

# MEDI-CLINIC CORPORATION LIMITED

Incorporated in the Republic of South Africa Reg. No. 1983/010725/06 Share code: MDC ISIN code: ZAE000074142 ("Medi-Clinic" or "the company")



**MEDI-CLINIC**

*Private hospital group*

*25 Years of Quality Care*

## **UNAUDITED INTERIM GROUP RESULTS**

**for the  
six months ended  
30 September 2008**

- **THE FINANCIAL PERFORMANCE OF THE HIRSLANDEN GROUP IN SWITZERLAND EXCEEDED EXPECTATIONS**
- **MEDI-CLINIC SOUTHERN AFRICA MAINTAINED OPERATING MARGINS**
- **THE CITY HOSPITAL COMMISSIONED IN DUBAI**
- **INTERIM DIVIDEND PER ORDINARY SHARE INCREASED BY 12% TO 21.6 CENTS**

## Consolidated abridged BALANCE SHEET

	Unaudited 30/09/08 R'm	Unaudited 30/09/07 R'm	Audited 31/03/08 R'm
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>35 090</b>	4 005	37 251
Property, equipment and vehicles	<b>29 265</b>	3 391	30 972
Intangible assets	<b>5 652</b>	474	6 079
Investments - unlisted	<b>31</b>	6	34
Derivative financial instruments	<b>-</b>	-	43
Deferred income tax assets	<b>142</b>	134	123
<b>Current assets</b>	<b>4 036</b>	1 343	4 326
Inventories	<b>452</b>	190	448
Trade and other receivables	<b>2 689</b>	873	3 077
Cash and cash equivalents	<b>895</b>	280	801
<b>Total assets</b>	<b>39 126</b>	5 348	41 577
<b>EQUITY AND LIABILITIES</b>			
<b>Total equity</b>	<b>8 915</b>	2 291	9 687
Share capital and reserves	<b>8 093</b>	1 593	8 880
Minority interest	<b>822</b>	698	807
<b>Total liabilities</b>	<b>30 211</b>	3 057	31 890
Long-term interest-bearing borrowings	<b>21 847</b>	928	23 266
Retirement benefit obligations	<b>200</b>	146	177
Provisions	<b>189</b>	20	190
Derivative financial instruments	<b>655</b>	677	595
Deferred income tax liabilities	<b>4 772</b>	4	5 187
Short-term interest-bearing borrowings	<b>280</b>	248	131
Short-term interest-free borrowings	<b>2 268</b>	1 034	2 344
<b>Total equity and liabilities</b>	<b>39 126</b>	5 348	41 577
Number of ordinary shares ('000)	<b>558 695</b>	361 120	560 260
Weighted number of ordinary shares ('000)	<b>559 408</b>	360 038	421 437
Diluted number of ordinary shares ('000)	<b>591 944</b>	395 014	455 748
Net asset value per ordinary share - cents	<b>1 449</b>	441	1 585
Directors' valuation of unlisted investments	<b>31</b>	6	34

## Consolidated abridged INCOME STATEMENT

	Unaudited 6 months to 30/09/08 R'm	Change %	Unaudited 6 months to 30/09/07 R'm	Audited Year to 31/03/08 R'm
<b>Revenue</b>	<b>7 496</b>	132	3 228	9 579
Cost of sales	<b>(4 367)</b>		(1 748)	(5 381)
Administration and other operating expenses	<b>(1 575)</b>		(819)	(2 138)
<b>Operating profit before depreciation (EBITDA)</b>	<b>1 554</b>	135	661	2 060
Depreciation	<b>(300)</b>		(86)	(341)
Profit on sale of equipment	<b>1</b>		–	2
<b>Operating profit</b>	<b>1 255</b>	118	575	1 721
Finance income	<b>33</b>		15	49
Finance cost	<b>(724)</b>		(53)	(685)
<b>Profit before taxation</b>	<b>564</b>		537	1 085
Taxation	<b>(230)</b>		(157)	(364)
<b>Profit for the period</b>	<b>334</b>		380	721
<b>Attributable to:</b>				
Shareholders of the company	<b>288</b>		322	610
Minority interest	<b>46</b>		58	111
	<b>334</b>		380	721
Earnings per ordinary share - cents				
- Basic	<b>51.5</b>	(42)	89.3	144.9
- Diluted	<b>48.6</b>		81.4	134.0
Headline earnings per ordinary share - cents				
- Basic	<b>51.2</b>	(43)	89.3	144.5
- Diluted	<b>48.4</b>		81.4	133.6
<b>Earnings reconciliation:</b>				
Profit attributable to shareholders	<b>288</b>		322	610
Profit on sale of equipment	<b>(1)</b>		–	(2)
Headline earnings	<b>287</b>	(11)	322	608

