



AfroCentric
GROUP

GROUP ANNUAL FINANCIAL STATEMENTS

2018

*Continuing to consolidate
and integrate the healthcare
value chain*



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Preparation of the Annual Financial Statements

The Group Annual Financial Statements of AfroCentric Investment Corporation Limited ("AfroCentric") for the year ended 30 June 2018 were prepared by Bongiwe Ncube CA(SA), General Manager: Group Finance, AfroCentric Investment Corporation Limited and were reviewed by Hannes Boonzaaier CA(SA), Chief Financial Officer of AfroCentric Investment Corporation Limited.

COMPANY INFORMATION

Registration number

1988/000570/06

Registered address:

37 Conrad Road
Florida North
Roodepoort
1709

Postal address

Private Bag X34
Benmore
2010

Auditor

PricewaterhouseCoopers Inc.
Johannesburg

Company secretary

Billy Mokale

DIRECTORS RESPONSIBILITY STATEMENT

FOR THE YEAR ENDED 30 JUNE 2018

The Directors are responsible for the preparation, integrity and fair presentation of the Annual Financial Statements of the Group as presented on pages 20 to 85. These Annual Financial Statements have been prepared in accordance with IFRS, the Companies Act and the JSE Limited Listings Requirements; and include amounts based on judgements and estimates made by management.

The Directors are also responsible for the Group's system of internal financial controls. These controls are designed to provide reasonable, but not absolute, assurance as to the reliability of the Annual Financial Statements, and to adequately safeguard, verify and maintain accountability of the assets and to prevent and detect misstatement and loss.

Based on results of the reviews of the internal financial controls conducted by the Internal Audit function during the 2018 financial year and considering the information and explanations provided by management and discussions with the external auditor on the results of the audit, and assessed by the Audit Committee, nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of the overall system of controls has occurred during the period under review.

The going concern basis has been adopted in preparing the Annual Financial Statements. The Directors have no reason to believe that the Group will not be a going concern in the foreseeable future based on review of forecasts and budgets and available cash resources. The Annual Financial Statements support the viability of the Company and the Group. Furthermore, the Group has adequate cash resources which are in excess of the Group's funding requirements for the foreseeable future.

The Financial Statements have been audited by PricewaterhouseCoopers Inc. ("PwC") which is an independent auditing firm, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the shareholders, the Board of Directors and Committees of the Board. The Directors believe that all representations made to the auditor during the audit were valid and appropriate.

The audit opinion of PricewaterhouseCoopers Inc. appears on pages 13 to 19.

The Board acknowledges its responsibility to ensure the integrity of the Annual Financial Statements. The Directors confirm that they have collectively reviewed the content of this report and believe it addresses material issues and is a fair presentation of the performance of the Group.

The Annual Financial Statements have been approved by the Board of Directors and signed on 12 September 2018.



Dr Anna Mokgokong
Chairperson



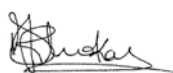
Hannes Boonzaaier
Group Chief Financial Officer



Antoine van Buuren
Group Chief Executive Officer

DECLARATION BY COMPANY SECRETARY

In terms of section 88(2) (e) of the Companies Act No 71 of 2008, I declare that to the best of my knowledge and belief, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act of South Africa No 71 of 2008 and that all such returns are true, correct and up to date.



Billy Mokale
Group Company Secretary
12 September 2018

AUDIT AND RISK COMMITTEE REPORT

FOR THE YEAR ENDED 30 JUNE 2018

Audit and Risk Committee Report in terms of section 94(7)(F) of the Companies Act No 71 of 2008

The AfroCentric Investment Corporation Limited Audit and Risk Committee (herein referred to as “the Committee”) is constituted in terms of section 94(7)(f) of the Companies Act. The Committee has documented approved terms of reference under which it operates and executes its oversight responsibilities. This report is presented to shareholders in compliance with the requirements of the Companies Act 71 of 2008, as amended, The JSE Listings Requirements and the King IV Code of Governance.

Composition

The Committee consists of three suitably qualified Independent Non-executive Directors. The following Independent Non-executive Directors served on the Committee during the financial year under review:

- Lindani Lorna Dhlamini
- Hlokammoni Grathel Motau
- Sello Ernest Mmakau

Meetings and duties

The Audit and Risk Committee held 5 meetings during the year under review. The Executive Directors, external auditors, internal auditors and senior management have a standing invitation to attend meetings of the Committee. At these meetings, the Committee received and considered reports from External Audit, Internal Audit, Group Finance and the Group Legal, Governance, Risk and Compliance departments.

At each Annual General Meeting, the Board of Directors shall present the shareholders with at least three suitable candidates from amongst the Independent Non-executive Directors, on recommendations by the Nominations Committee, for election as Committee members. The Board of Directors shall have the power at all times to appoint, remove and replace any member from the Committee.

Roles and responsibilities of the Committee

The Committee has the following specific responsibilities:

Integrated reporting

The Committee oversees integrated reporting, and in particular the committee must:

- have regard to all factors and risks that may impact on the integrity of the integrated report;
- ensure that appropriate financial reporting procedures exist and are working;
- review the Annual Financial Statements, interim reports, preliminary or provisional result announcements, summarised integrated information, any other intended release of price-sensitive information and trading statements;
- comment in the Annual Financial Statements on the financial statements, the accounting practices and the effectiveness of the internal financial controls of the Company;
- consider the frequency for issuing interim results and whether the external auditors should perform assurance procedures on the interim results;
- review the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information;
- confirmation of responsibilities pursuant to paragraph 22.15(h) from the auditors;
- recommend to the Board the engagement of an external assurance provider on material sustainability issues; and
- recommend the integrated report for approval by the Board.

Combined assurance

The committee ensures that a combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular the committee should:

- ensure that the combined assurance received is appropriate to address all the significant risks facing the Company via suitable mitigating controls;
- provide an effective counterbalance to executive management, thereby upholding the independence of internal and external assurance providers, to enhance effectiveness; and
- monitor the relationship between the external assurance providers and the Company.

Finance Director and Finance function

The Committee:

- reviews the expertise, resources and experience of the Company's Finance function, and disclose the results of the review in the integrated report; and
- considers and satisfies itself as to the suitability of the expertise and experience of the Chief Financial Officer every year and confirms this in the integrated report.

External Audit

The Committee is responsible for recommending the appointment of the external auditor and to oversee the external audit process and in this regard:

- nominates the external auditor who in the opinion of the Committee is independent of the Company, for the appointment by the shareholders;
- approves the terms of engagement and remuneration for external audit engagement;
- monitors and reports on the independent of the external auditor in the Annual Final Statements;
- ensures that the appointment of the auditor complies with the provision of the Companies act, paragraph 22.15 of the JSE's Listings Requirements and any other legislation relating to the appointment of the auditors;
- defines a policy for non-audit services;
- ensures that there is a process for the Committee to be informed of any issues identified and reported by the external auditor; and
- reviews the quality and effectiveness of the external audit process.

PricewaterhouseCoopers Inc. was appointed as external auditors of the Company and the Group. The Committee has satisfied itself that the external auditors are independent of the Group, as set out in the Companies Act, which includes a consideration of conflicts of interests as prescribed by the Public Audit Act No 25 of 2004 ("PAA").

Internal Audit

The Committee is responsible for overseeing the Internal Audit function, and in particular the Committee;

- is responsible for the appointment, performance assessment and/or dismissal of the chief audit executive;
- annually reviews and approves the internal audit plan and charter;
- annually reviews and confirms the independence of the Internal Audit function; and
- ensures that the Internal Audit function is subject to an independent quality review, as and when the committee determines it appropriate.

Risk management

The Committee is an integral component of the risk management process and specifically the committee must oversee financial reporting risks; internal financial controls; fraud risks as it relates to financial reporting; and IT risks as it relates to financial reporting. The Committee performed all the functions necessary to fulfil its risk management role and including the following:

- ensuring the establishment of an independent Risk function at a Group level;
- overseeing the development and annual review of a policy and plan risk management to recommend for approval to the Board;
- monitoring implementation of the policy and plan for risk management taking place by means of risk management systems and processes;
- making recommendations to the Board concerning the levels of tolerance and appetite and monitoring that risks that are managed within the levels of tolerance and appetite as approved by the Board;
- ensures that risk management assessments are performed on a continuous basis and at least once a year;
- ensures that management considers and implements appropriate risk responses;
- ensures that continuous risk monitoring by management takes place;
- expresses the Committee's formal opinion to the Board on the effectiveness of the system and process of risk management; and
- reviews reporting concerning risk management that is to be included in the integrated report for it being timely, comprehensive and relevant.

AUDIT AND RISK COMMITTEE REPORT (continued)

Financial reporting and financial control

The Committee has:

- evaluated the adequacy and effectiveness of the accounting policies adopted by the Company in terms of IFRS, JSE Listings Requirements and other legal requirements;
- considered the adequacy and clarity of disclosures in the financial statements;
- reviewed the basis on which the Company has been determined a going concern and make a recommendation to the Board; and
- reviewed the effectiveness of financial management and the quality of internal accounting control systems and reports produced by financial management;
- reviewed the impact of new financial systems, tax and litigation matters on financial reporting.

Effectiveness of internal controls

After consideration of all of the findings reported by Internal Audit covering those areas included in their annual work plan, explanations given by management and discussions with the external auditor on the results of the audit, the Committee concluded that there had been no material breakdown in the Company's overall controls system and the internal financial controls form a reasonable basis for the preparation of reliable annual financial statements. The Committee is satisfied that the Group Annual Financial Statements are based on appropriate accounting policies, supported by reasonable and prudent judgement and estimates.

Group Annual Financial Statements

The Committee is satisfied that the Group Annual Financial Statements are based on appropriate accounting policies supported by reasonable and prudent judgements and estimates. The Committee is of the view that, in all material respects, it complies with the relevant provisions of the Companies Act, JSE Listings Requirements and IFRS and fairly presents the financial position and the results of its operations and cash flows for the year ended 30 June 2018. Having achieved its objective for the financial year, the Audit and Risk Committee recommended the audited Annual Financial Statements for the year ended 30 June 2018 for approval to the Board.

Independence of external auditors

The Committee appraised the independence, quality and effectiveness of the external audit function. Part of this process was to obtain confirmation from the external auditors that the firm, partner and staff responsible for the audit comply with all legal and professional requirements in regard to independence. The Committee also approved the fees paid to the external auditors. The committee pre-approved all audit and permissible non-audit services that PwC provides. Fees paid to the external auditor for the year were considered reasonable when compared to non-audit services and assessed that PwC was independent.

The Committee confirmed its satisfaction with the independence and level of service rendered by the external auditor, PwC, for the 2018 financial year.

Key audit matters

The Committee has considered the key audit matters, firstly goodwill impairment assessment and secondly capitalisation and impairment assessment on internally generated software, noted in the independent auditor's report and is satisfied that this has been adequately addressed by the external auditors

Responsibility statement

The Audit and Risk Committee acknowledges its responsibility on behalf of the Board of Directors to ensure the integrity of these Annual Financial Statements. The Committee has accordingly applied its mind to the report and believes that it appropriately and sufficiently addresses all material issues, and fairly presents the performance of AfroCentric and its subsidiaries and associates for the financial year. The Audit Committee recommends these Annual Financial Statements to the Board of Directors for approval.



Lindani L Dhlamini

Chairperson of the Audit & Risk Committee

12 September 2018

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

The AfroCentric Board of Directors have pleasure in presenting their report on the activities of AfroCentric Investment Corporation Limited for the year ended 30 June 2018, and can confirm that we continue to create value through our diversified portfolio of services and offerings to all of our stakeholders.

Nature of business

AfroCentric is a black-owned, diversified investment company within the healthcare sector with its head office in Johannesburg, South Africa. We also have operations across a number of selected African markets, which remain invaluable avenues in increasing our brand proposition.

Our transformed and integrated service offerings enable us to optimise the healthcare value chain in empowering access to sustainable quality healthcare while at the same time we continue to create shared value for our key stakeholders.

As part of our diversification strategy, we will continue building on our partnership with Sanlam. The association enables us to package an enhanced product range that offers benefits, rewards and incentives to schemes members.

AfroCentric shared value

AfroCentric contributes to South Africa's sustainable health and welfare by investing in healthcare-related businesses that grow its portfolio and diversify its revenue sources. The Group's operating subsidiaries provide a range of complementary services to its traditional medical scheme clients and a portfolio of healthcare-related enterprises.

We are gradually winning over investors through the success of our integrated business optimisation strategy; our choice of acquisitions; our clientele retention; our value-add services to our existing clients; and the skill force that executes our strategy.

Developments

AfroCentric's courier pharmacy business, Pharmacy Direct, is one of three firms that recently won contracts to supply chronic medicines to collection points at schools, churches and retail pharmacies. AfroCentric has invested R100 million in refurbishing a warehouse to distribute medicines to state patients with chronic conditions – a strategy we hope will cement ties with the government as it implements National Health Insurance. The distribution will create 5 000 jobs as Pharmacy Direct delivers between 700 000 and 800 000 patient packs as per number of scripts per month.

AfroCentric's biggest subsidiary, Medscheme Holdings Proprietary Limited was awarded a licence to establish a health administration and insurance business in Swaziland, Medscheme Health Insurance Swaziland.

Acquisitions

The Group acquired the following new subsidiaries during the year:

- With effect from 1 July 2017, 100% shareholding in Wellness Odyssey (a wellness company providing wellness days, health awareness and clinical guidance to medical schemes, including the broader corporate market)
- With effect from 1 August 2017, 80% shareholding in Scriptpharm Risk Management Proprietary Limited (a business that manages chronic script claims)
- With effect from 19 September 2017, 70% shareholding in Mmed Distribution Proprietary Limited (a specialist wholesaler and distributor of pharmaceutical, surgical and medical products and devices)
- With effect from 1 March 2018, 51% shareholding in Essential Group (a health insurance provider)

Although these acquisitions have not significantly contributed to AfroCentric's performance, we are optimistic that they have a potential to our value optimisation strategy going forward.

Financial review

Group consolidated revenue increased by 11.31% to R4.212 billion.

Group headline earnings increased by 110.7% to R260.9 million compared to R123.8 million in the prior year.

During the 2017 financial year a non-IFRS earnings measure model was adopted given the material non-cash, non-trading and non-recurring deductions which have a significant adverse impact on the earnings. The Group normalised headline earnings are R264.1 million compared to R244.1 million in the prior year. This represents an increase of 8.2%.

Directors' report (continued)

Going concern

The Group Annual Financial Statements have been prepared on the going concern basis. The Board of Directors having performed a review of the Group's ability to continue as a going concern in the foreseeable future and therefore, based on this review, consider the preparation of the Annual Financial Statements on this basis to be appropriate.

Dividends

The Company declared an interim dividend of 16 cents per ordinary share as at 15 March 2018. The Company further declared a final dividend of 16 cents per ordinary share for the year ended 30 June 2018. This was declared on 12 September 2018. These dividends are subject to the dividends withholding tax in terms of the Income Tax Act No. 58 of 1962, as amended, for which shareholders are liable. The solvency and liquidity requirements were satisfied at passing of the resolution in accordance with section 46 of the Companies Act.

