3. FINANCIAL RISK MANAGEMENT

GENERAL

Risk management is a priority issue because it affects every part of the business. It is pre-emptive process that allows the Group and Company to assess and analyse risk in an integrated fashion, identifying potential areas in advance and then to proactively create processes and measures for compliance.

Fundamentally, the Board's responsibility in managing risk is to protect the Group's employees, its policyholder and the Group in every facet. It fully accepts overall responsibility for risk management and internal control and in so doing the Board has deployed effective control mechanisms to prevent and mitigate the impact of risk.

Primary responsibility for risk management at an operational level rests with the Executive Committee. Management and various specialist Committees are tasked with integrating the management of risk into the day-to-day activities of the Group and Company. Refer to the Corporate Governance statement for more detail regarding the Committee's involved in risk management.

The Healthcare and Administration business activities are exposed to a variety of financial risks:

- Market risk;
- Credit risk; and
- Liquidity risk.

The Group and Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Refer to Note 9 for classes of financial assets and liabilities.

MARKET RISK

CURRENCY RISK

Currency risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the Group's functional currency.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

The Group is not exposed to any currency risk in relation to its foreign operations in Namibia and Swaziland as the currencies of these countries are fixed to the South African Rand.

The most significant exposure is to the Mauritian Rupee, the Euro and US Dollar as a result of translation risk. The impact of currency risk on the statement of comprehensive income amounted to a profit (foreign currency gains) of R4.823 million (June 2015: R0.867 million)

At 30 June 2016, if the currency had weakened/strengthened by 10% against the Mauritian Rupee with all other variables held constant, post-tax profit for the year would have been R331 261 lower/higher, mainly as a result of foreign exchange gains/losses on translation of the Mauritian operations.

At 30 June 2016,if the currency had weakened/strengthened by 10% against the Euro with all other variables held constant, post-tax profit for the year would have been R407 496 lower/higher, mainly as a result of foreign exchange gains/losses on translation of the International operations.

At 30 June 2016,if the currency had weakened/strengthened by 10% against the Dollar with all other variables held constant, post-tax profit for the year would have been R2 114 397 lower/higher, mainly as a result of foreign exchange gains/losses on translation of the Zimbabwean operations.

PRICE RISK

The Group and Company is exposed to equity securities price risk due to its investment in Jasco Electronics Holdings Limited and the collective investment schemes where participatory interest units are held. As such, the fair value of the investments is affected by changes in the share price. The Company's own shares are also listed on the Johannesburg Stock Exchange.

To manage the price risk the Group and Company's investment committee reviews its investments regularly to ensure that the downside price risk is mitigated.

The table below summaries the impact of an increase/decrease of the share price of Jasco Electronics Holdings Limited on the post-tax profit of the Group and Company.

Change in percentage share price	Increase on post-tax profit	Decrease on post-tax profit
5% increase/(decrease)	1 859 079	(1 859 079)
10% increase/(decrease)	3 718 159	(3 718 159)
15% increase/(decrease)	5 577 238	(5 577 238)

The table below summaries the impact of an increase/decrease of the share price of Collective Schemes on the post-tax profit of the Group and Company.

Change in percentage share price	Increase on post-tax profit	Decrease on post-tax profit
5% increase/(decrease)	13 408 657	(13 408 657)
10% increase/(decrease)	27 375 002	(27 375 002)
15% increase/(decrease)	40 225 971	(40 225 971)

CASH FLOW AND FAIR VALUE INTEREST RATE RISK

The Group's and Company's interest rate risk arises from interest bearing instruments and fixed deposits.

The Group and Company has used a sensitivity analysis technique that measures the estimated change to the statement of comprehensive income and equity of an instantaneous increase of 1% (100 basis points) in the market interest rates for each class of financial instrument with all other variables remaining constant. The sensitivity analysis excludes the impact of market risks on net post-employment benefit obligations.

Instruments exposed	Group Increase in 1% on statement of comprehensive income R'000	Company Increase in 1% on statement of comprehensive income R'000
June 2016		
Bank borrowings	**(461)**	–
Bank balances and short-term investments	**1 052**	604
Financial assets at amortised cost	**2 996**	2 996
Total	**3 587**	3 600
June 2015		
Bank borrowings	(1 187)	–
Bank balances and short-term investments	3 800	340
Total	2 613	340

Under these assumptions, a 1% increase in market interest rates at 30 June 2016 would increase Group profit before tax by approximately R3 587 000 (June 2015: R2 613 000) and Company profit before tax by approximately R3 600 000 (June 2015: R340 000).

CREDIT RISK

Credit risk arises from cash and cash equivalents and other investments, that is, deposits with banks and financial institutions, as well as credit exposures to clients, including outstanding receivables and committed transactions. The trade and other receivables from the WAD acquisition are receivable from medical schemes in 14 days. For banks and financial institutions only independently rated parties with a minimum rating of 'BBB' are accepted (please refer to 9.6). If clients do not have an independent rating, risk control assesses the credit quality of the client, taking into account its financial position, past experience and other factors. Credit risk is managed at both the Group and Company level.

A significant portion of the Group's and Company's client base comprises high-credit quality financial institutions. The "Healthcare business" has under agreement the authority to draw funds due and payable to it directly from the bank accounts of certain medical schemes using a collection module. Revenue from medical schemes is therefore settled in cash.

No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties.

3. FINANCIAL RISK MANAGEMENT continued

LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities to meet debt repayment and operating requirements. Management monitors the cash position on a daily basis from a group and company level. Due to the dynamic nature of the underlying businesses, management flexibility in funding by keeping committed credit facilities available.