**Consolidated abridged  
STATEMENT OF RECOGNISED INCOME AND EXPENSE**

	<b>Unaudited 6 months to 30/09/08 R'm</b>	Unaudited 6 months to 30/09/07 R'm	Audited Year to 31/03/08 R'm
Currency translation differences	<b>(668)</b>	(43)	2 186
Fair value adjustment to cash flow hedges (net of tax)	<b>(132)</b>	(661)	(254)
Actuarial losses	–	–	(21)
<b>Net (loss)/income recognised directly in equity</b>	<b>(800)</b>	(704)	1 911
Profit for the period	<b>334</b>	380	721
<b>Total recognised (loss)/income for the period</b>	<b>(466)</b>	(324)	2 632
<b>Attributable to:</b>			
Equity holders of the Company	<b>(512)</b>	(382)	2 521
Minority interest	<b>46</b>	58	111
	<b>(466)</b>	(324)	2 632

**Consolidated abridged  
CASH FLOW STATEMENT**

	<b>Unaudited 6 months to 30/09/08 R'm</b>	Unaudited 6 months to 30/09/07 R'm	Audited Year to 31/03/08 R'm
Cash flow from operating activities	<b>906</b>	620	738
Cash generated from operations	<b>1 815</b>	803	1 517
Net finance cost	<b>(665)</b>	(38)	(419)
Taxation paid	<b>(244)</b>	(145)	(360)
Cash flow from investment activities	<b>(687)</b>	(466)	(16 898)
Cash flow from financing activities	<b>(167)</b>	(353)	16 461
Proceeds from issuance of ordinary shares	–	–	4 500
Distributions to shareholders	<b>(224)</b>	(127)	(189)
Distributions to minorities	<b>(38)</b>	(29)	(41)
Movement in borrowings	<b>142</b>	(203)	12 219
Treasury shares purchased	<b>(55)</b>	–	–
Share issue costs	–	–	(28)
Other	<b>8</b>	6	–
Net movement in cash, cash equivalents and bank overdrafts	<b>52</b>	(199)	301
Opening balance of cash, cash equivalents and bank overdrafts	<b>787</b>	357	357
Exchange rate fluctuations on foreign cash	<b>(30)</b>	(5)	129
Closing balance of cash, cash equivalents and bank overdrafts	<b>809</b>	153	787
Cash and cash equivalents	<b>895</b>	280	801
Bank overdrafts	<b>(86)</b>	(127)	(14)
	<b>809</b>	153	787

