable to equity holders of the parent, after excluding all items of a non-trading nature, divided by the weighted average number of ordinary shares in issue during the year. The presentation of headline earnings is not an IFRS requirement, but is required by the JSE Limited and Circular 3 of 2009. An itemised reconciliation of the adjustments to net profit attributable to equity holders of the parent is provided in note 30.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

1. Accounting policies continued

1.25 New accounting standards and IFRIC interpretations

Standards, amendments and interpretations effective in 2011 but not applicable

2009 annual improvements project

Standard	Standards' name	Effective date	Summary of change and consideration of the impact on the Group
IFRS 1	*First time adoption of IFRS*	1 January 2010	These amendments exempt entities using the full cost method from retrospective application of IFRS for oil and gas assets; they also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, *'Determining whether an arrangement contains a lease'.*
IFRS 1	*First time adoption of IFRS – Limited exemption from comparative IFRS 7 disclosures for first-time adopter*	1 July 2010	Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *'Financial Instruments: Disclosures'.* The relief was provided because the amendments to IFRS 7 were issued after the comparative periods had ended, and the use of hindsight would have been required. The board therefore permitted entities to exclude comparative disclosures in the first year of application.
IFRS 2	*Group cash-settled share-based payment transactions*	1 January 2010	The amendment clarifies the accounting for group cash-settled share-based payment transactions. The entity receiving the goods or services shall measure the share-based payment transaction as equity-settled only when the awards granted are its own equity instruments, or the entity has no obligation to settle the share-based payment transaction. The entity settling a share-based payment transaction when another entity in the group receives the goods or services recognises the transaction as equity-settled only if it is settled in its own equity instruments. In all other cases, the transaction is accounted for as cash-settled.
IAS 32	*Financial instruments: Presentation on classification of rights issues*	1 February 2010	The amendment that allows rights issues to be classified as equity when the price is denominated in a currency other than the entity's functional currency.
IFRIC 19	*Extinguishing financial liabilities with equity instruments*	1 July 2010	This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt.

1. Accounting policies continued

1.25 New accounting standards and IFRIC interpretations continued

Standards, amendments and interpretations that are not yet effective and have not been early adopted unless specified

The Group is currently assessing the impact of these standards.

Standard	Standards' name	Effective date	Summary of change and consideration of the impact on the Group
IFRS 1	*First time adoption on hyperinflation and fixed dates*	1 July 2011	The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRS', thus eliminating the need for companies adopting IFRS for the first time to restate derecognition transactions that occurred before the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation. This is not applicable to the Group.
IFRS 7	*Disclosures – Transfer of financial assets*	1 July 2011	The amendments are intended to address concerns raised during the financial crisis by the G20, among others, that financial statements did not allow users to understand the ongoing risks the entity faced due to derecognised receivables and other financial assets. This is not expected to have a significant impact on the Group.
IAS 1	*Presentation of financial statements, on presentation of items of OCI*	1 July 2012	The IASB has issued an amendment to IAS 1, *'Presentation of financial statements'.* The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. The IASB originally proposed that all entities should present profit or loss and OCI together in a single statement of comprehensive income. The proposal has been withdrawn and IAS 1 will still permit profit or loss and OCI to be presented in either a single statement or in two consecutive statements. The amendment does not address which items should be presented in OCI and the option to present items of OCI either before tax or net of tax has been retained.
IAS 19	*Employee benefits*	1 January 2013	The IASB has issued an amendment to IAS 19, *'Employee benefits'*, which makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. This will be applicable to the Group for the first time in the 2014 financial statements.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

1. Accounting policies continued

1.25 New accounting standards and IFRIC interpretations continued

Standards, amendments and interpretations that are not yet effective and have not been early adopted unless specified continued

Standard	Standards' name	Effective date	Summary of change and consideration of the impact on the Group
IFRS 9	*Financial instruments*	1 January 2013	The IASB has updated IFRS 9, *'Financial instruments'* to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, *'Financial instruments: Recognition and measurement',* without change, except for financial liabilities that are designated at fair value through profit or loss. This will be applicable to the Group for the first time in the 2014 financial statements.
IFRS 9	*Financial instruments*	1 January 2013	This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. This will be applicable to the Group for the first time in the 2014 financial statements.
IFRS 10	*Consolidated financial statements*	1 January 2013	This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates as its subsidiaries. This will be applicable to the Group for the first time in the 2014 financial statements.
IFRS 11	*Joint arrangements*	1 January 2013	This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. This will be applicable to the Group for the first time in the 2014 financial statements.

1. Accounting policies continued

1.25 New accounting standards and IFRIC interpretations continued

Standards, amendments and interpretations that are not yet effective and have not been early adopted unless specified continued

Standard	Standards' name	Effective date	Summary of change and consideration of the impact on the Group
IFRS 12	*Disclosures of interests in other entities*	1 January 2013	This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This will be applicable to the Group for the first time in the 2014 financial statements.
IFRS 13	*Fair value measurement*	1 January 2013	This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP. This will be applicable to the Group for the first time in the 2014 financial statements.
IAS 12	*Income taxes*	1 January 2012	Currently IAS 12, *'Income taxes'*, requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, *'Income taxes – recovery of revalued non-depreciable assets',* would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn. This will be applicable to the Group for the first time in the 2013 financial statements.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

1. Accounting policies continued

1.25 New accounting standards and IFRIC interpretations continued

Standards, amendments and interpretations that are not yet effective and have not been early adopted unless specified continued

Standard	Standards' name	Effective date	Summary of change and consideration of the impact on the Group
IAS 24	*Related party disclosure (Amendments)*	1 January 2011	The revisions to IAS 24 include a clarification of the definition of a related party as well as providing a partial exemption for related party disclosures between government-related entities. In terms of the definition, the revision clarifies that joint ventures or associates of the same third party are related parties of each other. To this end, an associate includes its subsidiaries and a joint venture includes its subsidiaries. The partial exemption applies to related party transactions and outstanding balances with a government which controls, jointly controls or significantly influences the reporting entity as well as to transactions or outstanding balances with another entity which is controlled, jointly controlled or significantly influenced by the same government. In such circumstances, the entity is exempt from the disclosure requirements of paragraph 18 of IAS 24 and is required only to disclose: – The name of the government and nature of the relationship. – Information about the nature and amount of each individually significant transaction and a quantitative or qualitative indication of the extent of collectively significant transactions. Such information is required in sufficient detail to allow users to understand the effect. This will be applicable to the Group for the first time in the 2012 financial statements.
IAS 27 (revised 2011)	*Separate financial statements*	1 January 2013	This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. This will be applicable to the Group for the first time in the 2014 financial statements.
IAS 28 (revised 2011)	*Associates and joint ventures*	1 January 2013	This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. This will be applicable to the Group for the first time in the 2014 financial statements.

1. Accounting policies continued

1.25 New accounting standards and IFRIC interpretations continued

Standards, amendments and interpretations that are not yet effective and have not been early adopted unless specified continued

Standard	Standards' name	Effective date	Summary of change and consideration of the impact on the Group
IFRIC 14	*Prepayments of minimum funding requirement*	1 January 2011	The amendments apply in limited circumstances: when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset. This will be applicable to the Group for the first time in the 2012 financial statements.

2010 annual improvements project that will be effective for the first time in the 2012 financial statements

Standard	Standards' name	Effective date	Subject of amendment
IFRS 1	*First-time adoption of International Financial Reporting Standards*	1 January 2011	Accounting policy changes in the year of adoption. Revaluation basis as deemed cost. Use of deemed cost for operations subject to rate regulation. Measurement of non-controlling interests. Un-replaced and voluntarily replaced share-based payment awards.
IFRS 7	*Financial instruments: Disclosures*	1 January 2011	Additional clarification is provided on the requirements for risk disclosures.
IAS 1	*Presentation of financial statements*	1 January 2011	The amendment now requires that an entity must present, either in the statement of changes in equity or in the notes, an analysis of other comprehensive income by item.
IAS 34	*Interim financial reporting*	1 January 2011	Significant events and transactions.
IFRIC 13	*Customer loyalty programmes*	1 January 2011	Fair value of award credits.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

2. Risk management

The Group's overall risk management programme focuses *interalia* on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge interest and foreign currency risk exposures. Financial risk management is carried out by a central treasury department (company treasury) under policies approved by the audit committee. Company treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The audit committee approves written principles for overall financial risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Capital risk management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern and to provide for sufficient capital expansion.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 18 and 19 and cash and cash equivalents disclosed in note 14, and equity as disclosed in the statement of financial position.

The Group uses the gearing ratio to measure the proportion of capital provided by net borrowings.

In order to maintain or adjust the capital structure, the Group may adjust the amount of distributions paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt or raise debt.

The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

Normalised EBITDA is defined as earnings before interest, tax, depreciation and amortisation adjusted for non-operating items.

	2011	2010
The gearing ratio at 30 September	**28%**	37%

The Group had externally imposed debt covenants that limited raising of additional debt from refinancing, in terms of the previous debt structures. The debt was refinanced during the previous financial year and in terms of the new covenants the lenders have the right to increase rates where the covenants are breached. The covenants are:

	2011	2010
A minimum of total interest cover ratio (times)	**3.0**	3.0
A maximum of net debt to EBITDA ratio	**3.0**	3.0

The Group has met or received approval to breach (in respect of previous debt facilities) covenant requirements during the current and previous financial year.

The revolving credit facilities, senior and mezzanine loans were refinanced without any penalties in May 2010 resulting in lower interest rates and greater flexibility regarding raising the new debt.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

(b) Financial risk

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

2. Risk management continued

(b) Financial risk continued

(i) Liquidity risk

Liquidity risk is the risk that an entity in the Group will not be able to meet its obligations as they become due.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, company treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The Group's liquidity risk is mitigated by the availability of funds to cover future commitments. The Group manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and utilised borrowing facilities are monitored on a daily basis. Longer-term cash flow forecasts are updated monthly.

The table below analyses the Group's financial liabilities and net-settled non-derivative financial liabilities into relevant maturity groupings, based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Refer to note 38 for operating lease commitments.

2011 (R'000)	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
Interest-bearing borrowings	**528 528**	**533 611**	**902 716**	**643 458**	**2 608 313**
Trade and other payables	**975 530**	**–**	**–**	**–**	**975 530**
	1 504 058	**533 611**	**902 716**	**643 458**	**3 583 843**

2010 (R'000)	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Interest-bearing borrowings	450 082	455 810	1 159 267	409 364	2 474 523
Trade and other payables	1 153 700	–	–	–	1 153 700
Operating leases	–	–	6 636	43 920	50 556
	1 603 782	455 810	1 165 903	453 284	3 678 779

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

2011 (R'000)	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
Foreign exchange contracts and interest rate swap contracts – cash flow hedges					
– Outflow	**(9 982)**	**–**	**–**	**–**	**(9 982)**
– Inflow	**584**	**–**	**–**	**–**	**584**

2010 (R'000)	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Foreign exchange contracts and interest rate swap contracts – cash flow hedges					
– Outflow	(5 406)	(21 938)	–	–	(27 344)

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

2. Risk management continued

(b) Financial risk continued

(ii) Interest rate risk

The Group has interest-bearing assets, that mainly consist of investments in money-market accounts. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to hedge approximately 60% of its borrowings to fixed interest rates and currently 65% are being hedged.

The Group manages its interest rate exposure in total and mainly borrows or invests as far as possible at Group level.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit or loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

The scenarios are run only for liabilities that represent the major interest-bearing positions. Based on the simulations performed, the impact on post-tax profit of a 1.0% shift would be a maximum increase of R5 125 000 (2010: R2 734 000) or decrease of R5 125 000 (2010: R2 734 000), respectively. The simulation is done on a six monthly basis to verify that the maximum loss potential is within the limit given by the management. The simulation takes into account a portion of the interest on the term loans. The term loans are partially hedged by interest rate swap contracts. The interest rate swap contract hedges R750 000 000 of the variable outstanding balance of R1 452 500 000.

Based on the various scenarios, the Group manages its cash flow interest rate risk by using interest rate collars, caps and swaps. Such interest rate hedges have the economic effect of capping the exposure to floating rates to a maximum rate. Generally, the Group raises long-term borrowings at floating rates and then hedges floating rates to a known maximum exposure. Under the interest rate collars and caps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between the hedge and the floating rate interest amounts calculated by reference to the agreed notional amounts. Swaps are entered into to fix interest rates from floating rates. Refer to note 22 for the current interest rate hedges in place. All interest rate hedges are economic hedges.

(iii) Cash flow interest rate risk

2011 (R'000)

Financial instrument	Current interest rate	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Trade and other receivables – normal credit terms	n/a	–	–	–	–	–
Loans receivable	9.00%	–	4 755	–	–	4 755
Cash in current banking institutions	5.30%	400 199	–	–	–	400 199
Interest-bearing borrowings – floating rates	7.97%	(704 618)	(1 264)	(3 394)	(2 516)	(711 792)
Loans to associates	6.10%	6 398	–	–	–	6 398
		(298 021)	3 491	(3 394)	(2 516)	(300 440)

2. Risk management continued

(b) Financial risk continued

(iii) Cash flow interest rate risk continued

2010 (R'000)

Financial instrument	Current interest rate	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Trade and other receivables – normal credit terms	n/a	–	–	–	–	–
Loans receivable	9.50%	–	5 828	–	–	5 828
Cash in current banking institutions	6.40%	482 156	–	–	–	482 156
Interest-bearing borrowings – floating rates	8.99%	(186 990)	(185 830)	(3 385)	(3 868)	(380 073)
Loans to associates	7.50%	11 189	–	–	–	11 189
		306 355	(180 002)	(3 385)	(3 868)	119 100

(iv) Fair value interest rate risk

2011 (R'000)

Financial instrument						
Interest-bearing borrowings – fixed rates	**9.29%**	**(453 752)**	**(459 634)**	**(722 177)**	**(379 576)**	**(2 015 139)**

2010 (R'000)

Financial instrument						
Interest-bearing borrowings – fixed rates	9.98%	(263 092)	(269 981)	(1 155 882)	(405 495)	(2 094 450)

(v) Credit risk

Risk of financial loss due to counterparties to financial instruments not meeting their contractual obligation.

Credit risk is managed on a Group basis by a central credit control department.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments, loans and receivables and trade debtors. The Group mainly deposits cash with the main subsidiary company. The main subsidiary company deposits the cash with major banks with high quality credit standing and maintains an appropriate spread of cash deposits between various financial institutions to limit the exposure to any one counterparty. For banks and financial institutions, only independently rated parties with a minimum Fitch Rating "A" for South African banks are accepted.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

2. Risk management continued

(b) Financial risk continued

(v) Credit risk continued

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set for patients without medical aid insurance. Services to customers without medical aid insurance are settled in cash or using major credit cards on discharge date as far as possible. Credit guarantee insurance is not purchased.

Management does not expect any significant loss from non-performance by counterparties on credit granted during the financial year under review that has not been provided for.

Financial assets exposed to credit risk at year end were as follows:

	2011 R'000	2010 R'000
Derivative financial instruments	**584**	–
Trade and other receivables	**1 065 551**	964 361
Cash and cash equivalents	**400 199**	482 156
Loans receivable	**4 755**	5 828
Loans to associates	**6 398**	11 189

The Group is exposed to a number of guarantees for the overdraft facilities of Group companies. Refer to note 38 for additional details.

(vi) Fair values

The fair values and carrying amounts of the financial assets and liabilities as presented on the statement of financial position, are as follows:

	2011		2010	
Assets and liabilities at fair value (R'000)	**Carrying value**	**Fair value**	Carrying value	Fair value
Derivative assets at fair value for hedging	**584**	**584**	–	–
Derivative liability at fair value for hedging	**(9 982)**	**(9 982)**	(27 221)	(27 221)

The following is an analysis of the Group's financial instruments that are measured subsequent to the initial recognition at fair value at 30 September 2011. They are grouped into levels 1 to 3 based on the extent to which the fair values are observable.

The levels are classified as follows:

Level 1 Fair value is based on quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 Fair value is determined using inputs other than level 1 that are observable for the asset or the liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 Fair value is determined on inputs not based on an observable market (that is, unobservable inputs).

30 September 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instrument (R'000)				
Derivative financial assets	**–**	**584**	**–**	**584**
Derivative financial liability	**–**	**(9 982)**	**–**	**(9 982)**
	–	**(9 398)**	**–**	**(9 398)**
30 September 2010				
Financial instrument (R'000)				
Derivative financial assets	–	–	–	–
Derivative financial liability	–	(27 221)	–	(27 221)
	–	(27 221)	–	(27 221)

2. Risk management continued

(b) Financial risk continued

(vii) Foreign exchange risk

The Group transacts with international suppliers and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the European euro, US dollar and Botswana pula (BWP). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group treasury's risk management principle is to hedge material cash flows where the local cash flow impact is in excess of 500 000 functional currency denomination.

Management has set up a policy to require Group companies to manage their foreign exchange risk against their functional currency. The Group companies are required to economically hedge their foreign exchange risk exposure in consultation with the Group treasury. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts, transacted with commercial banks or all inclusive price in the Companies' functional currency. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group has an investment in one foreign operation, in Botswana, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operation is managed primarily through borrowings denominated in the relevant foreign currencies. At 30 September 2011 no foreign denominated borrowings existed.

At 30 September 2011, if the currency had weakened/strengthened by 10% against the Botswana pula with all other variables held constant, post-tax profit for the year would have changed by R627 000 (2010: R2 038 000), mainly as a result of foreign exchange gains/losses on translation of Botswana pula financial assets at fair value through profit or loss, and foreign exchange losses/gains on translation of Botswana pula denominated borrowings.

