

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

1. Summary of accounting policies

General information

AfroCentric Investment Corporation Limited (the “Company”), together with its subsidiaries (together forming the “Group”), is a public company operating in the healthcare fund management sector and associated industries. The Company’s main business is to acquire and hold assets for investment purposes.

The Company is incorporated and domiciled in South Africa. The address of its registered office is 37 Conrad Road, Florida North, Roodepoort, South Africa. The majority of the Company’s shares are held by public shareholders.

These Consolidated Annual Financial Statements have been approved for issue by the Board of Directors on 12 September 2018.

Statement of compliance

The Company and the Group Annual Financial Statements were prepared in accordance with International Financial Reporting Standards (“IFRS”), interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). These Annual Financial Statements have been issued by the International Accounting Standards Board (“IASB”), the Companies Act 2008 of South Africa, the JSE Limited Listings Requirements and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

Basis of presentation

The principal accounting policies adopted are set out below and have been applied consistently to all years presented.

The Annual Financial Statements have been prepared under the historical cost convention except for the following:

- Post-employment medical obligations, independently valued using the projected unit credit method

Carried at fair value:

- Financial instruments held for trading or designated at fair value through profit or loss
- Financial instruments not held for trading but designated as available for sale
- Investment property held at fair value using independent market valuations

The preparation of the Annual Financial Statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Annual Financial Statements and the reported amounts of revenues and expenses during the reporting years. Although these estimates are based on management’s best knowledge of current events and actions, actual results may differ from those estimates. The Statements of Comprehensive Income is presented on a hybrid method of the nature and function method as the Group believes this represents more meaningful and relevant information to the user and is disclosed in this manner.

1. Summary of accounting policies (continued)

a) International Financial Reporting Standards and amendments effective for the first time for 30 June 2018 year end

IFRS	Effective date	Executive summary
Amendment to IAS 7 Cash Flow Statements Statement of cash flows on disclosure initiative	Annual periods beginning on or after 1 January 2017 (published Feb 2016)	In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.
Amendment to IAS 12 – Income Taxes Recognition of deferred tax assets for unrealised losses	Annual periods beginning on or after 1 January 2017 (published Feb 2016)	The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets. The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets.
Annual improvements 2014 – 2016 (part)	Annual periods beginning on or after 1 January 2017 (published December 2016)	These amendments impact 3 standards, one being effective from 1 January 2017. • IFRS 12 Disclosure of Interests in Other Entities regarding clarification of the scope of the standard. The amendment clarified that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of IFRS 12). Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

1. Summary of accounting policies (continued)

b) International Financial Reporting Standards, interpretations and amendments issued but not effective for 30 June 2018 year end

IFRS	Effective date	Executive summary
IFRS 9 Financial Instruments (2009 & 2010)	Annual periods beginning on or after 1 January 2018	This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
- Financial liabilities - Derecognition of financial instruments - Financial assets	(published July 2014)	
IFRS 15 Revenue from Contracts with Customers and Amendment to IFRS 15 Revenue from Contracts with Customers	Annual periods beginning on or after 1 January 2018 (published May 2014 and April 2016)	The FASB and IASB issued their long-awaited converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer. The IASB has amended IFRS 15 to clarify the guidance, but there were no major changes to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of these areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.
IFRS 16 Leases	Annual periods beginning on or after 1 January 2019 – earlier application permitted if IFRS 15 is also applied (published January 2016)	This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

1. Summary of accounting policies (continued)

A number of new standards and amendments to standards are effective from annual periods beginning after 1 July 2018 and earlier application is permitted; however, the group has not early adopted any of these new or amended standards in preparing these consolidated financial statements. The likely impact of the following standards issued, but not yet effective, and which may have a significant impact on the Group's Consolidated Financial Statements, is listed below:

IFRS 15 Revenue from Contracts with Customers

The standard is effective for years commencing on or after 1 January 2018. The standard will be adopted by the Group for the financial reporting period commencing 1 July 2018. The Group has completed an initial assessment of the potential impact of the adoption of the IFRS 15 on its Consolidated Financial Statements.

IFRS 15 requires an entity to recognise revenue in such a manner as to depict the transfer of the goods or services to customers, at an amount representing the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard has a 5-step process to be applied to all contracts with customers. The standard provides guidance for identifying the contract with the customer, identification of the deliverables (performance obligations), determination of the transaction price (including the treatment of variability in the transaction price, and significant financing components), how to allocate the transaction price, and when to recognise revenue.