In accordance with the JSE Limited Listings Requirements, the following additional information is disclosed:

- the dividends have been declared out of profits available for distribution;
- the local dividends withholding tax rate is 20%;
- the gross dividend amount for both declarations in 2018 is 32 cents per ordinary share (16 cents in interim and 16 cents in final);
- for purposes of the final distribution 554 377 328 ordinary shares will be deemed to be in issue on the dividend record date;
- the Company has 554 377 328 ordinary shares in issue on declaration date; and
- the Company's income tax reference number is 9600/148/71/3.

Share capital

The Company's share capital remained at 554 377 328 ordinary shares in the financial year under review. The details of the Company's share capital are set out in note 13 of these Annual Financial Statements.

As per the Companies Act No 71 of 2008, section 38, the Board of Directors may resolve to issue shares of the Company at any time, but only within the classes, and to the extent, that the shares have been authorised by or in terms of the Company's Memorandum of Incorporation.

Share repurchases

During the year, no share repurchases were made by the Company. AfroCentric Health Proprietary Limited holds 1 999 999 treasury shares.

Audit and Risk Committee

The information relating to the Audit and Risk Committees is set out on pages 2 to 4.

Directors

The table below illustrates the Directors of AfroCentric for the year ended 30 June 2018.

Director	Date of appointment	Designation
ATM Mokgokong (Chairperson)	10 June 2010	Non-executive
MJ Madungandaba	10 June 2010	Non-executive
ND Munisi	7 December 2015	Non-executive
A Banderker	15 December 2015	Non-executive
IM Kirk	15 December 2015	Non-executive
JM Kahn	20 December 2005	Lead Independent Non-executive
SE Mmakau	30 November 2016	Independent Non-executive
MI Sacks	20 December 2005	Independent Non-executive
LL Dhlamini	2 December 2015	Independent Non-executive
HG Motau	15 May 2017	Independent Non-executive
AV Van Buuren	16 March 2016	Executive, salaried
JW Boonzaaier	1 August 2015	Executive, salaried
WH Britz	1 August 2015	Executive, salaried

Directors' ordinary shareholdings as at 30 June 2018

Director	Direct beneficial	Indirect beneficial	Held by associate	Total	%
ATM Mokgokong (Chairperson)	1 707 926	42 172 403	9 326 441	53 206 770	9.60
MJ Madungandaba	–	97 818 886	21 761 697	119 580 583	21.57
JM Kahn	18 535 608	–	–	18 535 608	3.34
MI Sacks	17 579 938	–	–	17 579 938	3.17
AV Van Buuren	–	30 664 002	–	30 664 002	5.53
JW Boonzaaier	30 000	–	–	30 000	–
WH Britz	–	30 664 002	–	30 664 002	5.53
	37 853 472	201 319 293	31 088 138	270 260 903	48.74

Directors' ordinary shareholdings as at 30 June 2017

Director	Direct beneficial	Indirect beneficial	Held by associate	Total	%
ATM Mokgokong (Chairperson)	1 707 926	42 146 880	7 292 133	51 146 939	9.22
MJ Madungandaba	–	97 868 886	17 014 979	114 883 865	20.72
JM Kahn	18 535 608	–	–	18 535 608	3.34
MI Sacks	17 579 938	–	–	17 579 938	3.17
AV Van Buuren	–	29 874 896	–	29 874 896	5.39
JW Boonzaaier	2 500	–	–	2 500	–
WH Britz	–	29 874 896	–	29 874 896	5.39
NB Bam	–	–	–	–	–
(Resigned 1 November 2016)	150 000	–	–	150 000	0.03
JG Appelgryn	–	–	–	–	–
(Resigned 1 November 2016)	1 447	–	–	1 447	–
	37 977 419	199 765 558	24 307 112	262 050 089	47.26

Since the end of the financial year and up to the date of this report, the interests of Directors have remained unchanged.

A further detailed analysis of shareholders including majority shareholding is available on pages 11 to 12.

During the year under review, no material contracts in which Directors have an interest were entered into which significantly impacted the business of the Company.

Directors' report (continued)

Directors' remuneration

Remuneration of Non-executive Directors and Board Committee members

Non-executive Directors received the following total remuneration in the year under review:

Director	Fees R'000
ATM Mokgokong (Chairperson)	1 060*
MJ Madungandaba	1 024*
ND Munisi	291*
A Banderker	584*
IM Kirk	216*
JM Kahn	#
SE Mmakau	433*
MI Sacks	#
LL Dhlamini	427*
HG Motau	298*

* The Directors' remuneration highlighted above reflects their total directors' fees received across various subsidiaries within the Group.

Messrs Kahn and Sacks waived their rights to receive any Directors' fees.

Remuneration of Executive and Non-executive Directors

Details of the remuneration are set out fully in note 20 of the Group Annual Financial Statements.

Remuneration of the four highest paid employees as at 30 June 2018 who are not directors of AfroCentric Investment Corporation

Employee	Annual cost to company and incentives R
V Pillay	4 833 614
ABS Pederson	4 733 443
AC Edward	4 639 096
AA Mahmood	4 142 432

Material resolutions

In terms of the JSE Limited Listings Requirements the Company noted the material resolutions passed at the prior Annual General Meeting and during the financial year under review:

- General approval to repurchase shares
- Inter-Company loans and other financial assistance
- Fees payable to Non-executive Directors
- Group Annual Financial Statements for the financial year ended 30 June 2017
- Audit report for the year ended 30 June 2017
- Re-appointment of independent registered auditors
- Election and re-election of Directors
- Appointment of members to the Audit and Risk Committee
- Approval to issue ordinary shares and to sell treasury shares, for cash
- Endorsement of the remuneration policy
- Authority of Directors

Details of these resolutions can be obtained via the Company's website or on request.

Material commitments, lease payments

No material capital commitments or lease payments have been contracted for or approved by the Board of Directors in the current financial year.

Litigation statement

In terms of the JSE Listings Requirements, the Directors note that they are not aware of any legal or arbitration proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the Group's financial position, apart from the matters per note 28 of the Annual Financial Statements.

Borrowing powers

In terms of the Memorandum of Incorporation, the borrowing powers of the Company are unlimited.

Insurance

The Group protects itself and the Directors against crime and professional indemnity by maintaining a comprehensive insurance programme.

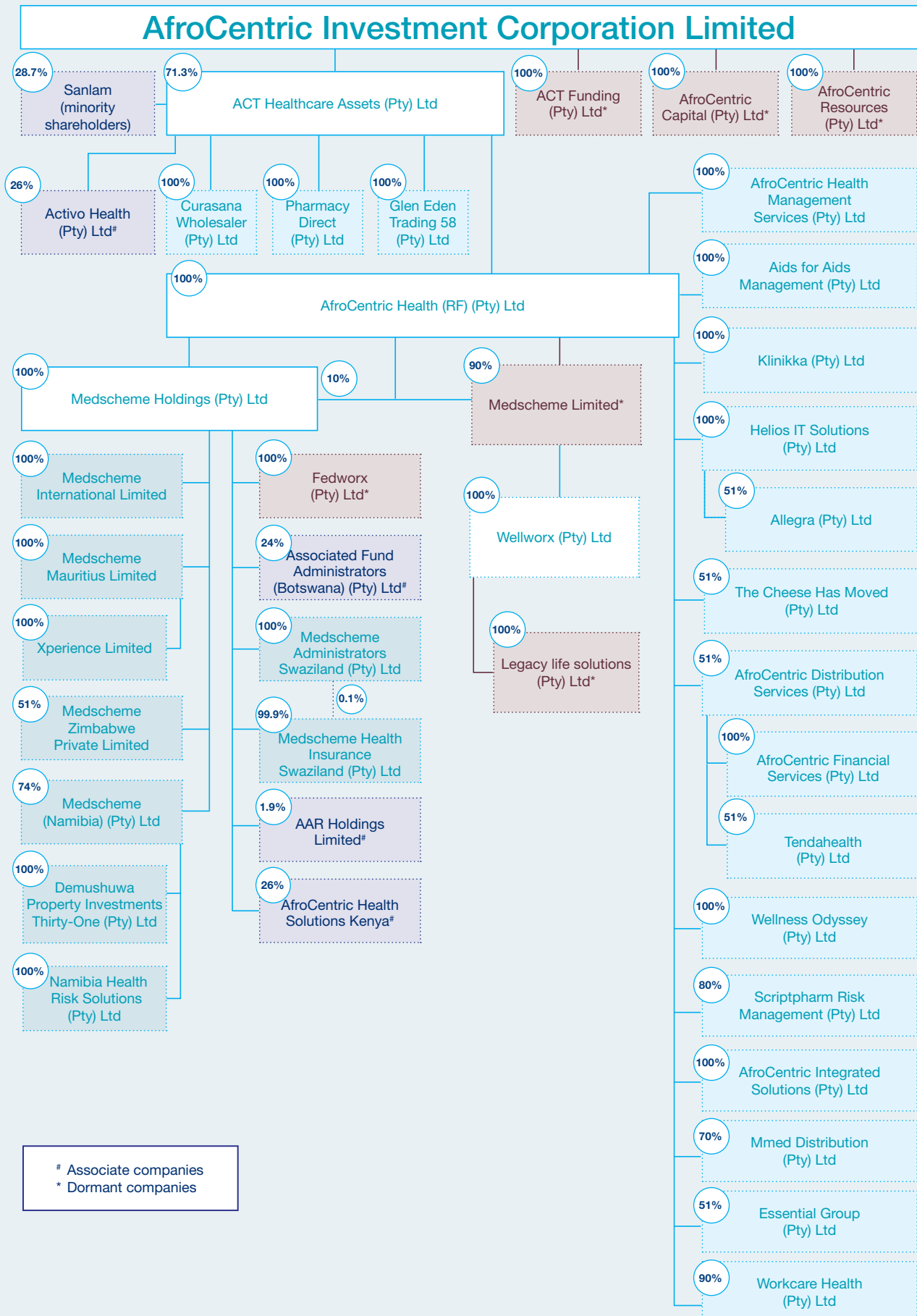
Compliance

No events or actions during the financial year have led to the Group being non-compliant with the required laws and regulations relevant to the individual business units.

Auditor

PricewaterhouseCoopers Inc. serves as auditors of the Company.

Directors' report (continued)



Associate companies
* Dormant companies

SHAREHOLDERS' ANALYSIS

FOR THE YEAR ENDED 30 JUNE 2018

ORDINARY SHAREHOLDERS

Shareholder spread	Number of shareholders	% of total shareholders	Number of shares	% of shares in issue
1 – 1 000 shares	947	22.53	338 442	0.06
1 001 – 10 000 Shares	1 927	45.84	9 500 434	1.71
10 001 – 100 000 shares	1 141	27.14	32 806 648	5.92
100 001 – 1 000 000 shares	156	3.71	48 294 463	8.71
Over 1 000 000 shares	33	0.78	463 437 341	83.60
Total	4 204	100.00	554 377 328	100.00

Distribution of shareholders	Number of shareholders	% of total shareholders	Number of shares	% of shares in issue
Individuals	3 793	90.22%	90 279 141	16.28
Nominees and trusts	178	4.23%	29 156 553	5.26
Other corporate bodies	129	3.07%	72 430 762	13.07
Treasury	3	0.07%	1 999 999	0.36
Private companies	80	1.90%	359 726 175	64.89
Close corporations	21	0.51%	784 698	0.14
Total	4 204	100	554 377 328	100

Public/non-public shareholder spread	Number of shareholders	Number of shares	% of shares in issue
2018			
Non-public shareholders	19	284 688 102	51.35
Directors and Associates	15	270 260 903	48.75
Treasury and Empowerment trusts	4	14 427 199	2.60
Public shareholders	4 185	269 689 226	48.65
Total	4 204	554 377 328	100.00

Public/non-public shareholder spread	Number of shareholders	Number of shares	% of shares in issue
2017			
Non-public shareholders	18	263 284 716	47.49
Directors	15	261 284 717	47.13
Treasury	3	1 999 999	0.36
Public shareholders	4 485	291 092 612	52.51
Total	4 503	554 377 328	100

Shareholders' analysis (continued)

Major shareholders holding more than 5% of the issued share capital	Number of shares	% of total shares
2018		
Community Healthcare Holdings Proprietary Limited	123 195 189	22.22
WAD Holdings Proprietary Limited	88 889 689	16.03
Golden Pond Trading 175 Proprietary Limited	69 084 752	12.46
ARC Health Proprietary Limited	48 765 030	8.79
Total	329 934 660	59.50

Major shareholders holding more than 5% of the issued share capital	Number of shares	% of total shares
2017		
Community Healthcare Holdings Proprietary Limited	123 195 189	22.22
WAD Holdings Proprietary Limited	88 889 689	16.03
Golden Pond Trading 175 Proprietary Limited	67 519 752	12.18
ARC Health Proprietary Limited	39 561 737	7.14
Total	319 166 367	57.57

Top 10 institutional shareholders	Number of shares	% of total shares
2018		
Visio Capital Management	35 815 736	6.46
Vele Asset Managers	8 534 435	1.54
Bateleur Capital	5 867 790	1.06
RBC Investor and Treasury Services	3 760 000	0.68
Sovereign Asset Management	3 009 955	0.54
Old Mutual Investment Group	2 650 376	0.48
Metal and Engineering Industries	2 367 346	0.43
Nedbank Private Wealth	1 546 900	0.28
STANLIB Asset Management	1 221 764	0.22
Mazi Capital	1 184 486	0.21
Total	65 958 788	11.90

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF AFROCENTRIC INVESTMENT CORPORATION LIMITED

FOR THE YEAR ENDED 30 JUNE 2018

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Afrocentric Investment Corporation Limited (the Company) and its subsidiaries (together the Group) as at 30 June 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Afrocentric Investment Corporation Limited's consolidated and separate financial statements set out on pages 20 to 85 comprise:

- the consolidated and separate statements of financial position as at 30 June 2018;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B).

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF AFROCENTRIC INVESTMENT CORPORATION LIMITED (continued)

Our Audit Approach

Overview



Overall group materiality

Overall group materiality: R27 million which represents 5% of adjusted consolidated profit before tax.

Group audit scope

Our Group audit scoping included full scope audits for thirty nine reporting units based on financial significance, audit risks and statutory audit requirements. Specified procedures were performed on one reporting component.

Key audit matters

- Impairment assessment of Goodwill
- Capitalisation of development costs relating to internally generated software and impairment assessment of internally generated software

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R27 million
How we determined it	5% of consolidated profit before tax adjusted for profit warranty expense and loss on guarantee.
Rationale for the materiality benchmark applied	<p>We chose consolidated profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.</p> <p>We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.</p> <p>The consolidated profit before tax has been adjusted by reversing the impact of the profit warranty expense and the loss on guarantee as these items are not reflective of the ongoing operations of the business.</p>

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group financial statements are a consolidation of forty reporting units operating across South Africa, Namibia, Swaziland, Zimbabwe and Mauritius, comprising the Group's operating businesses and centralised functions. Thirty nine reporting units were selected for full scope audits based on financial significance, audit risks and statutory audit requirements. Specified audit procedures on certain balances and transactions were performed for one reporting component.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team, and component auditors from other PwC network firms or other firms operating under our instruction.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We communicate the key audit matters that relate to the audit of the consolidated financial statements of the current period in the table below. We have determined that there are no key audit matters to communicate in our report with regard to the audit of the separate financial statements of the Company for the current period.