Foreign currency exposure at statement of financial position date	**2011 R'000**	2010 R'000
Non-current assets		
BWP24 054 370 (2010: BWP16 499 117)	**26 455**	17 586
Current assets		
BWP35 952 732 (2010: BWP48 345 578)	**39 540**	51 532
Liabilities		
BWP26 163 933 (2010: BWP20 953 532)	**(28 745)**	(22 334)
Non-current liabilities		
BWP Nil (2010: BWP Nil)	**–**	–
Exchange rates used for conversion of foreign denominated assets/ liabilities outstanding at year end were:		
BWP	**1.10**	1.07
Exchange rates used for conversion of foreign denominated income/ expense items were:		
BWP	**1.05**	1.11

All transactions denominated in a foreign currency are converted at the spot rate applicable at the date of the transaction.

Forward exchange contracts, which relate to future commitments

Refer note 22.

The Group reviews its foreign currency exposure, including commitments on an ongoing basis. The Group expects its foreign exchange contracts to hedge material foreign exchange exposure.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

3. 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 significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

3.1 Critical accounting estimates

(a) Estimated impairment of goodwill

Goodwill is tested annually for impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

The key assumptions are:	**2011** **%**	2010 %
Growth rate in activities	**0.0 to 5.0**	0.0 to 5.0
Average discount rate	**15.88**	16.80
Tariff and inflation increases	**5.0 to 10.0**	5.0 to 10.0

The discount rates used are pre-tax and reflect the specific risks relating to the industry and to the Group. The growth rate in activities is based on historical experience, capacity availability and the expected developments in the market. Tariff and inflation rates are based on latest available economic forecasts and management's expectations of the outcome of annual tariff negotiations.

If the key assumptions were to change by more than 5% it would have an impact on the impairment charge (R20 million to R50 million).

(b) Depreciation, amortisation rates and residual values

The Group depreciates or amortises its assets over their estimated useful lives, as more fully described in the accounting policies for property, plant and equipment and intangible assets. The estimation of the useful lives of assets is based on historic performance as well as expectations about future use and therefore requires a significant degree of judgement to be applied by management. The actual lives of these assets can vary depending on a variety of factors, including technological innovation, product life cycles and maintenance programmes.

Significant judgement is applied by management when determining the residual values for property, plant and equipment and intangible assets. In the event of contractual obligations in terms of which a termination consideration is payable to the Group, management will apply a residual value to the intangible asset. When determining the residual value for property, plant and equipment, the following factors are taken into account:
– External residual value information (if applicable).
– Internal technical assessments for complex plant and machinery.

Refer to notes 5 and 6 of the Group financial statements.

3. Critical accounting estimates and judgements continued

(c) Valuation of derivative financial instruments

The valuation of derivative financial instruments is based on the market situation at year-end. The net market value of all forward exchange contracts at year end was calculated by comparing the forward exchange contracted rates to the equivalent year end market foreign exchange rates. The present value of these net market values were then discounted using the appropriate currency specific discount curve. The fair value of interest rate swaps and cross currency swaps is calculated as the present value of estimated future cash flow. The value of these derivative instruments fluctuates on a daily basis and the actual amounts realised may differ materially from the value at which they are reflected on statement of financial position.

Refer to note 22 of the Group financial statements.

(d) Impairment provision for trade and other receivables

The Group collects deposits for private market customers where possible and provision is made for the balance of long outstanding trade receivables where it considers the recoverability to be doubtful.

A significant degree of judgement is applied by management when considering whether a trade receivable is recoverable or not.

The following factors are taken into account when considering whether a trade receivable is impaired:

– Default of payments.
– History of the specific customer with the Group.
– Indications of financial difficulties of the specific customer.
– Credit terms specific to the customer.
– General economic conditions.

(e) Fair value adjustment to revenue

The Group has included an estimate for pricing and volume adjustment for certain medical aids where the volume of price discounts are settled after year end.

(f) Tax

Current and deferred tax calculations have been determined on the basis of prior year assessed computation methodologies adjusted for changes in taxation legislation in the year. No significant new transactions that require specific additional estimates or judgements have been entered into in the year.

The Group recognises the net future benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of the deferred income tax assets requires the Group to make estimates related to expectations in future taxable income. Estimates of future taxable income are based on forecast cash flow from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the statement of financial position date could be impacted. Additionally future changes in tax laws could limit the ability of the Group to obtain tax deductions in future periods. Assets are only raised where the Group expects to utilise these losses.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

3. Critical accounting estimates and judgements continued

3.2 Judgements

(a) Valuation assumptions for share-based payments

The Group participated in two share-based payment schemes. The Employee Trust was available to all permanent employees who are members of a South African retirement fund of the Group. The Performance Equity Scheme was available to certain members of senior management. The schemes were accounted for as equity-settled schemes, in accordance with IFRS 2. Both schemes were settled during the previous year.

The key assumptions for both of these schemes are:	**2011**	2010
EBITDA multiple	**n/a**	5.39
Discount rate	**n/a**	8.90%
Minority interest discount	**n/a**	25.00%

(b) Valuation assumptions for long-term incentive scheme

The Group provides a long-term incentive scheme to senior and key employees. The valuation of these benefits is based on certain estimates. Refer to note 21.

(c) Insurance claims

Due to the industry that the Group operates in, it is a party to a number of claims against it. The Group has an insurance policy for such claims and provides for insurance excesses based on historical experience and advice of experts. The excesses provided for are based on the maximum excess payable for a valid claim. The total value of the claims are not significant.

(d) Pension and other post-employment benefits

The cost of defined benefit pension plans and post-employment medical benefits is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected return on assets, future salary increases, attrition and mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are provided in the accounting policy in note 1 and in note 10.

(e) Fair value determination in business combinations

IFRS 3 requires all assets, liabilities and contingent liabilities to be measured at fair value when accounting for business combinations and subsidiaries previously accounted for as associates. The Group makes use of various valuation methodologies in determining these fair values, including the use of reputable independent valuers. Valuations are inherently subjective, and require the use of judgement. Judgement is applied in determining the allocation of goodwill to different cash generating units (CGUs). The allocation is done based on the expected benefit arising from synergies due to the business combinations.

(f) Fair value determination

The carrying values of financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

4. Segment information

IFRS 8 requires operating segments to be identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision maker (CODM) in order to allocate resources to the segments and to assess their performance.

The CODM regularly reviews the operating results of the Group as a non-IFRS measure based on hospital, healthcare services businesses and other. The reportable segments derive their revenue primarily from private healthcare.

The hospital segment comprises all the private hospitals in Southern Africa, and the healthcare services segment comprises Life Esidimeni and Life Occupational Healthcare while the other segment comprises head office and other administrative functions.

During the reporting years all the operating segments operated in Southern Africa and therefore no geographical segments are presented.

Assets and liabilities are not reviewed on an individual segment basis but rather on a Group basis and are therefore not presented.

There are no inter-segment revenue streams.

Refer to note 24 for a split of the major revenue streams.

Operating segments	**2011 R'000**	2010 R'000
Revenue		
Southern Africa	**9 811 964**	8 786 334
Hospitals	**9 136 097**	8 139 663
Healthcare Services	**674 221**	636 863
Other	**1 646**	9 808
Total	**9 811 964**	8 786 334
Profit before items detailed below		
Southern Africa	**2 248 505**	1 873 879
Hospitals	**1 917 456**	1 594 535
Healthcare Services	**141 412**	118 278
Other	**189 637**	161 066
Operating profit before amortisation, disposals and impairment of intangible assets	**2 248 505**	1 873 879
Amortisation of intangible assets	**(110 268)**	(122 446)
Impairment of intangible assets	**(64 798)**	–
Profit on disposal of businesses	**–**	10 449
Post-retirement medical aid movement	**39**	2 584
Retirement benefit asset movement	**2 060**	102 765
Gain on remeasuring of fair value of equity interest before business combination	**92 454**	–
Additional receipt on previously disposed business	**4 713**	–
Operating profit	**2 172 705**	1 867 231
Fair value gain/(losses) on derivative financial instruments	**14 466**	(26 269)
Finance income	**37 290**	41 307
Finance costs	**(251 112)**	(342 152)
Share of associate's net profit after tax	**115 424**	99 862
Profit before tax	**2 088 773**	1 639 979

Operating profit before amortisation, disposals and impairment of intangible assets includes the segment's share of shared services and rental costs. These costs are all at market related rates.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

	2011 R'000	2010 R'000
5. Property, plant and equipment		
Land		
Cost		
Opening balance at 1 October	**217 940**	208 175
Additions	**46 874**	9 765
Acquisition of subsidiary	**2 350**	–
Closing balance at 30 September	**267 164**	217 940
Fixed property – owned		
Cost		
Opening balance at 1 October	**2 492 167**	2 198 789
Additions	**429 680**	202 157
Acquisition of subsidiary	**64 342**	92 232
Leased property acquired	**101 216**	–
Disposals or scrappings	**(5 338)**	(1 011)
Closing balance at 30 September	**3 082 067**	2 492 167
Accumulated depreciation:		
Opening balance at 1 October	**447 601**	373 957
Charge for the year	**79 777**	74 020
Leased property acquired	**55 043**	–
Disposals or scrappings	**(572)**	(376)
Closing balance at 30 September	**581 849**	447 601
Carrying value at 30 September	**2 500 218**	2 044 566
Fixed property – leased		
Cost		
Opening balance at 1 October	**455 999**	467 883
Leased property acquired	**(101 216)**	(11 884)
Closing balance at 30 September	**354 783**	455 999
Accumulated depreciation:		
Opening balance at 1 October	**208 196**	174 468
Charge for the year	**31 091**	33 728
Leased property acquired	**(55 043)**	–
Closing balance at 30 September	**184 244**	208 196
Carrying value at 30 September	**170 539**	247 803

	2011 R'000	2010 R'000
5. Property, plant and equipment continued		
Improvements to leased premises		
Cost		
Opening balance at 1 October	**138 007**	97 959
Additions	**17 545**	38 107
Acquisition of subsidiary	**565**	5 105
Disposals or scrappings	**–**	(2 939)
Effect of foreign currency movement	**111**	(225)
Closing balance at 30 September	**156 228**	138 007
Accumulated depreciation:		
Opening balance at 1 October	**60 821**	52 278
Charge for the year	**13 472**	11 673
Disposals or scrappings	**–**	(2 934)
Effect of foreign currency movement	**96**	(196)
Closing balance at 30 September	**74 389**	60 821
Carrying value at 30 September	**81 839**	77 186
Medical equipment		
Cost		
Opening balance at 1 October	**1 226 152**	1 075 304
Additions	**184 611**	219 278
Acquisition of subsidiary	**5 293**	16 722
Reclassification	**–**	11 884
Disposals or scrappings	**(73 919)**	(95 302)
Effect of foreign currency movement	**999**	(1 734)
Closing balance at 30 September	**1 343 136**	1 226 152
Accumulated depreciation:		
Opening balance at 1 October	**669 381**	647 393
Charge for the year	**138 052**	113 380
Disposals or scrappings	**(73 848)**	(89 851)
Effect of foreign currency movement	**759**	(1 541)
Closing balance at 30 September	**734 344**	669 381
Carrying value at 30 September	**608 792**	556 771

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

	2011 R'000	2010 R'000
5. Property, plant and equipment continued		
Other equipment		
Cost		
Opening balance at 1 October	**241 652**	223 622
Additions	**43 464**	33 419
Acquisition of subsidiary	**2 237**	3 353
Disposals or scrappings	**(15 385)**	(18 310)
Effect of foreign currency movement	**221**	(432)
Closing balance at 30 September	**272 189**	241 652
Accumulated depreciation:		
Opening balance at 1 October	**135 585**	125 126
Charge for the year	**33 917**	28 122
Disposals or scrappings	**(13 894)**	(17 281)
Effect of foreign currency movement	**188**	(382)
Closing balance at 30 September	**155 796**	135 585
Carrying value at 30 September	**116 393**	106 067
Motor vehicles		
Cost		
Opening balance at 1 October	**17 754**	17 272
Additions	**4 007**	3 509
Acquisition of subsidiary	**70**	446
Disposals or scrappings	**(2 404)**	(3 473)
Closing balance at 30 September	**19 427**	17 754
Accumulated depreciation:		
Opening balance at 1 October	**10 494**	10 284
Charge for the year	**2 710**	2 285
Disposals or scrappings	**(2 158)**	(2 075)
Closing balance at 30 September	**11 046**	10 494
Carrying value at 30 September	**8 381**	7 260
Total cost		
Opening balance at 1 October	**4 789 671**	4 289 004
Additions	**726 181**	506 235
Acquisition of subsidiary	**74 857**	117 858
Disposals or scrappings	**(97 046)**	(121 035)
Effect of foreign currency movement	**1 331**	(2 391)
Closing balance at 30 September	**5 494 994**	4 789 671
Total accumulated depreciation		
Opening balance at 1 October	**1 532 078**	1 383 506
Charge for the year	**299 019**	263 208
Disposals or scrappings	**(90 472)**	(112 517)
Effect of foreign currency movement	**1 043**	(2 119)
Closing balance at 30 September	**1 741 668**	1 532 078
Total carrying value at 30 September	**3 753 326**	3 257 593

Property, plant and equipment for the book value of R58 028 000 (2010: R51 275 000) secure fixed rate bank borrowings and property, plant and equipment for the book value of R21 048 000 (2010: R19 826 000) secure floating rate bank borrowings. Refer to note 18.

The leased assets secure lease liabilities to the value of R170 539 000 (2010: R247 803 000). Refer to note 18.

	2011 R'000	2010 R'000
6. Intangible assets		
Intangible assets consist of:		
Goodwill	**1 178 262**	1 177 432
Computer software	**38 685**	30 006
Restraint of trade payments	**–**	25
Hospital licences	**560 994**	400 443
Customer relations	**506 577**	590 797
Preferred supplier contracts	**10 017**	19 399
Other intangible assets	**1 488**	1 590
	2 296 023	2 219 692
The movement in the balance for intangible assets is as follows:		
Balance at 1 October	**2 219 692**	2 156 225
Additions	**–**	873
Arising on acquisition of subsidiaries	**237 788**	173 133
Computer software additions	**13 609**	11 907
Amortisation charge	**(110 268)**	(122 446)
Impairment charge	**(64 798)**	–
Carrying value at 30 September	**2 296 023**	2 219 692
Goodwill		
Cost		
Opening balance at 1 October	**1 211 493**	1 131 283
Arising on acquisition of subsidiaries	**29 996**	80 210
Closing balance at 30 September	**1 241 489**	1 211 493
Accumulated impairment		
Opening balance at 1 October	**34 061**	34 061
Impairment charge	**29 166**	–
Closing balance at 30 September	**63 227**	34 061
Carrying value at 30 September	**1 178 262**	1 177 432
Computer software		
Cost		
Opening balance at 1 October	**91 731**	80 587
Additions	**13 609**	11 907
Arising on acquisition of subsidiaries	**–**	244
Disposals or scrappings	**(329)**	(1 007)
Closing balance at 30 September	**105 011**	91 731
Accumulated amortisation and impairment		
Opening balance at 1 October	**61 725**	53 035
Amortisation charge	**4 930**	9 697
Disposals or scrappings	**(329)**	(1 007)
Closing balance at 30 September	**66 326**	61 725
Carrying value at 30 September	**38 685**	30 006

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

	2011 R'000	2010 R'000
6. Intangible assets continued		
Restraint of trade payments		
Cost		
Opening and closing balance	**2 173**	2 173
Accumulated amortisation and impairment		
Opening balance at 1 October	**2 148**	1 741
Amortisation charge	**25**	407
Closing balance at 30 September	**2 173**	2 148
Carrying value at 30 September	**–**	25
Hospital licences		
Cost		
Opening balance at 1 October	**619 939**	596 769
Arising on acquisition of subsidiaries	**207 792**	23 170
Closing balance at 30 September	**827 731**	619 939
Accumulated amortisation and impairment		
Opening balance at 1 October	**219 496**	179 692
Amortisation charge	**36 912**	39 804
Impairment charge	**10 329**	–
Closing balance at 30 September	**266 737**	219 496
Carrying value at 30 September	**560 994**	400 443
Customer relations		
Cost		
Opening balance at 1 October	**908 665**	839 156
Arising on acquisition of subsidiaries	**–**	69 509
Closing balance at 30 September	**908 665**	908 665
Accumulated amortisation and impairment		
Opening balance at 1 October	**317 868**	261 366
Amortisation charge	**58 917**	56 502
Impairment charge	**25 303**	–
Closing balance at 30 September	**402 088**	317 868
Carrying value at 30 September	**506 577**	590 797
Preferred supplier contracts		
Cost		
Opening and closing balance	**106 860**	106 860
Accumulated amortisation and impairment		
Opening balance at 1 October	**87 461**	71 559
Amortisation charge	**9 382**	15 902
Closing balance at 30 September	**96 843**	87 461
Carrying value at 30 September	**10 017**	19 399

	2011 R'000	2010 R'000
6. Intangible assets continued		
Other intangible assets		
Other intangible assets comprise capitalised lease premiums.		
Cost		
Opening balance at 1 October	**2 663**	1 790
Additions	**–**	873
Closing balance at 30 September	**2 663**	2 663
Accumulated amortisation and impairment		
Opening balance at 1 October	**1 073**	939
Amortisation charge	**102**	134
Closing balance at 30 September	**1 175**	1 073
Carrying value at 30 September	**1 488**	1 590
Total carrying value at 30 September	**2 296 023**	2 219 692
Total cost		
Opening balance at 1 October	**2 943 524**	2 758 618
Additions	**13 609**	12 780
Arising on acquisition of subsidiary	**237 788**	173 133
Disposals or scrappings	**(329)**	(1 007)
Closing balance at 30 September	**3 194 592**	2 943 524
Total accumulated amortisation and impairment		
Opening balance at 1 October	**723 832**	602 393
Amortisation charge	**110 268**	122 446
Impairment charge	**64 798**	–
Disposals or scrappings	**(329)**	(1 007)
Closing balance at 30 September	**898 569**	723 832
Total carrying value at 30 September	**2 296 023**	2 219 692
Goodwill impairment testing		
Goodwill has been allocated to the following operating segments for impairment:		
Hospitals	**1 029 531**	1 028 701
Healthcare services	**148 731**	148 731
	1 178 262	1 177 432

Goodwill and intangible assets are allocated to the various cash-generating units based on trading profit as a percentage of the Group's trading profit.

