

Johannesburg Region

Bagleyston Day Clinic
Barney Hurwitz Hospital
& Medical Institute
Garden City Clinic
Linksfeld Park Clinic
Milpark Hospital



CLINIC HOLDINGS LIMITED

(Registration number 87/04106/06)
(Incorporated in the Republic of South Africa)
("Clinics")

Johannesburg Region

Parklane Clinic
Rainbow Clinic
Randburg Day Clinic
Rand Clinic
Rosebank Clinic
Sunninghill Hospital

AUDITED GROUP RESULTS, PRO FORMA BALANCE SHEET^① AND CAPITALISATION SHARE ISSUE
for the year ended 30 September 1997

INCOME STATEMENT

	30 Sept 1997 ^② (R000)	% change	30 Sept 1996 ^③ (R000)	30 Sept 1997 ^④ (R000)
Turnover	1 303 301	27,9	1 019 328	1 201 671
Operating profit	140 629	– 25,3	186 328	124 749
Finance charges	108 847		123 459	131 517
Interest on convertible debentures	38 136		54 798	60 806
Other net interest paid	70 711		68 661	70 711
Profit/(Loss) before taxation	31 782	– 51,8	62 869	(6 768)
Taxation	7 720		11 177	4 403
Profit/(Loss) after taxation	24 062	– 55,8	51 692	(11 171)
Preference dividends paid by subsidiaries	3 421		3 254	3 421
Outside shareholders' share of profits	–		627	–
Earnings/(Loss) attributable to ordinary shareholders	20 641	– 59,3	47 811	(14 592)

Notes:

- ① The reference "pro forma" in this announcement arises from the fact that the capital raising process which included a Rights Issue in Clinics, was completed after 30 September 1997. To enable Clinics' shareholders to gain a proper appreciation of the final effects of the acquisitions, set out in note ② below, the recapitalisation, the redemption and effective elimination of the convertible debentures and the relationship with Netcare, the pro forma adjusted balance sheet at 30 September 1997 anticipates the completion of all those transactions. These pro forma adjustments have been accounted for in the cash flow statement but have no effect on the income statement for the year ended 30 September 1997.
- ② The amounts reflected in column one of the income statement include the results of Clinics business for the twelve months ended 30 September 1997, the Netcare business acquired by Clinics for the seven months ended 30 September 1997, the Durban Oncology Centre acquired by Clinics for the seven months ended 30 September 1997 and the hospital business privately owned by Mr Barney Hurwitz ("Clinfed") acquired by Clinics for the one month ended 30 September 1997 (collectively "the acquisitions").
- ③ The amounts reflected in column two of the income statement are the results of Clinics business for the year ended 30 September 1996.
- ④ The amounts reflected in column three of the income statement reflect the results of Clinics business for the year ended 30 September 1997 had no transaction been concluded with Netcare nor any other vendors and that the convertible debentures had remained in place.
- ⑤ The fully diluted earnings per share of 11,0 cents for the year ended 30 September 1997 has been calculated by adding back to the earnings attributable to ordinary shareholders the interest payable on the convertible debentures, after deducting notional tax at 35% thereon, divided by the weighted number of shares after adjusting for the shares issued in order to redeem the convertible debentures.
- ⑥ The operating profit is stated after allowing for costs of inventories sold amounting to 403 023 312 857
- ⑦ Other information
- | | | |
|--------------------------------------|--------|--------|
| – Depreciation | 30 058 | 24 774 |
| – Capital expenditure for the period | 58 442 | 59 607 |
| – Capital expenditure authorised | 41 289 | 26 497 |
| – Contingent liabilities | 6 000 | 16 500 |
- ⑧ Intangible assets arising from the acquisitions set out in note ② above amounting to R31,25 million, have been written off against reserves.
- ⑨ Shareholders and interested parties seeking a broader understanding of the Netcare/Clinics Group are respectfully referred to the Netcare announcement also appearing in this publication.

PRO FORMA BALANCE SHEET^①

	30 Sept 1997 (R000)	30 Sept 1996 (R000)
Capital Employed		
Share capital and premium	758 600	77 834
Non distributable reserves	140	–
Retained profit	134 506	145 115
Shareholders' funds	893 246	222 949
Outside shareholders' interest	1 081	625
Redeemable preference shares issued by subsidiary	25 000	25 000
Long-term liabilities	462 576	759 952
	1 381 903	1 008 526