<b>Consolidated abridged SEGMENTAL REPORT</b>			
	<b>Unaudited 6 months to 30/09/08 R'm</b>	Unaudited 6 months to 30/09/07 R'm	Audited Year to 31/03/08 R'm
<b>Revenue</b>			
Southern Africa	<b>3 357</b>	3 000	6 056
Middle East	<b>312</b>	228	482
Switzerland	<b>3 827</b>	–	3 041
<b>EBITDA</b>			
Southern Africa	<b>715</b>	638	1 302
Middle East	<b>–</b>	23	50
Switzerland	<b>839</b>	–	708
<b>Operating profit</b>			
Southern Africa	<b>631</b>	565	1 143
Middle East	<b>(16)</b>	10	22
Switzerland	<b>640</b>	–	556
<b>Cash generated from operations</b>			
Southern Africa	<b>839</b>	716	1 226
Middle East	<b>(46)</b>	87	165
Switzerland	<b>1 022</b>	–	126
	<b>Unaudited 30/09/08 R'm</b>	Unaudited 30/09/07 R'm	Audited 31/03/08 R'm
<b>Assets</b>			
Southern Africa	<b>4 644</b>	4 185	4 545
Middle East	<b>1 825</b>	1 163	1 576
Switzerland	<b>32 657</b>	–	35 456
<b>Liabilities</b>			
Southern Africa	<b>4 769</b>	2 789	4 643
Middle East	<b>764</b>	268	511
Switzerland	<b>24 678</b>	–	26 736

<b>OTHER FINANCIAL INFORMATION</b>			
	<b>Unaudited 30/09/08 R'm</b>	Unaudited 30/09/07 R'm	Audited 31/03/08 R'm
<b>Capital commitments</b>			
Southern Africa	<b>606</b>	632	798
Middle East	<b>32</b>	91	98
Switzerland	<b>235</b>	–	103
<b>Exchange rates</b>	<b>R</b>	R	R
Average Swiss Franc (ZAR/CHF)	<b>7.40</b>	–	6.60
Closing Swiss Franc (ZAR/CHF)	<b>7.50</b>	–	8.14
Average UAE Dirham (ZAR/AED)	<b>2.12</b>	1.93	1.94
Closing UAE Dirham (ZAR/AED)	<b>2.25</b>	1.87	2.20

## COMMENTARY

This is the second reporting period reflecting the effect of the Hirslanden acquisition done in October 2007. The Group's operating results as well as attributable income and headline earnings per share reflect the significant change that the acquisition represented for the Group. A new international basis with geographic diversification and income generation potential has been created from which the consistent growth pattern, which the Group is known for, should continue.

## GROUP OVERVIEW

### Hirslanden acquisition

The Group acquired 100% of Hirslanden, the holding company of the largest private hospital group in Switzerland, with effect from 26 October 2007. Hirslanden is the leading private hospital group in Switzerland, comprising 13 private acute care facilities located in nine cantons. The purchase consideration for the total issued share capital of Hirslanden was CHF2 556 million, which represented an enterprise value of CHF3 364 million. CHF2 450 million of new debt with a term of seven years was arranged by Barclays Capital ("Barclays"), the investment banking division of Barclays Bank plc ("the Barclays facility"). This was fully underwritten by Barclays Bank plc on a non-recourse basis to Medi-Clinic's Southern African operations. The base interest rate in respect of this facility was fixed for ten years at the time of the transaction. The interest payable on debt of CHF1 610 million, raised to finance the purchase consideration, will not be tax deductible for a period of five years.

The remainder of the purchase consideration together with expenses, interest accrued on the purchase price and other costs, amounted to CHF1 114 million and was funded by Medi-Clinic by way of a rights offer of R4 500 million ("the rights offer") and existing debt facilities within the Group. The rights offer was for a total of 198 675 497 Medi-Clinic shares.

For more information about the transaction, see the company announcement of 2 August 2007, the detailed acquisition circular by Medi-Clinic to shareholders dated 17 August 2007 ("the Circular"), the company announcements of 10 September 2007 and 26 October 2007, as well as the company announcement relating to the rights offer of 26 October 2007. All these documents are available on the company's website, [www.mediclinic.co.za](http://www.mediclinic.co.za).

### Group financial performance

#### *Trading results*

Due to the Hirslanden acquisition, the current period's results are not directly comparable with those of the comparative period.