The impairment charge of R64 798 000 for the current year relates to four hospitals in the Group, identified as cash-generating units, included in the hospitals segment. The impairment was attributed to changes within the business conditions during the current year.

Refer to note 3 for the methods and assumptions applied.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

	2011 R'000	2010 R'000
7. Investment in associates		
Unlisted ordinary shares		
Balance at 1 October	**285 448**	250 962
Share of net profits after tax	**115 424**	99 862
Share of current year profit before tax	**163 281**	139 661
Share of current year tax	**(47 857)**	(39 799)
Dividends declared by associates	**(47 735)**	(51 434)
Effect of foreign currency movement	**198**	(390)
Capital distributions transferred to loan account	**(8 054)**	(9 531)
Associate becoming a subsidiary (Refer to note 35)	**(57 837)**	–
Acquisition of investment in associate (Refer to note 35)	**–**	1 980
Disposal of investment in associate (Refer to note 35)	**–**	(6 001)
Balance at 30 September	**287 444**	285 448
Directors' valuation of shares	**1 101 935**	850 350
Loans to associates		
Balance at 1 October	**11 189**	7 622
Repayment of loans	**(12 458)**	(5 960)
Effect of foreign currency movement	**(387)**	(4)
Capital distributions transferred from equity	**8 054**	9 531
Balance at 30 September	**6 398**	11 189

Amounts owing are interest bearing at rates negotiated on an annual basis and are repayable on terms determined by the associate company's directors. The credit quality of these loans is determined based on past default rates. No such defaults existed in the past.

One of the associate companies has a February year end. The results for this company with a February year end were brought into account for the period to August 2011 (2010: August 2010) based on management accounts for the period.

There were no material transactions in the period between August 2011 and the Group's year end, 30 September 2011.

The accounting policies of the associated companies do not differ materially from the Group's accounting policies.

	2011 R'000	2010 R'000

7. Investment in associates continued

The aggregate assets, liabilities, and results of operations of associate companies are summarised as follows (not adjusted for percentage ownership by the Group):

	2011 R'000	2010 R'000
Statement of comprehensive income		
Revenue	**797 962**	717 859
Expenses	**(453 808)**	(419 434)
Profit before tax	**344 154**	298 425
Statement of financial position		
Non-current assets	**365 757**	382 712
Current assets	**290 757**	286 355
Total assets	**656 514**	669 067
Equity and liabilities		
Capital and reserves	**573 186**	587 373
Non-current liabilities	**16 264**	16 825
Current liabilities	**67 064**	64 869
Total equity and liabilities	**656 514**	669 067

The aggregate post-acquisition reserves (adjusted for the Group's ownership) for the associates are R270 969 000 (2010: R273 027 000).

There are no unrecognised losses for associates.

Loans to associates past due but not impaired

All loans to associates that are past due are impaired accordingly. At 30 September 2011 (2010: Rnil), there are no loans to associates that are past due and impaired.

Fair value of loans to associates

The values stated above approximate the fair values of the financial assets at statement of financial position date.

8. Interests in joint ventures

The Group had the following interests in unlisted joint ventures at 30 September:

	2011 %	2010 %
East Rand Oncology Unit^	**48**	48
Brenthurst MRI	**70**	70
Brenthurst Equipment Trust 1	**50**	50
Brenthurst Equipment Trust 2	**70**	70
Brenthurst Radiology Cat Scan	**50**	50
Flora Renal Dialysis Unit (Proprietary) Limited (Dormant and in voluntary liquidation)	**51**	51
Boldprops 102 (Proprietary) Limited	**50**	50

^ Decision was taken in prior financial years to dissolve the joint venture. The dissolution is currently under arbitration.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

	2011 R'000	2010 R'000
8. Interests in joint ventures continued		
The following amounts represent the Group's proportionate share of the assets, liabilities and results of its interests in the joint ventures included in the consolidated statement of financial position and consolidated statement of comprehensive income:		
Statement of comprehensive income		
Revenue	**6 877**	7 630
Expenses	**(3 269)**	(3 572)
Profit before tax	**3 608**	4 058
Statement of financial position		
Assets	**11 059**	10 537
Non-current assets	**2 650**	3 531
Current assets	**8 409**	7 006
Liabilities	**(5 866)**	(4 709)
Non-current liabilities	**(4 031)**	(2 557)
Current liabilities	**(1 835)**	(2 152)
Net assets	**5 193**	5 828
Director's valuation	**17 416**	17 086

The Group's interest in capital commitments for the joint ventures is Rnil (2010: R296 000).

9. Loans receivable

	2011 R'000	2010 R'000
Loans receivable		
Balance at 1 October	**5 828**	5 794
Effective interest	**(30)**	(51)
Loans repaid	**(793)**	–
Loans granted	**742**	1 853
Non-current portion at 30 September	**5 747**	7 596
Impairment of loans receivable	**(992)**	(1 768)
Opening balance	**(1 768)**	(1 234)
Impairment raised	**–**	(534)
Amounts utilised	**776**	–
Net loans receivable	**4 755**	5 828

These loans are unsecured, bear interest at rates linked to the prime bank overdraft rate, and are repayable between two to five years.

Fair value of loans receivable

The values stated above approximate the fair values of the financial assets at statement of financial position date.

Loans receivable past due but not impaired

All loans receivable that are past due are impaired accordingly.

Loans receivable impaired

At 30 September, loans receivable of R992 000 (2010: R1 768 000) were impaired and provided for.

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. No default existed at year end.

10. Retirement benefit obligations and post-retirement medical aid surplus

Pension and provident fund benefits

The Group used to operate or was a participating employer in twenty-three retirement funds.

Nineteen of these funds are now dormant and are either in the process of being wound up or have already been deregistered. Seven of these funds (two during the current financial year) have been deregistered. A further three fund deregistration applications have been submitted to the Financial Services Board (FSB). Of the remaining nine dormant funds, three are defined benefit pension funds, five are provident funds and one is a defined contribution pension fund. Applications to deregister the three dormant defined benefit pension funds are expected to be submitted in the near future. The asset transfers of two of these funds whose members transferred to the Life Healthcare DB Pension Fund were approved by the FSB and all assets have been transferred. The third fund has just completed a surplus apportionment exercise and the final accounts and expense payments are in the process of being dealt with.

The Group currently contributes to four funds: two defined benefit pension funds, a defined contribution pension fund and a defined contribution provident fund. The two defined benefit funds are closed to new members. New employees have the choice of dual fund defined contribution membership or membership of the provident fund only. Any new group of employees as a result of a business acquisition who were defined contribution pension fund members join the defined contribution pension fund.

The assets of all the funds, whether they are defined benefit or defined contribution, are held and administered in funds separate from the Group's assets. The assets are administered on behalf of the Group by external financial services companies. All the funds are governed by the Pension Funds Act of 1956. All defined benefit pension funds require a statutory actuarial valuation every three years, except for one which requires a valuation every year in terms of the pension fund rules.

All the other pension funds and provident funds are defined contribution plans and require triennial statutory financial reviews. A financial review is, however, carried out annually to determine the solvency of the plans. Defined contribution funds are not guaranteed by the employer.

The following actuarial assumptions were applied in the valuation of the defined benefit funds as required by IAS 19:

	2011	2010
Discount rate (%)	**9.11**	8.98
Consumer price inflation (%)	**6.52**	5.99
Expected return on assets (%)		
Presmed Pension Fund	**n/a**	n/a
Jan S Marais Pension Fund	**n/a**	n/a
Life Healthcare DB Pension Fund	**10.11**	9.98
Lifecare Group Holdings Pension Fund	**9.25**	9.00
Lifecare Clinics Pension Fund	**n/a**	n/a

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

10. Retirement benefit obligations and post-retirement medical aid surplus continued

Pension and provident fund benefits continued

The long-term investment return assumption is based on the expected long-term returns on equities, cash and bonds. In setting these assumptions the actual asset split of the various funds is used. The expected long-term rate of return on bonds is set at the same level as the discount rate and the return on equities is set at a level of 1% above the bond rate and the long-term rate of return on cash is set at a level of 2.59% below the bond rate.

	2011	2010
Compensation increase rate (%)		
Presmed Pension Fund	**n/a**	n/a
Jan S Marais Pension Fund	**n/a**	n/a
Life Healthcare DB Pension Fund	**7.52**	6.99
Lifecare Group Holdings Pension Fund	**6.50**	6.25
Lifecare Clinics Pension Fund	**n/a**	n/a
Pension increase rate (%)		
Presmed Pension Fund	**n/a**	n/a
Jan S Marais Pension Fund	**n/a**	n/a
Lifecare Clinics Pension Fund	**n/a**	n/a
Life Healthcare DB Pension Fund	**4.89**	4.79
Lifecare Group Holdings Pension Fund	**3.50**	3.10
Rates of mortality	**0.50**	0.50

The last statutory actuarial valuations for the funds were:

Presmed Pension Fund	1 September 2008 (Assets transferred to Life Healthcare DB Pension Fund; valuation exemption requested)
Jan S Marais Pension Fund	1 September 2008 (Surplus apportionment complete. Valuation exemption requested)
Life Healthcare DB Pension Fund	30 June 2009
Lifecare Group Holdings Pension Fund	1 April 1998 (Approval of 2001 and 2004 – valuations outstanding)
Lifecare Clinics Pension Fund	1 September 2008 (No remaining assets or liabilities)

10. Retirement benefit obligations and post-retirement medical aid surplus continued

Pension and provident fund benefits continued

The Group's obligation in respect of retirement benefits as measured in terms of IAS 19 are tabled below.

R'000	Presmed Pension Fund	Jan S Marais Pension Fund	Life Healthcare DB Pension Fund	Lifecare Group Holdings Pension Fund	Lifecare Clinics Pension Fund
Components of net periodic cost – 2011					
Current service cost	**–**	**–**	**9 541**	**852**	**–**
Interest cost	**–**	**–**	**36 059**	**4 346**	**–**
Expected return on assets	**–**	**–**	**(57 728)**	**(10 154)**	**–**
Amortisation:					
Unrecognised net (gain)/loss	**–**	**–**	**–**	**–**	**–**
Net actuarial (gain)/loss recognised in the year	**–**	**–**	**20 218**	**–**	**–**
Unrecognised due to limit	**–**	**–**	**–**	**6 837**	**–**
Recognition in terms of paragraph 58A	**–**	**–**	**–**	**(1 377)**	**–**
Termination benefit	**–**	**–**	**–**	**–**	**–**
Settlement cost	**–**	**–**	**–**	**–**	**–**
Net periodic cost/(income)	**–**	**–**	**8 090**	**504**	**–**
Components of net periodic cost – 2010					
Current service cost	–	–	11 145	861	–
Interest cost	–	–	36 972	4 658	–
Expected return on assets	(25)	(73)	(53 371)	(11 099)	(25)
Amortisation:					
Unrecognised net (gain)/loss	393	(693)	(43 117)	–	28
Net actuarial (gain)/loss recognised in the year	(128)	766	(44 325)	–	–
Unrecognised due to limit	–	–	–	(2 899)	(3)
Recognition in terms of paragraph 58A	–	–	–	9 054	–
Termination benefit	–	–	–	–	–
Settlement cost	–	–	–	–	–
Net periodic cost/(income)	240	–	(92 696)	575	–

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

10. Retirement benefit obligations and post-retirement medical aid surplus continued

R'000	Presmed Pension Fund	Jan S Marais Pension Fund	Life Healthcare DB Pension Fund	Lifecare Group Holdings Pension Fund	Lifecare Clinics Pension Fund
Actual return on plan assets					
2011	**–**	**–**	**40 411**	**6 649**	**–**
2010	–	–	53 388	–	21
Reconciliation of defined benefit obligation – 2011					
Defined benefit obligation at 30 September 2010	**–**	**–**	**388 463**	**53 328**	**–**
Service cost	**–**	**–**	**9 541**	**852**	**–**
Member contributions	**–**	**–**	**3 841**	**291**	**–**
Interest cost	**–**	**–**	**36 059**	**4 346**	**–**
Actuarial (gain)/loss	**–**	**–**	**3 418**	**(4 882)**	**–**
Benefits paid	**–**	**–**	**(40 203)**	**(5 871)**	**–**
Risk premiums	**–**	**–**	**(527)**	**(183)**	**–**
Net transfers in/(out)	**–**	**–**	**–**	**–**	**–**
Termination benefits	**–**	**–**	**–**	**–**	**–**
Defined benefit obligation at 30 September 2011	**–**	**–**	**400 592**	**47 881**	**–**
Reconciliation of defined benefit obligation – 2010					
Defined benefit obligation at 30 September 2009	–	–	377 153	51 485	–
Service cost	–	–	11 145	861	–
Member contributions	–	–	3 901	334	–
Interest cost	–	–	36 972	4 658	–
Actuarial (gain)/loss	–	–	(1 884)	2 860	–
Benefits paid	–	–	(38 289)	(6 587)	–
Risk premiums	–	–	(535)	(283)	–
Net transfers in/(out)	–	–	–	–	–
Termination benefits	–	–	–	–	–
Defined benefit obligation at 30 September 2010	–	–	388 463	53 328	–

10. Retirement benefit obligations and post-retirement medical aid surplus continued

R'000	Presmed Pension Fund	Jan S Marais Pension Fund	Life Healthcare DB Pension Fund	Lifecare Group Holdings Pension Fund	Lifecare Clinics Pension Fund
Reconciliation of fair value of plan assets – 2011					
Assets at fair market value as at 30 September 2010	**–**	**–**	**591 489**	**114 053**	**–**
Expected return on assets	**–**	**–**	**57 728**	**10 154**	**–**
Contributions	**–**	**–**	**13 991**	**795**	**–**
Risk premiums	**–**	**–**	**(527)**	**(183)**	**–**
Benefits paid	**–**	**(186)**	**(40 203)**	**(5 871)**	**–**
Actuarial gain/(loss)	**–**	**186**	**(16 800)**	**(3 505)**	**–**
Net transfers in/(out)	**–**	**–**	**–**	**–**	**–**
Assets at fair market value as at 30 September 2011	**–**	**–**	**605 678**	**115 443**	**–**
Reconciliation of fair value of plan assets – 2010					
Assets at fair market value as at 30 September 2009	240	693	520 291	115 109	200
Expected return on assets	25	73	53 371	11 099	21
Contributions	–	–	14 210	909	–
Risk premiums	–	–	(535)	(283)	–
Benefits paid	–	(186)	(38 289)	(6 587)	–
Actuarial gain/(loss)	(265)	(580)	42 441	(6 194)	(221)
Net transfers in/(out)	–	–	–	–	–
Assets at fair market value as at 30 September 2010	–	–	591 489	114 053	–
Defined benefit fund asset/liability – 2011					
(Liability)/asset as at 1 October 2010	**–**	**–**	**203 026**	**–**	**–**
Net periodic cost	**–**	**–**	**(8 090)**	**(504)**	**–**
Company contributions	**–**	**–**	**10 150**	**504**	**–**
(Liability)/asset as at 30 September 2011	**–**	**–**	**205 086**	**–**	**–**
Unrecognised due to paragraph 58 limit	**–**	**–**	**–**	**–**	**–**
(Liability)/asset recognised on the statement of financial position	**–**	**–**	**205 086**	**–**	**–**
Defined benefit fund asset/liability – 2010					
(Liability)/asset as at 1 October 2009	240	–	100 021	–	–
Net periodic cost	(240)	–	92 696	(575)	–
Company contributions	–	–	10 309	575	–
(Liability)/asset as at 30 September 2010	–	–	203 026	–	–
Unrecognised due to paragraph 58 limit	–	–	–	–	–
(Liability)/asset recognised on the statement of financial position	–	–	203 026	–	–

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

10. Retirement benefit obligations and post-retirement medical aid surplus continued

R'000	Presmed Pension Fund	Jan S Marais Pension Fund	Life Healthcare DB Pension Fund	Lifecare Group Holdings Pension Fund	Lifecare Clinics Pension Fund
Actuarial value of defined benefit obligation and funded status – 2011					
Defined benefit obligation	**–**	**–**	**(400 592)**	**(47 881)**	**–**
Assets at fair market value	**–**	**–**	**605 678**	**115 443**	**–**
Funded status	**–**	**–**	**205 086**	**67 562**	**–**
Unrecognised past service cost	**–**	**–**	**–**	**–**	**–**
Unrecognised net gain/(loss)	**–**	**–**	**–**	**–**	**–**
(Liability)/asset as at 30 September 2011	**–**	**–**	**205 086**	**67 562**	**–**
Unrecognised due to paragraph 58 limit	**–**	**–**	**–**	**(67 562)**	**–**
(Liability)/asset recognised on the statement of financial position	**–**	**–**	**205 086**	**–**	**–**
Actuarial value of defined benefit obligation and funded status – 2010					
Defined benefit obligation	–	–	(388 463)	(53 328)	–
Assets at fair market value	–	–	591 489	114 053	–
Funded status	–	–	203 026	60 725	–
Unrecognised past service cost	–	–	–	–	–
Unrecognised net gain/(loss)	–	–	–	–	–
(Liability)/asset as at 30 September 2010	–	–	203 026	60 725	–
Unrecognised due to paragraph 58 limit	–	–	–	(60 725)	–
(Liability)/asset recognised on the statement of financial position	–	–	203 026	–	–
Actuarial value of defined benefit obligation and funded status – 2009					
Defined benefit obligation	–	–	(377 153)	(51 485)	–
Assets at fair market value	240	693	520 291	115 109	200
Funded status	240	693	143 138	63 624	200
Unrecognised past service cost	–	–	–	–	–
Unrecognised net gain/(loss)	393	(693)	(43 117)	–	–
(Liability)/asset as at 30 September 2009	633	–	100 021	63 624	200
Unrecognised due to paragraph 59 limit	(393)	–	–	(63 624)	(200)
(Liability)/asset recognised on the statement of financial position	240	–	100 021	–	–

