



# Additional information

AT 30 JUNE 2016



# ADDITIONAL INFORMATION

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## FAIR VALUE DISCLOSURE

### FAIR VALUE HIERARCHY

The following hierarchy is used to classify financial and non-financial instruments for fair value measurement purposes:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The following table presents the groups assets and liabilities that are measured at fair value at 30 June 2016:

| 2016                             | Group   |         |         | Company |         |         |
|----------------------------------|---------|---------|---------|---------|---------|---------|
|                                  | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Investment in Jasco              | 37 182  | –       | –       | 37 182  | –       | –       |
| Investment in collective schemes | 268 173 | –       | –       | 268 173 | –       | –       |
| Investment in AAR                | –       | –       | 18 444  | –       | –       | –       |
| Contingent consideration         | –       | –       | 134 893 | –       | –       | 134 893 |
| Investment Property              | –       | –       | 15 000  | –       | –       | –       |
|                                  | 305 355 | –       | 168 337 | 305 355 | –       | 134 893 |
| <b>2015</b>                      |         |         |         |         |         |         |
| Investment in Jasco              | 24 788  | –       | –       | 24 788  | –       | –       |
| Investment in AAR                | –       | –       | 18 444  | –       | –       | –       |
| Investment Property              | –       | –       | 15 000  | –       | –       | –       |
|                                  | 24 788  | –       | 33 444  | 24 788  | –       | –       |

Specific valuation techniques used to value financial and non-financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments. The Jasco Electronics and the collective investment schemes share price was obtained from the Johannesburg Stock Exchange (JSE)
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis and PE ratios.
- The fair value of the investment property is determined using current prices in an active market for similar property

The assets disclosed above have been classified as a Level 3 financial and non-financial instruments i.e. the inputs are not based on observable market data except for the investment in, Jasco Electronics, which is classified as a Level 1 financial instrument (non-current asset held for sale). The carrying amount of all assets in the table above approximates the fair value of the assets.

Group fair value measurements using significant unobservable inputs (Level 3):

|                        | Contingent consideration | Investment in AAR | Investment Property |
|------------------------|--------------------------|-------------------|---------------------|
|                        | R'000                    | R'000             | R'000               |
| Opening balance        | –                        | 18 444            | 15 000              |
| Additions              | 134 893                  | –                 | –                   |
| Transaction costs      | –                        | –                 | –                   |
| <b>Closing balance</b> | <b>134 893</b>           | <b>18 444</b>     | <b>15 000</b>       |



## VALUATION INPUTS AND RELATIONSHIPS TO FAIR VALUE

### INVESTMENT IN AAR

The fair value of the investment in AAR Insurance Holdings is derived by valuation techniques using the most recent financial information available to AfroCentric Investment Corporation Limited. Management are satisfied that valuation of the investment in the AAR represents the fair value.

### INVESTMENT PROPERTY

The fair value of the investment property is derived by an external property valuer using current prices in an active market for similar property in the same location and condition. In applying this approach the valuer has selected other properties that have similar risk, growth and cash-generating profiles. Management reviews the valuation performed by the external valuer and is satisfied that the inputs used by the external property valuer are reasonable.

### CONTINGENT CONSIDERATION

Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Company arising from the contingent consideration. Under the contingent consideration arrangement, AfroCentric Investment Corporation Limited is required to issue Glen Eden Trading 58 (Proprietary) Limited an additional 26 192 902 shares based on management's best estimate as per the Acquisition of shares agreement. R134.9 million is the estimated fair value of this obligation at year-end.

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

| Description                                    | Fair value at 30 June 2016 | Unobservable inputs    | Input Value used              | Sensitivity of unobservable inputs on profit and loss  |
|--|----------------------------|------------------------|-------------------------------|--|
| <b>Investment in AAR (unlisted investment)</b> | 18 444                     | Price earnings ratio   | 11.32                         | If a P/E ratio of 10.32 were used the investment in AAR would increase by R1.762 million in other comprehensive income.<br><br>If a P/E ratio of 12.32 were used the investment in AAR would increase by R1.748 million in other comprehensive income.         |
| <b>Investment Property</b>                     | 15 000                     | Price per square meter | R1 500 per square meter       | The higher the price per square meter the higher the fair value.   |
| <b>Contingent consideration</b>                | 134 893                    | Average growth rate    | 5%                            | If an average growth rate of 4% were used the contingent consideration would decrease by R2.596 million in profit and loss.<br><br>If an average growth rate of 6% were used the contingent consideration would increase by R2.630 million in profit and loss. |
|  |                            | Expected cash inflows  | R21.8 million – R24.2 million | If expected cash flows were 10% higher or lower, the fair value would increase/decrease by R13.489 million.  |

### VALUATION PROCESS

The finance department of the group performs the valuations of the investments for financial reporting purposes, including level 3 fair values (excluding the investment property). The team reports directly to the Chief Financial Officer ("CFO"). Discussions of the valuation processes and results are held between the CFO and the Group Finance department at least once every six months, in line with the Group's bi-annual reporting periods.