Group revenue increased by 132% to R7 496 million (2007: R3 228 million) for the six months under review. Operating income before interest, taxation, depreciation and amortisation ("EBITDA") was 135% higher at R1 554 million (2007: R661 million). Notwithstanding the above, headline earnings decreased by 11% to R287 million (2007: R322 million) after incurring higher finance charges, mainly resulting from the Hirslanden transaction. Headline earnings per ordinary share decreased by 43% to 51.2 cents (2007: 89.3 cents), due to the higher finance charges and the 55% increase in the weighted number of ordinary shares for the period resulting from the rights offer. The decline in the Group's headline earnings per share was therefore mainly as a result of the Hirslanden acquisition, as anticipated and communicated at the time of the acquisition.

The interim dividend per ordinary share at 21.6 cents (2007: 19.3 cents) is 12% higher than the previous period, in line with the Southern African EBITDA growth.

During the reporting period, the Group, through a wholly owned subsidiary, acquired 3 009 622 of its own shares in the market for about R55 million to be held as treasury shares. It utilised 278 587 of the treasury shares for the Group's executive share option scheme.

#### *Finance cost*

Included in the finance cost is an amount of R30.5 million (2007: RNil), being the current period's amortisation in respect of raising fees paid on the local and offshore debt. These amounts are amortised over the terms of the relevant loans in line with future cash payments as prescribed in IAS 39.

The margin applicable to the Barclays facility remained subject to a market flex to facilitate the syndication process. Barclays has now settled the margin finally, which brings the total interest rate payable on the Barclays facility to 5.62%,

effective from 1 August 2008. Prior to 1 August 2008, a total interest rate of 5.27% was charged. Barclays communicated the increase in its margin to the Group on 14 October 2008.

### ***Foreign exchange rates***

The Rand displayed some volatility during the reporting period against the Swiss Franc ("CHF") and the United States Dollar (to which the UAE Dirham ("AED") is pegged at AED3.675 to the US Dollar). The spot rate of the CHF moved from R8.14 at 31 March 2008 to R7.50 at 30 September 2008, with an average rate of R7.40 for the reporting period. The spot rate of the AED moved from R2.20 at 31 March 2008 to R2.25 at 30 September 2008, with an average rate of R2.12 for the reporting period. In terms of accounting convention, the offshore balance sheets are converted at the spot rate, while the trading results in the offshore income statements are converted at the average rate. The difference between the spot rate and the average rate results in a distortion when ratios between the balance sheet and the income statement are calculated in Rand. Therefore, the spot rate should also be used for translating earnings metrics to achieve comparatively calculated ratios.

The resulting currency translation difference, being the amount by which the Group's interest in the equity of the two foreign platforms decreased merely as a result of the movement in the spot rate, amounted to R668 million and was debited to the Statement of Recognised Income and Expense.

Subsequent to the end of the reporting period, the Rand depreciated materially against both currencies, which, if maintained, will lead to a substantial reversal to this charge.

### ***Cash flow***

The Group's cash flow continued to be strong mainly due to efficient working capital management. The Group converted 117% (2007: 121%) of EBITDA into cash generated from operations. Cash and cash equivalents increased to R895 million from R801 million at 31 March 2008.

### ***Interest-bearing borrowings***

Interest-bearing borrowings ("debt") decreased from R23 397 million at 31 March 2008 to R22 127 million, almost exclusively due to foreign exchange rate fluctuations during the reporting period, as alluded to above. It is important to note that the offshore debt amounting to R18 418 million is matched with foreign assets in the same currency. The offshore debt also has no recourse to South African assets, as stipulated by the South African Reserve Bank as well as applicable financing arrangements.

## **OPERATIONS IN SOUTHERN AFRICA**

### **Financial performance**

The Southern African revenue increased by 12% to R3 357 million (2007: R3 000 million) for the six months under review. EBITDA was 12% higher at R715 million (2007: R638 million).