Key audit matter relevant to the consolidated annual financial statements	How our audit addressed the key audit matter
<p>Impairment assessment of Goodwill (Refer to Notes 2 and 7 to the financial statements)</p> <p>The Group's goodwill amounting to R 883 million (2017: R855 million) arises from a number of business acquisitions by the Group over the years and represents the excess of the cost of acquisitions over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries.</p> <p>As described in Note 7, management determined the recoverable amount of cash-generating units ("CGUs") using value in use. Management determined the value in use of the CGU by discounting their best estimate of future cash flows attributable to the CGU. The key assumptions used by management in the calculation of the value in use were:</p> <ul style="list-style-type: none"> • The weighted average cost of capital (WACC) which is the discount rate that takes into account the yield on government bonds and a market risk premium; • A risk adjustment factor; • forecast period; and • An average growth rate. 	<p>Our audit procedures focused on evaluating and challenging the key assumptions used by management in conducting the impairment assessment of goodwill. These procedures included, amongst others:</p> <ul style="list-style-type: none"> • Assessing whether the valuation model applied by management to determine the value in use per CGU was consistent with the requirements of IAS 36 Impairment of Assets (IAS 36). The valuation model applied by management was found to be consistent with IAS 36; • Analysing the future cash flows used by management in these calculations to determine whether they are reasonable and can be supported by past performance. We found management's future cash flows to be reasonable; • Understanding management's budgeting process, including the process of approval by the Board in determining the future cash flows; • Comparing the projected cash flows, including the assumptions relating to revenue growth rates against historical performance to test the reasonability of management's projections and we found management's projections to be reasonable.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF AFROCENTRIC INVESTMENT CORPORATION LIMITED (continued)

Key audit matter relevant to the consolidated annual financial statements	How our audit addressed the key audit matter
<p>We considered the impairment assessment of goodwill to be a matter of most significance to the current year audit due to the following:</p> <ul style="list-style-type: none"> • The magnitude of the goodwill balance in relation to total assets, 28% (2017: 28%); and • Management's calculation of the value in use of the CGUs involved significant judgment and critical assumptions about the future results of the business and the key assumptions described above. 	<p>Working with our valuations experts, we assessed the reasonability of key inputs used by management in the value-in-use calculations as follows:</p> <ul style="list-style-type: none"> • For the inputs used in the determination of the discount rate/ weighted average cost of capital ("WACC"): <ul style="list-style-type: none"> › the risk-free rate was agreed to the yields on government bonds. › market risk premium and beta were compared to those of similar listed entities. <p>We found the inputs used in the determination of WACC by management to be reasonable.</p> <ul style="list-style-type: none"> • Through discussions with management, we obtained an understanding of how risk adjustment factors are determined and compared these to industry valuation data. There were no material differences noted between risk adjustment factors used by management and the industry valuation data. • We assessed the reasonability of the forecast period, taking into account renewable revenue contracts and management's estimation of the time frame during which newly acquired CGU's will gradually improve cash flow generation. We found management's forecast period to be reasonable. • We compared the projected growth rates to historic growth rates based on signed agreements with clients for administration fees in order to assess the reasonability of the projected growth rates. We found the projected growth rates to be reasonable.
<p>Capitalisation of development costs relating to internally generated software and impairment assessment of internally generated software (Refer to Notes 2 and 7 to the financial statements)</p> <p>Included in the Group's intangible assets balance is capitalised internally generated software amounting to R476 million (2017: R309 million).</p> <p>During the current year, the Group capitalised development costs of R191 million relating to internally generated software on the basis that management considers these costs to be 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.</p> <p>In capitalising these development costs, management considered the criteria in IAS 38 Intangible Assets (IAS 38). Research and development expenditure that did not meet the above criteria was expensed in profit or loss as incurred.</p>	<p>Our audit procedures over the capitalisation of development costs relating to internally generated software included the following:</p> <ul style="list-style-type: none"> • We obtained an understanding of the methodology applied by management in the capitalisation of development costs relating to internally generated software; • We assessed the development costs capitalised during the year against the requirements of IAS 38 and determined whether these were in line with the Group's accounting policy for capitalisation of development costs relating to internally generated software. We found the development costs that were capitalised by management to be consistent with the requirements of IAS 38 and the Group's accounting policy; • By considering the nature of each activity performed by a software developer, we challenged management's rationale for the capitalisation of those development costs considered to be directly attributable to development of software such as expenditure relating to employees and consultants. We did not note any exceptions;

Key audit matter relevant to the consolidated annual financial statements	How our audit addressed the key audit matter
<p>The Group's policy is to perform an annual impairment assessment using a discounted cash flow forecast on all internally generated software regardless of whether an indication of impairment exists or not. Key assumptions applied by management in the cash flow forecast included the following:</p> <ul style="list-style-type: none"> • the estimated profits to be earned from the use of the assets and the period over which those profits are projected; • the weighted average cost of capital; and • risk adjustment factors used in deriving an appropriate discount rate applied to future estimated cash flows. <p>We considered the capitalisation of development costs relating to internally generated software and the impairment assessment of the internally generated software to be a matter of most significance to the audit due to the following:</p> <ul style="list-style-type: none"> • Magnitude of capitalised development costs during the current year; • Significant judgment that was applied by management in assessing whether direct costs such as employee expenses and overhead costs of the system development team met the recognition criteria in IAS 38 for the capitalisation as an asset; • Recoverability of these assets is based on forecasting and discounting future cash flows which involves a high degree of judgment by management. 	<ul style="list-style-type: none"> • Obtained an understanding of management's governance processes relating to the recording of time based expenditure for capitalised development costs and assessed whether the process was applied consistently; • For a sample of employees and consultant's cost capitalised, we assessed the reasonability of time spent on development and agreed these to management's model for capturing time spent on development. No material exceptions were noted; and • For a sample of employee costs capitalised, we performed a recalculation based on employee cost to company. For a sample of consultant fees capitalised, we vouched to invoices. No material exceptions were noted. <p>Our procedures over management's impairment assessment included the following:</p> <ul style="list-style-type: none"> • We assessed the reasonability of management's discounted cash flow forecast, with particular focus on management's estimate for future revenues to be earned from internally generated software and the forecast period over which these cash flows are projected. We found management's discounted cash flow forecast to be reasonable; • We compared the projected cash flows, including the assumptions relating to revenue growth rates against historical performance to test the reasonability of management's projections. We found management's projected cash flows to be reasonable; and • Working with our valuations experts, we assessed the reasonability of key inputs used in management's impairment assessment including the discount rate applied and we found the key inputs used by management to be reasonable.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Afrocentric Investment Corporation Limited Group Annual Financial Statements for the year ended 30 June 2018, which includes the Directors' Report, the Audit and Risk Committee Report and the Declaration by Company Secretary as required by the Companies Act of South Africa which we obtained prior to the date of this auditor's report, and other sections of the Afrocentric 2018 Integrated Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF AFROCENTRIC INVESTMENT CORPORATION LIMITED (continued)

Other information (continued)

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and

performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Afrocentric Investment Corporation Limited for thirteen years.



PricewaterhouseCoopers Inc.

Director: J Basson

Registered Auditor

Johannesburg

14 September 2018

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Group		Company	
		30 June 2018 R'000	30 June 2017 R'000	30 June 2018 R'000	30 June 2017 R'000
ASSETS					
Non-current assets		2 306 326	1 927 272	505 395	539 891
Property, equipment and investment property	6	391 067	227 122	–	–
Intangible assets	7	1 739 086	1 463 746	–	–
Available for sale financial instruments	8.3	9 000	18 444	–	–
Financial assets	8.7	65 028	96 272	65 028	96 272
Investments in associates	9	56 935	38 823	–	–
Investment in subsidiaries	10	–	–	428 144	428 144
Deferred income tax assets	11	45 210	82 865	12 223	15 475
Current assets		823 735	1 141 608	174 186	372 447
Trade and other receivables	8.2	354 267	333 624	409	280
Cash and cash equivalents	8.4	212 918	361 738	10 990	22 699
Financial assets	8.7	152 250	347 635	152 250	347 635
Loans to Group companies		–	–	9 519	–
Inventory	12	83 532	73 376	–	–
Taxation receivable		20 768	25 235	1 018	1 833
Total assets		3 130 061	3 068 880	679 581	912 338
EQUITY AND LIABILITIES					
Capital and reserves		1 940 614	1 793 694	675 088	678 058
Issued share capital	13.1	18 686	18 686	18 686	18 686
Share premium	13.2	999 058	999 058	999 058	999 058
Other reserves	14	1 970	1 130	3 501	–
Capital contribution by non-controlling interest	31	55 874	–	–	–
Retained earnings/(accumulated loss)		865 026	774 820	(346 157)	(339 686)
Non-controlling interest	15	679 277	585 359	–	–
Total equity		2 619 891	2 379 053	675 088	678 058
Non-current liabilities		153 860	135 778	–	–
Deferred income tax liabilities	11	121 667	100 627	–	–
Accrual for straight-lining of leases	16	15 915	18 979	–	–
Deferred payment	32	5 263	5 051	–	–
Other liabilities		11 015	11 121	–	–
Current liabilities		356 310	554 049	4 493	234 280
Trade and other payables	8.5	292 626	273 341	4 493	25 063
Loans from group companies		–	–	–	10 242
Employment benefit liability	17	49 955	86 233	–	4 500
Contingent consideration	31	–	194 475	–	194 475
Taxation payable		13 729	–	–	–
Total liabilities		510 170	689 827	4 493	234 280
Total equity and liabilities		3 130 061	3 068 880	679 581	912 338

CONSOLIDATED AND SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Group		Company	
		30 June 2018 R'000	30 June 2017 R'000	30 June 2018 R'000	30 June 2017 R'000
Revenue	18	4 212 705	3 784 701	50	50
Dividends received	20	–	–	119 784	35 650
Fair value gains	20	8 612	23 152	8 612	22 734
Finance income	21	36 731	39 621	3 492	15 608
Total income		4 258 048	3 847 474	131 938	74 042
Depreciation	6	(51 109)	(45 098)	–	–
Cost of pharmaceutical products and finished goods	19	(924 634)	(836 734)	–	–
Amortisation	7	(89 603)	(86 450)	–	–
Share of profits from associates	9	23 626	14 306	–	–
Information technology costs		(62 608)	(101 048)	(37)	(148)
Remeasurement of contingent consideration		–	(59 582)	–	(59 582)
Reimbursive income	31	–	–	55 874	–
Employee benefit costs	20	(1 875 264)	(1 689 615)	1 440	(14 029)
Rent and property costs	20	(163 299)	(150 869)	–	–
Other expenses	20	(574 849)	(479 060)	(19 707)	(24 684)
Finance costs	21	(1 862)	(46 667)	(1 490)	(1 547)
Profit before income tax		538 446	366 657	168 018	(25 948)
Income tax	22	(153 544)	(146 616)	(8 176)	(4 957)
Profit for the year		384 902	220 041	159 842	(30 905)
Attributable to:		384 902	220 041	159 842	(30 905)
Equity holders of the parent		256 611	117 669	159 842	(30 905)
Non-controlling interest	15	128 291	102 372	–	–
Other comprehensive income:					
<i>Items that may be reclassified to profit and loss</i>					
– Foreign exchange (loss)/benefit		(2 661)	(3 573)	–	–
<i>Items that may not be reclassified to profit and loss</i>					
– Remeasurement of post-employment benefit obligations		(128)	(285)	–	–
– Income tax relating to these items	22	36	80	–	–
Other comprehensive income for the year, net of tax		(2 753)	(3 778)	–	–
Total comprehensive income for the year		382 149	216 263	159 842	(30 905)
Attributable to:					
Equity holders of the parent		253 858	113 891	159 842	(30 905)
Non-controlling interest	15	128 291	102 372	–	–
		382 149	216 263	159 842	(30 905)
Earnings per share(cents) attributable to equity holders of the parent					
– Basic	23	46.29	21.23		
– Diluted	23	45.93	21.23		

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	Group						
	Ordinary share capital R'000	Share premium R'000	Other reserves R'000	Retained earnings R'000	Capital contribution by non- controlling interest R'000	Non- controlling interest R'000	Total equity R'000
Balance as at 30 June 2016	18 686	970 358	(696 653)	755 588	–	515 603	1 563 582
Share-based payment expense	–	–	2 096	–	–	–	2 096
Net profit for the year	–	–	–	117 669	–	102 372	220 041
Other comprehensive income	–	–	(3 573)	(205)	–	–	(3 778)
Transferred to conditional put option reserve	–	–	(45 906)	45 906	–	–	–
Conditional put option reserve	–	–	773 866	–	–	–	773 866
Reversal of share based payment reserve*	–	28 700	(28 700)	–	–	–	–
Dividends paid (Note 26)	–	–	–	(144 138)	–	(32 616)	(176 754)
Balance as at 30 June 2017	18 686	999 058	1 130	774 820	–	585 359	2 379 053
Share-based payment expense	–	–	3 501	–	–	–	3 501
Net profit for the year	–	–	–	256 611	–	128 291	384 902
Other comprehensive income	–	–	(2 661)	(92)	–	–	(2 753)
Non-controlling interest on acquisition of subsidiaries (note 15)	–	–	–	–	–	17 171	17 171
Capital contribution (note 31)**	–	–	–	–	55 874	–	55 874
Dividends paid (note 26)	–	–	–	(166 313)	–	(51 544)	(217 857)
Balance as at 30 June 2018	18 686	999 058	1 970	865 026	55 874	679 277	2 619 891

	Company				
	Ordinary share capital R'000	Share premium R'000	Other reserves R'000	Retained earnings R'000	Total equity R'000
Balance as at 30 June 2016	18 686	970 358	26 604	(164 643)	851 005
Share-based payment expense	–	–	2 096	–	2 096
Profit for the year	–	–	–	(30 905)	(30 905)
Reversal of share based payment reserve (note 27)*	–	28 700	(28 700)	–	–
Dividends paid (note 26)	–	–	–	(144 138)	(144 138)
Balance as at 30 June 2017	18 686	999 058	–	(339 686)	678 058
Share-based payment expense	–	–	3 501	–	3 501
Profit for the year	–	–	–	159 842	159 842
Dividends paid (note 26)	–	–	–	(166 313)	(166 313)
Balance as at 30 June 2018	18 686	999 058	3 501	(346 157)	675 088

* AfroCentric has settled its obligation and the previous share based payment reserve has been released.