Employment of Capital

Fixed assets	1 350 299	942 264
Land and buildings at cost	1 137 017	827 353
Other fixed assets at book value	213 282	114 911
Interest in joint ventures	1 733	20 488
Current assets	507 199	331 216
Inventories	63 134	57 744
Debtors	425 303	273 401
Bank	18 762	71
Current liabilities	477 328	285 442
Creditors	329 387	190 211
Taxation	38 083	28 250
Shareholders for dividend	–	11 376
Current portion of long-term liabilities	62 134	37 739
Bank overdraft	47 724	17 866
	1 381 903	1 008 526

SALIENT FEATURES

Actual number of shares in issue (000) ^①	522 101	103 000
Weighted average number of shares on which earnings per share is based (000)		
– Undiluted	279 860	101 000
– Fully diluted ^⑤	412 279	174 260
Attributable earnings on which earnings per share is based (000)	20 641	47 811
Earnings per share (cents)		
– Undiluted	7,4	47,3
– Fully diluted ^⑤	11,0	47,9

PRO FORMA CASH FLOW STATEMENT

	30 Sept 1997 (R000)	30 Sept 1996 (R000)
Cash generated by operations	170 700	211 196
Finance charges	(108 847)	(123 459)
Taxation paid	(135)	(9 744)
Decrease/(Increase) in net working capital	16 316	(46 571)
Cash available from operations	78 034	31 422
Dividends paid	(14 797)	(17 503)
Cash effects of operating activities	63 237	13 919
Net cash effects of investing and financing activities	(63 237)	(13 919)

REVIEW AND COMMENTS

During the year under review, the adverse effects of the Group's escalating and costly debt burden, compounded by a general lack of management discipline and overhead control, impacted severely on the Group's operating margins.

Mindful of the urgent need for re-structuring the Group's debt and the necessity to refocus the Group's future strategies, serious discussions commenced early in March 1997 for the sale of the controlling interest in Clinics to Network Healthcare Holdings Limited ("Netcare").

On 8 August 1997 Netcare assumed management control of Clinics in terms of an agreement, concluded between the controlling shareholders of Clinics and Netcare on the 21 July 1997. The change of control of Clinics triggered the immediate restructuring of Clinics management and a significant capital raising process, comprehensively dealing with the two fundamental impediments with which Clinics had been previously afflicted.

In short, the Group raised finance (details of which have been fully reported), through a combination of shares and cash for the sum of R1 609 million which was applied substantially to the acquisition of the Netcare hospital business, Clinfed and the redemption and effective elimination of the convertible debentures. Goodwill arising from the various acquisitions, amounting to R968,7 million, has been set-off against the share premium arising from the issue of shares relating to these acquisitions and transactions. The capital raising process was completed on 19 November 1997 and on the pro forma basis, the Group's debt equity ratio reduced from 319% to 30% prior to the set-off of goodwill.

The directors are satisfied that the exceptional general and specialised accommodation which exists in the new Clinics network of hospitals, equipped with the most modern high-technology medical equipment, staffed by 13 000 dedicated personnel, serviced and supported by approximately 7 000 medical practitioners and specialists and geographically spread to provide comprehensive healthcare to all South Africans, could not be replicated at even twice its present value.

The impressive infrastructure and its operations are now managed by an energetic, highly skilled and motivated senior management team, which includes inter-alia, six medical doctors all with Business Administration qualifications, nine Chartered Accountants in various senior management positions, a pharmacist, a sociologist, a human resources specialist and a lawyer.

Management's focus is not only directed at substantially improving the Group's operating margins through tighter control of overheads and the improvement of both operating efficiencies and asset management throughout the Group, but also on increasing volumes. Adequate provisions now also exist in the Group for the diminution in value of certain current assets.

The re-engineering of the management structure has seen the establishment of six regions, each with a regional manager who, together with the respective hospital managers will, for the first time, be accountable and held responsible for their performance.

For the first time in several years, Clinics can record with a measure of relief, that its future performance and growth prospects will no longer be substantially anchored to the rates of RAMS tariff increases. The successful performance of the new Clinics Group will be significantly dictated by the Group's marketing and management skills employed in providing its range of healthcare services to the healthcare markets in and around Southern Africa.

In addition, the Group will pro-actively encourage the development of physician hospital networks and a provider driven healthcare system that will progress and prosper as the managed care market forces continue to evolve.

Furthermore, the executive management team at Clinics is particularly mindful and appreciative of the challenges doctors and specialists now face under the

CAPITALISATION SHARE ISSUE

In lieu of a cash dividend, the directors have resolved to issue capitalisation shares to ordinary shareholders registered in the books of Clinics on Friday, 23 January 1998.

Details of the entitlement ratio of new fully paid ordinary shares for every 100 ordinary shares held, will be published on Tuesday, 20 January 1998.

The new ordinary shares will be issued as fully paid up by way of a capitalisation of Clinics' share premium account.