### **Business performance**

The 12% revenue growth was achieved through a 3.3% increase in bed-days sold, an 8.3% increase in the average income per bed-day and a 0.4% change in the profile of patients treated. The increase in utilisation was evident in both surgical and medical cases. The number of patients admitted increased by 2.4%, while the average length of stay increased by almost 1.0%.

The Southern African operations managed to maintain its EBITDA margin at 21.3%.

In line with international best practices, the Southern African business activities were reorganised during the previous year into operational and property groups. The property group raised R2 750 million to finance the acquisition of the hospital properties.

The construction of the new 140-bed Cape Gate Medi-Clinic in the Western Cape has commenced and is expected to be completed during March 2010. Extensive upgrade projects are in progress at Panorama Medi-Clinic and Hermanus Medi-Clinic, the latter of which includes the addition of 31 beds. Projects have also been approved for Constantiaberg Medi-Clinic and Bloemfontein Medi-Clinic.

The Southern African operations' cash flow continued to be strong during the period under review. The group converted 117% (2007: 112%) of EBITDA into cash generated from operations. Cash and cash equivalents decreased to R316 million from R361 million at 31 March 2008 after financing capital expenditure and investments.

Debt increased from R3 699 million at 31 March 2008 to R3 710 million.

### **Industry matters**

Affordability will always remain a critical issue in the healthcare industry internationally, and especially in developing countries. Throughout the world increased healthcare costs are driven by increased utilisation resulting from factors such as the ageing population, new technology, patient expectations and the increased burden of disease. The situation is exacerbated by an international shortage of skilled nursing staff. This leads to, and will for the foreseeable future continue to lead to, sustained pressure for higher nursing salaries.

The private hospital industry in South Africa plays a significant role in the delivery of healthcare services and is the biggest local investor in the healthcare industry. The group will continue to strive for the sector to play a meaningful role in broadening access to healthcare and continues to engage with representatives of Government on this issue.

The past months saw a change in ANC and government leadership, including the appointment of a new Minister of Health who recognised the importance of the private hospital industry and that proper consultation with the private healthcare sector is required. We sincerely welcome these events.

The process to develop a National Health Insurance ("NHI") system for South Africa was initiated at the ANC congress in Polokwane during December 2007 and has gained much momentum since then. The ANC task group set up to develop the NHI is largely represented by the ANC and to date has provided very limited opportunity for the private sector to participate. The inputs of other stakeholders, including the private sector, are canvassed through a task group sponsored by the Development Bank of Southern Africa. The views as to how the NHI should be structured and the process to achieve this are still very divergent.

Due to the momentum behind the development of the NHI system, all health related bills will be reviewed in the medium term to ensure it supports the aims of the NHI. The Health Portfolio Committee of the National Assembly consequently decided not to proceed with the National Health Amendment Bill and the Medical Schemes Amendment Bill processes.

## **OPERATIONS IN SWITZERLAND**

### **Financial performance**

The Group consolidated Hirslanden's results from the effective date of its acquisition, being 26 October 2007. Although not included in the Group's results for the comparative period under review, the comparative figures and statements below are provided to give shareholders a better understanding of the results as well as the seasonal flow of revenue and EBITDA at Hirslanden where the European winter period from November to January has a stronger patient flow than the European summer.

The Hirslanden revenue increased by 39% (10% at constant foreign exchange rates) to R3 827 million (CHF517 million) (2007: R2 758 million (CHF469 million)) for the six months under review. EBITDA was 46% (16% at constant foreign exchange rates) higher at R839 million (CHF114 million) (2007: R576 million (CHF98 million)).

During the six months, Hirslanden's inpatient admissions increased by 5.7% while day surgery admissions improved by 12.6%. The average length of stay remained fairly constant.

The EBITDA margin for the period under review improved to 21.9% from 20.9% for the comparable period. The margin during the period under review is typically lower than during the second six months due to seasonal effects.

The number of fully operational beds increased to 1 334 beds (based on the average number of beds for the six months), with the addition of 35 beds at Klinik Hirslanden and 13 beds at Klinik St Anna.