The following table reflects the impact on the statement of comprehensive income and other comprehensive income should the fair value increase or decrease by 10%.

|                                      | Impact of change in volatility of the fair value adjustment on profit or loss |               |
|--------------------------------------|---|---------------|
|                                      | Increase +10%   | Decrease -10% |
|                                      | R'000   | R'000         |
| Investment in Jasco                  | 1 239   | (1 239)       |
| Contingent consideration             | 13 489  | (13 489)      |
| Investment in AAR Insurance Holdings | 1 844   | (1 844)       |
| Investment Property                  | 1 500   | (1 500)       |
|                                      | 18 072  | (18 072)      |



## ADDITIONAL INFORMATION continued

### AT 30 JUNE 2016

## BUSINESS COMBINATIONS

### THE WAD ACQUISITION

On 1 August 2015 ("effective date") AfroCentric concluded agreements governing the acquisition of 100% of the WAD Assets, being Pharmacy Direct (Proprietary) Limited, Curasana Wholesaler (Proprietary) Limited and Glen Eden Trading 58 (Proprietary) Limited, from WAD Holdings (Proprietary) Limited, hereafter referred to as the WAD Acquisition. The principal enterprise, being Pharmacy Direct (Proprietary) Limited, is a designated service provider to a wide range of South African medical aid schemes. The business supplies chronic medication under Prescribed Minimum Benefits and normal chronic benefits to approximately 110 000 patients nationally. Pharmacy Direct was awarded a tender in terms of which chronic medication is dispensed on behalf of Government to districts in five of South Africa's nine provinces. The WAD Acquisition has instilled positive synergies to the Group's general value proposition for all stakeholders, adding scale, enhancing marketing and distribution channels and positively positioning the Group for accelerated growth. The purchase consideration for the WAD Acquisition is 86.5 million AfroCentric shares as well as 26.2 million contingent shares being the maximum number of AfroCentric shares that management believe will be issued due to the attainment of certain profit levels in Glen Eden Trading 58 (Proprietary) Limited in the foreseeable future.

The WAD acquisition was accounted for using the purchase price method of accounting, which requires that the assets and liabilities of Pharmacy Direct (Proprietary) Limited, Curasana Wholesaler (Proprietary) Limited and Glen Eden Trading 58 (Proprietary) Limited be measured at fair value as at 1 August 2015.

### BUSINESS COMBINATIONS

|   | Group<br>June<br>2016<br>R'000 | Total<br>June<br>2016<br>R'000 |
|---|--------------------------------|--------------------------------|
| Fair value of 100% net asset value at acquisition         | –                              | 106 529                        |
| Property and equipment                                    | 25 213                         |                                |
| Loans to shareholders                                     | 20                             |                                |
| Inventories   | 60 915                         |                                |
| Current tax receivable                                    | 288                            |                                |
| Trade and other receivables                               | 100 414                        |                                |
| Cash and cash equivalents                                 | 41 747                         |                                |
| Intangible assets: customer relationships                 | 89 485                         |                                |
| Current tax payable                                       | (2 911)                        |                                |
| Trade and other payables                                  | (184 347)                      |                                |
| Deferred tax liability                                    | (24 295)                       |                                |
| Consideration for the purchase of 100% of net asset value |                                | 580 483                        |
| Goodwill arising from acquisition*                        |                                | 473 954                        |

\* The goodwill arises from integrated synergies that are established through the acquisition of the WAD assets.

Below is the breakdown of the consideration paid for the WAD Acquisition:

| No of shares (millions)  | Share price (R)   | Total Value |
|--|-------------------|-------------|
| Share issue for Pharmacy Direct (Proprietary) Limited and Curasana Wholesaler (Proprietary) Limited (tranche 1) <sup>1</sup> | 5.15 <sup>3</sup> | 347 136     |
| Glen Eden Trading 58 (Proprietary) Limited (tranche 1) <sup>2</sup>  | 5.15 <sup>3</sup> | 98 453      |
| Glen Eden Trading 58 (Proprietary) Limited (tranche 2) <sup>2</sup>  | 5.15 <sup>3</sup> | 134 894     |
|  |                   | 580 483     |

Note 1: In the case of Curasana Wholesaler (Proprietary) Limited and Pharmacy Direct (Proprietary) Limited it is management's view that certain government contracts will not be achieved by these entities hence additional shares will not be issued, apart from the shares that were already issued in tranche 1.

Note 2: Under the contingent consideration arrangement, AfroCentric Investment Corporation Limited is required to issue Glen Eden Trading 58 (Proprietary) Limited an additional 26 192 902 shares based on management's best estimate as per the Acquisition of shares agreement. R134.9 million is the estimated fair value of this obligation at year-end. If an average growth rate of 4% were used the contingent consideration would decrease by R2.596 million in profit and loss. If an average growth rate of 6% were used the contingent consideration would increase by R2.630 million in profit and loss. If expected cash flows were 10% higher or lower, the fair value would increase/decrease by R13.489 million. Refer to Note 9.10 for further details.

Note 3: This is the AfroCentric Investment Corporation Limited share price as at the effective date.