By order of the Board

J Wolpert
Secretary

Sandton
23 December 1997

unfolding rules of managed healthcare. They are presently developing solutions which are equitable to the medical profession, to the payors and the hospitals. Clinics is convinced that only through this equilibrium can all healthcare stakeholders continue to provide and enjoy quality medical services at affordable prices.

Clinics continues to expand its medical consulting suites to satisfy the growing demand of specialists wishing to relocate to Clinics facilities. Pursuant thereto the Group is pleased to report that since the change of control of Clinics, 60 specialists have relocated to consulting rooms at Clinics hospitals with a further 22 specialists presently requesting accommodation.

Clinics recently brought an application against the Western Cape Administration seeking to set aside the sale of the Volks Hospital. Evidence will likely reveal that the tender process and sale of the Volks Hospital contained irregularities to the prejudice of Clinics and other potential bidders. Having regard to Clinics extensive hospital interests in the Western Cape and its protracted interest in that hospital, the results of these review proceedings could be significant.

Notwithstanding the temporary decline in Clinics profits during this past year, the Group has retained their leadership on the medical front. During the year under review Clinics continued to provide the only available transplantation co-ordination services both for the private and public sectors. In addition, a team of doctors and staff at City Park Hospital successfully transplanted the youngest heart recipient in South Africa. The Group's nursing college continues to provide outstanding pre and post graduate training to the Nursing profession, with over 155 nurses graduating in 1997 and a further 265 nurses presently in training. National Renal Care is the only national network providing chronic and acute renal dialysis. Clinics remains at the cutting edge of the latest technological changes and is the first to invest in sophisticated robotic surgical equipment and stereotactic radiotherapy equipment for the non invasive treatment of certain brain abnormalities.

Since the financial year end, Clinics acquired the hospital property and hospital business of St Anne's Hospital in Pietermaritzburg. Details of the acquisition of this impressive facility have already been fully reported on.

In terms of the agreements relating to the change in control of Clinics to Netcare, certain warranties provided to Netcare may not be fulfilled. In such event, Clinics will be required to meet any claim by Netcare, by the issue of additional Clinics shares to Netcare.

The Group moves confidently into 1998 convinced of the fulfillment of the projected profit forecasts reported in prior announcements to shareholders.

The Group is committed to partnering its employees as future shareholders to deliver quality healthcare, cost effectively for the people of South Africa. Pursuant to this endeavour, Netcare is also actively exploring the development of a primary healthcare network, together with the South African Medical and Dental Practitioners ("SAMDPA"), to provide comprehensive healthcare cover.

Clinics seeks to build a company that promotes outstanding quality and patient care, offers the most advanced technology and information systems, that is financially sound and provides its shareholders with above average returns and more particularly, provides its stakeholders with a sense of pride for being part of the Group's healthcare transformation initiatives in the new South Africa.

On behalf of the Board

M I Sacks (Chairman)
R H Friedland (Managing Director)

23 December 1997

Sandton

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Executive Directors
M I Sacks CA (SA) AICPA (ISR) (Chairman), J Shevel MB B. Ch. (Wits) (Chief Executive Officer), R H Friedland BVSc. (Pret) MB B Ch (Wits), Dip. Fin. Man. (Managing Director),
I M Davis Dip Pharm (MPS), I Kadish MB. B. Ch (Wits) MBA (Wharton), B Sheppy B Com B.Mil.Sc (Stellenbosch), N Tsinonis MBBCh MBA (Wits), P Warrenner B.Soc.Sci. DPLR (Natal),
N Weltman CA (SA).

Non-executive Directors
D Avniti B.Acc CA (SA) MBA (Wits), S Berger CA (SA) (alternate A Sharp CA (SA)), D A J Donald B.Com CA (SA) H. Dip. Tax (Wits), H R Levin B.Com LLB LL.M H. Dip. Tax H.Dip.Co Law (Wits),
G M Ramokgopa MB. B.Ch (Medunsa), R Roberts BA. J.D. (Georgetown).

Districts Region

Krugersdorp Hospital
Protea Clinic
Union Hospital
Kroon Hospital
Meyerton Day Clinic
Vaalpark Nursing Home

Pretoria Region

Jakaranda Hospital
Nedpark Clinic
Unitas Hospital
Ferncrest Hospital
Femina Clinic
Bronkhorstspuit
Hospital



CLINIC HOLDINGS LIMITED

Cape Region

City Park Hospital
Libertas Hospital
N1 City Hospital
Wynberg Hospital
Greenacres Hospital

KwaZulu-Natal Region

Kingsway Hospital
Parklands Hospital
St Augustines Hospital
Durban Oncology Centre
The Bay Hospital
Umhlanga Hospital
St Anne's Hospital