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**Private and Confidential**

The Directors  
Advanced Health Limited  
90 Florence Ribeiro Avenue  
Muckleneuk, Pretoria  
0002

26 June 2019

Dear Sirs

**REPORT OF THE INDEPENDENT PROFESSIONAL EXPERT TO ADVANCED HEALTH LIMITED IN RESPECT OF ADDITIONAL CREDIT FACILITIES FROM EENHEDE KONSULTANTE PROPRIETARY LIMITED WHICH CONSTITUTE A RELATED PARTY TRANSACTION**

**Introduction**

The board of directors of Advanced Health Limited (“AVL” or the “Company”) (the “Board”) entered into a facility agreement with Eenhede Konsultante Proprietary Limited (“Eenhede”) on 18 April 2018 in terms of which Eenhede agreed to extend a shareholder’s loan of R50 million to AVL (the “First Loan”). AVL and Eenhede subsequently entered into a credit facility agreement (the “Credit Facility Agreement”) and cession of shares agreement to effect the First Loan (the “First Loan Agreement”).

At a meeting held by the Board on 29 May 2018 it was agreed that Eenhede would extend a further loan (in addition to a loan already granted) of R28.5 million to AVL (the “Second Loan”).

In order to effect the Second Loan, addendums to the existing credit facility agreement and the pledge of cession of shares agreement were entered into (the “Addendums”).

The Addendums comprise:

- Credit facility first addendum (“Tranche 2”); and
- Credit facility second addendum (“Tranche 3”).

As per the Addendums, the principal terms and conditions of Tranche 2 and 3 are as follows:

- Duration:
  - Tranche 2: 07 November 2018 to 06 November 2019 (“Tranche 2 Availability Period”);
  - Tranche 3: 10 June 2019 to 09 June 2020 (“Tranche 3 Availability Period”);
- Additional Facility Amounts:
  - Tranche 2: R28 500 000;
  - Tranche 3: R20 000 000;
- Interest rate: Prime lending rate as quoted by Absa Limited (“Prime rate”), plus 0.5%;
- Security: 725 648 ordinary shares in the issued share capital of Presmed Australia Proprietary Limited (“Presmed Australia”);
- Repayment: 60 days after expiry of Tranche 2 and 3 Availability Periods.

## **Fairness opinion required in terms of the JSE Listings Requirements**

Mr. CA Grillenberger is the Chief Executive Officer and a director of AVL as well a material shareholder in AVL through Eenhede. The Addendums constitute a related party transaction in terms of section 10 of the JSE Limited (“JSE”) Listings Requirements (“Listings Requirements”). Since AVL is listed on the Alternative Stock Exchange (“Alt-X”) operated by the JSE, the requirements as set out in section 10.7 will be subject to section 21.12 of the Alt-X Listing Requirements.

In terms of section 10.7 of the Listing Requirements the Board is required to provide the JSE with written confirmation from an independent professional expert confirming that the terms of the Addendums are fair insofar as the shareholders of AVL (“Shareholders”) are concerned (the “Fairness Opinion” or “Opinion”).

BDO Corporate Finance Proprietary Limited (“BDO Corporate Finance”) has been appointed as the independent professional expert by the Directors in respect of the Addendums.

### **Responsibility**

Compliance with the Listings Requirements is the responsibility of the Directors. Our responsibility is to report to the Directors and shareholders of AVL on the fairness of the terms of the Addendums.

### **Explanation as to how the term “fair” applies in the context of the Addendums**

Schedule 5.7 of the Listings Requirements states that the “fairness” of a transaction is based on quantitative issues. A transaction will generally be considered fair to a company’s shareholders if the benefits received by shareholders, as a result of a corporate action, are equal to or greater than the value ceded by a company.

The Addendums would be considered reasonable to shareholders of AVL if the terms and conditions of the Addendums are the same as or more favourable to AVL than market-related terms and conditions, or not reasonable if terms and conditions of the Addendums are less favourable to AVL than market-related terms and conditions.

As the nature of the transaction does not entail the acquisition or disposal of an asset, but rather the raising of a loan facility, a value cannot be attributed to the Addendums as would be done for a business, i.e. a discounted cash flow valuation. Consequently, we have given due consideration to whether the terms of the Addendums are reasonable in the circumstances as if AVL and the related party were dealing at arm’s length, i.e. whether the terms of Addendums are on normal commercial terms and are not prejudicial to the interests of AVL and its shareholders. The following factors were considered in assessing the reasonableness of the Addendums:

- The rationale for entering into the Addendums;
- Market related terms and conditions.

### **Details and sources of information**

In arriving at our Opinion, we have relied upon the following principal sources of information:

- Audited annual financial statements for the years ended 30 June 2017 and 2018;
- Unaudited condensed consolidated interim financial statements for the six months ended 31 December 2018;
- Credit Facility agreement;
- Credit Facility First Addendum;
- Credit Facility Second Addendum;
- Draft Ruling Request from Grindrod Bank Limited; and
- Terms and conditions of market-related credit facility agreements issued to by South African financial institutions based on a sample of facility documents reviewed.

The information above was secured from:

- Directors and management of AVL and their advisors; and
- Third party sources, including information related to publicly available economic, market and other data which we considered applicable to, or potentially influencing AVL.