10. Retirement benefit obligations and post-retirement medical aid surplus continued

R'000	Presmed Pension Fund	Jan S Marais Pension Fund	Life Healthcare DB Pension Fund	Lifecare Group Holdings Pension Fund	Lifecare Clinics Pension Fund
Actuarial value of defined benefit obligation and funded status – 2008					
Defined benefit obligation	–	(339)	(397 889)	(57 290)	(3 524)
Assets at fair market value	2 273	1 129	486 979	114 960	6 568
Funded status	2 273	790	89 090	57 670	3 044
Unrecognised past service cost	–	–	–	–	–
Unrecognised net gain/(loss)	–	–	–	–	–
(Liability)/asset as at 30 September 2008	2 273	790	89 090	57 670	3 044
Unrecognised due to paragraph 59 limit	–	(790)	–	(57 670)	(3 044)
(Liability)/asset recognised on the statement of financial position	2 273	–	89 090	–	–
Actuarial value of defined benefit obligation and funded status – 2007					
Defined benefit obligation	(21 355)	(339)	(274 729)	(54 239)	(28 670)
Assets at fair market value	23 335	1 077	515 656	136 878	49 666
Funded status	1 980	738	240 927	82 639	20 996
Unrecognised past service cost	–	–	–	–	–
Unrecognised net gain/(loss)	(2 475)	(60)	(86 177)	–	(9 993)
(Liability)/asset as at 30 September 2007	(495)	678	154 750	82 639	11 003
Unrecognised due to paragraph 59 limit	–	(678)	(154 750)	(82 639)	(11 003)
(Liability)/asset recognised on the statement of financial position	(495)	–	–	–	–
Composition of plan assets – 2011					
Cash	**0.0%**	**0.0%**	**11.4%**	**10.5%**	**0.0%**
Equity instruments	**0.0%**	**0.0%**	**40.1%**	**43.8%**	**0.0%**
Bonds	**0.0%**	**0.0%**	**24.4%**	**20.1%**	**0.0%**
Property	**0.0%**	**0.0%**	**2.7%**	**9.2%**	**0.0%**
Other	**0.0%**	**0.0%**	**21.4%**	**16.4%**	**0.0%**
	0.0%	**0.0%**	**100.0%**	**100.0%**	**0.0%**
Composition of plan assets – 2010					
Cash	0.0%	0.0%	11.0%	12.5%	0.0%
Equity instruments	0.0%	0.0%	60.7%	39.6%	0.0%
Bonds	0.0%	0.0%	14.6%	23.9%	0.0%
Property	0.0%	0.0%	4.2%	8.4%	0.0%
Other	0.0%	0.0%	9.5%	15.6%	0.0%
	0.0%	0.0%	100.0%	100.0%	0.0%

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

10. Retirement benefit obligations and post-retirement medical aid surplus continued

R'000	Presmed Pension Fund	Jan S Marais Pension Fund	Life Healthcare DB Pension Fund	Lifecare Group Holdings Pension Fund	Lifecare Clinics Pension Fund
Expected contributions to the benefit plans for the year ending 30 September 2012 (R'000)					
Member contributions	–	–	3 985	310	–
Company contributions	–	–	10 531	537	–
Risk premiums	–	–	(547)	(255)	–
Benefit payments	–	–	(43 227)	(3 159)	–

Post-retirement medical aid benefit

Life Healthcare Group has a liability arising as a result of a post-retirement employer subsidy of healthcare benefits. Members of certain medical aid plans, who joined the company before 1 November 1996 and remain in the employment of Life Healthcare Group until retirement, are eligible for a post-retirement subsidy of their medical contributions.

Life Healthcare Group is liable to make good on any shortfalls in the fund.

The benefit fund meets the definition of a defined benefit plan and has been disclosed in accordance with IAS 19.

The plan represents the market value of the assets.

The defined benefit fund is actuarially valued using the projected unit credit method. The benefit fund is a closed fund.

The following actuarial assumptions were applied.

	2011	2010
Discount rate (%)	**8.75**	8.25
Consumer price inflation (%)	**5.75**	5.25
Expected return on assets (%)	**9.75**	9.25
Healthcare cost inflation (%)	**7.75**	7.25
Compensation increase rate (%)	**6.50**	6.25
Membership discontinued at retirement (%)	**0.00**	0.00
Average retirement age	**60**	60
Rates of mortality	**0.50**	0.50

The expected return on planned assets of 9.75% (2010: 9.25%) per annum is based on a nominal allocation of the plan assets, expected return on the underlying asset classes and expected expenses.

The Group's obligation in respect of post-retirement medical aid benefit as measured in terms of IAS 19 is tabled below.

Components of net periodic cost	2011 R'000	2010 R'000
Current service cost	**2 219**	2 156
Interest cost	**5 327**	6 136
Expected employer benefit payments	**(1 703)**	(2 269)
Expected benefit payments from plan assets	**1 703**	2 269
Actuarial loss/(gain)	**1 840**	4 291
Effect of curtailment or settlement	**(2 555)**	(7 636)
Net periodic cost	**6 831**	4 947

10. Retirement benefit obligations and post-retirement medical aid surplus continued

Defined benefit fund asset surplus	2011 R'000	2010 R'000	2009 R'000	2008 R'000	2007 R'000
Asset as at 30 September	**9 668**	7 084	1 296	11 024	
Growth in market value	**6 870**	7 531	7 333	7 065	
Net periodic (cost)/income	**(6 831)**	(4 947)	(1 545)	(16 793)	
Asset as at 30 September	**9 707**	9 668	7 084	1 296	
Unrecognised due to paragraph 59 limit	**–**	–	–	–	
Asset recognised on the statement of financial position	**9 707**	9 668	7 084	1 296	
Actuarial value of defined benefit obligation and funded status					
Defined benefit obligation	**(67 305)**	(65 463)	(69 365)	(71 428)	(65 041)
Assets at fair market value	**77 012**	75 131	76 449	72 724	76 065
Funded status	**9 707**	9 668	7 084	1 296	11 024
Unrecognised past service cost	**–**	–	–	–	–
Unrecognised net (gain)/loss	**–**	–	–	–	–
Asset as at 30 September	**9 707**	9 668	7 084	1 296	11 024
Unrecognised due to paragraph 59 limit	**–**	–	–	–	–
Asset recognised on the statement of financial position	**9 707**	9 668	7 084	1 296	11 024
Post-retirement medical aid benefits					
Plan assets comprise of:					
Equity instruments	**49.2%**	99.3%	91.1%		
Cash	**50.8%**	0.7%	8.9%		
	100.0%	100.0%	100.0%		

There are no expected contributions to the post-retirement benefit plan for the year ending 30 September 2012 as the fund is fully funded.

	Increase R'000	Decrease R'000
The effect of a 1% movement in the assumed medical cost trend rate is as follows:		
Effect on the aggregate of the current service cost and interest cost	1 473	1 185
Effect on the defined benefit obligation	11 587	9 383

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

	2011 R'000	2010 R'000
11. Deferred income tax		
Deferred tax per the statement of financial position represents the summation of the individual deferred tax balances per subsidiary. This is split between deferred tax assets and liabilities as follows:		
Deferred tax assets	**150 338**	144 696
Deferred tax liabilities	**(368 245)**	(376 030)
	(217 907)	(231 334)
The movement in the deferred tax account is as follows:		
Balance at 1 October	**(231 334)**	(139 161)
Foreign currency exchange adjustment	**(187)**	(62)
Acquired through acquisition of subsidiary	**(10 493)**	580
Business combination	**(31 035)**	(31 690)
Deferred tax movements directly in reserves	**(7 520)**	20 061
Current year charge through profit or loss	**62 662**	(81 062)
Carrying amount at 30 September	**(217 907)**	(231 334)
Gross deferred tax assets included above	**(466 803)**	(323 920)
Gross deferred tax liability	**(684 710)**	(555 254)

2011: (R'000)	Balance at 1 October 2010	Acquired through acquisition of subsidiary	Business combi-nations	Foreign currency exchange adjustment	Net charge/ (credited) during the current year	**Balance at 30 September 2011**
Employee benefit provisions	78 833	–	3 043	–	11 119	**92 995**
Other provisions	15 747	–	–	–	358	**16 105**
Provision for doubtful debts	5 463	–	149	–	44	**5 656**
Accelerated wear and tear for tax purposes on property, plant and equipment	(186 674)	–	(1 869)	(187)	(79 331)	**(268 061)**
Tax loss carried forward	7 278	–	–	–	(1 857)	**5 421**
Property leases	197 536	–	–	–	133 918	**331 454**
Credit balances in trade receivables	11 920	–	403	–	218	**12 541**
Pre-paid expenses	(12 353)	–	(81)	–	3 114	**(9 320)**
Intangible assets on acquisition of subsidiary	(282 397)	–	(32 680)	–	3 868	**(311 209)**
Non-current receivables adjusted to fair value on acquisition of subsidiary	(5 436)	–	–	–	3 987	**(1 449)**
Retirement benefit asset	(58 835)	–	–	–	(1 307)	**(60 142)**
Interest rate hedge	7 131	–	–	–	(4 500)	**2 631**
Revaluation of property	(5 740)	(10 493)	–	–	(7 520)	**(23 753)**
Other movements	(3 819)	–	–	–	(6 957)	**(10 776)**
Partnerships	12	–	–	–	(12)	**–**
	(231 334)	(10 493)	(31 035)	(187)	55 142	**(217 907)**

11. Deferred income tax continued

2010: (R'000)	Balance at 1 October 2009	Acquired through acquisition of subsidiary	Business combi-nations	Foreign currency exchange adjustment	Net charge/ (credited) during the current year	Balance at 30 September 2010
Employee benefit provisions	64 466	580	–	–	13 787	78 833
Other provisions	109 117	–	–	–	(93 370)	15 747
Provision for doubtful debts	5 567	–	–	–	(104)	5 463
Accelerated wear and tear for tax purposes on property, plant and equipment	(174 888)	–	–	(62)	(11 724)	(186 674)
Tax loss carried forward	5 732	–	–	–	1 546	7 278
Property leases	190 642	–	–	–	6 894	197 536
Credit balances in trade receivables	12 098	–	–	–	(178)	11 920
Pre-paid expenses	(13 627)	–	–	–	1 274	(12 353)
Unused STC credits	(1 054)	–	–	–	1 054	–
Intangible assets on acquisition of subsidiary	(288 364)	–	(25 950)	–	31 917	(282 397)
Non-current receivables adjusted to fair value on acquisition of subsidiary	(5 465)	–	–	–	29	(5 436)
Retirement benefit asset	(30 056)	–	–	–	(28 779)	(58 835)
Revenue received in advance	41	–	–	–	(41)	–
Interest rate hedge	(301)	–	–	–	7 432	7 131
Debt arrangement fee	(8 602)	–	–	–	8 602	–
Revaluation of property	–	–	(5 740)	–	–	(5 740)
Other movements	(4 964)	–	–	–	1 145	(3 819)
Partnerships	497	–	–	–	(485)	12
	(139 161)	580	(31 690)	(62)	(61 001)	(231 334)

Analysis of deferred tax assets and deferred tax liabilities is as follows:

Deferred tax assets		
Deferred tax assets to be recovered within 12 months	129 928	115 119
Deferred tax assets to be recovered after more than 12 months	336 875	208 801
	466 803	323 920
Deferred tax liabilities		
Deferred tax liabilities to be recovered within 12 months	(21 545)	(17 789)
Deferred tax liabilities to be recovered after more than 12 months	(663 165)	(537 465)
	(684 710)	(555 254)

Deferred tax assets arising from tax losses are recognised to the extent that realisation of the related tax benefits are probable. The determination of the probability of recovery is based on management forecast for the units.

The Group has tax losses of R1 919 000 (2010: R1 182 000) to carry forward against future taxable income, which have not been recognised in these financial statements due to uncertainties regarding the utilisation of these losses in the foreseeable future. None of the tax losses are expected to expire.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

	2011 R'000	2010 R'000
12. Inventories		
Ethical drugs and surgical consumable products	**192 887**	184 795
All medical consumables are carried at cost which is lower than the net realisable value.		
The cost of inventories written off as expired stock, is recognised as an expense and is included in 'other expenses' in the statement of comprehensive income. Inventories written off amounted to:	**6 540**	5 397
13. Trade and other receivables		
Trade receivables	**1 019 989**	930 532
Less: Provision for impairment of receivables	**(27 867)**	(29 263)
Net trade receivables	**992 122**	901 269
Other receivables	**73 429**	63 092
Prepaid expenses	**26 358**	28 357
Balance at 30 September	**1 091 909**	992 718
The Group has recognised losses for the impairment of its trade receivables for the year ended 30 September:	**60 624**	57 428

These losses have been included in 'other expenses' in the statement of comprehensive income.

The values as stated above approximate the fair values at statement of financial position date of trade and other receivables.

The fair value of trade receivables is based on cash flows discounted using the prime interest rate. Provision for impairment of receivables is based on historical collection trends, current market conditions and expected future cash flows.

Fair values are determined annually at statement of financial position date.

Trade and other receivables past due but not impaired

	2011 R'000	2010 R'000
Trade and other receivables which are less than three months past due or another period depending on the class of the trade receivable, are not considered to be impaired, as there has not been a significant change in credit quality and amounts are still recoverable. At 30 September trade and other receivables past due but not impaired were as follows:	**114 900**	93 849

The ageing of amounts past due but not impaired is as follows:

Trade and other receivables at 30 September 2011 (R'000)	**31 – 60 days**	**61 – 90 days**	**91 – 180 days**	**181 – 360 days**	**More than a year**	**Total**
Private clients	**–**	**–**	**7 049**	**2 971**	**484**	**10 504**
Medical aids	**–**	**12 542**	**9 531**	**2 762**	**879**	**25 714**
Government (RAF, COID, non-pure COID and provincial departments)	**22 847**	**18 008**	**29 813**	**–**	**–**	**70 668**
Foreign patients	**1 737**	**233**	**1 626**	**3 968**	**450**	**8 014**
	24 584	**30 783**	**48 019**	**9 701**	**1 813**	**114 900**
Trade and other receivables at 30 September 2010 (R'000)						
Private clients	–	–	8 673	4 538	1 239	14 450
Medical aids	–	13 724	12 012	4 386	2 045	32 167
Government (RAF, COID, non-pure COID and provincial departments)	26 247	1 567	9 714	–	–	37 528
Foreign patients	3 153	2 327	3 208	736	280	9 704
	29 400	17 618	33 607	9 660	3 564	93 849

	2011 R'000	2010 R'000
13. Trade and other receivables continued		
Trade and other receivables impaired		
The amount of the provision at 30 September was:	**(27 867)**	(29 263)
Reconciliation of provision for impairment of trade and other receivables		
Opening balance	**(29 263)**	(27 197)
Provision raised	**(5 017)**	(4 879)
Amounts utilised	**6 413**	2 813
	(27 867)	(29 263)

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the statement of comprehensive income. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of trade and other receivable mentioned above. The Group does not hold any collateral as security.

	2011 R'000	2010 R'000
Currencies		
The trade and other receivables carrying amount is denominated in the following currencies:		
South African rand	**1 064 613**	967 816
Botswana pula	**27 296**	24 902
Balance at 30 September	**1 091 909**	992 718

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. No material historical default rates exist that require additional impairments.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

	2011 R'000	2010 R'000
14. Cash and cash equivalents		
Cash at bank and on hand	**206 199**	229 156
Short-term money market instruments	**194 000**	253 000
Balance at 30 September	**400 199**	482 156
The cash at bank and deposits are on call, immediately available and consist of money market call deposits and short-term money market instruments. The average effective interest rate on short-term money market instruments for the period was:	**5.30%**	6.40%
The cash and cash equivalents carrying amount is denominated in the following currencies:		
South African rand	**393 543**	460 550
Botswana pula	**6 656**	21 606
Balance at 30 September	**400 199**	482 156
Cash and cash equivalents include the following for the purpose of the cash flow statement:		
Cash at bank and in hand	**206 199**	229 156
Short-term money market instruments	**194 000**	253 000
Cash and cash equivalents	**400 199**	482 156
Overdraft facilities within the Group are secured by means of cross sureties by Group companies.		
The credit quality of cash at bank and short-term money market instruments based on Fitch Ratings (zaf) are:		
AAA	**194 000**	8 055
AA	**205 707**	404 322
A	**–**	69 314
Cash on hand	**492**	465
	400 199	482 156

	2011 R'000	2010 R'000
15. Share capital		
Authorised		
Ordinary shares		
4 149 980 000 (2010:4 149 980 000) ordinary shares of R0.000001 each (Total value = R4 149 (2010: R4 149))	**4**	4
Nil (2010: Nil) ordinary 'N' shares of R0.000001 each (Total value = Rnil (2010: Rnil))	**–**	–
The ordinary 'N' shares were converted into ordinary shares during the previous financial year in terms of a special resolution dated 29 April 2010. The 'N' shares were converted on a one-for-one basis. Upon conversion, the 'N' shares ranked *pari passu* with the ordinary shares. Upon listing in the previous financial year, any and all 'N' shares authorised but unissued share capital was cancelled in terms of section 75(h) of the Companies Act.		
Issued and fully paid		
Ordinary shares		
Balance at 30 September	**1**	1
Fully paid share capital		
1 042 209 750 (2010: 1 042 209 750) Ordinary shares of R0.000001 each (Total value = R1 042 (2010: R1 042))	**1**	1
Nil (2010: Nil) Ordinary 'N' shares of R0.000001 each (Total value = Rnil (2010: Rnil))	**–**	–
Treasury shares	**(6 420)**	
1 018 960 (2010: Nil) At cost	**(6 420)**	–
Reconciliation of number of shares		
Balance at 1 October	**1 042 209 750**	101 679
Share split (December 2009)	**–**	1 016 688 321
Issue of shares at listing	**–**	346 966 756
Share repurchase	**–**	(321 547 006)
Treasury shares acquired	**(1 018 960)**	–
	1 041 190 790	1 042 209 750
Treasury shares are held by Life Healthcare Group (Proprietary) Limited	**1 018 960**	–

During the previous financial year the Company split its authorised and issued share capital into 10 000 shares for each ordinary and 'N' share.