** This relates to Sanlam's proportionate contribution for the WAD contingent consideration.

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Group		Company	
		30 June 2018 R'000	30 June 2017 R'000	30 June 2018 R'000	30 June 2017 R'000
Cash flows from operating activities					
Cash receipts from customers		4 771 148	4 331 653	(72)	592
Cash paid to suppliers and employees		(4 218 453)	(3 880 766)	7 052	(23 143)
Cash generated from operations	24	552 695	450 887	6 980	(22 551)
Finance income	21	36 731	39 621	3 492	15 608
Finance costs	21	(1 862)	(761)	(1 490)	(1 547)
Taxation paid	25	(84 397)	(112 815)	(4 109)	(2 862)
Dividends received		5 209	5 010	119 784	35 650
Dividends paid	26	(217 857)	(176 754)	(166 313)	(144 138)
Net cash inflow from operating activities		290 519	205 188	(41 656)	(119 840)
Cash flows from investing activities					
Proceeds on disposal of intangible assets		–	27	–	–
Purchase of plant and equipment	6	(213 791)	(71 574)	–	–
Purchase of intangible assets	7	(310 845)	(178 047)	–	–
Proceeds on disposal of tangible assets		1 127	2 772	–	–
Payment for acquisition of subsidiaries, net of cash acquired		(22 517)	–	–	–
Disinvestment of financial assets		254 974	64 411	254 974	64 411
Sale of investment		32 000	–	32 000	–
Purchase of financial assets		(46 291)	(36 468)	(46 291)	(36 468)
Settlement of loans by associates		7 266	5 934	–	–
Net cash (outflow)/inflow from investing activities		(298 077)	(212 945)	240 683	27 943
Cash flows from financing activities					
Contingent consideration settlement	31	(194 475)	–	(194 475)	–
Capital contribution by non-controlling interest*	31	55 874	–	–	–
Repayment of loans to subsidiaries		–	–	(16 261)	(31 288)
Net cash outflow from financing activities		(138 601)	–	(210 736)	(31 288)
Net decrease in cash and cash equivalents		(146 159)	(7 757)	(11 709)	(123 185)
Effect of foreign exchange rate changes		(2 661)	(3 573)	–	–
Cash and cash equivalents at the beginning of the period		361 738	373 068	22 699	145 884
Cash and cash equivalents at the end of year	8.4	212 918	361 738	10 990	22 699

* This relates to Sanlam's proportionate contribution for the WAD contingent consideration.

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. <ul style="list-style-type: none"> 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) <ul style="list-style-type: none"> Financial liabilities Derecognition of financial instruments Financial assets 	Annual periods beginning on or after 1 January 2018 (published July 2014)	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.
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)	<p>This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

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:

- a) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- b) 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).
- c) 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'.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

2. Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed as follows:

Impairment of goodwill

The carrying amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the cash-generating units ("CGU") has been determined based on value-in-use calculation, being the net present value of the discounted cash flows of the CGU less the tangible net asset value of that CGU. Details of the main assumptions applied in determining the net present value of the CGU are provided in note 7 in these Annual Financial Statements.

Carrying value of tangible and intangible assets

The Group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors.

The carrying amount of tangible and intangible assets at 30 June 2018 was R391 million (June 2017: R227 million) and R1 739 million (June 2017: R1 464 million) respectively

Contingent consideration relating to Glen Eden Trading 58

Under the contingent consideration arrangement, AfroCentric Investment Corporation Limited was required to issue WAD Holdings Proprietary Limited an additional 31 366 977 shares based on management's best estimate as per the acquisition of shares agreement. R194.5 million was the estimated fair value of this obligation at the prior financial year-end. WAD Holdings Proprietary Limited elected to receive the contingent consideration in cash and not shares and this was settled in the current financial year. For further details and main assumptions please refer to notes 8.6 and 31 in these Annual Financial Statements.

Deferred tax assets

The deferred tax assets include an amount of R17.2 million which relates to carried forward tax losses. Some companies have incurred losses over the past financial years but management have concluded that the deferred tax assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for these companies. In the previous financial periods, AfroCentric and its related subsidiaries have attained their approved business plans and budget targets.

The main contributors to the assessed losses within the group relate to losses brought forward relating to Aid for Aids Management Proprietary Limited, AfroCentric Health Proprietary Limited and Wellworx Proprietary Limited.

The assessed losses brought forward Aid for Aids Management Proprietary Limited, AfroCentric Health Proprietary Limited and Wellworx Proprietary Limited are expected to be utilised on an annual basis going forward. This is due to the expectation that Aid for Aids Management Proprietary Limited, AfroCentric Health Proprietary Limited and Wellworx Proprietary Limited will be generating taxable profits in the foreseeable future.

Impairment IE Business Insight Strategic Consulting Proprietary Limited

IE Business Insight Strategic Consulting Proprietary Limited is a 100% subsidiary of AfroCentric Distribution Services Proprietary Limited.

The full impairment of the Investment in IE Business Insight Strategic Consulting Proprietary Limited (R12.67 million) and goodwill (R16.64 million) occurred in the prior financial year due to the business ceasing operations.

2. Critical accounting estimates, assumptions (continued)

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events as disclosed in note 28.

Litigation liability

When AfroCentric Investment Corporation Limited acquired AfroCentric Health Limited (AHL), AHL had an at-acquisition contingent liability to the value of R83.5 million. The Directors estimated the fair value of the contingent liability to be R8.4 million, and recognised an at-acquisition liability in line with IFRS 3: Business Combinations.

The fair value was determined by using the maximum loss and the potential impact of this liability materialising at the date of acquisition.

	Fair value R'000	
2018		
Neil Harvey & Associates		8 350
2017		
Neil Harvey & Associates		8 350
	June 2018 R'000	June 2017 R'000
Carrying amount of litigation liability at the beginning of year	8 350	8 350
Fair value adjustments	–	–
Carrying amount of litigation liability at the end of period	8 350	8 350

The litigation liability is included in the other liabilities amount disclosed in the non-current liabilities section on the face of the statement of financial position on page 20.

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, stakeholders 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 in the Annual Integrated Report for more detail regarding the Executive 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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

3. Financial risk management (continued)

General (continued)

The Group's 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 8 for classes of financial assets and liabilities.

Market risk

Price risk

The Group and Company investments in collective investment schemes are subject to the terms and conditions of the respective collective investment schemes offering documentation and are susceptible to market price risk arising from uncertainties about future values of those collective investment schemes. The investment manager makes investment decisions after extensive due diligence of the underlying fund, its strategy and the overall quality of the underlying fund's manager.

The right of the Group to request redemption of its investments in collective investment schemes ranges in frequency from weekly to annually.

The exposure to investments in collective investment schemes at fair value by strategy employed is disclosed in the following table at 30 June 2018. These investments are included in financial assets at fair value through profit or loss in the statement of financial position.

Strategy	Number of collective investment schemes	Net asset value of collective investment schemes R	Investment fair value R
Multi-strategy	4	104 436 000 000	217 278 436

The Group's maximum exposure to loss from its interests in collective investment schemes is equal to the total fair value of its investments in collective investment schemes.

Once the Group has disposed of its shares in a collective investment schemes, it ceases to be exposed to any risk from that collective investment schemes.

Total purchases in collective investment schemes during the year ended 30 June 2018 was R46 million. As at 30 June 2018 and 30 June 2017, there were no capital commitment obligations and no amounts due to collective investment schemes for unsettled purchases.

During the year ended 30 June 2018, total net gains on investments in collective investment schemes were R18.4 million.

To manage the price risk the Group's and Company's Investment Committee reviews its investments regularly to ensure that the downside price risk is mitigated and assesses the economic environment to make informed decisions.

The table below summaries the impact of an increase/decrease of the share price of collective investment schemes on the post-tax profit of the Group and Company

Change in percentage share price	Increase on pre-tax profit R	Decrease on pre-tax profit R
5% increase/(decrease)	10 863 900	(10 863 900)
10% increase/(decrease)	21 727 800	(21 727 800)
15% increase/(decrease)	32 591 700	(32 591 700)

3. Financial risk management (continued)

Cash flow and fair value interest rate risk

The Group is not exposed to downside interest rate risk from external borrowings.

The Group's and Company's interest income arises from interest-bearing instruments and fixed deposits. The Group's treasury manages excess funds on a daily basis into call/deposit accounts to ensure that the best yield is obtained for the Group.

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.

	Group	Company
	Increase in 1% on statement of comprehensive income R'000	Increase in 1% on statement of comprehensive income R'000
Instruments exposed		
June 2018		
Bank balances and short-term investments	2 129	110
Total	2 129	110
June 2017		
Bank balances and short-term investments	3 982	591
Financial assets at amortised cost	799	799
Total	4 781	1 390

Under these assumptions, a 1% increase in market interest rates at 30 June 2018 would increase Group profit before tax by approximately R2 129 000 (June 2017: R4 781 000) and Company profit before tax by approximately R 110 000 (June 2017: R1 390 000).

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. For banks and financial institutions only independently rated parties with a minimum rating of 'BBB' are accepted (please refer to note 8.4). 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. Revenue from medical schemes is settled in cash.

No credit limits were exceeded during the reporting period. Individual limits are set for each client based on the factors above as assessed by management. These limits are monitored by management and ensured that they are not exceeded.

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.

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

3. Financial risk management (continued)

Liquidity risk (continued)

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

Time buckets applicable to the Group

	Group						Total R'000
	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 9 months but not exceeding 1 year R'000	Between 1 to 2 years R'000	Between 2 to 3 years R'000	
June 2018							
Trade and other payables	249 028	–	–	–	–	–	284 028
Deferred payment	–	–	–	–	–	5 263	5 263
June 2017							
Trade and other payables	258 304	2 030	2 030	2 030	–	–	264 394
Deferred payment	–	–	–	–	–	5 051	5 051

Time buckets applicable to the Company

	Company						Total R'000
	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 9 months but not exceeding 1 year R'000	Between 1 to 2 years R'000	Between 2 to 3 years R'000	
June 2018							
Trade and other payables	3 418	–	–	–	–	–	3 418
June 2017							
Loans from Group companies	10 242	–	–	–	–	–	10 242
Trade and other payables	3 103	5 357	5 357	5 357	–	–	19 174

The carrying value of 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.

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. The Group is not subject to external capital requirements.

Consistent with others in the industry, the Group and Company monitor 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. The Group is not subject to long-term debt as it does not have any external capital requirements.

During 2018, the Group's and Company's strategy, which was unchanged from 2017, was to maintain the gearing ratio within 0% to 15%.

4. Business combinations

The below represents all the material business combinations concluded during the year:

The Wellness Odyssey acquisition

On 1 July 2017 ("effective date and acquisition 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 has been accounted for using the acquisition 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.

Wellness Odyssey acquisition

Business combinations

		Total June 2018 R'000
Fair value of 100% net asset value at acquisition (assets)		23 143
Property and equipment	274	
Trade and other receivables	3 565	
Cash and cash equivalents	2 099	
Deferred tax liability	(7 834)	
Intangible assets: customer relationships	28 178	
Trade and other payables	(2 934)	
Provisions	(205)	
Consideration for the purchase of 100% of net asset value		38 000
Goodwill arising from acquisition*		14 857

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

The acquired business contributed revenues of R30.5 million and net profit after tax of R6.9 million to the Group for the period from 1 July 2017 to 30 June 2018.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

4. Business combinations (continued)

The Essential Group acquisition

On 1 March 2018 ("effective date and acquisition date") AfroCentric concluded agreements governing the acquisition of 51% of Essential Group Proprietary Limited as well as 51% of Medinsure Proprietary Limited. Essential Group Proprietary provides healthcare insurance. 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 Essential Group Proprietary Limited as well as Medinsure Proprietary Limited is R7.64 million in cash consideration and R19.9 million in contingent consideration (fair value as at year-end). The contingent consideration is made up of five tranches of R5 million. For every R5 million profit after taxation achieved by Essential Group (including Medinsure), one of the tranches will be payable to Essential Group (up to the maximum amount of R25 million). Based on the expected future profits of Essential Group (including Medinsure) AfroCentric expect the contingent consideration to be fully paid by the end of June 2021.

The Essential Group Proprietary Limited as well as Medinsure Proprietary Limited has been accounted for using the acquisition method of accounting, which requires that the assets and liabilities of Essential Group Proprietary Limited as well as Medinsure Proprietary Limited be measured at fair value as at 1 March 2018. The amounts disclosed below are provisional.

Essential Group acquisition

Business combinations

		Total June 2018 R'000
Fair value of 100% net asset value at acquisition (assets)		15 846
Property and equipment	353	
Trade and other receivables	802	
Cash and cash equivalents	15 503	
Trade and other payables	(812)	
Consideration to Essential Group		19 947
Non-controlling interest		(17 539)
Fair value of 51% net asset value at acquisition (assets)		18 254
Consideration for the purchase of 51% of net asset value		27 587
Goodwill arising from acquisition*		9 333

* The goodwill arises from integrated synergies that are established through the acquisition of Essential Group and Medinsure.

The acquired business contributed revenues of R8.9 million and net loss after tax of R0.8 million to the Group for the period from 1 April 2018 to 30 June 2018. The loss after tax would be R0.1 million if Essential Group (including Medinsure) had been acquired from the beginning of the year.

5. Segment information

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, 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 10 which indicates Medscheme Holdings Proprietary Limited's summarised financial information.
- Healthcare Retail – consists of pharmaceutical sales/services by Pharmacy Direct, Curasana Wholesaler and 26% interest in Activo Health. These services are rendered in South Africa.
- Healthcare Africa – consists of all healthcare services outside of South Africa. This includes associate earnings (Botswana, Namibia, Zimbabwe, Swaziland and Mauritius).
- Information technology – this relates to all IT-related services for the Group predominantly within South Africa.

5. Segment information (continued)

2018	Healthcare SA R'000	Healthcare Africa R'000	Healthcare Retail R'000	Total Healthcare R'000	Information Technology R'000	Inter-Group eliminations R'000	Group R'000
Gross revenue	2 788 428	184 910	1 230 421	4 203 759	580 845	(571 899)	4 212 705
Administration expenses	(2 575 058)	(130 843)	(1 147 617)	(3 853 518)	(312 381)	573 563	(3 592 336)
Amortisation of intangibles	(1 290)	(292)	(9 035)	(10 617)	(73 994)	(4 992)	(89 603)
Depreciation	(14 892)	(2 784)	(5 664)	(23 340)	(27 769)	–	(51 109)
Net finance income	28 325	1 232	2 845	32 402	2 467	–	34 869
– Finance income	31 052	1 816	3 201	36 069	2 467	(1 805)	36 731
– Finance cost	(2 727)	(584)	(356)	(3 667)	–	1 805	(1 862)
Share-based payment expense	(3 051)	(63)	–	(3 114)	(387)	–	(3 501)
Net fair value gain/impairment of assets	6 045	–	–	6 045	–	900	6 945
– Fair value gain	7 712	–	–	7 712	–	900	8 612
– Impairment of assets	(1 667)	–	–	(1 667)	–	–	(1 667)
– Profit warranty expense	(3 150)	–	–	(3 150)	–	–	(3 150)
– Share of profit of associate	629	5 140	17 857	23 626	–	–	23 626
Profit/(loss) before taxation	225 986	57 300	88 807	372 093	168 781	(2 428)	538 446
Income tax expense	(68 979)	(15 776)	(23 148)	(107 903)	(49 508)	3 867	(153 544)
Profit/(loss) for the year	157 007	41 524	65 659	264 190	119 273	1 439	384 902
Net segments assets	3 376 318	144 233	437 951	3 958 502	511 217	(1 339 658)	3 130 061
Segments assets	3 370 598	135 896	394 002	3 900 496	511 217	(1 338 587)	3 073 126
Investment in associates	5 720	8 337	43 949	58 006	–	(1 071)	56 935
Segment liabilities	247 212	22 521	297 141	566 874	145 516	(202 220)	510 170

Adjusted profit (EBITDA) earnings for management earnings (non-IFRS information)

EBITDA excludes the effects from significant items of income and expenditure which may have an impact on the quality of earnings such as depreciation, amortisation, net finance income and impairments. It also excludes the effects of equity-settled share-based payments.