The Group has reviewed all significant contracts with customers in line with the new standard. Results of the assessment indicate no material impacts are expected, however the variability of the penalties that are levied on these contracts need to be taken into account in determining the revenue to be recognised and therefore no transition adjustments will be presented. The standard will result in additional disclosures.

IFRS 16 Leases

The standard is effective for years commencing on or after 1 January 2019. The standard will be adopted by the Group for the financial reporting period commencing 1 July 2018. The Group has completed an initial assessment of the potential impact of the adoption of IFRS 16 on its Consolidated Financial Statements.

IFRS 16 requires a lessee to recognise a right of use asset and lease obligations for all leases except for short-term leases, or leases of low value assets which will leases may be treated similarly to operating leases under the current standard IAS 17 if the exceptions are applied. A lessee measures its lease obligation at the present value of future lease payments, and recognises a right of use asset initially measured at the same amount as the lease obligation including costs directly related to entering into the lease. Right-of-use assets are subsequently treated in a similar way to other assets such as property, plant and equipment or intangible assets dependent on the nature of the underlying item.

The Group has various rental agreements in place. In accordance with the above, right-of-use assets and lease obligations (liabilities) associated to these rentals would be recognised in the statement of financial position.

The Group currently recognises the rental expense of the properties on a straight-line basis over the lease term. Upon the adoption of IFRS 16, the Group's operating lease charge in profit and loss will be replaced by a depreciation charge in respect of the corresponding right-of-use assets, as well as an interest charge relating to the respective lease liabilities, which may in aggregate be different to the current operating lease charge.

On transition, the Group intends to adopt the full retrospective approach permitted by the standard, which requires restatement of the comparative period's financial information.

IFRS 9 Financial Instruments

The standard is effective for years commencing on or after 1 January 2018. The standard will be adopted by the Group for the financial reporting period commencing 1 July 2018. The Group has completed an initial assessment of the potential impact of the adoption of the IFRS 9 on its Consolidated Financial Statements.

IFRS 9 provides guidance on the classification, measurement and recognition of financial assets and financial liabilities and replaces IAS 39. The standard establishes three measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit and loss. Classification of financial assets into these categories is dependent on the entity's business model (which depicts its objectives with respect to the management of financial assets as a whole) and the characteristics of the contractual cash flows of the specific financial asset. There were no significant changes to the classification guidance for financial liabilities.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

1. Summary of accounting policies (continued)

IFRS 9 Financial Instruments (continued)

IFRS 9 introduces a new expected credit loss impairment model that replaces the incurred loss impairment model used in IAS 39. The Group will have to design impairment models incorporating new principles such as 12 months expected credit loss, life time expected credit loss, forward looking information and time value of money in order to comply with expected credit loss impairments under IFRS 9. The Group has identified the financial assets that will be affected by IFRS 9. An external consultant has been engaged to assist with the design and development of an impairment model that will be applicable to the Group.

Basis of consolidation

Subsidiaries

The Consolidated Annual Financial Statements incorporate the Annual Financial Statements of the Company and entities controlled by the Company. The Annual Financial Statements are available at the premises of the Company's offices, being 37 Conrad Road, Florida North, Roodepoort, 1709.

(a) Business combinations

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

1. Summary of accounting policies (continued)

Basis of consolidation (continued)

Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss and other comprehensive income of the investee after the date of acquisition. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

The Group's share of post-acquisition profit or loss is recognised in the statement of comprehensive income in the profit and loss section, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates' in the income statement.

Profits and losses and unrealised gains resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency translation

Functional and presentation currency

Items included in the Annual Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The Consolidated Annual Financial Statements are presented in South African Rand, which is the Company's functional and presentation currency. Non-controlling interest does not share in the foreign exchange profit/loss.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

1. Summary of accounting policies (continued)

Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).
- All resulting exchange differences are recognised in other comprehensive income and accumulated in equity as a foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

Tangible assets

Property and equipment

Property, office equipment, motor vehicles, furniture and fittings, computer equipment and building infrastructure are initially recorded at cost. Subsequently these are measured at cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset when they meet the recognition criteria of property, plant and equipment. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is charged on the straight-line basis over the estimated useful lives of the assets.

The estimated maximum useful lives are:

• Property and office equipment	5 to 20 years
• Motor vehicles	5 years
• Computer equipment	3 to 7 years
• Buildings	30 years
• Furniture and fittings	5 to 10 years

The residual values and useful lives of assets are reviewed on an annual basis and if appropriate are adjusted accordingly.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

Derecognition

The carrying amount of an item of plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal and the gain or loss arising from the derecognition of an item of plant and equipment is included in profit and loss when the item is derecognised.

