NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

4. BUSINESS COMBINATIONS

The WAD Healthcare Assets Acquisition

On 1 August 2015 ("effective date") AfroCentric concluded agreements governing the acquisition of 100% of the WAD healthcare 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 Healthcare Assets 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 seven (2016: five) of South Africa's nine provinces. The WAD Healthcare Assets 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 Healthcare Assets acquisition was 86.5 million AfroCentric shares as well as 26.2 million contingent shares being the maximum number of AfroCentric shares that management believed would be issued due to the attainment of certain profit levels in Glen Eden Trading 58 Proprietary Limited in the foreseeable future. In the current financial year the profit levels have been exceeded and the number of contingent shares has increased to 31.366 million. WAD Holdings Proprietary Limited has now elected to receive the contingent consideration in cash and not shares.

The WAD Healthcare Assets 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.

	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 Healthcare Assets.*

Below is the breakdown of the consideration paid for the WAD Healthcare Assets acquisition:

No of shares (millions)	**Share price R**	**Total value R**
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)	5.15[3]	98 453
Glen Eden Trading 58 Proprietary Limited (tranche 2)[2]	5.15[3]	134 894
		580 483

[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.*

[2] *Under the contingent consideration arrangement, AfroCentric Investment Corporation Limited was 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 was the estimated fair value of this obligation at June 2016 year-end.*

During the current year based on the profits reached, the number of shares is now 31 366 977 and the fair value is R194.4 million. WAD Holdings Proprietary Limited has now elected to receive the contingent consideration in cash and not shares. If the share price increased by 10% the contingent consideration would decrease by R19.4 million in profit and loss and if the share price decreased by 10% the contingent consideration would increase by R19.4 million in profit and loss. Refer to Note 9.8 for further details.

[3] *This is the AfroCentric Investment Corporation Limited share price as at the effective date in 2015.*

4. BUSINESS COMBINATIONS CONTINUED

The Wellness Odyssey Acquisition (Post Balance Sheet Acquisition)

On 1 July 2017 ("effective date") AfroCentric concluded agreements governing the acquisition of 100% of Wellness Odyssey Proprietary Limited. Wellness Odyssey Proprietary Limited is a service provider for corporate wellness days – raising awareness and enhancing preventative care to the advantage of the medical scheme, employer groups and participating members. The Group is determined to pursue partnerships, acquisitions and mergers in order to drive toward value chain optimisation and this acquisition bears testament to this. The purchase consideration for Wellness Odyssey Proprietary Limited is R38 million in cash consideration.

The Wellness Odyssey Proprietary Limited will be accounted for using the purchase price method of accounting, which requires that the assets and liabilities of Wellness Odyssey Proprietary Limited be measured at fair value as at 1 July 2017. The amounts disclosed below are provisional.

Wellness Odyssey acquisition

	Total June 2017 R'000
Fair value of 100% net asset value at acquisition (assets)	**4 473**
Property and equipment	**274**
Trade and other receivables	**3 565**
Cash and cash equivalents	**2 099**
Deferred tax asset	**55**
Trade and other payables	**(1 315)**
Provisions	**(205)**
Consideration for the purchase of 100% of net asset value	**38 000**
Goodwill arising from acquisition*	**33 527**

* *The goodwill arises from integrated synergies that are established through the acquisition of Wellness Odyssey.*

5. SEGMENT INFORMATION

The Group's Chief Executive Officer and Chief Financial Officer have restructured the operating segments due to the purchase of the new WAD healthcare assets in the prior financial year. The operating segments identified are examined from a service perspective (total healthcare vs information technology) and geographical perspective (South Africa vs Africa). The geographical segments identified include all businesses outside of South Africa which include Botswana, Mauritius, Namibia, Kenya, Swaziland and Zimbabwe. Individually, each business outside of South Africa is not material hence management has taken the decision to disclose all business outside of South Africa as a separate operating segment. All segments have been disclosed according to what the Chief Operating Decision-Maker reviews.

Nature of business segments:

- Healthcare SA – consists of medical scheme administration and health risk management services in South Africa. Please refer to Note 11 which indicates Medscheme Holdings Proprietary Limited's summarised financial information.
- Healthcare Retail – consists of pharmaceutical sales/services from the WAD Healthcare Assets acquisition. These services are rendered in South Africa.
- Healthcare Africa – consists of all healthcare services outside of South Africa. This includes associate earnings (Botswana, Kenya, Namibia, Zimbabwe, Swaziland and Mauritius).
- Information technology – this relates to all IT-related services for the Group predominantly within South Africa.