During 2010, the Company issued an additional 25 419 750 ordinary shares at an issue price of R15.54 in terms of the Performance Equity Scheme, which became fully vested based on the achievement of a non-market based performance condition. These shares were issued at a value of R395 122 000 to the Performance Equity Scheme and settled by a subsidiary of the Group.

The Company listed on the JSE Limited on 10 June 2010 and issued 321 547 006 ordinary shares on this date at an issue price of R13.50. On the same date, the Company repurchased 321 547 006 of its ordinary shares at a total price of R13.50 per share. R3 216 138 000 was paid from retained earnings and the balance of R803 010 000 was paid from share premium.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

	2011 R'000	2010 R'000
16. Share premium		
Balance at 1 October	**3 956 346**	23 350
Issue of shares in terms of the Performance Equity Scheme	**–**	395 122
Issue of shares at listing	**–**	4 340 884
Share repurchase	**–**	(803 010)
Capital reduction	**(208 442)**	–
	3 747 904	3 956 346
17. Other reserves		
Foreign currency translation reserve	**(7 992)**	(8 930)
Share-based payment reserve	**–**	–
Transactions with non-controlling interest reserve	**(7 318)**	(19 969)
	(15 310)	(28 899)
The movements in each category of reserves were as follows:		
Share-based payment reserve		
Balance at 1 October	**–**	230 976
Charge for the year	**–**	74 357
Settlement of share-based payment reserve transferred to retained earnings	**–**	(305 333)
Balance at 30 September	**–**	–

The share-based payment reserve consisted of two equity-settled schemes, namely the Performance Equity Scheme and the Employee Trust Scheme. In the 2009 financial year, the Employee Trust had an indirect interest of 4.2% in the Company. All permanent employees who were members of a South African retirement fund were beneficiaries of the Employee Trust. In terms of the trust deed the employees became entitled to a surplus in the event of the trust selling its indirect interest in Life Healthcare Group Holdings Limited at the 'liquidity event'. The equity-settled scheme was settled during the previous financial period and therefore the full equity value was accounted for during the period. The Performance Equity Scheme entitled certain members of senior management to a maximum of 2,5% of the equity value of Life Healthcare Group Holdings Limited. This allocation was conditional upon certain performance criteria being met. The scheme was settled at the option of the subsidiary company by way of delivery of shares of the Company.

Refer to note 3 for the critical accounting estimates and judgements used to calculate the values of these schemes.

	2011 R'000	2010 R'000
Foreign currency translation reserve		
Balance at 1 October	**(8 930)**	(6 366)
Currency translations arising in the year	**938**	(2 564)
Balance at 30 September	**(7 992)**	(8 930)
Transactions with non-controlling interest reserve		
Balance at 1 October	**(19 969)**	–
Increases in ownership interest in subsidiaries	**111**	(23 215)
Decreases in ownership interest in subsidiaries	**12 540**	3 246
Balance at 30 September	**(7 318)**	(19 969)

The transactions with non-controlling interest reserve arise from increases/decreases of ownership interests in subsidiaries, with non-controlling interests, that do not result in a change in control. Refer to note 35.

	2011 R'000 Non-current portion	2011 R'000 Current portion	2011 R'000 Total
18. Interest-bearing borrowings			
Unsecured borrowings			
Term loans	**1 037 500**	**415 000**	**1 452 500**
Secured borrowings			
Mortgage bonds at variable interest rates	**7 174**	**2 118**	**9 292**
Mortgage bonds at fixed interest rates	**11 051**	**5 220**	**16 271**
Finance leases – properties	**508 538**	**36 860**	**545 398**
Finance leases – other	**374**	**596**	**970**
Total borrowings – 30 September 2011	**1 564 637**	**459 794**	**2 024 431**

	2010 R'000 Non-current portion	2010 R'000 Current portion	2010 R'000 Total
Unsecured borrowings			
Term loans	1 452 500	415 000	1 867 500
Secured borrowings			
Mortgage bonds at variable interest rates	9 333	2 943	12 276
Mortgage bonds at fixed interest rates	16 271	3 842	20 113
Instalment sale agreements	–	297	297
Finance leases – properties	545 398	27 482	572 880
Finance leases – other	939	518	1 457
Total borrowings – 30 September 2010	2 024 441	450 082	2 474 523

The maturity of the borrowings is as follows:

	2011 R'000	2010 R'000
Within one year	**459 794**	450 082
Between one and two years	**456 974**	455 810
Between two and five years	**725 570**	1 159 267
Over five years	**382 093**	409 364
	2 024 431	2 474 523
Unsecured borrowings		
Term loans	**1 037 500**	1 452 500
Opening balance at 1 October	**1 867 500**	–
Additional loans raised	**–**	2 075 000
Less: Capital repaid during the year	**(415 000)**	(207 500)
Closing balance at 30 September	**1 452 500**	1 867 500
Less: Current portion transferred to current liabilities	**(415 000)**	(415 000)

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

18. Interest-bearing borrowings continued

Repayment terms

The term loans are unsecured and are split in two distinctive loans with different interest rates. The first term loan of R1 075 000 000 carries interest at the three month JIBAR rate plus a margin of 2.5%. The second term loan of R1 000 000 000 carries interest at the three month JIBAR rate plus a margin of 2.3%.The interest is serviced quarterly. The loans are repayable over five years with equal six monthly instalments of R107 500 000 and R100 000 000, respectively. The last repayment date is 31 March 2015. At 30 September 2011 the outstanding amount for the first term loan is R752 500 000 and for the second term loan is R700 000 000.

The borrowing powers of the Company and its subsidiaries are not limited by the memorandum of incorporation of the Company.

The lenders have the right to change the interest rate margin on the term loans in the following conditions:
– If the average liquidity premiums for the lenders changes by more than 0.1% then the interest changes by the same difference in the margin.
– If the net debt to EBITDA ratio is higher than 2:1 and less than 2.5:1, then the interest rate margin shall be increased by 0.25%.
– If the net debt to EBITDA ratio is higher than 2.5:1 and less than 3:1, then the interest rate margin shall be increased by 0.5%.

The revolving credit facility ranks alongside the term loans. The undrawn facility is R1 000 000 000.

	2011 R'000	2010 R'000
Secured borrowings		
Senior debt – loans at variable interest rates	**–**	–
Opening balance at 1 October	**–**	1 054 062
Less: Capital repaid during the year	**–**	(1 054 062)
Closing balance at 30 September	**–**	–
Less: Current portion transferred to current liabilities	**–**	–

Repayment terms

These loans were settled in the previous financial year as part of a debt refinancing process and were replaced with the term loans as listed above. The debt was refinanced due to more favourable interest rates obtained in terms of the term loans.

	2011 R'000	2010 R'000
Mezzanine debt – loans at variable interest rates	**–**	–
Opening balance at 1 October	**–**	404 951
Less: Capital repaid during the year	**–**	(404 951)
Less: Current portion transferred to current liabilities	**–**	–

Repayment terms

These loans were settled in the previous financial year as part of a debt refinancing process and were replaced with the term loans as listed above. The debt was refinanced due to more favourable interest rates obtained in terms of the term loans.

18. Interest-bearing borrowings continued

	2011 R'000	2010 R'000
Debt arrangement fees	**–**	–
Opening balance at 1 October	**–**	(30 722)
Less: Amounts amortised during the year	**–**	30 722
Closing balance at 30 September	**–**	–
Less: Current portion transferred to current liabilities	**–**	–

The debt arrangement fees related to the costs associated with raising the original senior and mezzanine debt. The costs were amortised based on the effective interest method. The amortised amount is disclosed as part of finance costs. The full amount was expensed in the prior financial year when the debt was restructured in May 2010.

	2011 R'000	2010 R'000
Revolving credit facility	**–**	–
Opening balance at 1 October	**–**	350 000
Raised	**–**	290 000
Repaid	**–**	(640 000)
Closing balance at 30 September	**–**	–
Less: Current portion transferred to current liabilities	**–**	–

Repayment terms

The revolving credit facility was settled in the previous financial year. At the settlement date, the revolving credit facility carried interest at the three month JIBAR rate plus 2.5% (R150 million) or at the three month JIBAR rate plus 2.75% (R390 million) or at the three month JIBAR rate plus 2.25% (R100 million).

In the prior year debt was refinanced.

	2011 R'000	2010 R'000
Mortgage bonds at fixed interest rate	**11 051**	16 271
Opening balance at 1 October	**20 113**	22 842
Net loans repaid during the year	**(3 842)**	(2 729)
Closing balance at 30 September	**16 271**	20 113
Less: Current portion transferred to current liabilities	**(5 220)**	(3 842)

Repayment terms

The mortgage bonds bear interest at a fixed rate of 18.2% (2010: 18.2%), are repayable in average monthly instalments of R684 000 (2010: R659 000) and are secured by properties with a carrying value of R21 048 000 (2010: R19 826 000). The last instalment is due on 31 March 2014.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

	2011 R'000	2010 R'000
18. Interest-bearing borrowings continued		
Mortgage bonds at variable interest rate	**7 174**	9 333
Opening balance at 1 October	**12 276**	18 296
Net loans repaid during the year	**(2 984)**	(6 020)
Closing balance at 30 September	**9 292**	12 276
Less: Current portion transferred to current liabilities	**(2 118)**	(2 943)

Repayment terms

The mortgage bonds bear interest at various rates linked to the prime bank overdraft rate and are repayable in average monthly instalments of R232 000 (2010: R561 000) over periods ranging between one to ten years. The mortgage bonds are secured by property, plant and equipment with a carrying value of R58 028 000 (2010: R51 275 000). The last instalment is due on 31 March 2019.

	2011 R'000	2010 R'000
Instalment sale agreements	**–**	–
Opening balance at 1 October	**297**	628
Net loans repaid during the year	**(297)**	(331)
Closing balance at 30 September	**–**	297
Less: Current portion transferred to current liabilities	**–**	(297)

Repayment terms

These instalment sale agreements bore interest at various rates linked to the prime bank overdraft rate and were repayable in average monthly instalments of R31 000 in the previous financial year. The instalment sale agreements were secured by property, plant and equipment with a carrying value of R1 426 000 in 2010. The last instalment was paid on 31 July 2011.

	2011 R'000	2010 R'000
Finance leases	**374**	939
Opening balance at 1 October	**1 457**	4 607
Net loans repaid during the year	**(487)**	(3 150)
Closing balance at 30 September	**970**	1 457
Less: Current portion transferred to current liabilities	**(596)**	(518)

Repayment terms

These finance leases bear interest at various rates linked to the prime bank overdraft rate and are repayable in average monthly instalments of R55 000 (2010: R54 000) over periods ranging between one to two years (2010: one to three years). The finance lease agreements are secured by property, plant and equipment with a carrying value of R776 000 (2010: R1 677 000).

	2011 R'000	2010 R'000
18. Interest-bearing borrowings continued		
Minimum future finance lease payments:		
Not later than one year	**661**	647
Later than one year, not later than five years	**386**	1 023
Later than five years	**–**	–
	1 047	1 670
Future finance charges on lease payments	**(77)**	(213)
Present value of finance lease liabilities	**970**	1 457
The present value of future lease liabilities is as follows:		
Not later than one year	**596**	518
Later than one year, not later than five years	**374**	939
Later than five years	**–**	–
	970	1 457
Finance leases – property lease agreements capitalised	**508 538**	545 398
Opening balance at 1 October	**572 880**	528 915
Net loans raised/(repaid) during the year	**(27 482)**	43 965
Closing balance at 30 September	**545 398**	572 880
Less: Current portion transferred to current liabilities	**(36 860)**	(27 482)

Repayment terms

These finance leases bear interest at various rates ranging from 4.5% to 18% (2010: 4.5% to 18%) and are repayable in average monthly instalments of R5 223 000 (2010: R5 360 000) over periods ranging between 1 to 18 (2010: 1 to 19) years. The finance lease agreements are secured by property, plant and equipment with a carrying value of R170 539 000 (2010: R247 803 000).

	2011 R'000	2010 R'000
Minimum future finance lease payments:		
Not later than one year	**102 457**	99 088
Later than one year, not later than five years	**379 872**	399 609
Later than five years	**640 721**	723 441
	1 123 050	1 222 138
Future finance charges on lease payments	**(577 652)**	(649 258)
Present value of finance lease liabilities	**545 398**	572 880
The present value of future lease liabilities is as follows:		
Not later than one year	**36 860**	27 482
Later than one year, not later than five years	**128 963**	139 903
Later than five years	**379 575**	405 495
	545 398	572 880
Borrowing facilities		
The Group has the following borrowing facilities available:		
Available revolving credit facility	**1 000 000**	1 000 000
Working capital facility	**250 000**	250 000
Guarantee facility	**50 000**	50 000
Pre-settlement facility on forward exchange contracts	**67 500**	67 500
	1 367 500	1 367 500

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

	2011 R'000	2010 R'000
19. Operating lease liability		
The Group is a lessee to various hospital and administration office properties under non-cancellable lease agreements.		
Opening balance at 1 October	**50 556**	46 389
Operating lease expense on a straight-line basis	**46 233**	47 404
Lease payments to lessors	**(43 285)**	(43 237)
Total net liability at 30 September	**53 504**	50 556
Add: operating lease asset non-current portion	**686**	2 056
Add: operating lease asset current portion	**1 370**	1 370
Non-current operating lease liability	**55 560**	53 982
20. Trade and other payables		
Trade payables	**737 294**	732 535
Accruals	**92 962**	6 258
Salary related contributions	**95 328**	94 614
Value added tax	**37 202**	54 722
Listing cost payable by shareholders	**–**	72 867
Accrued leave pay	**152 679**	141 328
Other payables	**145 274**	51 376
Balance at 30 September	**1 260 739**	1 153 700
21. Provisions		
Employee benefit provisions	**124 170**	107 298
Long-term incentive scheme	**65 363**	41 876
Total provisions	**189 533**	149 174
Less: Portion included in non-current liabilities	**(28 280)**	(24 590)
Current portion of provisions	**161 253**	124 584
Employee benefit provisions		
Balance at 1 October	**107 298**	84 552
Additional provisions raised	**159 948**	133 335
Amounts utilised	**(143 076)**	(110 589)
Balance at 30 September	**124 170**	107 298

Employee benefits include bonus provision.

The employee benefit provisions represent the pro rata portion of a 13th cheque that is payable to employees in December annually in terms of their employment contracts, as well as a performance bonus scheme that is calculated quarterly. Provisions are raised as payment is subject to the employee being in employment at vesting date.

	2011 R'000	2010 R'000
Long-term incentive scheme		
Balance at 1 October	**41 876**	39 665
Interest cost	**6 105**	4 690
Service cost	**27 012**	23 566
Actual benefit payments	**(19 300)**	(23 547)
Actuarial (gain)/loss	**9 670**	(2 498)
Balance at 30 September	**65 363**	41 876

If the EBIDTA growth rate was 10% higher then the liability would be 34% (2010: 25%) higher.

If the EBIDTA growth rate was 10% lower then the liability would be 30% (2010: 30%) lower.

	2011 %	2010 %
21. Provisions continued		
Long-term incentive scheme continued		
Summary of sssumptions		
Discount rate	**6.99**	7.30
Growth rates		
2009	**16.9**	15.6
2010	**13.0**	12.4
2011	**11.5**	18.1
2012	**15.7**	15.0
Adjusted return on assets		
2009	**42**	40
2010	**42**	40
2011	**42**	40
2012	**40**	40
2013	**40**	40
2014	**40**	n/a
Hurdle rate		
Maximum	**n/a**	8

The scheme is a bonus scheme available for senior employees. The original scheme was adopted in March 2005 and came to an end in January 2008. Vesting in terms of this scheme takes place in three years from allocation and is based on the growth in the Company above a hurdle rate. A new scheme was introduced from January 2009. This scheme also has vesting three years after allocation. Based on the employee's seniority a larger proportion of the allocation is based on returns achieved. The holder of the rights lose the right if he/she resigns. The final vesting of the old scheme was January 2011.

The 2010 growth rates and adjusted return on asset rates are based on the previous scheme in place until January 2011.

	2011 R'000	2010 R'000
Restoration provision		
Balance at 1 October	**–**	2 315
Additional provisions raised	**–**	–
Amounts reversed	**–**	(2 315)
Balance at 30 September	**–**	–

A restoration provision existed to restore a leased facility to offices at the end of the lease period. The lease was extended during the prior financial year on more favourable terms and the restoration is not required anymore in terms of the extended lease agreement.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

22. Derivative financial instruments

Interest rate swap contracts

The Group entered into two interest rate swap contracts to manage exposure to fluctuations in interest rate on the interest bearing borrowings on 22 September 2009. The instruments are settled quarterly on the last days of February, May, August and November. The notional principal amount of the outstanding interest rate swap contract at 30 September 2011 is R750 000 000 (2010: R1 500 000 000). The interest rate swap contracts matured respectively on 28 February 2011 and 29 February 2012. The first interest rate swap matured in the current financial year on 28 February 2011. At this date, the interest rate varied from 7.61% to 5.55%. At 30 September 2010 the fixed interest rate for the first interest rate swap varied from 7.61% to 6.61% and the fixed interest rate for the second interest rate swap varied from 8.18% to 6.61%. At 30 September 2011 the fixed interest rate for the second interest rate swap varied from 8.18% to 5.58%. Gains or losses on the interest rate swap contracts are recognised in the statement of comprehensive income.