Investment property

Initial recognition

Investment property is initially recognised at cost. Transaction costs is included in the initial measurement.

Subsequent measurement

An investment property is subsequently measured at fair value per IAS 40 and gains or losses from the fair value adjustments are recognised in profit or loss. The valuation is prepared by an independent valuer.

1. Summary of accounting policies (continued)

Investment property (continued)

Derecognition

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses from derecognition of an investment property are determined as the net disposal proceeds less the carrying amount and are recognised in profit or loss.

Intangible assets and goodwill

Intangible assets are initially recorded at cost less accumulated amortisation and impairment.

Amortisation is charged on the straight-line basis over the estimated useful lives of the assets.

The estimated maximum useful lives are:

- | | |
|--|--------------------|
| • Contractual customer relationships | 5 to 10 years |
| • Trademarks, brands and intellectual property | 10 years |
| • Internally generated computer software development costs | Less than 15 years |
| • Computer software acquired | 4 to 5 years |
| • Goodwill | Indefinite |

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of associates is included in the carrying amount of investments in associates and is tested for impairment as part of the overall balance. Goodwill on acquisitions of subsidiaries is included in intangible assets.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Cash Generating Unit ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Contractual customer relationships

Acquired contractual customer relationships from business combinations are recognised at fair value at acquisition date. As contractual customer relationships have a finite useful life, they are subsequently carried at cost less accumulated amortisation and impairment losses.

Trademarks, brands and intellectual property

Trademarks, brands and intellectual property have a finite useful lives and are initially measured at fair value and subsequently amortised over its useful lives.

Internally generated computer software development costs

Costs associated with maintaining computer software programmes are generally expensed as incurred.

Development costs that are clearly associated with an identifiable and unique product, which will be controlled by the Group and have a profitable benefit exceeding the cost beyond one year, are recognised as intangible assets.

The following criteria are required to be met before the related expenses can be capitalised as an intangible asset.

- It is technically feasible to complete the software so that it will be available for use
- Management intends to complete the software and use or sell it
- There is an ability to use or sell the software
- It can be demonstrated how the software will generate probable future economic benefits
- Adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- The expenditure attributable to the software during its development can be reliably measured

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

1. Summary of accounting policies (continued)

Intangible assets and goodwill (continued)

Internally generated computer software development costs (continued)

Research and development expenditure that does not meet the criteria above are recognised as an expense as incurred. Development costs previously expensed are not recognised as an asset in a subsequent period. Expenditure that enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software.

Computer software acquired

Acquired computer software licences are capitalised on the basis of the cost incurred to acquire and bring to use the specific software.

Directly attributable costs associated with the acquisition and installation of software are capitalised.

Impairment of assets

Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Operating leases

The Group is the lessee

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Rentals payable under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the relevant lease.

Financial instruments

Initial recognition and measurement

Financial instruments include all financial assets and liabilities, typically held for liquidity, investment or trading purposes. All financial instruments are initially recognised at fair value plus directly attributable transaction costs, except those carried at fair value through profit or loss where transaction costs are recognised immediately in profit or loss. Financial instruments are recognised on the date the Group becomes party to a contract that gives rise thereto. At initial recognition, management determines the appropriate classification of financial instruments, as follows:

- Financial instruments at fair value through profit and loss ("FVPL") comprise financial instruments held for short-term profit-taking.
- Loans and receivables originated by the entity are non-derivative financial assets that are created by the Group by providing money, goods or services directly to a debtor other than those that are originated with the intention to sell in the short term.
- Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.
- Financial instruments at amortised cost are instruments that are neither held for trading nor designated at fair value.

1. Summary of accounting policies (continued)

Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classifications below.

- **Financial assets and liabilities designated at fair value through profit or loss**

Subsequent to initial recognition, the fair values are remeasured at each reporting date, with arising gains and losses reported in profit or loss in the fair value gains/(losses) for the period.

- **Available-for-sale**

Available-for-sale financial assets are subsequently measured at fair value. Unrealised gains or losses are recognised directly in the revaluation reserve in other comprehensive income until the financial asset is derecognised or impaired. When the available-for-sale financial assets are disposed of, the cumulative fair value adjustments in the revaluation reserve in other comprehensive income are reclassified to profit or loss in the fair value gains/(losses) for the period.

Interest income/(expense), calculated using the effective interest method is recognised in profit or loss. Dividends received on debt or equity instruments are recognised in profit or loss in finance income when the Group's right to receive the payment has been established.

