NOTES TO CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 September 2020

28. RELATED PARTIES continued

Associate companies and joint ventures – refer to Annexure C

The Group has investments in a number of associate companies and joint ventures. Details are disclosed in note 12 and Annexure C to the financial statements. No provision has been required in 2020 and 2019 for the loans made to associates and joint ventures.

	2020 R'm	2019 R'm
Loans to associates and joint ventures		
Balance at 1 October	**10**	10
Net movements in amounts owned	**(5)**	(4)
Balance at 30 September	**5**	10

Directors and director-related entities

Details of directors are disclosed in the administration to the financial statements on page 2. No direct loans were made to or received from any director and no other transactions were entered into with any director. Refer to note 27 for details on directors' emoluments.

Key management

Key management is defined as all executive management, functional heads, hospital managers, pharmacy managers, nursing managers, administration managers and patient service managers.

Key management disclosure excludes non-executive directors' fees – refer note 27

	2020 R'm	2019 R'm
Remuneration		
Salaries	**546**	444
Medical aid contributions	**5**	6
Pension fund costs – defined benefit and contribution plans	**6**	3
Provident fund costs – defined contribution plans	**15**	15
	572	468

29. COMMITMENTS AND CONTINGENCIES

Capital commitments

Capital expenditure approved for property, plant and equipment	**2 608**	2 532

Funds to meet capital expenditure will be provided from Group resources.

Operating lease commitments

In the prior year, the Group was a lessee to various hospital and administration office properties as well as medical and office equipment under non-cancellable lease agreements. The leases had varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Not later than 1 year	**–**	218
Later than 1 year and not later than 5 years	**–**	651
Later than 5 years	**–**	424
	–	1 293

From 1 October 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see note 6 and Annexure A note 1.15 for further information.

The Group entered into a new lease agreement for its head office building which commences during November 2020 and is for an initial term of 10 years. The monthly rental is R1.5 million. The Group will recognise a right-of-use asset and related lease liability of approximately R232 million.

29. COMMITMENTS AND CONTINGENCIES continued

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 for leases and construction projects to the value of R25 million (2019: R123 million).

Certain subsidiary companies have issued letters of support to other fellow subsidiary companies, when required.

Disposal of Max Healthcare

As part of the conditions in the share purchase agreement (SPA) signed during the 2019 financial year, Life Healthcare indemnified the purchaser (Radiant Life Care Private Limited) from and against, any and all losses incurred or suffered by the purchaser in relation to claims set out in the SPA. The value of the contingent liability is limited to a maximum exposure of R206 million to Life Healthcare (excluding tax payable in respect of any indemnification payments). In the event, where tax is payable on the indemnification payment, the tax liability will be payable equally by Life Healthcare and the purchaser. The liability for Life Healthcare with respect to the payment of the specific indemnity tax shall be in addition to the liability of R206 million. The contingent liability is valid for a period of three years from the closing date (ie until 21 June 2022). No changes arose during the year ended 30 September 2020.

30. 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:

Cash dividend declaration

The board of directors has decided, considering the current trading conditions and in order to preserve cash, not to declare or pay a final dividend for the year.

Disposal of 100% of shares in Scanmed S.A

The Group in November 2020 received an offer to dispose of its Polish operation, Scanmed to Abris Capital Partners, a central European private equity fund manager. The related agreements were signed on 24 November 2020 and the transaction is subject to regulatory approvals. The disposal consideration will be settled in cash and Life Healthcare will receive approximately PLN199 million (R806 million). The Group considered it prudent and appropriate to impair the carrying value at 30 September 2020 to reflect the fair value less costs to sell. The impairment for the year ended 30 September 2020, relating to Scanmed, is R793 million.

31. RISK MANAGEMENT

Overall risk management programme

The Group's overall financial risk management programme focuses, inter alia, on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not apply formal hedge accounting but uses derivative financial instruments to hedge interest and foreign currency risk exposures. Financial risk management is carried out by a central treasury department (treasury) under policies approved by the investment committee. Treasury identifies, evaluates and economically hedges financial risks in close cooperation with the Group's operating units. The Group has 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.

Capital risk management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to provide for sufficient capital expansion. The capital structure of the Group consists of debt, which includes the interest-bearing borrowings disclosed in note 20, cash and cash equivalents disclosed in note 15 and equity as disclosed in the statement of financial position. Preference shares are included in interest-bearing borrowings.

The Group's investment committee reviews the capital structure on a quarterly basis. the Group uses the net debt to normalised EBITDA ratio, as defined in the debt agreements, to measure the funding requirements in the form of debt or equity. The Group has a target net debt to normalised EBITDA ratio of 3.00 times. Due to the impact of the pandemic the target ratio might possibly be exceeded in the short term.