2018	Healthcare SA R'000	Healthcare Africa R'000	Healthcare Retail R'000	Total Healthcare R'000	Information Technology R'000	Inter-Group eliminations R'000	Group R'000
Profit/(loss) before taxation	225 986	57 300	88 807	372 093	168 781	(2 428)	538 446
Depreciation and amortisation	16 182	3 076	14 699	33 957	101 763	4 992	140 712
Reversal of impairment	1 667	–	–	1 667	–	–	1 667
Share-based payment expense	3 051	63	–	3 114	387	–	3 501
Net finance income	(28 325)	(1 232)	(2 845)	(32 402)	(2 467)	–	(34 869)
Adjusted profit/(loss) for the year (EBITDA)	218 561	59 207	100 661	378 429	268 464	2 564	649 457

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

5. Segment information (continued)

2017	Healthcare SA R'000	Healthcare Africa R'000	Healthcare Retail R'000	Total Healthcare R'000	Information Techno- logy R'000	Inter-Group elimina- tions R'000	Group R'000
Gross revenue	2 378 130	1 069 435	184 443	3 632 008	561 021	(408 328)	3 784 701
Administration expenses	(2 108 391)	(1 000 246)	(141 914)	(3 250 551)	(378 336)	408 295	(3 220 592)
Amortisation of intangibles	(1 754)	(9 057)	(340)	(11 151)	(71 391)	(3 908)	(86 450)
Depreciation	(14 339)	(3 852)	(2 087)	(20 278)	(24 821)	1	(45 098)
Net finance income	32 064	2 054	1 160	35 278	3 581	(45 905)	(7 046)
– Finance income	34 490	2 106	1 657	38 253	3 581	(2 213)	39 621
– Finance cost	(2 426)	(52)	(497)	(2 975)	–	(43 692)	(46 667)
Share-based payment expense	(2 096)	–	–	(2 096)	–	–	(2 096)
Net fair value gain/ impairment of assets	1 323	–	–	1 323	(132)	2 110	3 301
– Fair value gain/ impairment of assets	17 079	–	–	17 079	–	6 073	23 152
– Impairment of intangibles	(15 756)	–	–	(15 756)	(132)	(3 963)	(19 851)
– Fair value of contingent consideration	(59 582)	–	–	(59 582)	–	–	(59 582)
– Profit warranty expense	(14 787)	–	–	(14 787)	–	–	(14 787)
Net share of profit of associate	(725)	9 656	5 374	14 305	–	1	14 306
– Share of profit of associate	(725)	9 656	5 374	14 305	–	1	14 306
Profit/(loss) before taxation	209 843	67 990	46 636	324 469	89 922	(47 734)	366 657
Income tax expense	(93 295)	(18 432)	(17 058)	(128 785)	(21 351)	3 520	(146 616)
Profit/(loss) for the year	116 548	49 558	29 578	195 684	68 571	(44 214)	220 041
Net segments assets	3 435 646	353 504	112 402	3 901 552	420 138	(1 252 810)	3 068 880
Segments assets	3 431 319	327 411	103 997	3 862 727	420 138	(1 252 808)	3 030 057
Investment in associates	4 327	26 093	8 405	38 825	–	(2)	38 823
Segment liabilities	418 127	220 409	17 361	655 897	155 342	(121 412)	689 827

Adjusted profit (EBITDA) earnings for management earnings (non-IFRS information)

EBITDA excludes the effects from significant items of income and expenditure which may have an impact on the quality of earnings such as depreciation, amortisation, net finance income and impairments. It also excludes the effects of equity-settled share-based payments.

2017	Healthcare SA R'000	Healthcare Africa R'000	Healthcare Retail R'000	Total Healthcare R'000	Information Techno- logy R'000	Inter-Group elimina- tions R'000	Group R'000
Profit/(loss) before taxation	209 843	67 990	46 636	324 469	89 922	(47 734)	366 657
Depreciation and amortisation	16 093	12 909	2 427	31 429	96 212	3 907	131 548
Reversal of impairment	15 756	–	–	15 756	132	3 963	19 851
Share-based payment expense	2 096	–	–	2 096	–	–	2 096
Net finance income	(32 064)	(2 054)	(1 160)	(35 278)	(3 581)	45 905	7 046
Adjusted profit/(loss) for the year (EBITDA)	211 724	78 845	47 903	338 472	182 685	6 041	527 198

6. Property, equipment and investment property

	Group						
	Motor vehicles R'000	Computer equipment R'000	Land and building R'000	Furniture and fittings R'000	Property and equipment R'000	Investment property R'000	Total R'000
Year ended 30 June 2018							
Opening carrying amount/ fair value	9 816	74 730	31 972	63 763	31 423	15 418	227 122
Additions	4 955	51 000	90 215	59 248	8 372	–	213 790
Disposals	(518)	(663)	–	(526)	(132)	–	(1 839)
Depreciation charge	(1 942)	(30 140)	(1 701)	(10 857)	(6 469)	–	(51 109)
Take on balances	50	164	86	474	190	–	964
Reclassification	–	2 139	–	(246)	246	–	2 139
Closing carrying amount/ fair value	12 361	97 230	120 572	111 856	33 630	15 418	391 067
At 30 June 2018							
Cost/fair value	18 656	234 894	123 647	166 803	69 589	15 418	629 007
Accumulated depreciation	(6 295)	(137 664)	(3 075)	(54 947)	(35 959)	–	(237 940)
Closing carrying amount/ fair value	12 361	97 230	120 572	111 856	33 630	15 418	391 067
Year ended 30 June 2017							
Opening carrying amount/ fair value	4 088	78 512	31 936	47 461	27 365	15 000	204 362
Additions/fair value gain	7 208	23 946	40	27 314	12 385	418	71 311
Disposals	(12)	(487)	–	(817)	(2 137)	–	(3 453)
Depreciation charge	(1 468)	(27 241)	(4)	(10 195)	(6 190)	–	(45 098)
Closing carrying amount/ fair value	9 816	74 730	31 972	63 763	31 423	15 418	227 122
At 30 June 2017							
Cost/fair value	14 998	186 268	32 568	110 360	60 625	15 418	420 237
Accumulated depreciation	(5 182)	(111 538)	(596)	(46 597)	(29 202)	–	(193 115)
Closing carrying amount/ fair value	9 816	74 730	31 972	63 763	31 423	15 418	227 122

Investment property consists of land, portion 108 (a portion of portion 27) of the farm Weltevreden 202 Roodepoort, South Africa. It is held for capital appreciation and is not occupied by the Group.

The valuation was prepared by an independent valuer, J van der Hoven, a property practitioner from ARC Properties. J van der Hoven obtained his post-graduate master's degree in architecture (recognised by RIBA and ARB) and has more than 10 years' experience as a property practitioner.

Refer to note 8.6 for further detail on the valuation process of the investment property.

The fair value of investment property was determined based on comparable sales method. The valuers have measured the fair values at R15.4 million as at 30 June 2018.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

7. Intangible assets

	Goodwill R'000	Brands and intellectual property R'000	Computer software R'000	Internally developed computer software R'000	Custo- mer relation- ships R'000	Total R'000
Opening carrying amount at 1 July 2017	855 437	12 913	195 208	309 443	90 745	1 463 746
Take on balance	–	–	6	–	–	6
Additions	–	–	119 594	191 251	–	310 845
Amortisation charge for the year	–	(2 743)	(48 561)	(24 359)	(13 940)	(89 603)
Business Acquisitions*	28 051	–	–	–	28 180	56 231
Reclassification	–	–	(2 139)	–	–	(2 139)
Carrying value at 30 June 2018	883 488	10 170	264 108	476 335	104 985	1 739 086
At 30 June 2018						
Cost	926 900	47 873	431 425	607 499	269 558	2 283 255
Accumulated amortisation, impairment and adjustments	(43 412)	(37 703)	(167 317)	(131 164)	(164 573)	(544 169)
Closing carrying amount	883 488	10 170	264 108	476 335	104 985	1 739 086
Opening carrying amount at 1 July 2016	872 077	15 656	185 202	215 021	100 859	1 388 815
Additions	–	–	49 630	128 418	–	178 048
Disposals	–	–	(27)	–	–	(27)
Amortisation charge for the year	–	(2 743)	(39 597)	(33 996)	(10 114)	(86 450)
Impairment	(16 640)	–	–	–	–	(16 640)
Carrying value at 30 June 2017	855 437	12 913	195 208	309 443	90 745	1 463 746
At 30 June 2017						
Cost	898 849	47 873	313 964	416 248	241 378	1 918 312
Accumulated amortisation, impairment and adjustments	(43 412)	(34 960)	(118 756)	(106 805)	(150 633)	(454 566)
Closing carrying amount	855 437	12 913	195 208	309 443	90 745	1 463 746

* The recognition of goodwill (R28.1 million) and customer relationships (R28.2 million) is as a result of the business combinations in the current financial year (refer to note 4 for further details).

7. Intangible assets (continued)

A summary per cash generating unit (CGU) of the goodwill allocation is presented below:

	Group		Company	
	June 2018 R'000	June 2017 R'000	June 2018 R'000	June 2017 R'000
Healthcare Administration SA CGU				
Medscheme – healthcare administration	248 622	248 622	–	–
Medscheme – health risk management	89 298	89 298	–	–
Aid for Aids Management Proprietary Limited – healthcare administration	23 490	23 490	–	–
Allegra Proprietary Limited – healthcare IT support	1 268	1 268	–	–
AfroCentric Distribution Services Proprietary Limited – healthcare marketing support	835	835	–	–
Klinikka Proprietary Limited – medical equipment supplier	2 435	2 435	–	–
Wellness Odyssey – healthcare wellness days	14 857	–	–	–
Tendahealth – healthcare insurance broker	1 162	–	–	–
Scriptpharm – Chronic scripts claim	2 699	–	–	–
Essential Group – healthcare insurance	9 333	–	–	–
Healthcare Africa CGU				
Medscheme Mauritius Limited – local administration	4 969	4 969	–	–
Medscheme Mauritius Limited – International administration	10 566	10 566	–	–
Healthcare Retail SA CGU				
Pharmacy Direct, Curasana and Glen Eden	473 954	473 954	–	–
	883 488	855 437	–	–

Management determines the recoverable amount of cash generating units as being the higher of fair value less costs to sell or value in use. In the absence of an active market, value in use is used to determine the recoverable amount. As there are no active market value in use is used. A traditional method of discounting management's best estimate of future cash flows attributable to the cash generating unit has been applied to determine the value in use. A growth rate has been applied to cash flow streams to take into account the effect of inflation as well as business specific expectations.

Assumptions used in the determination of the discount rate are as follows:

- The rate on government bonds (risk free rate) 8.12% as at 30 June 2018
- A market risk premium of 6.5% is justified as the overall risk is to the downside.

(Please note that the inputs above were adjusted for geographical and entity specific risk.)

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

7. Intangible assets (continued)

The table below indicates the variables used in the determination of the discounted cash flows for the separate business units.

	Recoverable amount R'000	Risk adjustment factor	WACC	Forecast period ¹	Average growth rate ²
Medscheme – healthcare administration and health risk management	5 973 902	1.0	13.97	4 years	6.00%
Aid for Aids Management Proprietary Limited – healthcare administration	139 559	1.0	13.97	4 years	7.00%
Allegra Proprietary Limited – healthcare IT support	158 879	1.15	16.07	4 years	6.00%
AfroCentric Distribution Services Proprietary Limited	78 529	1.10	15.37	4 years	6.00%
Klinikka Proprietary Limited – medical equipment supplier	21 286	1.20	16.76	4 years	6.00%
Medscheme Mauritius Limited – local and international administration	87 291	1.15	16.07	4 years	7.00%
Pharmacy Direct, Curasana and Glen Eden	1 280 086	1.0	13.97	4 years	7.00%
Scriptpharm – Chronic scripts claim	22 687	1.2	16.76	4 years	6.00%
Wellness Odyssey – healthcare wellness days	113 861	1.2	16.76	4 years	6.00%
Essential Group – healthcare insurance	93 620	1.2	16.76	4 years	8.00%

Note 1: Based on the average tenure of current contracts with our clients, a forecast period of 4 years is considered reasonable.

Note 2: Growth rates are based on current consumer price indicators and membership growth.

The net present value of forecasts support the carrying value of the goodwill indicated above.

The Medscheme – healthcare administration was impaired in the 2017 financial year by R16.6 million relating to IE Business and there has been no changes in any of the other CGUs.

8. Financial instruments

Financial instruments by category

Financial assets	Group			Total R'000
	Financial assets at amortised cost R'000	Financial assets at fair value through profit and loss R'000	Available for sale financial assets R'000	
June 2018				
Trade and other receivables (excluding prepayments)	308 917	–	–	308 917
Financial assets at fair value	–	217 278	9 000	226 278
Cash and cash equivalent	212 918	–	–	212 918
June 2017				
Trade and other receivables (excluding prepayments)	256 368	–	–	256 368
Financial assets at fair value	–	364 015	18 444	382 459
Cash and cash equivalent	361 738	–	–	361 738

Financial assets	Company			Total R'000
	Financial assets at amortised cost R'000	Financial assets at fair value through profit and loss R'000	Available for sale financial assets R'000	
June 2018				
Trade and other receivables	409	–	–	409
Financial assets at fair value	–	217 278	–	217 278
Cash and cash equivalent	10 990	–	–	10 990
Loan to group company	9 519	–	–	9 519
June 2017				
Trade and other receivables	280	–	–	280
Financial assets at fair value	–	364 015	–	364 015
Cash and cash equivalent	22 699	–	–	22 699

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

8. Financial instruments (continued)

Financial instruments by category (continued)

Financial liabilities	Group		
	Liabilities at fair value through profit and loss R'000	Amortised cost R'000	Total R'000
June 2018			
Trade and other payables	–	284 028	284 028
Deferred payment	5 263	–	5 263
June 2017			
Trade and other payables	–	264 394	264 394
Contingent consideration	194 475	–	194 475
Deferred payment	5 051	–	5 051
Financial liabilities	Company		
	Liabilities at fair value through profit and loss R'000	Amortised cost R'000	Total R'000
June 2018			
Trade and other payables	–	3 418	3 418
June 2017			
Trade and other payables	–	19 174	19 174
Loans from Group companies	–	10 242	10 242
Contingent consideration	194 475	–	194 475

8.1 Trade receivables

Trade receivables that are less than 90 days are not considered for impairment. As of 30 June 2018, trade receivables of R110.4 million (2017: R64.5 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default and are expected to be recoverable.