- **Loans and receivables**

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Origination transaction costs and origination fees received that are integral to the effective rate are capitalised to the value of the loans and amortised through interest income as part of the effective interest rate.

- **Financial assets and liabilities at amortised cost**

Financial liabilities that are neither held for trading nor designated at fair value are measured at amortised cost using the effective interest method. Interest expense, calculated using the effective interest method is recognised in profit or loss in the finance costs.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Trade and other receivables

Trade and other receivables comprise loans and receivables. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the assets carrying amount and the present amount of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'bad debt write-off'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to 'bad debts recovered'.

Impairment of assets held at amortised cost

A provision for impairment of debt securities held at amortised cost is established when there is objective evidence that the Group will not be able to collect all amounts due according to their original terms.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

1. Summary of accounting policies (continued)

Subsequent measurement (continued)

Impairment of assets held at amortised cost (continued)

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

- (i) Significant financial difficulty of the issuer or debtor
- (ii) A breach of contract, such as a default or delinquency in payments
- (iii) It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation
- (iv) The disappearance of an active market for that financial asset because of financial difficulties
- (v) Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:
 - adverse changes in the payment status of issuers or debtors in the Group; or
 - national or local economic conditions that correlate with defaults on the assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. If an investment held at amortised cost or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

Prepayments and deposits

Prepayments and deposits are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment if they relate to financial assets. The prepayments and deposits which relate to the receipt of goods or services are initially and subsequently measured at cost.

Cash and cash equivalents

Cash and cash equivalents are carried at amortised cost. For the purpose of the statement of cash flows, cash includes cash on hand, demand deposits and other short-term highly liquid investments with original maturities of three months or less, that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Trade and other payables

Trade and other payables comprise of payables classified as financial liabilities. Payables classified as financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Contingent liabilities

Contingent liabilities have been recognised as part of business combinations detailed in note 4. Contingent liabilities are liabilities for which a reliable estimate can be made, yet the probability of an outflow of economic benefits is remote.

1. Summary of accounting policies (continued)

Subsequent measurement (continued)

Contingent liabilities (continued)

The fair values of contingent liabilities recognised as part of the business combinations have been determined by management as the amounts that a third party would charge to assume the contingent liabilities. These amounts reflect all expectations about possible cash flows and not the single most likely or the expected maximum or minimum cash flow.

After their initial recognition, the Group measures contingent liabilities that are recognised separately due to a business combination at the higher of:

- (i) the amount that would be recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense in the statement of comprehensive income as finance costs.

Employee costs

Pension and provident fund obligations

The Group operates a number of defined contribution plans, the assets of which are held in separate trustee-administered funds. The pension and provident plans are funded by payments from employees and by the Group, taking account of the recommendations of independent qualified actuaries. The funds are administered in terms of the Pension Funds Act and periodic actuarial valuations are performed.

The Group's contributions to the defined contribution pension and provident plans are charged to the statement of comprehensive income in the year to which they relate. The Group has no further payment obligations once the contributions have been paid.

Post-employment medical obligations

Some of the retired employees are provided with post-employment healthcare benefits. No further post-employment healthcare benefits will be granted. These obligations are valued annually by independent qualified actuaries using the projected unit credit method. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Interest costs are charged to the statement of comprehensive income as finance costs.

Annual leave

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date. This provision is recognised in the statement of financial position under 'Employment benefit liability'.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

1. Summary of accounting policies (continued)

Employee costs (continued)

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either:

- terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or
- providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Benefits falling due more than twelve months after statement of financial position date are discounted to present value.

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided, to the 'Employee benefit costs' in the statement of comprehensive income.

The Group recognises a liability and an expense for bonuses based on a formula where there is a contractual obligation or a past practice that created a constructive obligation. The Group has an incentive scheme (refer to note 20). The expense is recognised as 'Employee benefit costs' in the statement of comprehensive income. Factors that are taken into account when determining the incentive bonus amount include key performance indicators and performance of both the individual and the Company.

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less accumulated impairment in the Separate Annual Financial Statements of the Company.

Income and expense recognition

Revenue comprises the fair value of the consideration received or receivable for services provided in the ordinary course of business.

The Group recognises revenue when the amount can be measured reliably, and it is probable that the future economic benefits will flow to the entity.

All revenue excludes Value Added Tax ("VAT"). All expenditure on which input VAT can be claimed, excludes VAT.

