NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

35. CONDITIONAL FINANCIAL OBLIGATION

	GROUP		COMPANY	
	June 2017 R'000	**June 2016 R'000**	**June 2017 R'000**	**June 2016 Restated* R'000**
Conditional financial obligation	**–**	727 960	**–**	–

Sanlam acquired an effective 28.7% interest in ACT Healthcare Assets Proprietary Limited for R703 million in the 2016 financial year. The acquisition agreement provided for a profit warranty in AfroCentric Health Proprietary Limited, any breach of which entitles Sanlam to claim a maximum additional 4.3% interest in the shares of ACT Healthcare Assets Proprietary Limited in satisfaction of such claim. AfroCentric has provided a profit warranty based on AfroCentric Health Group's full year headline earnings (excluding certain items set out in the Subscription Agreement) which for the period ended 30 June 2017 shall be no less than R330 million.

Should a shortfall exist Sanlam has the option to elect cash or shares that are calculated per the acquisition agreement. In the event that the claim calculates at an amount of a 15% or more increase in the shareholding in AHA, Sanlam has a right to require AfroCentric Investment Corporation Limited to repurchase the shares owned by Sanlam at Sanlam's initial cost plus interest at the 90-day deposit rate from the date of investment to the date of redemption. In the 2016 financial year the conditional financial obligation was accounted for in terms of IAS 32.23 in the Group results, which required the conditional financial obligation to be recognised at the redemption amount and did not take into account the probability of the conditional put option vesting (and, if so, the likelihood of it being exercised) and its fair value in the 2016 financial year.

In the current financial year the profit warranty has been exceeded and the conditional financial obligation has expired and was therefore reversed. In the prior year there was uncertainty regarding whether the warranties would be met and the non-current classification indicated the possibility of having to settle the obligation which was expected to take place in the 2018 financial year.

Other Sanlam warranties and indemnities

In terms of the Sanlam agreement, ACT must unconditionally and irrevocably agree to indemnify Sanlam and meet certain warranties per the subscription agreement.

All indemnities and warranties based on the subscription agreement have been reaffirmed excluding the below, which has been accounted for accordingly in the financial statements:

- AfroCentric has calculated the total spend on the Fusion IT project and confirms that the warranties have been exceeded. This will result in an additional cash settlement calculated as per below:

	R'000
Total Fusion spend	201 803
Spend limit per warranties	(150 000)
Excess spend	**51 803**
Amount net of tax (72%)	**37 298**
Sanlam shareholding	28.7%
Cash settlement	**10 705**

- Sanlam is claiming a reimbursement regarding the Swaziland VAT and tax issues raised in the current year as a result of taxes that were payable in respect of the period before the subscription date.

	R'000
Total amount paid to Swaziland Revenue Authorities	16 755
Portion relating to post 1 January 2016	(2 532)
Balance relating to pre 1 January 2016	14 223
Sanlam shareholding	28.7%
Amount payable to Sanlam	**4 082**
Therefore, the total liability raised is as follows:	
Liability based on excess Fusion spend	10 705
Liability based on tax issues pre-subscription date	4 082
Total amount payable (indemnity expense)	**14 787**