Ageing of trade and other receivables (R'000):

Financial liabilities	Group				
	Current R'000	30 days R'000	60 days R'000	90+ days R'000	Total R'000
June 2018					
Gross trade debtors	149 634	64 059	14 378	56 727	284 798
Net trade debtors	149 634	64 059	14 378	31 927	259 998
Past due but not impaired	–	64 059	14 378	31 927	110 364
Other receivables	2 042	1 742	27	2 333	6 144
June 2017					
Gross trade debtors	145 696	31 426	10 132	36 278	223 532
Net trade debtors	145 696	31 426	10 132	22 937	210 191
Past due but not impaired	–	31 426	10 132	22 937	64 495
Other receivables	3 821	3 259	52	4 369	11 501

8. Financial instruments (continued)

8.1 Trade receivables (continued)

Disclosure of trade debtors:	June 2018 R'000	June 2017 R'000
Gross trade debtors	284 798	223 532
Provision for impairment of trade receivables as above	(24 800)	(13 341)
Net trade debtors (note 8.2)	259 998	210 191
Movement in the provision for impairment of trade receivables are as follows:		
	June 2018 R'000	June 2017 R'000
At beginning of the period	13 341	3 881
Provisions raised	11 459	9 460
	24 800	13 341

No ageing is applicable to the other categories within trade and other receivables. However, all trade and other receivables of the Company are current or due on demand.

The majority of the Group's client base, comprises large medical healthcare providers for open schemes and listed blue chip companies with regards to closed medical schemes. Amounts invoiced to these clients are immediately recoverable after month end and before the fifth working day of the new month, therefore the risk of non-recovery is very low.

Provisions for impairment are raised when there is evidence that amounts are not recoverable in full or part from the debtor. Disputed claims and long outstanding debts are usually indicators of non-recovery. The Group does not raise a general provision for all outstanding debtors due to the high quality of its debtors and a good repayment history. The provision raised above relates to specific debtors.

The creation and release of provision for impaired receivables have been included in 'other expenses' in the statement of comprehensive income. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables, detailed in note 8.2 do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

8.2 Trade and other receivables

	Group		Company	
	June 2018 R'000	June 2017 R'000	June 2018 R'000	June 2017 R'000
Trade debtors	259 998	210 191	–	–
Deposits	7 185	7 284	–	–
Prepayments*	39 612	63 868	–	–
Sundry debtors	35 588	27 392	409	280
Other receivables	6 144	11 501	–	–
Associates	5 740	13 388	–	–
	354 267	333 624	409	280

* Prepayments are not financial instruments but are included in trade and other receivables.

All receivables are current. The carrying amounts of all trade and other receivables approximate fair value.

Refer to note 8.1 for ageing of trade and other receivables

Management has assessed the likelihood of non-recovery of outstanding amounts due from its associates and determined that no impairment is necessary due to the fact that all associates are profitable or will be profitable in the foreseeable future.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

8. Financial instruments (continued)

8.3 Available for sale financial instruments

	Group		Company	
	June 2018 R'000	June 2017 R'000	June 2018 R'000	June 2017 R'000
Non-current assets				
AAR Insurance Holdings Kenya	9 000	18 444	–	–

Classification of investment as available for sale

The investment in AAR was accounted for as an available for sale financial instrument as management intends to hold the investment for the medium to long term and is not held for trading. Due to certain performance conditions not being met there was a clawback and impairment in the current year resulting in the decrease in the shareholding from 3% to 1.78%.

	Opening carrying amount R'000	Disposal R'000	Impairments R'000	Gains and losses recognised in other comprehensive income	Closing carrying amount R'000
				R'000	
Non-current assets					
AAR Insurance Holdings Kenya	18 444	(8 159)	(1 285)	–	9 000

Significant estimates

The fair value of the investment in AAR Insurance Holdings Kenya is not traded in an active market and as a result is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. Refer to note 8.6 for further details on fair value.

8.4 Cash and cash equivalents

	Group		Company	
	June 2018 R'000	June 2017 R'000	June 2018 R'000	June 2017 R'000
Cash at bank and short-term bank deposits				
Baa ₃ – ABSA Bank Limited	3 497	3 091	3 497	3 091
AA – Bank Windhoek Limited	9 265	21 576	–	–
Baa ₃ – Nedbank Limited*	178 597	274 411	6 389	18 575
Baa ₃ – Standard Bank Limited**	4 789	303	–	–
BBB+ – Sasfin Limited*	14 770	62 357	1 104	1 033
Sanlam Limited	2 000	–	–	–
Total Cash at bank and short-term bank deposits	212 918	361 738	10 990	22 699

* The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

** Moody's appends numerical modifiers 1, 2 and 3 to each generic rating classification from Aa through Caa. The modifier 3 indicates a ranking in the lower end of that generic rating category.

8. Financial instruments (continued)

8.4 Cash and cash equivalents (continued)

The ratings for ABSA Bank Limited, Nedbank Limited and Standard Bank Limited were obtained from Moody's.

The ratings for Sasfin Limited and Bank Windhoek Limited were obtained from Global Credit Rating Company.

The rating scores are based on the following broad investment grade definitions:

AA Very high credit quality relative to other issuers or obligations in the same country. Protection factors are very strong. Adverse changes in business, economic or financial conditions would increase investment risk although not significantly.

Baa Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.

BBB Adequate protection factors relative to other issuers or obligators in the same country. However, there is considerable variability in risk during economic cycles.

	Group		Company	
	June 2018 R'000	June 2017 R'000	June 2018 R'000	June 2017 R'000
Cash	157 855	263 346	9 886	21 666
Short-term deposits*	55 063	98 392	1 104	1 033
	212 918	361 738	10 990	22 699

* Short-term deposits relate to cash at the year end deposited into specific bank accounts.

For purposes of the statement of cash flows, the year-end cash and cash equivalents comprise the following:

	Group		Company	
	June 2018 R'000	June 2017 R'000	June 2018 R'000	June 2017 R'000
Cash and bank balances	212 918	361 738	10 990	22 699

8.5 Trade and other payables

	Group		Company	
	June 2018 R'000	June 2017 R'000	June 2018 R'000	June 2017 R'000
Trade payables*	139 207	134 157	711	157
Accruals	57 474	32 088	337	–
Payroll creditors	41 422	38 142	–	–
Shareholders for dividends	5 466	7 239	3 445	3 366
Other payables*	49 057	61 715	–	21 540
	292 626	273 341	4 493	25 063

* All trade and other payables are current and are expected to be settled within the next 12 months. The carrying values at the year end approximate their fair values.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

8. Financial instruments (continued)

8.6 Recognised fair value measurements

Fair value hierarchy

The following hierarchy is used to classify financial and non-financial instruments for fair value measurement purposes:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The following table presents the groups assets and liabilities that are measured at fair value at 30 June 2018:

	Group			Company		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
2018						
Collective investment schemes (note 8.7)	–	217 278	–	–	217 278	–
Investment in AAR (note 8.3)	–	–	9 000	–	–	–
Investment property (note 6)	–	–	15 418	–	–	–
	–	217 278	24 418	–	217 278	–
2017						
Investment in Jasco (note 8.7)	36 296	–	–	36 296	–	–
Collective investment schemes (note 8.7)	–	327 719	–	–	327 719	–
Investment in AAR (note 8.3)	–	–	18 444	–	–	–
Contingent consideration (note 31)	–	–	(194 475)	–	–	(194 475)
Investment property (note 6)	–	–	15 418	–	–	–
	36 296	327 719	(160 613)	36 296	327 719	(194 475)

Specific valuation techniques used to value financial and non-financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments. The Jasco Electronics share price was obtained from the Johannesburg Stock Exchange (JSE);
- the fair value of the collective investment schemes is determined using the current unit price of underlying unitised asset, multiplied by the number of units held;
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis and P/E ratios; and
- The fair value of the investment property is determined by using the comparable sales method.

8. Financial instruments (continued)

8.6 Recognised fair value measurements (continued)

The assets disclosed above that have been classified as a Level 3 financial and non-financial instruments i.e. the inputs are not based on observable market data. The carrying amount of all assets in the table above approximates the fair value of the assets.

Group fair value measurements using significant unobservable inputs (Level 3):

	Contingent consideration R'000	Investment in AAR R'000	Investment property R'000
Opening balance	194 475	18 444	15 418
Settlement/payment	(194 475)	–	–
Impairments	–	(1 285)	–
Disposal	–	(8 159)	–
Closing balance	–	9 000	15 418

Valuation inputs and relationships to fair value

Investment in AAR

The fair value of the investment in AAR Insurance Holdings is derived by price earnings ratio using the most recent financial information available to AfroCentric Investment Corporation Limited. Management are satisfied that valuation of the investment in the AAR represents an amount equal to the fair value.

Investment property

The fair value of the investment property is derived by an external property valuer using the comparable sales method. In applying this approach the valuer has selected other properties that have similar risk, growth and cash-generating profiles. Management reviews the valuation performed by the external valuer and is satisfied that the inputs used by the external property valuer are reasonable. The investment property is valued on an annual basis.

Contingent consideration

The fair value of the contingent consideration was determined by the ACT share price at 2017 year end, multiplied by the number of shares to be issued. The number of shares to be issued is stipulated in the shareholders agreement which is derived from the actual profits generated from Glen Eden. Under the contingent consideration arrangement, AfroCentric Investment Corporation Limited was required to issue WAD Holdings Proprietary Limited an additional 31 366 977 shares based on the above. R194.5 million was the estimated fair value of this obligation and was settled in cash and not shares the current financial year as cash was selected.

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

Description	Fair value at 30 June 2018 R'000	Unobservable inputs	Input value used	Sensitivity of unobservable inputs on profit and loss
Investment in AAR (unlisted investment)	9 000	Price : earnings ratio	8.50	If a P/E ratio of 7.50 were used the investment in AAR would decrease by R0.489 million in other comprehensive income. If a P/E ratio of 9.50 were used the investment in AAR would increase by R0.326 million in other comprehensive income.
Investment property	15 418	Price per square meter	R1 542	The higher the price per square meter the higher the fair value

Valuation process

The finance department of the group performs the valuations of the investments for financial reporting purposes, including level 3 fair values (excluding the investment property). The team reports directly to the Chief Financial Officer ("CFO"). Discussions of the valuation processes and results are held between the CFO and the Group Finance at year end to determine the fair value of investments unless there is an indication of impairment which will result in a write-off of the investment in that point in time.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

8. Financial instruments (continued)

8.7 Financial assets

Financial assets at fair value through profit and loss

In the current financial year the Company and Group had funds in the following investments, namely:

- STANLIB Extra Income Fund
- NedGroup Core Income Fund
- Coronation Strategic Income Fund
- Prescient Income Proper Fund

During the prior financial year the Company and Group had funds in the following investments, namely:

- STANLIB Extra Income Fund
- NedGroup Core Income Fund
- Coronation Strategic Income Fund
- Prescient Income Proper Fund
- Sanlam Sim Inflation Plus Fund B4
- Sanlam Sim inflation Plus Fund B5

Classification of financial assets through profit and loss

As a result of holding these assets for the medium term these have been designated at fair value through profit and loss. The Collective investment schemes were designated at fair value through profit and loss at initial recognition. The Investment in Jasco was initially designated at fair value through profit and loss and was sold in the current financial year.

	Group and Company				
	Opening fair value R'000	Additions R'000	Fair value gains and losses R'000	Disposals/ transfer to short term R'000	Closing fair value R'000
2018					
Non-current assets					
Collective investment scheme	59 976	–	5 052	–	65 028
Jasco Electronic Holdings Limited	36 296	–	(9 738)	(26 558)	–
	96 272	–	(4 686)	(26 558)	65 028
Current assets					
Collective investment scheme	267 743	46 291	13 298	(175 082)	152 250
	267 743	46 291	13 298	(175 082)	152 250
2017					
Non-current assets					
Collective investment scheme	268 173	–	23 078	(231 275)	59 976
Jasco Electronic Holdings Limited	37 182	–	(886)	–	36 296
	305 355	–	22 192	(231 275)	96 272
Current assets					
Collective investment scheme	–	35 508	960	231 275	267 743
	–	35 508	960	231 275	267 743

8. Financial instruments (continued)

8.7 Financial assets (continued)

Financial assets at amortised cost

	Group		Company	
	June 2018 R'000	June 2017 R'000	June 2018 R'000	June 2017 R'000
Current assets				
AA – Investec Bank	–	79 892	–	79 892
	–	79 892	–	79 892

AA – The financial instrument is judged to be of high quality, is subject to very low credit risk and indicates quality issuers.

Classification financial assets at amortised cost

Deposits are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. The deposits are included as non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which would be classified as current assets. The carrying amount approximates the fair value of the investments.

Summary

	Group		Company	
	June 2018 R'000	June 2017 R'000	June 2018 R'000	June 2017 R'000
Non-current assets				
Financial assets at fair value through profit and loss	65 028	96 272	65 028	96 272
Financial assets at amortised cost	–	–	–	–
	65 028	96 272	65 028	96 272
Current assets				
Financial assets at fair value through profit and loss	152 250	267 743	152 250	267 743
Financial assets at amortised cost	–	79 892	–	79 892
	152 250	347 635	152 250	347 635

9. Investment in associates

	Group		Company	
	June 2018 R'000	June 2017 R'000	June 2018 R'000	June 2017 R'000
Carrying value	56 935	38 823	–	–

During the prior year a 51% interest was purchased in The Cheese has Moved Proprietary Limited. The Shareholders' Agreement between the parties includes a key clause which establishes a threshold of 75% of voting rights for key decisions affecting the strategy of the business. Apart from the mechanisms of power set out in the Shareholders' Agreement and reference to the "standard MOI" in terms of the Companies Act, there are no other mechanisms through which AfroCentric could exert power directly. Several different combinations of shareholders voting in favour of key decisions can achieve the threshold. Therefore, it is evident that AfroCentric does not have control over The Cheese has Moved Proprietary Limited with its 51%. The Group has significant influence over this entity.

In the current year, only Activo Health Proprietary Limited's total aggregate assets, liabilities and results of operations are disclosed as it is the most significant associate.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

9. Investment in associates (continued)

	Group	
	June 2018 R'000	June 2017 R'000
Non-current assets (excluding intangible assets)	835	1 227
Intangible assets	22 750	21 536
Current assets	161 156	109 035
Total assets	184 741	131 798
Non-current liabilities	10 163	1
Current liabilities	60 003	74 909
Total liabilities	70 166	74 910
Net assets	114 575	56 888
Reconciliation to carrying amounts:		
Opening net assets 1 June	56 888	19 750
Profit for the period	68 679	37 138
Closing net assets	125 567	56 888
Group's share in %	26	26
Group's share in R	32 647	14 790
Goodwill	11 303	11 303
Carrying amount	43 950	26 093
Revenue	590 920	388 058
Total comprehensive income attributable to ordinary shareholders	68 679	37 138
Net profit for the year	68 679	37 138

9. Investment in associates (continued)

Individually immaterial associates

In addition to the interest in Activo Health disclosed above, the Group has interests in The Cheese has Moved and Associated Fund Administrators who are immaterial associates that are accounted for using the equity method.