### **Procedures and consideration**

In arriving at our Opinion, we have undertaken the following procedures and taken into account the following factors in evaluating the fairness of the Addendums:

- Reviewed the terms and conditions of the First Loan Agreement and the Addendums;
- Held discussions with the management of AVL as to the rationale for the Addendums and assessed the prevailing economic and market conditions and trends in the healthcare facilities & services sector;
- Compared the terms and conditions of the Addendums to the terms and conditions of credit facilities offered by South African financial institution; and
- Where relevant, representations made by management and/or directors of AVL were corroborated to source documents.

### **Assumptions**

We arrived at our opinion based on the following assumptions:

- That all agreements that are to be entered into in terms of the Addendums will be legally enforceable;
- That the Addendums will have the legal, accounting and taxation consequences described in discussions with, and materials furnished to us by representatives and advisors of AVL; and
- That reliance can be placed on the information gathered third party sources.

### **Appropriateness and reasonableness of underlying information and assumptions**

We satisfied ourselves as to the appropriateness and reasonableness of the information and assumptions employed in arriving at our opinion by:

- Determining the extent to which representations from management were confirmed by documentary evidence as well as our understanding of AVL and the economic environment in which the Company operates.

### **Limiting conditions**

This opinion is provided to the Directors and shareholders of AVL in connection with and for the purposes of the Addendums. The Opinion does not purport to cater for each individual shareholder's perspective, but rather that of the general body of shareholders.

Individual shareholders' decisions regarding the Addendums may be influenced by such shareholders' particular circumstances and accordingly individual shareholders should consult an independent advisor if in any doubt as to the merits or otherwise of the Addendums.

We have been neither a party to the negotiations entered into in relation to the Addendums nor have we been involved in the deliberations leading up to the decision on the part of the Directors to enter into the Addendums.

We do not, by this letter or otherwise, advise or form any judgement on the strategic, commercial or financial merits or risks of the Addendums. All such evaluations, advice, judgements or comments remain the sole responsibility of the Directors and their advisors. We have however, drawn upon such evaluations, judgements and comments as we deem necessary and appropriate in arriving at our opinion.

The scope of our appointment does not require us to express, and nor do we express, a view on the future growth prospects, earnings potential or value of shares. We do not express any view as to the price at which shares may trade nor on the future value, financial performance or condition of AVL.

### **Independence**

We confirm that we have no direct or indirect interest in AVL or the Addendums. We also confirm that we have the necessary qualifications and competence to provide the Fairness Opinion on the Addendums.

Furthermore, we confirm that our professional fees, payable in cash, are not contingent upon the success of the Addendums.

### **Comparison of the terms and conditions of the Addendums to the terms and conditions of market related credit facilities offered by South African financial institution**

BDO Corporate Finance contacted a number of financial institutions regarding prevailing rates for secured overdrafts for companies with similar size as Advanced Health on a 'no-names basis'. The quotes assume positive earnings and cash flows and ability to service the debt and range from prime plus 2% to prime plus 5% with an average of prime plus 3%.

We note that Advanced Health is currently loss making having reported losses before tax of R54.5 million for the year ended 30 June 2018 and R21.4 million for the six months ended 31 December 2018. The Company's book value of debt is currently R142.6 million (based on the latest interim results) and its equity value amounts to

R186.9 million (based on a closing share price of 65 cents per share on 25 June 2019), which indicates a gearing ratio of 76% which is above market norms.

The only security for the Additional Facility Amounts comprises shares in a private company domiciled in Australia. Financial institutions don't consider shares in private companies as qualifying security in terms of Basel III.

In our opinion, and in line with the quotes received, we don't expect that Advanced Health would be able to obtain financing from a financial institution in the market for a similar quantum with the same security. In the event that a similar overdraft facility were to be obtained, the would be priced at in excess of prime plus 500 basis points.

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### **Opinion**

BDO Corporate Finance has considered the terms and conditions of the Addendums and, based on and subject to the conditions set out herein, is of the opinion that the terms and conditions of the Addendums are fair to shareholders.

Our opinion is necessarily based upon the information available to us up to 20 June 2019, including in respect of the financial information as well as other conditions and circumstances existing and disclosed to us. We have assumed that all conditions precedent, including any material regulatory and other approvals or consents required in connection with the Addendums have been fulfilled or obtained.

Accordingly, it should be understood that subsequent developments may affect this opinion, which we are under no obligation to update, revise or re-affirm.

Yours faithfully



**BDO CORPORATE FINANCE PROPRIETARY LIMITED**

Nick Lazanakis  
*Director*

## Annexure A

Lender	Borrower	Lending rate	Facility amount (R'000)	Repayment terms /Availability period	Security provided
Bank C	Company G	Prime	R 6 000	Payment on demand	Yes
Bank C	Company H	Prime	R 22 950	36 months with bi-annual capital reductions	Yes
Bank D	Company C	Prime plus 2.0%	R 34 000	365 days, subject to review	Yes
Bank E	Company D	Prime plus 2.5%	R 12 000	256 days	Yes
Bank E	Company F	Prime plus 2.0%	R 10 000	Payment on demand	No
Bank F	Company E	Prime + 1.0%	R 10 000	Payment on demand	No