With reference to the developments discussed in previous reports, a second LINAC oncology machine was commissioned during the period under review, while the CyberKnife is expected to be commissioned at Klinik Hirslanden during the first quarter of 2009. The state-of-the-art centre for neurology, neurosurgery and neuroradiology at Klinik Hirslanden opened on 1 October 2008, with the neurology component still under development. An international centre for laparoscopic neurofunctional pelvic surgery with two renowned surgeons opened at Klinik Hirslanden on 1 October 2008. In addition, projects for the increase of capacity at Klinik Aarau (from 117 to 145 beds) and Klinik Im Park (2 additional ICU beds, 4 additional intermediate care beds and an additional operating theatre) were approved to be commissioned towards the end of 2009 and early in 2010 respectively.



The Hirslanden group converted 122% of EBITDA into cash generated from operations. Cash and cash equivalents increased to R559 million (CHF75 million) from R400 million (CHF49 million) at 31 March 2008 after financing capital expenditure and investments.

Debt decreased from R19 481 million (CHF2 393 million) at 31 March 2008 to R17 954 million (CHF2 394 million) due to foreign exchange rate fluctuations.

### **Integration of the Hirslanden group**

As reported earlier, management, together with members of the Hirslanden Board, where appropriate, undertook a strategy review which included an analysis of measures to extract value from synergies between Medi-Clinic and Hirslanden. The result was an eight-point plan of which implementation has commenced to extract value from immediate synergies. A longer-term process of further detailed benchmarking between the two groups so as to create an integrated international platform running according to best practices and defined by common definitions (as far as it is possible) across borders has also commenced. Activities in the UAE form part of this process.

### **Renewal of leadership and strengthening of the management structure**

Dr Robert Bider, who will be reaching the compulsory retirement age in June 2009, announced in June this year that he would resign from his position as Chief Executive Officer on 1 October 2008. He will remain as the non-executive vice chairman of Hirslanden, but retired from the board of Medi-Clinic on 5 November 2008.

Along with the above, the Board of Hirslanden approved a change in leadership and a concomitant strengthening of its Executive Committee with effect from 1 October 2008. Dr Ole Wiesinger has been appointed as the new Chief Executive Officer and will be nominated for appointment to the Board of Directors of Medi-Clinic on 5 November 2008. Formerly, Dr Wiesinger was the Managing Director of Klinik Hirslanden. The Executive Committee was strengthened by increasing the membership from three to six. Apart from the Chief Executive Officer and the Chief Financial Officer, three regional operational officers were appointed, providing hospitals with more direct representation at this level. The remaining newly appointed member is responsible for the Corporate Services and Hospital Services departments.

It is appropriate at this stage to thank the following senior management members for their excellent contributions over many years at Hirslanden:

- Reto Heierli, Chief Financial Officer, who played an important role with the acquisition and integration of hospitals added to the Hirslanden group. He will be leaving on 31 December 2008.
- Joseph Rohrer, Chief Operating Officer, who played an important role in growing Hirslanden operationally and provided the background for dividing the operations into three regions. He left the company on 30 September 2008.

## **OPERATIONS IN THE UNITED ARAB EMIRATES (“UAE”)**

### **Financial performance**

Revenue increased by 37% (24% at constant foreign exchange rates) to R312 million (AED147 million) (2007: R228 million (AED118 million)) for the six months under review. EBITDA was RNil (AEDNil) (2007: R23 million (AED11.8 million)), mainly due to anticipated start-up losses at The City Hospital. After incurring depreciation charges of R15 million (AED7 million) (2007: R13 million (AED7 million)) and net finance costs of R1 million (AED0.6 million) (2007: R7 million (AED3.7 million)), Emirates Healthcare incurred an attributable loss of R6 million (AED3 million) net of minority interests. During the comparative period Emirates Healthcare broke even.