	Group	
	June 2018 R'000	June 2017 R'000
Aggregate carrying amount of individually immaterial associates	13 291	12 730
Aggregate amounts of the Group's share of:		
Profit from continuing operation	5 770	4 649
Total comprehensive income	5 770	4 649

	Reporting date	Number of shares held	Percentage Holdings	1 July 2017 Opening carrying amount R'000	Share of after tax profit/(losses) R'000	Dividends received/(paid) R'000	30 June 2018 Closing carrying amount R'000
Unlisted							
Activo Health Proprietary Limited	30 June	260	26	26 093	17 857	–	43 950
Associated Fund Administrators Botswana Proprietary Limited	30 September	24 000	24	8 405	5 140	(5 208)	8 337
Invisible Card Company Proprietary Limited	30 June	30	40	–	–	–	–
The Cheese Has Moved Proprietary Limited*	30 June	51	51	4 325	629	(306)	4 648
AfroCentric Health Solutions Limited (Kenya Investments)	31 December	26	26	–	–	–	–
				38 823	23 626	(5 514)	56 935

* Refer to Note 33 for subsequent events.

All the above are incorporated in South Africa except for Associated Fund Administrators Botswana Proprietary Limited which is incorporated in Botswana and AfroCentric Health Solutions Limited which is incorporated in Kenya.

Due to the Group's non-controlling interest in Associated Fund Administrators Botswana Proprietary Limited, it has no influence in aligning their reporting dates with the Group's. Management accounts was used to equity account this investment. In the current financial year, Activo Health has aligned its reporting date with the Group, 30 June 2018.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

10. Investment in subsidiaries

			Company	
			June 2018 R'000	June 2017 R'000
Unlisted investments at cost			428 144	428 144
Name	Main business	Country of incorporation	Interest held (voting rights) %	Non-controlling interest (voting rights) %
2018 and 2017				
Directly held				
AfroCentric Resources Proprietary Limited	Dormant	South Africa	100	–
AfroCentric Capital Proprietary Limited	Dormant	South Africa	100	–
ACT Healthcare Assets Proprietary Limited	Investment holding	South Africa	71.3	28.7
ACT Funding Proprietary Limited	Dormant	South Africa	100	–
Indirectly held				
AfroCentric Health Proprietary Limited	Healthcare administration	South Africa	71.3	28.7

The indirectly held subsidiary, Medscheme Holdings Proprietary Limited owned by AfroCentric Health Proprietary Limited, operates in the healthcare administration industry and is a subsidiary that has non-controlling interests that are material to the Group. The total aggregate assets, liabilities and results of Medscheme Holdings Proprietary Limited operations are summarised as follows:

Summarised statement of financial position of Medscheme Holdings Proprietary Limited

	Group	
	June 2018 R'000	June 2017 R'000
Non-current assets (excluding intangible assets)	152 017	158 491
Intangible assets	4 952	18 777
Current assets	913 469	950 271
Total assets	1 070 438	1 127 539
Non-current liabilities	25 644	27 850
Current liabilities	205 896	235 681
Total liabilities	231 540	263 531

Summarised statement of comprehensive income of Medscheme Holdings Proprietary Limited

	Group	
	June 2018 R'000	June 2017 R'000
Revenue	2 159 120	2 008 106
Profit for the period	143 130	216 194
Other comprehensive loss	(128)	(285)
Total comprehensive income	143 002	215 909

10. Investment in subsidiaries (continued)

Summarised statement of cash flows of Medscheme Holdings Proprietary Limited

	Group	
	June 2018 R'000	June 2017 R'000
Net cash inflow from operating activities	(2 835)	309 744
Net cash outflow from investing activities	(2 013)	(188 432)
Net cash inflow from financing activities	(157 453)	1 234
Net increase/(decrease) in cash and cash equivalents	(162 301)	(122 546)

11. Deferred income tax

	Group	
	June 2018 R'000	June 2017 R'000
Analysed in the statement of financial position, after offset of balances within companies, as follows:		
Deferred tax assets	45 210	82 865
Deferred tax liabilities	(121 667)	(100 627)
	(76 457)	(17 762)

Gross deferred tax assets and liabilities, before offset of balances within companies, are as follows:

	Group							Total R'000
	Capital allowances R'000	Investment R'000	Provisions R'000	Prepay-ments R'000	Assessed loss* R'000	Business combina-tions R'000	Other R'000	
Deferred income tax assets								
Balance as at 30 June 2016	-	-	38 590	-	66 272	-	-	104 862
(Charge)/credit to profit for the year	-	12 815	(4 908)	-	(29 904)	-	-	(21 997)
Balance as at 30 June 2017	-	12 815	33 682	-	36 368	-	-	82 865
(Charge)/credit to profit for the year	-	(592)	(6 735)	-	(19 199)	-	340	(26 186)
Balance as at 30 June 2018	-	12 223	26 947	-	17 169	-	340	56 679
Deferred income tax liabilities								
Balance as at 30 June 2016	(49 019)	-	-	(2 151)	-	(31 220)	-	(82 390)
(Charge)/credit to profit for the year	(20 053)	(1 540)	(444)	196	-	3 604	-	(18 237)
Balance as at 30 June 2017	(69 072)	(1 540)	(444)	(1 955)	-	(27 616)	-	(100 627)
(Charge)/credit to profit for the year	(27 629)	1 540	444	(1 338)	-	(3 986)	(1 540)	(32 509)
Balance as at 30 June 2018	(96 701)	-	-	(3 293)	-	(31 602)	(1 540)	(133 136)

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

11. Deferred income tax (continued)

	Company							Total R'000
	Capital allowances R'000	Investment R'000	Provisions R'000	Prepay- ments R'000	Assessed loss* R'000	Business combina- tions R'000	Other R'000	
Deferred income tax assets								
Balance as at 1 July 2016	–	–	1 400	–	16 345	–	–	17 745
Credit to profit for the year	–	12 815	1 260	–	(16 345)	–	–	(2 270)
Balance as at 30 June 2017	–	12 815	2 660	–	–	–	–	15 475
(Charge)/credit to profit for the year	–	(592)	(2 660)	–	–	–	–	(3 252)
Balance as at 30 June 2018	–	12 223	–	–	–	–	–	12 223

* As a result of the increase in operations, the companies will generate sufficient income which will be utilised against the assessed loss going forward.

12. Inventory

	Group		Company	
	June 2018 R'000	June 2017 R'000	June 2018 R'000	June 2017 R'000
Merchandise	74 366	63 848	–	–
Finished goods	9 166	9 528	–	–
Inventory on hand at year end	83 532	73 376	–	–

The finished goods on hand at year end relates to specialised equipment that will be sold in the next financial period. Merchandise refers to pharmaceutical products that are on hand at year end.

13.1 Issued share capital

	Group		Company	
	June 2018 R'000	June 2017 R'000	June 2018 R'000	June 2017 R'000
Authorised:				
1 billion ordinary shares at no par value	10 000	10 000	10 000	10 000
60 million redeemable preference shares of 1 cent each	600	600	600	600
Issued:				
Issued ordinary shares at 30 June 2018: 554 377 328 made up as follows:				
Issued ordinary share capital				
554 377 328 (June 2017: 554 377 328) ordinary shares of 1 cent each	18 686	18 686	18 686	18 686
– Opening balance	18 686	18 686	18 686	18 686
– Issue of share capital	–	–	–	–
Share premium (note 13.2)	999 058	999 058	999 058	999 058
	1 017 744	1 017 744	1 017 744	1 017 744

The Directors are authorised, by resolution of the members and until the forthcoming Annual General Meeting, to issue the unissued shares in accordance with the limitation set by members. All issued shares have been fully paid.

13.2 Share premium

	Group		Company	
	June 2018 R'000	June 2017 R'000	June 2018 R'000	June 2017 R'000
Opening balance	999 058	970 358	999 058	970 358
Reversal of share based payment reserve	–	28 700	–	28 700
Closing balance	999 058	999 058	999 058	999 058

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

14. Other reserves

The following table shows a breakdown of the balance sheet line item 'other reserves' and the movements in these reserves during the year.

	Group				
	Conditional put option reserve R'000	Share based payment reserve R'000	Foreign currency translation reserve R'000	Treasury shares R'000	Total reserves R'000
Balance as at 30 June 2016	(727 960)	26 604	7 027	(2 324)	(696 653)
Share-based payment expense	–	2 096	–	–	2 096
Other comprehensive income	–	–	(3 573)	–	(3 573)
Transferred to conditional put option reserve	(45 906)	–	–	–	(45 906)
Conditional put option reserve	773 866	–	–	–	773 866
Reversal of share based payment reserve	–	(28 700)	–	–	(28 700)
Balance as at 30 June 2017	–	–	3 454	(2 324)	1 130
Share-based payment expense	–	3 501	–	–	3 501
Other comprehensive income	–	–	(2 661)	–	(2 661)
Balance as at 30 June 2018	–	3 501	793	(2 324)	1 970

	Company	
	Share based payment reserve R'000	Total Reserves R'000
Balance as at 30 June 2016	26 604	26 604
Share-based payment expense	2 096	2 096
Reversal of share based payment reserve	(28 700)	(28 700)
Balance as at 30 June 2017	–	–
Share-based payment expense	3 501	3 501
Balance as at 30 June 2018	3 501	3 501

15. Non-controlling interest

	Group		Company	
	June 2018 R'000	June 2017 R'000	June 2018 R'000	June 2017 R'000
Balance at the beginning of the year	585 359	515 603	–	–
Dividend distributions (note 26)	(51 544)	(32 616)	–	–
Non-controlling interest on acquisition of subsidiaries	17 171	–	–	–
Share of net profit of subsidiaries	128 291	102 372	–	–
	679 277	585 359	–	–

16. Accrual for straight-lining of leases

All leased assets in the Group relate to operating leases of property. Below is a summary of the most significant leasing arrangements:

Property location	Start date	End date	Rental per month	Escalation rate
The Boulevard, Woodstock Cape Town	1 October 2014	30 September 2019	R3.1 million	8.0%
Florida North, Roodepoort	1 December 2014	30 November 2019	R1.9 million	7.5%

	Group R'000
Balance as at 30 June 2016	15 642
Credited to the statement of comprehensive income:	
– movements in provision	230
Balance as at 30 June 2017	15 872
Credited to the statement of comprehensive income:	
– movements in provision	(2 486)
Balance as at 30 June 2018	13 386

	Group	
	June 2018 R'000	June 2017 R'000
Non-current portion	15 915	18 979
Current portion	(2 529)	(3 107)
	13 386	15 872

17. Employment benefit liability

	Group		
	Bonuses R'000	Leave pay R'000	Total R'000
Balance as at 30 June 2016	61 117	45 660	106 777
Charged/(credited) to the statement of comprehensive income:			
– additional provisions	81 003	–	81 003
– amounts reversed	–	(1 158)	(1 158)
Utilised during the year	(95 621)	(4 768)	(100 389)
Balance as at 30 June 2017	46 499	39 734	86 233
Charged to the statement of comprehensive income:			
– additional provisions	69 695	8 812	78 507
Utilised during the year	(110 058)	(4 727)	(114 785)
Balance as at 30 June 2018	6 136	43 819	49 955

	Company		
	Bonuses R'000	Leave pay R'000	Total R'000
Balance as at 30 June 2017	4 500	–	4 500
Charged/(credited) to the statement of comprehensive income:			
– amounts reversed	(4 500)	–	(4 500)
Balance as at 30 June 2018	–	–	–

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

17. Employment benefit liability (continued)

The provision for management incentive bonuses was payable at the end of October 2017 and May 2018, whilst the remaining provision for staff is payable at the end of December 2018 to staff as part of a salary restructuring arrangement based on their cost to Company. The leave pay provisions are primarily in respect of leave pay to be settled in the next financial year.

18. Revenue

	Group		Company	
	June 2018 R'000	June 2017 R'000	June 2018 R'000	June 2017 R'000
Revenue from sale of goods	1 241 769	1 069 435	–	–
Administration fees	1 411 297	1 385 844	–	–
Health risk management fees	1 117 970	929 411	–	–
Management fees	2 550	1 869	–	–
IT revenue and other	428 921	398 142	50	50
Healthcare insurance	10 198	–	–	–
Revenue from performance of services	2 970 936	2 715 266	50	50
Total revenue	4 212 705	3 784 701	50	50

19. Cost of pharmaceutical products and finished goods

	Group		Company	
	June 2018 R'000	June 2017 R'000	June 2018 R'000	June 2017 R'000
Opening inventory	73 376	72 310	–	–
Purchases	934 790	837 800	–	–
Closing inventory	(83 532)	(73 376)	–	–
	924 634	836 734	–	–

20. Profit before taxation

Profit before taxation is stated after charging/(crediting) the following items:

	Group		Company	
	30 June 2018 R'000	30 June 2017 R'000	30 June 2018 R'000	30 June 2017 R'000
Auditors' remuneration (included in other expenses)	12 661	9 992	1 363	1 113
Audit fees	11 204	9 992	1 358	1 113
Prior period (over)/underprovision	1 457	–	5	–
Amortisation of development costs and other intangible assets	89 603	86 450	–	–
Depreciation of property, plant and equipment	51 109	45 098	–	–
Motor vehicles	1 942	1 468	–	–
Building Infrastructure and leasehold improvements	–	4	–	–
Computer equipment	30 140	27 241	–	–
Buildings	1 701	–	–	–
Furniture and fittings	10 857	10 195	–	–
Property and equipment	6 469	6 190	–	–
Bad debt write-off	3 673	2 532	–	–
Provision for doubtful debts*	11 690	7 444	–	–
Operating lease rentals (included in rentals and property costs)	163 299	150 869	–	–
Buildings	151 453	140 317	–	–
Motor vehicles	194	415	–	–
Office equipment and furniture	11 652	10 137	–	–
Repairs and maintenance (included in rentals and property costs)	4 668	3 281	–	–

* This relates to doubtful debts in Medscheme Administrators Swaziland.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

20. Profit before taxation (continued)

Profit before taxation is stated after charging/(crediting) the following items:

	Group		Company	
	30 June 2018 R'000	30 June 2017 R'000	30 June 2018 R'000	30 June 2017 R'000
Profit before taxation is stated after charging/(crediting) the following items:				
Directors' emoluments (included in employee benefit costs)				
Executive				
JW Boonzaaier	4 557	3 836	–	–
– Basic salary	2 824	2 590	–	–
– Bonus	1 509	1 043	–	–
– Company contributions	224	203	–	–
WH Britz	6 677	5 241	–	–
– Basic salary	3 647	3 403	–	–
– Bonus	2 689	1 533	–	–
– Company contributions	341	305	–	–
AV Van Buuren	6 667	5 044	–	–
– Basic salary	3 740	3 313	–	–
– Bonus	2 689	1 533	–	–
– Company contributions	248	198	–	–
Non-executive				
For services as directors (basic salary)	4 333	3 853	3 592	2 275
ATM Mokgokong	1 060*	911*	735	261
MJ Mandungandaba	1 024*	810*	816	323
Dr ND Munisi	291	224	291	224
A Banderker	584*	702*	376	261
IM Kirk	216	205	216	205
SE Mmakau	433	174	433	174
LL Dhlamini	427	281	427	281
HG Motau	298	35	298	35
Y Masithela	–	50	–	50
GL Napier	–	67	–	67
NB Bam	–	67	–	67
JG Appelgryn	–	67	–	67
NV Lila Qangule	–	260	–	260
Employee benefit costs	1 875 264	1 689 615	(1 440)	14 029
Salaries and wages	1 651 381	1 454 878	2 983	8 456
Termination benefits	12 372	6 218	–	1 015
Incentive bonus	69 825	81 003	(4 500)	4 500
Staff welfare	47 700	40 191	77	58
Movement in post-employment medical obligation	(107)	80	–	–
Pension costs – defined contribution plans	94 093	107 245	–	–

* The Directors' remuneration highlighted above reflects their total Directors' fees received across various subsidiaries within the Group.