	2011		2010	
	Assets R'000	**Liabilities R'000**	Assets R'000	Liabilities R'000
Carrying value at 30 September	**–**	**(9 982)**	–	(27 221)
Cost price of the instruments	**–**	**–**	–	–
Mark-to-market valuation at 30 September	**–**	**(9 982)**	–	(27 221)
Foreign exchange contracts				
The Group entered into United States dollar exchange contracts to manage exposure to fluctuations in the rand dollar exchange rate on a foreign liability. The notional principal amounts of the outstanding foreign exchange contracts at 30 September 2011 was R584 000 (2010: R123 000). These contracts will mature within 12 months.	**584**	**–**	–	(123)
Cost price of the instruments	**–**	**–**	–	–
Mark-to-market valuation at 30 September	**584**	**–**	–	(123)
Total carrying value of derivative financial instruments at 30 September	**584**	**(9 982)**	–	(27 344)
Less non-current portion at 30 September	**–**	**–**	–	(21 938)
Interest rate cap	**–**	**–**	–	(21 938)
Forward starting interest rate cap	**–**	**–**	–	–
Foreign exchange contracts	**–**	**–**	–	–
Net current portion at 30 September	**584**	**(9 982)**	–	(5 406)

	2011 R'000	2010 R'000
The fair value gains/(losses) changes charged to the statement of comprehensive income are as follows:		
Forward starting interest rate caps	**–**	(16)
Interest rate swap contracts	**13 759**	(27 221)
Foreign exchange contracts	**707**	968
	14 466	(26 269)

23. Financial instruments by category

30 September 2011 (R'000)	Loans and receivables	Assets at fair value through profit or loss	Total
Assets per statement of financial position			
Derivative financial instruments	–	584	584
Trade and other receivables	1 065 551	–	1 065 551
Loans receivable	4 755	–	4 755
Loans to associates	6 398	–	6 398
Cash and cash equivalents	400 199	–	400 199
	1 476 903	584	1 477 487

	Liabilities at fair value through profit or loss	Liabilities at amortised cost	Total
Liabilities per statement of financial position			
Trade and other payables	–	975 530	975 530
Interest-bearing borrowings	–	2 024 431	2 024 431
Derivative financial instruments	9 982	–	9 982
	9 982	2 999 961	3 009 943

30 September 2010 (R'000)	Loans and receivables	Assets at fair value through profit or loss	Total
Assets per statement of financial position			
Trade and other receivables	964 361	–	964 361
Loans receivable	5 828	–	5 828
Loans to associates	11 189	–	11 189
Cash and cash equivalents	482 156	–	482 156
	1 463 534	–	1 463 534

	Liabilities at fair value through profit or loss	Liabilities at amortised cost	Total
Liabilities per statement of financial position			
Trade and other payables	–	1 153 700	1 153 700
Interest-bearing borrowings	–	2 474 523	2 474 523
Derivative financial instruments	27 344	–	27 344
	27 344	3 628 223	3 655 567

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

	2011 R'000	2010 R'000
24. Revenue		
Revenue comprises invoiced fees for private healthcare and fees for healthcare services, net of Value Added Tax (VAT) and discounts allowed.		
Main categories of revenue are as follows:		
Private healthcare services	**9 103 120**	8 120 247
Government and public healthcare facility services	**422 134**	426 741
Other healthcare related services	**252 087**	210 123
Rental income related to auxiliary services	**34 623**	29 223
	9 811 964	8 786 334
25. Other income		
Other income comprises:		
Other rental income	**36 927**	42 609
Other income	**64 840**	51 832
	101 767	94 441
26. Profit before tax		
The following items have been included in arriving at profit before tax:		
Depreciation on property, plant and equipment	**299 019**	263 208
Fixed property – owned	**79 777**	74 020
Fixed property – leased	**31 091**	33 728
Leasehold improvements	**13 472**	11 673
Medical equipment	**138 052**	113 380
Other equipment	**33 917**	28 122
Motor vehicles	**2 710**	2 285
Amortisation of intangible assets	**110 268**	122 446
Customer relations	**58 917**	56 502
Hospital licences	**36 912**	39 804
Computer software	**4 930**	9 697
Preferred supplier contracts	**9 382**	15 902
Restraint of trade payments	**25**	407
Other intangibles	**102**	134
Impairment of intangible assets	**64 798**	–
Profit on disposal of property, plant and equipment	**(1 543)**	(2 012)
Profit on disposal of investments in associates	**–**	(8 399)
Profit on disposal of investment in joint venture	**–**	(2 050)
Additional receipt on previously disposed business	**(4 713)**	–
Repairs and maintenance expenditure on property, plant and equipment	**130 889**	110 227
Operating lease rentals	**83 752**	84 204
Equipment	**37 519**	36 800
Property	**46 233**	47 404
Trade receivables – impairment charge for bad and doubtful debts	**60 624**	57 428
Auditors' remuneration	**9 743**	9 150
Audit fees	**8 610**	8 685
Management consulting and other audit related services	**1 133**	416
Taxation services	**–**	49
Directors' remuneration (Refer to note 36)	**16 872**	16 185
For services as executive director	**13 642**	13 866
For services as non-executive director	**3 230**	2 319
Foreign exchange losses	**1 235**	1 610
Professional, legal and secretarial fees	**74 867**	62 989

	2011 R'000	2010 R'000
27. Employee benefits expense		
Salaries*	**2 876 535**	2 590 505
Long-term incentive scheme	**42 470**	30 002
Share-based payment – Performance Equity Scheme	**–**	13 454
Share-based payment – Employee Trust	**–**	60 903
Termination benefits	**666**	176
Medical aid contributions	**147 897**	129 208
Skills development	**21 100**	18 048
UIF	**14 296**	12 959
Pension fund costs – defined benefit and contribution plans	**19 140**	17 180
Provident fund costs – defined contribution plans	**105 588**	94 570
	3 227 692	2 967 005
Average number of permanent employees	**13 599**	12 911
* *Salaries include executive directors' remuneration*		
28. Finance income and cost		
Finance cost	**251 112**	342 152
Interest-bearing borrowings and bank overdrafts	**239 881**	306 216
Amortisation of debt arrangement fee	**–**	30 722
Net foreign exchange losses	**1 235**	1 610
Other	**9 996**	3 604
Finance income	**(37 290)**	(41 307)
Bank and deposits	**(37 110)**	(36 165)
Other	**(180)**	(5 142)
Net finance cost	**213 822**	300 845
29. Tax expense		
Normal tax		
Current year	**577 481**	368 363
Prior years – under provision	**22 852**	998
Deferred tax		
Current year	**(31 714)**	79 404
Prior years – (over)/under provision	**(30 948)**	1 826
Secondary tax on companies		
Current year	**58 874**	32 440
Share repurchase	**–**	321 736
	596 545	804 767
Reconciliation of the tax rate	**%**	%
South African normal tax rate	**28.00**	28.00
Adjusted for:		
Secondary tax on companies	**2.82**	21.08
Prior year (over)/under provision	**(0.39)**	0.17
Assessed losses not utilised	**(0.28)**	(0.37)
Income not taxable	**(6.35)**	(2.46)
Expenses not deductible	**4.76**	3.85
Effective rate	**28.56**	50.27
The Group has estimated tax losses of R19 819 000 (2010: R1 182 000) available to offset against future taxable income. Tax losses of R8 357 000 (2010: R7 394 000) were utilised during the period.		
Amount of unutilised tax credits on STC	**–**	–

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

	2011 R'000	2010 R'000
30. Earnings and headline earnings per share		
Basic earnings per share		
Basic earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the year.		
Weighted average number of shares in issue is calculated as the number of shares in issue at the beginning of the year, increased/(decreased) by shares issued/(redeemed) during the year, weighted on a time basis for the period during which they participated in the net profit of the Group.		
Profit from operations attributable to equity holders	**1 287 221**	664 321
Weighted average number of shares in issue ('000)	**1 041 523**	1 029 883
Earnings per share	**123.59**	64.50
Diluted earnings per share		
The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company had a Performance Equity Scheme which vested on 23 March 2010.		
Profit attributable to ordinary equity holders	**1 287 221**	664 321
	1 287 221	664 321
Diluted number of shares for diluted earnings per share ('000)	**1 041 523**	1 029 883
Weighted average number of shares in issue ('000)	**1 041 523**	1 029 883
Diluted earnings per share (cents)	**123.59**	64.50
Headline earnings per share		
Profit attributable to ordinary equity holders	**1 287 221**	664 321
Adjustments (net of tax):		
Impairment of intangible assets	**54 821**	–
Gain on remeasuring of fair value of equity interest before business combination	**(92 454)**	–
Additional receipt on previously disposed business	**(4 053)**	–
Profit on disposal of investment in joint venture	**–**	(1 763)
Profit on disposal of investment in associate	**–**	(7 223)
Profit on disposal of property, plant and equipment	**(1 111)**	(1 449)
Loss on disposal of property, plant and equipment included in equity accounted earnings	**(81)**	(298)
Headline earnings	**1 244 343**	653 588
Weighted average number of shares in issue ('000)	**1 041 523**	1 029 883
Headline earnings per share (cents)	**119.47**	63.46
Diluted headline earnings per share		
Diluted headline earnings per share is calculated on the same basis used for calculating diluted earnings per share, other than headline earnings being the numerator:		
Headline earnings	**1 244 343**	653 588
Adjusted headline earnings	**1 244 343**	653 588
Diluted number of shares for diluted headline earnings per share ('000)	**1 041 523**	1 029 883
Weighted average number of shares in issue ('000)	**1 041 523**	1 029 883
Diluted headline earnings per share (cents)	**119.47**	63.46

	2011	2010
31. Distribution per share		
Distribution per share (cents)	**60.00**	50.83
Final (previous financial year)	**29.00**	27.83
Interim	**31.00**	23.00

Ordinary dividends were declared on 30 November 2010 of R302 241 000 and on 9 May 2011 a distribution of R323 085 000 by way of a dividend of 11.0 cents per share and a capital reduction out of share premium of 20.0 cents per share.

During 2010, ordinary dividends were declared on 4 November 2009 of R290 000 000 and on 21 July 2010 of R239 708 000.

	2011 R'000	2010 R'000
32. Cash generated from operations		
Reconciliation of profit before tax to cash generated from operations		
Net profit before tax	**2 088 773**	1 639 979
Adjusted for:		
Foreign exchange loss	**1 235**	1 610
Income from associates	**(115 424)**	(99 862)
Depreciation on property, plant and equipment	**299 019**	263 208
Impairment and amortisation of intangible assets	**175 066**	122 446
Finance costs excluding amortisation of debt arrangement fees and foreign exchange profit (Refer note 30)	**126 933**	268 513
Fair value gains	**(14 466)**	26 269
Gain on remeasuring of fair value of equity interest before business combination	**(92 454)**	–
Additional receipt on previously disposed business	**(4 713)**	–
Profit on disposal of property, plant and equipment	**(1 543)**	(2 012)
Profit on disposal of investments	**–**	(10 449)
Share-based payment reserve charge	**–**	74 357
Non-cash rental charges	**46 233**	47 404
Post-retirement benefit obligation charge	**(2 099)**	(105 349)
Trade receivable impairment charge	**60 624**	57 428
Operating profit before working capital changes	**2 567 184**	2 283 542
Working capital changes:		
Inventories	**(5 680)**	(12 431)
Trade and other receivables	**(138 184)**	(94 098)
Trade and other payables	**139 285**	56 304
Cash generated from operations	**2 562 605**	2 233 317
33. Proceeds on disposal of property, plant and equipment		
In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:		
Net carrying value	**6 574**	5 389
Profit on sale of property, plant and equipment	**1 543**	2 012
Proceeds from sale of property, plant and equipment	**8 117**	7 401

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

	2011 R'000	2010 R'000
34. Ordinary shares repurchased		
In the statement of cash flows, ordinary shares repurchased comprises the following:		
Shareholders repaid	–	(3 882 027)
Costs settled after year end	–	72 867
Costs recovered from shareholders	–	(137 121)
Secondary tax on companies on shares repurchased from retained earnings	–	(321 736)
	–	(4 268 017)
35. Acquisition and disposal of investments		
Increase in ownership interest in subsidiaries as a result of non-controlling interest transactions		
During the current and previous financial year, the Group had marginal increases in its shareholding in subsidiary companies.		
Increase in ownership interest:		
Value of increase in ownership interest in subsidiary	**(2 279)**	(13 682)
Transactions with non-controlling interest reserve	**111**	(23 215)
Cash outflow on increase of ownership interest in subsidiaries	**(2 168)**	(36 897)
Decrease in ownership interest in subsidiaries as a result of non-controlling interest transactions		
During the current and previous financial year, the Group disposed of a marginal percentage of its holding in subsidiary companies to non-controlling interest.		
The Group still maintained control over the subsidiary entities after the decrease in ownership interest.		
Decrease in ownership interest:		
Value of decrease in ownership interest in subsidiary	**11 702**	2 776
Total value of decrease in ownership interest in subsidiary	**11 702**	2 776
Transactions with non-controlling interest reserve	**12 540**	3 246
Proceeds on disposal of investments	**24 242**	6 022
Cash proceeds on decrease of ownership interest in subsidiaries	**23 760**	6 022
Non-cash proceeds	**482**	–

	2011 R'000	2010 R'000

35. Acquisition and disposal of investments continued

Disposal of investments in subsidiaries, associates and joint ventures

During 2010, the Group disposed of its investment in Vincent Pallotti Oncology Joint Venture for R4 500 000 on 31 May 2010.

The Group disposed of its investment in Joint Radiotherapy (Proprietary) Limited for R14 400 000 on 30 November 2009.

	2011 R'000	2010 R'000
Value of investments disposed		
Property, plant and equipment	–	1 810
Trade and other receivables	–	4 571
Trade and other payables	–	(2 219)
Borrowings	–	(1 712)
Investment in associates	–	6 001
Value of interests disposed	–	8 451
Profit on disposal of investments	–	10 449
Proceeds on disposal of investments	–	18 900
Cash proceeds on disposal of investments	–	18 900
Non-cash proceeds	–	–

Business combinations

On 1 August 2011, the Group acquired an additional 12.512% interest in each of Middelburg Private Hospital (Proprietary) Limited and Middelburg Hospital Limited (collectively 'Midmed') to obtain control over these entities. The Group previously had an interest of 45% in Midmed. Both were previously accounted for as associates.

Midmed had no significant contingent liabilities at the acquisition date.

From the date of acquisition, Midmed contributed revenue of R32 635 000 and net profit of R7 761 000 in the statement of comprehensive income.

The following presents the net impact on the consolidated information of the Group as if the business combination all took place on 1 October 2010 after taking into account the associate profit already recognised:

	2011 R'000	2010 R'000
Revenue	187 343	
Net profits	16 684	

Details of the net assets acquired and goodwill are as follows:

	2011 R'000	2010 R'000
Purchase consideration		
Total purchase consideration	173 184	
Cash portion	37 677	
Fair value of equity interest in Midmed held before the business combination	135 507	
Fair value of net assets acquired		
Fair value of net assets acquired	(271 131)	
Fair value of non-controlling interest recognised	127 943	
Goodwill	29 996	

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

35. Acquisition and disposal of investments continued

Business combinations continued

The fair value of the assets and liabilities arising from the acquisition were as follows:

	Fair value 2011 R'000	Acquiree carrying amount 2011 R'000
Cash and cash equivalents	**38 743**	38 743
Inventories	**2 412**	2 412
Trade and other receivables	**21 631**	21 631
Property, plant and equipment	**74 857**	74 857
Trade and other payables	**(7 992)**	(7 992)
Loan accounts	**(2 668)**	(2 668)
Current income tax liability	**(7 395)**	(7 395)
Deferred tax	**(56 249)**	1 933
Fair value of intangible assets acquired – Hospital Licences	**207 792**	–
	271 131	121 521

Goodwill on the acquisition of Midmed relates to the excess of the purchase consideration over the fair value of the assets and liabilities acquired including amounts paid for the expected synergies and anticipated profitability of the business acquired.

None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair value of the trade and other receivables is R21 631 000 and includes trade receivables of R20 658 000. The gross amount of the trade receivables is R24 186 000. It is expected that the full contractual amounts can be collected.

On acquisition of Midmed, an unlisted company, the non-controlling interest was estimated by using a discounted cash flow method. The fair value estimates are based on:
(a) an assumed discount rate of 17%; and
(b) long-term sustainable growth rate of 5%.

The Group recognised a gain of R92 454 000 as a result of remeasuring at fair value its 45% equity interest in Midmed before the business combination. The gain is included in the statement of comprehensive income.

Acquisition related costs amounted to R423 000 and were expensed in the statement of comprehensive income in other expenses.

2010 financial year

During June 2010, the Group acquired 100% of Amabubesi Hospital (Proprietary) Limited (Bayview Hospital) and Amabubesi Healthcare Properties (Proprietary) Limited.

The Group acquired 100% of the Bayview Pharmacy business at Bayview Hospital on 31 August 2010.

The Group had, due to change in shareholder's agreements, gained control of LCM Oncology (Proprietary) Limited and Wilgers Cathlab Trust from 1 October 2009.