Revenue is derived substantially from administration of healthcare benefits services provided to various organisation within and outside South Africa and comprises administration fees, health risk management fees, management fees, IT and other revenue. Gross fees for the administration of medical schemes, and the provision of managed care services, are recognised as revenue on the accrual basis as the services are provided. Administration fees are accounted for as revenue in the statement of comprehensive income.

Revenue from sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1. Summary of accounting policies (continued)

Income and expense recognition (continued)

Revenue from sale of goods (continued)

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Finance income

Interest income is recognised on a time-proportion basis using the effective interest method. Interest income on impaired loans should continue to be recognised on a time proportion basis using the effective interest method on the impaired balance.

Dividend income

Dividend income is recognised when the right to receive payment is established (date of declaration).

Other expenditure

All other expenditure is recognised as and when incurred.

Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Inventories

Inventories include assets held for sale in the ordinary course of business such as pharmaceutical products as well as highly specialised high-value medical equipment.

Inventories are measured at the lower of cost and net realisable value on the first-in, first-out basis.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Taxation

Direct taxation

Direct taxation includes all domestic and foreign taxes based on taxable profits and capital gains tax. Current tax is determined for current period transactions and events and deferred tax is determined for future tax consequences. Current and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity.

The current income tax charge is calculated on the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

The Group offsets current tax assets and current tax liabilities when it has a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

1. Summary of accounting policies (continued)

Taxation (continued)

Direct taxation (continued)

Deferred tax is recognised in full, using the balance sheet liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the Annual Financial Statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. However, deferred tax is not recognised if:

- initial recognition of goodwill;
- initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses; and
- investments in subsidiaries and associates where the Group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Dividends tax

Taxes on dividends declared by the Group are recognised as part of the dividends paid within equity as dividends tax represents a tax on the shareholder and not the Group, at the rate of 20% (15% prior 22 February 2017). Tax on dividends in specie will remain the liability of the Company declaring the dividend.

South African resident companies are exempt from the new dividends tax. Upon declaring a dividend (excluding dividends in specie), the Group withholds the dividends tax on payment and, where the dividend is paid through a regulated intermediary, liability for withholding dividends tax shifts to the intermediary. Dividend tax does not need to be withheld if a written declaration is obtained from the shareholder stating that they are either entitled to an exemption or to double tax relief.

Dividends tax withheld by the Group on dividends paid to its shareholders and payable at the reporting date to the South African Revenue Service ("SARS") is included in 'Trade and other payables' in the statement of financial position.

Dividends

Dividends are recorded in the Group's Annual Financial Statements in the period in which they are approved by the Group's shareholders.

Share capital

Ordinary shares

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

When the Group re-acquires its own equity instruments, those instruments ('treasury shares') shall be deducted from equity. In the event that the shares are cancelled upon reacquisition, share capital and share premium are respectively reduced with the original issue price of the shares re-acquired. Any difference between the original issue price and the reacquisition price is recognised as an increase or decrease in the retained earnings. Where such treasury shares are acquired and held other members of the consolidated Group the consideration paid or received is recognised directly in equity as a treasury share reserve.

1. Summary of accounting policies (continued)

Share-based payments

The Group issues equity-settled share-based awards to certain employees, which are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Vesting assumptions are reviewed at each reporting period to ensure that they reflect current expectations. The Group treats the share-based payment reserves in the same manner at Company and Group level. At Company level, the reserves are accounted for at the same value as the Group due to the fact that ACT Company is responsible for issuing the shares to the subsidiary participants. The share-based payment expense is accounted for individually in each impacted subsidiary where the participants are employed. The Group IFRS 2 share-based payment expense is recharged to the respective subsidiary which employs participants who qualify for participation in the scheme.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Chief Financial Officer, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Operating Decision-Maker as the person that makes strategic decisions.

Conditional put obligation

The conditional put obligation and reserve is measured at the present value of the full redemption value without taking probabilities into account in terms of IAS 32. It is the policy of the Group to recognise finance costs related to the conditional financial obligation through the statement of comprehensive income.

Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Group considers all of its investments in funds ('collective investment schemes') to be investments in unconsolidated structured entities. The Group invests in collective investment schemes whose objectives range from achieving medium- to long-term capital growth. The collective investment schemes are managed by asset managers and apply various investment strategies to accomplish their respective investment objectives. The collective investment schemes finance their operations by issuing units of the collective investment schemes which are puttable at the holder's option and entitle the holder to a proportional stake in the respective fund's net assets. The Group holds units in each of the collective investment schemes.

The change in fair value of each collective investment scheme is included in the statement of comprehensive income in 'Fair value gains'.