The contingent consideration will be settled by the issuance of shares and as such will not place a liquidity burden on the Group.

Management monitors rolling forecasts of the liquidity reserve on the basis of expected cash flow.

The table below analyses all cash flows from the financial liabilities into the time buckets in which that are contractually due to be paid:

TIME BUCKETS APPLICABLE TO THE GROUP

Group June 2016	Less than 3 months or on demand R'000	More than 3 months but not exceeding 6 months R'000	More than 6 months but not exceeding 9 months R'000	More than 6 months but not exceeding 1 year R'000	Between 1 to 2 years R'000	Between 2 to 3 years R'000	Total R'000
Borrowings	–	–	–	–	–	–	–
Trade and other payables	**379 759**	**1 090**	**1 090**	**1 090**	–	–	**383 029**
June 2015							
Borrowings	61 224	–	–	–	–	–	61 224
Trade and other payables	142 468	1 283	1 283	1 283	–	–	146 317

TIME BUCKETS APPLICABLE TO THE COMPANY

Company June 2016	Less than 3 months or on demand R'000	More than 3 months but not exceeding 6 months R'000	More than 6 months but not exceeding 9 months R'000	More than 6 months but not exceeding 1 year R'000	Between 1 to 2 years R'000	Between 2 to 3 years R'000	Total R'000
Loans from Group companies	**44 477**	–	–	–	–	–	**44 477**
Trade and other payables	**1 181**	**1 986**	**1 986**	**1 986**	–	–	**7 139**
June 2015							
Loans from Group companies	60 705	–	–	–	–	–	60 705
Trade and other payables	6 196	4 675	4 675	4 675	–	–	20 221

The table below analyses all undiscounted cash flows from financial assets into the time buckets that they are contractually due to be received.

TIME BUCKETS APPLICABLE TO THE GROUP

Group	Less than 3 months or on demand	More than 3 months but not exceeding 6 months	More than 6 months but not exceeding 9 months	More than 6 months but not exceeding 1 year	Between 1 to 2 years	Between 2 to 3 years	Total
June 2016	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Trade and other receivables	**325 550**	**8 942**	**8 942**	**21 570**	–	–	**365 004**
Cash and cash equivalents	**373 068**	–	–	–	–	–	**373 068**
Financial assets at fair value through profit and loss	–	–	–	–	–	**268 173**	**268 173**
Financial assets at amortised cost	–	–	–	–	**143 761**	–	**143 761**
June 2015							
Trade and other receivables	195 964	8 327	8 327	16 266	–	–	228 884

** This includes prepayments and deposits. These are not considered past due as no repayment terms are applicable to them.*

The carrying amount of all the financial assets and liabilities approximate the fair value.

TIME BUCKETS APPLICABLE TO THE COMPANY

Company	Less than 3 months or on demand	More than 3 months but not exceeding 6 months	More than 6 months but not exceeding 9 months	More than 6 months but not exceeding 1 year	Between 1 to 2 years	Between 2 to 3 years	Total
June 2016	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Trade and other receivables	**815**	–	–	–	–	–	**815**
Cash and cash equivalents	**145 884**	–	–	–	–	–	**145 884**
Financial assets at fair value through profit and loss	–	–	–	–	–	**268 173**	**268 173**
Financial assets at amortised cost	–	–	–	–	**143 761**	–	**143 761**
June 2015							
Trade and other receivables	1 631	–	–	–	–	–	1 631

The accounting policies for the Group's financial instruments have been applied to the line items below:

Description per the Statement of Financial Position	Fair value	Amortised cost	Group June 2016 R'000	Group June 2015 R'000	Company June 2016 R'000	Company June 2015 R'000
			Carrying value		Carrying value	
Loans and receivables						
Trade and other receivables		√	**365 004**	228 884	**815**	1 631
Cash and cash equivalents		√	**373 068**	334 051	**145 884**	34 011
Financial liabilities measured at amortised cost						
Borrowings (non-current and current)		√	**–**	61 224	**–**	–
Trade and other payables		√	**383 029**	146 317	**7 139**	20 221

The carrying value of loans and receivables and financial liabilities at amortised cost approximates the fair value and as a result the fair values have not been disclosed in the fair value hierarchy.

3. FINANCIAL RISK MANAGEMENT continued

CAPITAL RISK MANAGEMENT

The objective of the Group and Company when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group Company monitors cash flow on the basis of the gearing ratio. This ratio is calculated as long-term debt divided by total capital employed. Total capital employed is calculated as 'Equity' as shown in the Statement of financial position plus long-term debt.

During 2016, the Group's and Company's strategy, which was unchanged from 2015, was to maintain the gearing ratio within 0% to 15%.

The gearing ratios at 30 June 2016 and 30 June 2015 respectively are as follows:

	Group		Company	
	June 2016 R'000	June 2015 R'000	**June 2016 R'000**	June 2015 R'000
Total long-term borrowings	**–**	–	**–**	–
Total equity	**1 563 582**	1 167 079	**123 045**	552 932
Total capital employment	**1 563 582**	1 167 079	**123 045**	552 932
Gearing ratio	**–**	–	**–**	–
Adjusted to include short-term borrowings:				
Total borrowings (note 9.8)	**–**	61 224	**–**	60 705
Total equity	**1 563 582**	1 167 079	**123 045**	552 932
Total capital employed	**1 563 582**	1 228 303	**123 045**	613 637
Gearing ratio (including short-term borrowings)	**–**	4.98%	**–**	9.89%

4. 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.