### **Business performance**

The fully operational units, being the Welcare Hospital, the Emirates Diagnostic Clinic (“EDC”), the Welcare Ambulatory Care Centre (“WACC”) and the Welcare Eye Clinic (“WEC”), produced revenue of R304 million (AED143 million) (2007: R227 million (AED118 million)) and EBITDA of R52 million (AED25 million) (2007: R36 million (AED19 million)).

The Welcare Clinic Al Qusais which opened for business on 7 July 2007 and EHL Management Services (previously Welcare World Healthcare Systems) had turnover of R5 million (AED2 million) (2007: R1 million (AED0.4 million)), but generated start-up operating losses at EBITDA level of R13 million (AED6 million) (2007: R10 million (AED5 million)). The City Hospital, commissioned after the period under review, and the Welcare Clinic Mirdiff incurred start-up costs of R39 million (AED18 million) (2007: R3 million (AED1.7 million)). Start-up losses for The City Hospital alone amounted to R36 million (AED17 million) for the period under review.

The Welcare Hospital performed very well and increased its revenue by 34% (22% at constant foreign exchange rates) and EBITDA by 48% (35% at constant foreign exchange rates), against the same period last year. Its EBITDA margin increased from 14.3% to 15.8%. The three clinics in full operation, namely EDC, WACC and WEC, also exceeded expectations and increased their combined EBITDA margin from 24.1% to 24.7%.

The City Hospital was commissioned on 15 October 2008, after successfully passing rigorous international accreditation processes. The Deputy Ruler of Dubai conducted the official opening ceremony on 22 October 2008. The recruitment of doctors and nurses for phase 1 is almost complete with the last staff joining during the next three months. It is pleasing to report that within the first week after opening, several in-patients were admitted and a number of successful surgeries as well as the first angioplasty were conducted. The level of interest in the facility and the enquiries by community-based specialists for admission rights are encouraging. The timing of all the aspects of the commissioning and opening of the hospital posed a substantial financial risk which, as anticipated, impacted on the earnings of the Group during this reporting period. Substantial risk remains in the unpredictability of occupancy levels during the start-up period.

Emirates Healthcare, through a subsidiary EHL Management Services, continues to make a significant investment in infrastructure, mainly in systems and human capital, to ensure a solid platform from which to take advantage of the many growth opportunities in the region.

It is not meaningful to comment on the cash flow of Emirates Healthcare since there are distortions flowing from the commissioning of The City Hospital due to cash advances in respect of equipment to be commissioned as well as retentions outstanding. Cash and cash equivalents decreased to R20 million (AED 9 million) from R40 million (AED18 million) at 31 March 2008, while interest-bearing debt increased from R217 million (AED98 million) at 31 March 2008 to R464 million (AED206 million). This was mostly utilised to finance the final phases of The City Hospital.

Interest payments of R10.5 million (AED4.7 million) were capitalised against The City Hospital project costs in terms of accounting convention during the period under review. The interest accrued on all debt will be expensed after the commissioning of The City Hospital. Additional capital will be required to fund further start-up losses and the additional investment in working capital resulting from the activities of The City Hospital. Committed banking facilities are available. The current average interest rate is about 8% and it is expected that debt will increase to about AED290 million by year end.

## PROSPECTS

Three well-defined platforms for growth have been established within the Group. The South African private hospital industry is one of the most developed and mature in the world. It offers a great deal to the international world specifically in terms of cost-effectiveness and quality of care. The Hirslenden group could act as a solid platform for future Swiss and European expansion. The investment in Emirates Healthcare which is more greenfield by nature, offers a platform for incremental growth in the Middle East where a growing need for cost-effective quality private healthcare continues to exist.

The Group has invested over many years in infrastructure to enable it to better measure the quality and outcomes of its care. Although still developing, it firmly believes that this knowledge can now be applied on an international level to gain market share and to fulfil its vision of being regarded as the most respected and trusted provider of hospital services by patients, doctors and funders of healthcare.