35. Acquisition and disposal of investments continued

Business combinations continued

	2010 R'000
2010 financial year continued	
The following presents the impact on the consolidated information of the Group as if the business combinations all took place on 1 October:	
Revenue	228 959
Net profits	20 584
Details of the net assets acquired and goodwill are as follows:	
Purchase consideration	
Total purchase consideration	267 437
Cash portion	260 180
Non-cash portion	7 257
Fair value of net assets acquired	
Fair value of net assets acquired	(97 709)
Fair value of non-controlling interest recognised	3 161
Fair value of intangible assets acquired	(92 679)
Goodwill	80 210

In 2010 financial year the assets and liabilities arising from the acquisitions were as follows:

	Fair value 2010 R'000	Acquiree carrying amount 2010 R'000
Cash and cash equivalents	**27 111**	27 111
Inventories	**6 219**	6 219
Trade and other receivables	**25 108**	25 108
Property, plant and equipment	**117 858**	76 858
Trade and other payables	**(25 914)**	(25 914)
Contingent liabilities	**(8 576)**	–
Current income tax liability	**(13 231)**	(12 701)
Deferred tax	**(31 110)**	–
Intangible assets	**244**	244
	97 709	96 925

The contingent liability relates to liabilities identified during the due diligence process of acquiring the businesses being potential tax-related liabilities which were not accounted for at the acquisition date in the records of the Company. These liabilities will in all likelihood become contractual obligations in the short term.

The provisional fair value adjustments represent management's current best estimate of the adjustments required to restate the aquiree's carrying values to fair value at acquisition. The principal provisional fair value adjustments in respect of intangibles, which comprise hospital licences and customer relations, were internally valued using the royalty method. Property, plant and equipment have been internally valued with reference to current market values. Providing for contingent liabilities relating to potential tax claims. The goodwill of R80 210 000 arising on the acquisition represents a strategic premium to acquire untapped markets in the relevant areas where the acquirees are situated.

There was no change from the provisional numbers in the prior year to the final numbers.

	2011 R'000	2010 R000
Total purchase consideration		
Transactions with non-controlling interest reserve	**2 168**	36 897
Business combination	**173 184**	267 437
	175 352	304 334

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

36. Directors' emoluments

Emoluments paid to the directors of the company by the Company and its subsidiaries for the year to 30 September, are set-out below:

2011 (R'000)	Directors' fees	Salaries	Bonus and performance-related payments	Other allowances	Gains on long-term incentive scheme	Medical aid contributions	Pension fund contribution	Total
Executive directors								
CMD Flemming	–	2 378	3 874	759	1 565	23	669	9 268
RJ Hogarth	–	1 294	1 526	425	747	18	364	4 374
	–	3 672	5 400	1 184	2 312	41	1 033	13 642
Non-executive directors								
MA Brey	302	–	–	–	–	–	–	302
YZ Cuba	21	–	–	–	–	–	–	21
CWJ Lyons	14	–	–	–	–	–	–	14
Dr JPF Dalmeyer	35	–	–	–	–	–	–	35
Prof GJ Gerwel	456	–	–	–	–	–	–	456
Dr MP Ngatane	218	–	–	–	–	–	–	218
GC Solomon	442	–	–	–	–	–	–	442
LM Mojela	376	–	–	–	–	–	–	376
PJ Golesworthy	484	–	–	–	–	–	–	484
TS Munday	413	–	–	–	–	–	–	413
FA du Plessis	208	–	–	–	–	–	–	208
JK Netshitenzhe	128	–	–	–	–	–	–	128
KM Gordhan	133	–	–	–	–	–	–	133
	3 230	–	–	–	–	–	–	3 230

36. Directors' emoluments continued

2010 (R'000)	Directors' fees	Salaries	Bonus and performance-related payments	Other allowances	Gains on long-term incentive scheme	Medical aid contributions	Pension fund contribution	Total
Executive directors								
CMD Flemming	–	1 967	3 780	676	2 850	21	565	9 859
RJ Hogarth	–	1 011	1 213	339	1 088	14	342	4 007
	–	2 978	4 993	1 015	3 938	35	907	13 866
Non-executive directors								
MA Brey	206	–	–	–	–	–	–	206
YZ Cuba	123	–	–	–	–	–	–	123
CWJ Lyons	173	–	–	–	–	–	–	173
Dr JPF Dalmeyer	126	–	–	–	–	–	–	126
Prof GJ Gerwel	320	–	–	–	–	–	–	320
EW Mbuthia	282	–	–	–	–	–	–	282
LZ Brozin	157	–	–	–	–	–	–	157
Dr MP Ngatane	105	–	–	–	–	–	–	105
RCM Laubscher	90	–	–	–	–	–	–	90
GC Solomon	433	–	–	–	–	–	–	433
NV Mokhesi	69	–	–	–	–	–	–	69
LM Mojela	85	–	–	–	–	–	–	85
PJ Golesworthy	123	–	–	–	–	–	–	123
TS Munday	27	–	–	–	–	–	–	27
	2 319	–	–	–	–	–	–	2 319

The directors' fees are paid by the subsidiary company of Life Healthcare Group Holdings Limited.

Prescribed officer

In line with the requirements of the new Companies Act, the Group discloses the remuneration paid to prescribed officers who are defined as the Group's chief executive officer (CMD Flemming) and the Group's chief financial officer (RJ Hogarth) in line with a legal opinion. Refer above for the directors' remuneration for the prescribed officers.

Notes to the Group annual financial statements continued

for the year ended 30 September 2011

37. Related parties

Subsidiary companies – refer to Annexure A

Associate companies – refer to Annexure B

The Group has investments in a number of associate companies. Details are disclosed in note 7 and Annexure B to the financial statements. No provision has been required in 2011 and 2010 for the loans made to associates.

Joint ventures – refer to note 8

Directors and director-related entities

Details of directors are disclosed in the administration to the financial statements on page 111. No direct loans were made to or received from any director and no other transactions were entered into with any director. Refer to note 36 for details on directors' emoluments. No director has a notice period of more than six months. No director's service contract includes pre-determined compensation as a result of termination that would exceed one year's salary and benefits.

Key management

Key management is defined as all executive management, functional heads, hospital managers, pharmacy managers, nursing managers, administration managers and patient service managers.

	2011 R'000	2010 R'000
Key management remuneration*		
Salaries	**199 719**	183 760
Performance Equity Scheme*	**–**	395 122
Medical aid contributions	**3 393**	3 148
Pension fund costs – defined benefit and contribution plans	**3 947**	4 242
Provident fund costs – defined contribution plans	**8 013**	7 213
	215 072	593 485

**The Performance Equity Scheme was settled during the previous financial year and the full amount, that accrued over a five year period from 2005, has been included.*

Other related parties

In terms of an agreement the Group provides a loan facility to the Ammed Management Trust where certain managers hold beneficial shares. The loan balance is Rnil (2010: R3 000).

Post-retirement medical aid plan for the benefit of certain past and current employees. Refer to note 10.

	2011 R'000	2010 R'000
38. Commitments and contingencies		
Capital commitments		
Capital expenditure approved but not contracted at the statement of financial position date and not recognised in the financial statements is as follows:		
– Property, plant and equipment	**686 454**	547 115
Capital expenditure contracted for and not provided in the financial statements is as follows:		
– Property, plant and equipment	**102 917**	147 293

Funds to meet capital expenditure will be provided from Group resources.

Operating lease commitments

The Group is a lessee to various hospital and administration office properties as well as medical and office equipment items under non-cancellable lease agreements. The leases have varying terms, escalation clauses and renewal rights.

	2011 R'000	2010 R'000

38. Commitments and contingencies continued

Operating lease commitments continued

	2011 R'000	2010 R'000
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Not later than one year	**79 405**	52 346
Later than one year and not later than five years	**146 107**	136 273
Later than five years	**324 551**	164 759
	550 063	353 378

Contingencies

The Group stands as guarantor in respect of certain operating leases, instalment sale agreements and mortgage bonds concluded by subsidiaries and also pro rata in relation to the Group's interest in joint ventures.

The Group has issued various guarantees as security to various government institutions for leases and construction projects to the value of R65 194 000 (2010: R43 304 000).

Certain subsidiary companies have issued letters of support for certain other fellow subsidiary companies.

39. Events after the reporting period

No event which is material to the understanding of this report has occurred between year end and the date of the annual financial statements, other than:

Distribution

The directors approved a final cash distribution of 54 per share on 16 November 2011 by way of a dividend of 18 cents per share and a capital reduction out of share premium of 36 cents per share payable to shareholders registered in the Company's records on 9 December 2011.

Max Healthcare Institute, India (MHC)

The Group has entered into a non-binding agreement to acquire a 26% interest in MHC for Rupees 533 Crore, approximately R850 million and to provide a guarantee, apportionate to the equity holding, for the debts of MHC currently guaranteed by Max India, the holding company of MHC. The conclusion of the transaction is subject to the successful completion of a due diligence, which is currently in progress, the approval from the South African Reserve Bank of the foreign investment, the conclusion of definitive agreements and the final approval of the Life Healthcare Group Holdings Limited board. Funding options for this transaction are at an advanced stage.

Joint Medical Holdings Limited (JMH)

The Group currently holds 49% of JMH and has made an offer to acquire a further 11% to 21% to secure a controlling interest of between 60% and 70% in JMH. The conclusion of this transaction is subject to obtaining a minimum of a further 11% interest in the Company and Competition Commission approval. If successful the transaction will close in January 2012. Funding for the transaction is progressing.

Share incentive scheme

The board has approved a new general staff share scheme in principle. This will apply to all full time South African staff who are members of any of the Life Healthcare retirement funds. The purpose of this scheme is to provide staff an incentive to stay with the Group as well as allowing them to participate in the dividends and growth in share value. An amount will be awarded annually to acquire shares in the market to be held as restricted shares in trust.

The retention of senior management will be encouraged by the Group through the ability to convert in advance future long-term incentive bonuses into restricted shares. Managers electing this option will receive an additional amount subject to them remaining with the Group for a specified length of time. Senior management will not partake in the general staff scheme.

Additional debt facilities

The Group, in addition to its working capital and revolving credit facilities, is in the process of negotiating further facilities to fund the investments in MHC and JMH.

Annexure A – subsidiary undertakings

for the year ended 30 September 2011

Subsidiaries

	2011 Effective interest %	2010 Effective interest %
Life Healthcare Group (Proprietary) Limited	**100**	100
Indirectly held through Life Healthcare Group (Proprietary) Limited		
Amahosp Medical Rescue (Proprietary) Limited*~	**100**	100
Ammed Properties (Proprietary) Limited*	**100**	100
Bendoc (Proprietary) Limited*~	**100**	100
Birchmed Sameday Surgical Centre Partnership#	**30**	30
Border Hospitals (Proprietary) Limited	**63**	63
Brooklyn Hospital (Proprietary) Limited	**66**	65
Brooklyn Sameday Surgical Centre Partnership	**66**	65
Casmed (Proprietary) Limited*~	**100**	100
Century Ways Trading (Proprietary) Limited*	**100**	100
Claremont Hospital (Proprietary) Limited*~	**100**	100
Cosmos Hospital Properties (Proprietary) Limited*	**100**	100
Cream Magenta 357 (Proprietary) Limited*	**100**	100
E M H Operating Company (Proprietary) Limited	**79**	79
Faerie Glen Eiendoms Trust 2*	**100**	100
Faerie Glen Eiendoms Trust*	**100**	100
Faerie Glen Hospitals (Proprietary) Limited	**60**	100
Faranani Life Health Solutions (Proprietary) Limited#	**49**	49
Flohoc Investments (Proprietary) Limited	**70**	70
Garbanzo Property Investments (Proprietary) Limited	**100**	100
Glynnview Wellness Centre (Proprietary) Limited previously called Stonebridge Trading 29 (Proprietary) Limited	**76**	100
Glynnwood Hospital Operating Company (Proprietary) Limited	**87**	87
H-Doc Investments (Proprietary) Limited*~	**100**	100
Healthcare Management Services (Proprietary) Limited (Incorporated in Botswana)	**51**	51
Hentique 1889 (Proprietary) Limited*	**100**	100
Jorum Property Investments (Proprietary) Limited	**100**	100
Kingsbury Hospital Limited*~	**100**	100
Kingsbury Hospital Property (Proprietary) Limited*	**100**	100
LCM Trust	**70**	78
Life Bayview Hospitals (Proprietary) Limited previously called Amabubesi Hospitals (Proprietary) Limited	**100**	100
Life Claremont Ophthalmology (Proprietary) Limited	**51**	51
Life Cosmos Hospital (Proprietary) Limited	**80**	100
Life East London Private Hospital (Proprietary) Limited previously called Walk Tall Distributions 3 (Proprietary) Limited	**100**	100
Life Esidimeni Group Holdings (Proprietary) Limited	**100**	100

**Dormant*

~In voluntary liquidation

^The functional currency is pula

#Consolidated as the Group controls the entity through a managing contract

•Previously equity accounted for as associate

†Due to indirect shareholding

Subsidiaries continued

	2011 Effective interest %	2010 Effective interest %
Indirectly held through Life Healthcare Group (Proprietary) Limited continued		
Life Impilo (Proprietary) Limited*	**100**	100
Life Mosselbay Properties (Proprietary) Limited previously called Amabubesi Healthcare Properties (Proprietary) Limited	**100**	100
Life Occupational Health (Proprietary) Limited *~	**100**	100
Life Piet Retief (Proprietary) Limited	**56**	–
Life Pharmacy Management Services (Proprietary) Limited *	**100**	100
Life Vincent Pallotti Orthopeadic Centre (Proprietary) Limited	**100**	100
Ligitprops 109 (Proprietary) Limited	**100**	100
Medicine Management Services (Proprietary) Limited	**100**	100
Metropol Hospitals (Proprietary) Limited	**60**	60
Micawber 384 (Proprietary) Limited*	**100**	100
New Kensington Clinic (Proprietary) Limited*	**91**	91
Oudewerf (Eiendoms) Beperk*~	**100**	100
PE Medical Group Investments (No. 3) (Proprietary) Limited	**100**	100
Peglerae Investment Company (Proprietary) Limited	**60**	60
Presmed Hospitals (Proprietary) Limited*	**100**	100
Pretoria North Sameday Surgical Centre Partnership	**51**	51
Prop Robin (Proprietary) Limited*~	**100**	100
Robinson Hospital Holdings (Proprietary) Limited	**82**	82
Roseacres Clinic (Proprietary) Limited*	**100**	100
Rustenburg Hospital Properties (Proprietary) Limited	**51**	51
St Mary's Private Hospital (Proprietary) Limited	**55**	55
UK Health Management Services (Proprietary) Limited*~	**100**	100
Vredenburg Hospital (Proprietary) Limited	**100**	100
Wilgeheuwel Hospital (Proprietary) Limited	**86**	86
Wilgers Hospital Limited	**100**	100
Zandfontein Clinic (Proprietary) Limited*	**100**	100
Indirectly held through Life Occupational Health (Proprietary) Limited		
Quantum Occupational Healthcare Services (Proprietary) Limited*	**100**	100
Indirectly held through Metropol Hospitals (Proprietary) Limited		
Eastcape Clinic (Proprietary) Limited*	**60**	60
How Avenue Clinic (Proprietary) Limited	**60**	60
Isivivana Health (Proprietary) Limited	**60**	60
Simco 5 (Proprietary) Limited†	**46**	46
Spittal Drau Investments (Proprietary) Limited	**60**	60
Indirectly held through Healthcare Management Services (Proprietary) Limited (Incorporated in Botswana)		
Gaborone Private Hospital Pathology (Proprietary) Limited (Incorporated in Botswana)^†	**38**	38

**Dormant*
~In voluntary liquidation
^The functional currency is pula
#Consolidated as the Group controls the entity through a managing contract
•Previously equity accounted for as associate
†Due to indirect shareholding

Annexure A – subsidiary undertakings continued

for the year ended 30 September 2011

Subsidiaries continued

	2011 Effective interest %	2010 Effective interest %
Indirectly held through Life Esidimeni Group Holdings (Proprietary) Limited		
Life Esidimeni (Proprietary) Limited	**100**	100
Lifecare Properties (Proprietary) Limited	**100**	100
Lorraine Nel Inc	**100**	100
Nqubela Chest Hospital (Proprietary) Limited *~	**100**	100
Indirectly held through Life Esidimeni (Proprietary) Limited		
Eastern Cape Frail Care (Proprietary) Limited	**68**	68
Lukhanji Health Services (Proprietary) Limited	**60**	60
Siyathuthuka Care Centre (Proprietary) Limited	**59**	59
Indirectly held through Lifecare Community Hospitals (Proprietary) Limited		
Hewu Hospital (Proprietary) Limited*~	**100**	100
Matikwana Hospital (Proprietary) Limited	**100**	100
Indirectly held through Wilgers Hospitaal Limited		
Abrakor (Proprietary) Limited	**100**	100
Wilgers Cathlab Trust	**55**	55
Indirectly held through Peglerae Investment Company (Proprietary) Limited		
Peglerae Hospital (Proprietary) Limited†	**36**	36
Indirectly held through Border Hospitals (Proprietary) Limited		
Border Hospitals Cardiac Equipment (Proprietary) Limited*	**100**	100
Life Eye Hospital (Proprietary) Limited†	**42**	42
Indirectly held through Glynnwood Hospital Operating Company (Proprietary) Limited		
Ekurhuleni Sub-Acute Hospital (Proprietary) Limited*~	**100**	100
Indirectly held through LCM Trust		
LCM Oncology (Proprietary) Limited•	**60**	60
Indirectly held through Garbanzo Property Investments (Proprietary) Limited		
BOEWEST Share Block Company No.1 (Proprietary) Limited	**100**	–
BOEWEST Share Block Company No.2 (Proprietary) Limited	**100**	–
Indirectly held through Presmed Hospitals (Proprietary) Limited		
Middelburg Hospitaal Beperk•	**57**	45
Middelburg Privaat Hospitaal (Eiendoms) Beperk•	**57**	45
Indirectly held through Ligitprops 109 (Proprietary) Limited		
Micawber 249 Proprietary Limited	**100**	–
Indirectly held through Micawber 249 Proprietary Limited		
Micawber 248 Proprietary Limited	**100**	–

**Dormant*
~In voluntary liquidation
^The functional currency is pula
#Consolidated as the Group controls the entity through a managing contract
•Previously equity accounted for as associate
†Due to indirect shareholding

All investments are unlisted and are incorporated in the Republic of South Africa, except for two subsidiaries that are incorporated in Botswana as indicated. The voting power and percentage shareholding are the same for all subsidiaries.

