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.

BUSINESS COMBINATIONS

		Total June 2016 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)[1]	5.15[3]	347 136
Glen Eden Trading 58 (Proprietary) Limited (tranche 1)[2]	5.15[3]	98 453
Glen Eden Trading 58 (Proprietary) Limited (tranche 2)[2]	5.15[3]	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.