The Medi-Clinic and Hirslenden management teams have already extracted certain identified high-level synergies. These are included in the business plan and will, if successfully implemented, have a positive effect on the EBITDA originally projected by the Hirslenden management. Some of these synergies will also have a positive effect on both the Southern African and UAE operations. In addition, the two management teams will embark on an in-depth benchmarking exercise to identify best practices between the two groups with a view to implement such best practices throughout the combined group. These synergies should benefit shareholders in future.

In Dubai our sincere thanks and congratulations are extended to the hospital management, staff and doctors, as well as the management of Emirates Healthcare, for the endless hours they put in to obtain the necessary rigorous accreditation and regulatory approvals which allowed The City Hospital to be commissioned so successfully. Now is the time to create the respect and trust of the patients who use the facilities at the hospital.

Inflationary cost pressures are experienced at all three platforms including Switzerland. The Group has been successful in the past to manage these pressures and will continue to try and do the same.

Although further start-up costs at The City Hospital will be incurred and the international markets are in turmoil, the Group remains optimistic about its operational prospects for the next six months. The full dilutive effect of the additional shares issued pursuant to the rights offer in December last year has now also been fully accounted for in the headline earnings per share.

## CHANGES TO THE BOARD OF DIRECTORS

Mr J du T Marais, who served as an executive director (technical) of Medi-Clinic since 1985, retired on 30 July 2008. We are immensely grateful and proud of Mr Marais for his outstanding service and dedication to the Group and the industry over the past 23 years.

Ms S Dakile-Hlongwane retired on 30 July 2008. Dr V E Msibi, who served as a non-executive director since 2005 representing Phodiso Holdings, one of the Group's strategic black partners, tragically passed away on 12 July 2008. Dr R H Bider, who served as an executive director of Medi-Clinic since 2007 (in his capacity as the Chief Executive Officer of Hirslanden) also retired and resigned from the Board of Medi-Clinic with effect from 5 November 2008. Dr Bider has 33 years of experience in the Swiss healthcare industry. His involvement and support of the Hirslanden acquisition by the Group, as well as during the critical first year after the transaction, was instrumental to the success thereof.

The valuable inputs of all of these past members of the Board are greatly appreciated and will be long remembered.

Ms Z P Manase was co-opted as an independent non-executive director with effect from 16 September 2008. Dr M K Makaba was also co-opted as a non-executive director with effect from 16 September 2008 representing Phodiso Holdings. The Board of Medi-Clinic today approved the co-option of Dr T O Wiesinger, the new Chief Executive Officer of Hirslanden, as an executive director with effect from 5 November 2008.

## BASIS OF PREPARATION

The interim financial results have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") and the disclosure requirements of IAS 34. The accounting policies are consistent with those adopted in previous financial statements.

## CASH DIVIDEND TO SHAREHOLDERS

The board of directors declared an interim dividend of 21.6 cents per ordinary share.

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

Last date to trade <i>cum</i> dividend	Friday, 28 November 2008
First date of trading <i>ex</i> dividend	Monday, 1 December 2008
Record date	Friday, 5 December 2008
Payment date	Monday, 8 December 2008

Share certificates may not be dematerialised/rematerialised from Monday, 1 December 2008 to Friday, 5 December 2008, both days inclusive.

Signed on behalf of the board of directors:

**E DE LA H HERTZOG**  
*Chairman*

**LJ ALBERTS**  
*Chief Executive Officer*

Stellenbosch, 5 November 2008

**DIRECTORS:** E de la H Hertzog (Chairman), L J Alberts (Chief Executive Officer),  
R H Bider, J C Cohen, M K Makaba, Z P Manase, A R Martin, D P Meintjes,  
K H S Pretorius, A A Raath, M A Ramphele, D K Smith, J G Swiegers,  
W L van der Merwe, M H Visser

**SECRETARY:** G C Hattingh

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**SPONSOR:** Rand Merchant Bank (A division of FirstRand Bank Limited)