The profit after tax earned by subsidiaries before non-controlling interest attributable to shareholders of the Group amounted to R1 514 039 000 (2010: R835 742 000), while losses amounted to R7 456 000 (2010: R4 490 000).

Annexure B – associate undertakings

for the year ended 30 September 2011

Associates

Name of associate	Issued share capital 2011 R	Issued share capital 2010 R	Interest in share capital 2011 %	Interest in share capital 2010 %	Book value of the shares 2011 R'000	Book value of the shares 2010 R'000	Amounts owing by associates 2011 R'000	Amounts owing by associates 2010 R'000
Unlisted investments								
Joint Medical Holdings Limited*	**5 471**	5 471	**49**	49	**18 864**	18 864	**94**	331
Bloemfontein Ophthalmology Trust	**–**	–	**50**	50	**–**	–	**4 306**	2 503
Gaborone Private Hospital Radiology (Proprietary) Limited (Pula)**	**200**	200	**50**	50	**2 025**	2 025	**(1 058)**	(970)
Mafikeng Hospital (Proprietary) Limited	**8 799**	8 799	**42**	42	**4**	4	**–**	–
Middelburg Hospitaal Beperk^	**–**	100 000	**57**	45	**–**	208	**–**	5 251
Middelburg Privaat Hospitaal (Eiendoms) Beperk^	**–**	100 000	**57**	45	**–**	529	**–**	–
Occulli Trust	**–**	–	**50**	50	**–**	–	**3 170**	3 938
Sandton Eye Laser Centre Partnership	**–**	–	**25**	25	**–**	–	**–**	(15)
Vrystaat Onkologie Trust	**–**	–	**23**	23	**–**	–	**(777)**	164
Wilgers Oncology Trusts	**–**	–	**25**	25	**–**	–	**1 291**	765
Consolidated Aone Trade and Invest 12 (Proprietary) Limited	**100**	100	**30**	30	**1 980**	1 980	**(628)**	(778)
					22 873	23 610	**6 398**	11 189

All the associates provide medical and surgical services through private hospitals and/or sameday surgical centres.

**Associate with a February financial year end.*

***The company is incorporated in Botswana.*

^The associate became a subsidiary from 1 August 2011. Refer to note 35.

Annexure C – shareholder distribution

for the year ended 30 September 2011

1. Analysis of registered shareholders and company schemes

Registered shareholder spread

In accordance with the JSE Listing Requirements, the following table confirms that the spread of registered shareholders as detailed in the annual report and accounts dated 30 September 2011 was:

Shareholder spread	Number of holders	% of total shareholders	Number of shares	% of issued capital
1 – 1 000 shares	3 402	37.94	1 220 624	0.12
1 001 – 10 000 shares	3 268	36.45	12 297 704	1.18
10 001 – 100 000 shares	1 646	18.36	56 383 370	5.41
100 001 – 1 000 000 shares	530	5.91	159 487 388	15.30
1 000 001 shares and above	120	1.34	812 820 664	77.99
Total	**8 966**	**100.00**	**1 042 209 750**	**100.00**

Public and non-public shareholdings

Within the shareholder base, we are able to confirm the split between public shareholdings and directors/company related schemes as being:

Shareholder type	Number of holders	% of total shareholders	Number of shares	% of issued capital
Non-public shareholders	9	0.09	84 328 029	8.09
Brimstone Investment Corporation Limited	1	0.01	46 000 000	4.41
African Monarch 710 Investment Holdings (Proprietary) Limited	2	0.01	21 847 688	2.10
Directors	6	0.07	16 480 341	1.58
Public shareholders	8 957	99.91	957 881 721	91.91
Total	**8 966**	**100.00**	**1 042 209 750**	**100.00**

2. Substantial investment management and beneficial interests

Substantial investment management and beneficial interests above 3%

Through regular analysis of STRATE registered holdings, and pursuant to the provisions of Section 56 of the Companies Act, the following shareholders held directly and indirectly equal to or in excess of 3% of the issued share capital as at 30 September 2011.

Investment management shareholdings

Investment manager	Total shareholding	%
Government Employees Pension Fund (PIC)	103 237 450	9.91
International Finance Corporation	53 000 000	5.09
Industrial Development Corporation of SA	52 056 137	4.99
Brimstone Investment Corporation Limited	46 000 000	4.41
Old Mutual Investment Group SA	41 006 967	3.39
STANLIB Asset Management	37 620 038	3.61
Total	**332 920 592**	**31.94**
Beneficial shareholdings		
Government Employees Pension Fund (PIC)	125 424 509	12.03
International Finance Corporation	53 000 000	5.09
Industrial Development Corporation of SA	52 056 137	4.99
Brimstone Investment Corporation Limited	46 000 000	4.41
Total	**276 480 646**	**26.52**

Previously disclosed holdings

Investment managers now holding below 3%

Investment manager	Total shareholding	%	Previous %
Health Strategic Investment Limited	–	–	26.60
Life Doctor Investments Limited	2 426 892	0.23	5.94
Mvelaphanda Strategic Investment (Proprietary) Limited	8 449 903	0.81	3.30
Total	**10 876 795**	**1.04**	**35.84**

2. Substantial investment management and beneficial interests continued

Previously disclosed holdings continued

Beneficial owners now holding below 3%

Beneficial holdings	Total shareholding	%	Previous %
Health Strategic Investment Limited	–	–	26.60
Old Mutual Life Assurance Corporation Limited	20 067 835	1.93	14.53
Life Doctor Investments Limited	2 426 892	0.23	5.94
Mvelaphanda Strategic Investment (Proprietary) Limited	8 449 903	0.81	3.30
Total	**30 944 630**	**2.97**	**50.37**

3. Geographic split of shareholders

Geographic split of investment managers and company related holdings

Region	Total shareholding	% of issued capital
South Africa	629 197 706	60.37
United States of America and Canada	196 665 519	18.87
United Kingdom	85 947 045	8.25
Rest of Europe	33 198 170	3.19
Rest of world[1]	97 201 310	9.32
Total	**1 042 209 750**	**100.00**

Geographic split of beneficial shareholders

South Africa	659 784 831	63.31
United States of America and Canada	213 129 599	20.45
United Kingdom	38 357 445	3.68
Rest of Europe	50 501 336	4.85
Rest of world[1]	80 436 539	7.71
Total	**1 042 209 750**	**100.00**

[1] *Represents all shareholdings except those in the above regions.*

4. Shareholder categories

An analysis of beneficial shareholdings, supported by the section 56 enquiry process, confirmed the following beneficial shareholder types:

Category	Total shareholding	% of issued capital
Other	242 693 001	23.29
Unit trusts	232 980 819	22.35
Pension funds	183 791 687	17.63
Retail investor	117 863 393	11.31
Black economic empowerment	54 659 491	5.24
Government of South Africa	52 056 137	4.99
Insurance companies	51 833 083	4.97
Sovereign wealth	31 084 385	2.98
Investment trust	5 279 500	0.51
Exchange-traded fund	2 464 977	0.24
Hedge fund	2 321 197	0.22
Employees	2 109 586	0.20
Charity	1 450 013	0.14
University	1 404 911	0.13
Corporate holding	1 018 960	0.10
Local authority	210 381	0.02
Remainder	58 988 229	5.68
Total	**1 042 209 750**	**100.00**

Company statement of financial position

at 30 September 2011

	Note	2011 R'000	2010 R'000
ASSETS			
Non-current assets		**107 533**	107 533
Interest in subsidiary	1	**107 533**	107 533
Current assets		**388 299**	457 348
Cash and cash equivalents	2	**708**	–
Loan to subsidiary	1	**387 591**	457 348
Total assets		**495 832**	564 881
EQUITY AND LIABILITIES			
Capital and reserves		**494 974**	495 125
Share capital	3	**1**	1
Share premium	4	**3 747 904**	3 956 346
Retained earnings		**(3 252 931)**	(3 461 222)
Other reserves	5	**–**	–
Current liabilities		**858**	69 756
Trade and other payables	6	**150**	69 756
Current tax liability		**–**	–
Shareholders for dividend		**708**	–
Total equity and liabilities		**495 832**	564 881

Company statement of comprehensive income

for the year ended 30 September 2011

	Note	2011 R'000	2010 R'000
Revenue	7	**625 326**	529 708
Employee benefits expense		**–**	(13 454)
Other expenses		**(52)**	(8 092)
Operating profit		**625 274**	508 162
Finance income	8	**12**	–
Profit before tax	10	**625 286**	508 162
Tax expense	9	**–**	(321 736)
Profit after tax		**625 286**	186 426
Other comprehensive income		**–**	–
Total comprehensive income for the year		**625 286**	186 426

Company statement of changes in equity

for the year ended 30 September 2011

	Note	Ordinary share capital R'000	Share premium R'000	Other reserves	Retained earnings R'000	Total R'000
Balance at 1 October 2009		1	23 350	121 145	(36 401)	108 095
Total comprehensive income for the year		–	–	–	186 426	186 426
Share-based payment reserve movement		–	–	13 454	–	13 454
Share-based payment reserve realised	5	–	–	(134 599)	134 599	–
Distribution to shareholders		–	–	–	(529 708)	(529 708)
Issue of shares in terms of the Performance Equity Scheme		–	395 122	–	–	395 122
Issue of shares at listing		–	4 340 884	–	–	4 340 884
Share repurchase	3	–	(803 010)	–	(3 216 138)	(4 019 148)
Balance at 30 September 2010		1	3 956 346	–	(3 461 222)	495 125
Balance at 1 October 2010		1	3 956 346	–	(3 461 222)	495 125
Total comprehensive income for the year		–	–	–	625 286	625 286
Distribution to shareholders		–	(208 442)	–	(416 995)	(625 437)
Balance at 30 September 2011		1	3 747 904	–	(3 252 931)	494 974

Company statement of cash flows

for the year ended 30 September 2011

	Note	2011 R'000	2010 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	11	**555 668**	517 443
Tax paid		**–**	–
Net cash generated from operating activities		**555 668**	517 443
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans received/(granted) from/(to) subsidiary		**69 757**	(452 774)
Net cash utilised from investing activities		**69 757**	(452 774)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares		**–**	4 736 006
Share repurchase	12	**–**	(4 268 017)
Finance income		**12**	–
Distribution to shareholders		**(624 729)**	(532 658)
Net cash utilised from financing activities		**(624 717)**	(64 669)
Net increase in cash and cash equivalents		**708**	–
Cash and cash equivalents – beginning of the year		**–**	–
Cash and cash equivalents – end of the year	2	**708**	–

Notes to the Company annual financial statements

for the year ended 30 September 2011

		2011 R'000	2010 R'000
1.	**Interests in subsidiary**		
	Unlisted investment in Life Healthcare Group (Proprietary) Limited		
	Shares at cost		
	Balance at 30 September	**107 533**	107 533
	Amounts owing by subsidiary		
	Balance at 1 October	**457 348**	4 574
	Net amount (recovered)/advanced	**(69 757)**	452 774
	Balance at 30 September	**387 591**	457 348
	Directors' valuation of shares at 30 September	**19 619 639**	14 554 387
	The loan is unsecured, has no fixed repayment terms and bears interest as determined by the directors. No interest was received during the current year or prior financial year.		
2.	**Cash and cash equivalents**		
	Cash at bank and on hand	**708**	–
	Balance at 30 September	**708**	–
	The cash and cash equivalents carrying amount is denominated in the following currencies:		
	South African rand	**708**	–
	Balance at 30 September	**708**	–
	Cash and cash equivalents include the following for the purpose of the cash flow statement:		
	Short-term money market instruments	**708**	–
	Cash and cash equivalents	**708**	–
	The credit quality of cash at bank and short-term money market instruments based on Fitch Ratings (zaf) are:		
	AAA	**–**	–
	AA	**708**	–
	A	**–**	–
	Cash on hand	**–**	–
		708	–

	2011 R'000	2010 R'000
3. Share capital		
Authorised		
Ordinary shares		
4 149 980 000 (2010:4 149 980 000) ordinary shares of R0.000001 each (Total value = R4 149 (2010: R4 149))	**4**	4
Nil (2010: Nil) ordinary 'N' shares of R0.000001 each (Total value = Rnil (2010: Rnil))	**–**	–
The ordinary 'N' shares were converted into ordinary shares during the previous financial year in terms of a special resolution dated 29 April 2010. The 'N' shares were converted on a one-for-one basis. Upon conversion, the 'N' shares ranked *pari passu* with the ordinary shares. Upon listing in the previous financial year, any and all 'N' shares authorised but unissued share capital was cancelled in terms of section 75(h) of the Companies Act.		
Issued and fully paid		
Ordinary shares		
Balance at 30 September	**1**	1
1 042 209 750 (2010: 1 042 209 750) ordinary shares of R0.000001 each (Total value = R1 042 (2010: R1 042))	**1**	1
Nil (2010: Nil) ordinary 'N' shares of R0.000001 each (Total value = Rnil (2010: Rnil))	**–**	–
Reconciliation of number of shares issued		
Balance at 1 October	**1 042 209 750**	101 679
Share split (December 2009)	**–**	1 016 688 321
Issue of shares at listing	**–**	346 966 756
Share repurchase	**–**	(321 547 006)
	1 042 209 750	1 042 209 750

During the previous financial year the Company split its authorised and issued share capital into 10 000 shares for each ordinary and 'N' share.

During 2010, the Company issued an additional 25 419 750 ordinary shares at an issue price of R15.54 in terms of the Performance Equity Scheme, which became fully vested based on the achievement of a non-market based performance condition. These shares were issued at a value of R395 122 000 to the Performance Equity Scheme and settled by a subsidiary of the Group.

The Company listed on the JSE Limited on 10 June 2010 and issued 321 547 006 ordinary shares on this date at an issue price of R13.50. On the same date, the Company repurchased 321 547 006 of its ordinary shares at a total price of R13.50 per share. R3 216 138 000 was paid from retained earnings and the balance of R803 010 000 was paid from share premium.

Notes to the Company annual financial statements continued

for the year ended 30 September 2011

		2011 R'000	2010 R'000
4.	**Share premium**		
	Balance at 1 October	**3 956 346**	23 350
	Share repurchase	**–**	(803 010)
	Issue of shares in terms of the Performance Equity Scheme	**–**	395 122
	Issue of shares at listing	**–**	4 340 884
	Capital reduction	**(208 442)**	–
		3 747 904	3 956 346
5.	**Other reserves**		
	Share-based payment reserve		
	Balance at 1 October	**–**	121 145
	Charge for the year	**–**	13 454
	Vesting of share-based payment reserve	**–**	(134 599)
	Balance at 30 September	**–**	–

The share-based payment reserve consisted of two equity-settled schemes, namely the Performance Equity Scheme and the Employee Trust Scheme. In the 2009 financial year, the Employee Trust had an indirect interest of 4.2% in the Company. All permanent employees who are members of a South African retirement fund were beneficiaries of the Employee Trust. In terms of the trust deed the employees became entitled to a surplus in the event of the trust selling its indirect interest in Life Healthcare Group Holdings Limited at the 'liquidity event'. The equity settled scheme was settled during the previous financial period and therefore the full equity value was accounted for during the period. The Performance Equity Scheme entitled certain members of senior management to a maximum of 2.5% of the equity value of Life Healthcare Group Holdings Limited. This allocation was conditional upon certain performance criteria being met. The scheme was settled at the option of the subsidiary company by way of delivery of shares of the Company.

Refer to note 3 to the Group annual financial statements for the critical accounting estimates and judgements used to calculate the values of these schemes.

		2011 R'000	2010 R'000
6.	**Trade and other payables**		
	Listing cost payable by shareholders	**–**	69 756
	Other payables	**150**	–
	Balance at 30 September	**150**	69 756
7.	**Revenue**		
	Revenue comprises dividends received from the subsidiary company.		
8.	**Finance income**		
	Finance income	**12**	–
	Bank and deposits	**12**	–
	Finance income	**12**	–

	2011 R'000	2010 R'000
9. Income tax expense		
Secondary tax on companies	**–**	321 736
Reconciliation of the tax rate	**%**	%
South African normal tax rate	**28.00**	28.00
Adjusted for:		
No taxable income	**(28.00)**	
Secondary tax on companies	**–**	35.31
	–	63.31
10. Profit before tax		
Income from subsidiary:		
Dividends received	**625 326**	529 708
Auditors' remuneration – audit fees	**40**	111
Professional fees	**–**	5 848
11. Cash generated from operations		
Reconciliation of profit before tax to cash generated from operations		
Profit before tax	**625 286**	508 162
Adjusted for:		
Finance income	**(12)**	–
Share-based payment reserve charge	**–**	13 454
Operating profit before working capital changes	**625 274**	521 616
Trade and other payables	**(69 606)**	(4 173)
Cash generated from operations	**555 668**	517 443
12. Ordinary shares repurchased		
In the statement of cash flows, ordinary shares repurchased comprises the following:		
Shareholders	**–**	(3 882 027)
Cash settled after year end	**–**	72 867
Costs	**–**	(137 121)
Secondary tax on companies on shares repurchased from retained earnings	**–**	(321 736)
	–	(4 268 017)

13. Accounting policies, events after the reporting period, contingencies and related party transactions

The items above are the same for the Group and Company. Refer to the relevant notes in the Group annual financial statements.

Notes

BASTION GRAPHICS

Life HEALTH CARE Group

www.lifehealthcare.co.za

Making life better