20. Profit before taxation (continued)

	Group		Company	
	30 June 2018 R'000	30 June 2017 R'000	30 June 2018 R'000	30 June 2017 R'000
Average number of persons employed by the Group during the period:				
South Africa	5 281	4 921	–	–
Full time	4 808	4 250	–	–
Part time	473	671	–	–
Outside of South Africa	321	315	–	–
Full time	289	288	–	–
Part time	32	27	–	–
Dividends received				
Other	–	–	119 784	35 650
Loss on disposal of tangible assets	(711)	(681)	–	–
Profit/(loss) on disposal of investments	(2 717)	–	5 442	–
Fair value adjustments	8 612	23 152	8 612	22 734
Fair value gains on financial assets	8 612	23 152	8 612	22 734
Research and development costs	30 107	14 916	–	–
Impairments	(1 667)	(19 851)	–	850
Impairment of intangible asset	–	(16 640)	–	–
Impairment of investments	(1 285)	–	–	–
Impairment of loans	(382)	(3 211)	–	850
Other expenses				
Included in other expenses are the following:				
Donations	350	717	10	–
Legal and consulting fees	159 819	124 209	1 627	529
Management costs*	235 647	209 222	8 618	6 315
Marketing and recruitment	52 471	40 321	3 909	3 283
Straight-lining of leases	(2 780)	(80)	–	–
Capitation costs	57 121	–	–	–

* This relates mainly to motor vehicle, telephone, travel, postage and subscription costs.

21. Net finance costs

	Group		Company	
	30 June 2018 R'000	30 June 2017 R'000	30 June 2018 R'000	30 June 2017 R'000
Finance costs	(1 862)	(46 667)	(1 490)	(1 547)
Cash and cash equivalents	(595)	–	–	–
Intercompany loans	–	–	(1 490)	(1 547)
Conditional financial obligation*	–	(45 906)	–	–
Other	(1 267)	(761)	–	–
Finance income	36 731	39 621	3 492	15 608
Cash and cash equivalents	32 963	36 894	3 395	15 608
Other	3 768	2 727	97	–

The effective interest approximates the interest on the cash flows for the period.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

22. Income tax expense

	Group		Company	
	30 June 2018 R'000	30 June 2017 R'000	30 June 2018 R'000	30 June 2017 R'000
Current taxation				
Current year	105 189	104 668	4 924	2 687
Prior year	(2 565)	2 734	–	–
Deferred taxation				
Current year	49 484	42 728	1 852	4 574
Prior year	1 400	(3 594)	1 400	(2 304)
	153 508	146 536	8 176	4 957

	Group		Company	
	30 June 2018 %	30 June 2017 %	30 June 2018 %	30 June 2017 %
Reconciliation of the tax rate				
South African normal tax rate	28.0	28.0	28.0	28.0
Adjusted for:				
Disallowable expenses	1.84	14.63	6.43	(96.51)*
Exempt income	(1.97)	(3.58)	(32.52)	40.53
Other taxable income	0.36	–	1.71	–
Other deductible expenses	(0.29)	–	–	–
Prior year adjustment				
– current tax	(0.48)	0.53	–	–
– deferred tax	0.26	(0.79)	1.25	8.88
Withholding tax	0.79	1.03	–	–
Utilisation of assessed losses	0.01	0.17	–	–
Effective rate of tax (%)	28.52	39.99	4.87	(19.10)

* The non-deductible expenditure reflected on the tax rate reconciliation relates to expenses relating to the remeasurement of contingent consideration and indemnity expense

23. Earnings per share

The calculation of basic earnings per share for the Group is based on profit and loss attributable to the parent for the year of R256.6 million (June 2017: net profit of R117.7 million), and a weighted average number of shares of 554.4 million (June 2017: 554.4 million) shares in issue. The calculation of headline earnings per share for the Group is calculated on adjusted headline earnings of R260.9 million (June 2017: R123.8 million), and a weighted average number of shares of 554.4 million (June 2017: 554.4 million) shares in issue.

23. Earnings per share (continued)

	Group	
	30 June 2018 R'000	30 June 2017 R'000
Reconciliation of headline earnings		
Total profit and loss attributable to the parent	256 611	117 669
Basic earnings	256 611	117 669
Adjusted for:		
Impairment/(reversal of impairment)	1 285	16 640*
Tax effect of impairment/ (reversal of impairment)	–	–
Loss on disposal of assets	3 428	681
Tax effect of loss on disposal of asset	1 325	(191)
Fair value gain on investment property	–	(418)
Tax effect of fair value gain on investment property	–	94
Total non-controlling interest effect of adjustments	(1 733)	(10 637)
Headline earnings	260 916	123 838
Earnings per share (cents)		
Basic	46.29	21.23
Diluted	45.93	21.23
Headline earnings per share (cents)		
Basic	47.06	22.34
Diluted	46.70	22.34
Cash earnings per share (cents)**		
Basic	99.70	81.33
Diluted	98.93	81.33
Weighted average number of shares	554 377 328	554 377 328
Adjusted for:		
– dilutionary impact of contingent shares	4 290 000	–
Weighted average number of shares for diluted earnings per share	558 667 328	554 377 328
Normalised earnings (non-IFRS information)¹		
Headline earnings	260 916	123 838
Adjusted by:	3 150	120 275
– Finance costs: Conditional obligation	–	45 906
– Fair value of contingent consideration	–	59 582
– Sanlam indemnity expense	3 150	14 787
Normalised headline earnings	264 066	244 113
Normalised headline earnings per share (cents)		
Basic	47.63	44.03
Diluted	47.27	44.03

* This relates to impairment of Goodwill relating to IE Business which is currently dormant as it ceased operations.

** The cash generated from operations was used to arrive at this figure.

¹ Given the material non-cash, non-trading and non-recurring deductions which have a significant adverse impact on the earnings management has adopted a non IFRS earnings measure model.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

24. Cash generated from operations

	Group		Company	
	30 June 2018 R'000	30 June 2017 R'000	30 June 2018 R'000	30 June 2017 R'000
Profit/(loss) before tax	538 446	366 657	168 018	(25 948)
Adjustments for:				
Dividends received	–	–	(119 784)	(35 650)
Finance income	(36 731)	(39 621)	(3 492)	(15 608)
Finance cost	1 862	46 667	1 490	1 547
Bad debts written off	3 673	2 532	–	–
Increase/(decrease) in provision for bad debts	11 690	7 444	–	–
Net actuarial (gains)/losses	(107)	80	–	–
Depreciation	51 109	45 098	–	–
Fair value gains	(8 612)	(23 152)	(8 612)	(22 734)
Fair value of contingent consideration	–	59 582	–	59 582
Amortisation of intangible assets	89 603	86 450	–	–
Impairment provision on investments and loans	1 667	3 211	–	(850)
Straight-lining of leases	(3 069)	(80)	–	–
(Profit)/loss on disposal of investment	3 428	681	(5 442)	–
Interest relating to deferred payment balance	518	–	–	–
Share-based payment expense	3 501	2 096	–	–
Impairment of intangible assets	–	16 640	–	–
Share of profit from associates	(23 626)	(14 306)	–	–
Cash flow before working capital changes	633 352	559 979	32 178	(39 661)
Working capital changes	(80 657)	(109 092)	(25 198)	17 110
Trade and other receivables	(40 105)	36 809	(129)	535
Provisions	(38 695)	(23 662)	(9 314)	4 541
Inventory	(10 156)	(1 066)	–	–
Trade and other payables	8 299	(121 173)	(15 755)	12 034
Cash generated from operations	552 695	450 887	6 980	(22 551)

25. Taxation paid

	Group		Company	
	30 June 2018 R'000	30 June 2017 R'000	30 June 2018 R'000	30 June 2017 R'000
Balance at the beginning of the year asset (Charge)/credit to the statement of comprehensive income	25 235	19 821	1 833	1 658
Deferred tax charge/(credit)	(153 508)	(146 536)	(8 176)	(4 957)
Securities transfer tax	50 884	39 120	3 252	2 270
Take on balance	–	15	–	–
	31	–	–	–
Balance at the end of the year (asset)/liability	(7 039)	(25 235)	(1 018)	(1 833)
	(84 397)	(112 815)	(4 109)	(2 862)

26. Dividends

AfroCentric Investment Corporation Limited passed two resolutions whereby dividends were declared in the 2018 financial year. The first dividend was declared in September 2017 of 14 cents per share and the second dividend was declared in March 2018 of 16 cents per share, being the interim dividend. The value of R77.6 million was paid in November 2017 for the first dividend and R88.7 million was paid in May 2018 for the second dividend. These dividends were debited to retained earnings in 2018.

	Group		Company	
	30 June 2018 R'000	30 June 2017 R'000	30 June 2018 R'000	30 June 2017 R'000
Dividend declared by AfroCentric Investment Corporation Limited in September 2017	77 613	66 525	77 613	66 525
Dividend declared by AfroCentric Investment Corporation Limited in March 2018	88 700	77 613	88 700	77 613
Other dividends in the Group:				
Dividend declared and paid by ACT Healthcare Assets Proprietary Limited to non-controlling interests	48 216	14 350	–	–
Dividend declared and paid by Medscheme (Namibia) Proprietary Limited to non-controlling interests	3 328	15 222	–	–
Dividend declared and paid by Allegra Proprietary Limited to non-controlling interests	–	3 044	–	–

27. Share-based payments

New scheme

In the 2018 financial year a new share award plan was implemented. The purpose of the plan is to retain, motivate and reward eligible employees who are able to influence the performance and growth strategies of the Company, on a basis which aligns their interests with those of the Group's shareholders.

Share awards will be issued to identified participants by the Remuneration Committee and Board. The number of share awards to be allocated to an eligible employee, will primarily be based on the identified employee's annual salary, grade, performance, retention and attraction requirements and market benchmarks. The number of share awards will be recommended by the Remuneration Committee at the time that share awards are granted per an award letter.

Eligibility for participation to the plan will be considered on an annual basis. Share awards will constitute conditional shares in AfroCentric Investment Corporation and on vesting date this will be issued to the identified participant in equity shares at no cost. The maximum annual allocation is 5 543 773 share awards (1% of current issued share capital of 554 377 328) and the maximum dilution limit is 27 718 866 (5% of current issued share capital of 554 377 328).

The share price on 8 December 2017 of R6.20, which is grant date, was used to determine the IFRS 2 charge for 2018. AfroCentric expects that 90% of awards will vest to participants at the end of the plan. The share awards are subject to staggered vesting i.e. vesting of the share awards following the 3 year retention period in 3 equal tranches. The charge for the year is R3.5 million.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

27. Share-based payments (continued)

Old scheme

In the prior financial years, the Boards of AfroCentric and AfroCentric Health had approved an allocation of 7 million additional shares that was not originally stipulated in the 2008 Acquisition Agreement. The AfroCentric Investment Corporation Limited Group, of which the AHL Group is a subsidiary, had allocated share-based awards to certain Executive Directors of the AHL Group as part of their remuneration package. The share awards are at an AfroCentric Investment Corporation Limited Group level. The Group measured the fair value of the share awards or equity instruments granted, in line with the Group's accounting policy. The share price on 1 November 2013, which was grant date, was used to determine the IFRS 2 charge for 2017. AfroCentric had fully settled its obligation of the 7 million additional shares and the share based payment reserve has been released in the June 2017 financial year.

	Group		Company	
	30 June 2018 R'000	30 June 2017 R'000	30 June 2018 R'000	30 June 2017 R'000
Executive awards	4 440	7 000	–	805
Movements in number of instruments:				
Outstanding at the beginning of the year	–	6 488	–	54
Exercised	–	(6 999)	–	(54)
Vested	565	511	–	–
Active employees	565	511	–	–
Outstanding at the end of the year	565	–	–	–

28. Contingencies, commitments and guarantees

28.1 Contingencies

Exposure to errors and omissions in ordinary course of business

As for any business with similar operations, the Group is exposed to various potential claims relating to alleged errors and omissions or non-compliance with laws and regulations in the conduct of its ordinary course of business. At the date of these Annual Financial Statements, the Group is unaware of any material claims, actual or contemplated, by any of the Group's stakeholders or customers, except for those listed below.

Neil Harvey & Associates Proprietary Limited

Neil Harvey & Associates has instituted a claim against Medscheme Holdings Proprietary Limited and three of its employees in 2007. The allegations concern alleged copyright infringement and a breach of the Medware licence agreement. The maximum capital amount of the claim as presently pleaded is R390.4 million. An amendment sought by the plaintiff was the cause of this. The increased sum has no impact on the merits of the claim which remain the same as before. The parties are still engaged in private arbitration, however it is unlikely that the matter will be finalised during the current financial year. Medscheme Holdings Proprietary Limited will continue to vigorously defend the claim and is confident that there will still be no liability in this matter and the arbitration hearing has been scheduled for October 2018. We constantly monitor the merits of the case with our legal team. We remain confident that there will be no liability.

28. Contingencies, commitments and guarantees (continued)

28.1 Contingencies (continued)

Legal Claim against Allegra Proprietary Limited

Allegra entered into a supply agreement with Medirite in 2015 to install its pharmacy software at each Medirite branch in South Africa. The project was nearing completion by the end of 2017 upon which Medirite terminated the services during July 2017. As part of terminating the service, Medirite is claiming all previous fees paid to Allegra based on non-performance to the agreement.

Management is confident that the claims against Allegra are not seen to be valid and no proof exists to claim the fees paid to date of R18.2 million.

As at year end, no legal summons have been issued yet regarding this matter; there has, however been an exchange of letters between the parties.

28.2 Commitments

	Group	
	30 June 2018 R'000	30 June 2017 R'000
Building rentals		
Rental obligations with respect to land and buildings		
Not later than 1 year	84 453	78 178
Later than 1 year but not later than 5 years	46 494	119 867
	130 947	198 045

28.3 Guarantees

	Group		Company	
	30 June 2018 R'000	30 June 2017 R'000	30 June 2018 R'000	30 June 2017 R'000
Guarantees issued in respect of office rental for premises occupied by the Group	5 503	5 503	–	–
Medical aid schemes	1 000	1 000	–	–
South African Post Office	3 800	3 800	–	–
City Power Johannesburg	500	500	–	–
Mmed guarantees to suppliers	850	–	–	–
	11 653	10 803	–	–

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

29. Related party transactions

29.1 Directors

Details relating to Directors' emoluments are disclosed in note 20. There are no loans to Directors.

The Directors' shareholdings are disclosed on page 7 of the Annual Financial Statements. Transactions within the Group are listed below.

Relationships with Directors in the Group

WAD Holdings Proprietary Limited – Mr AV Van Buuren (Group Chief Executive Officer) and WH Britz (Executive Director) each hold 33.3% of WAD Holdings Proprietary Limited.

WAD Holdings Proprietary Limited holds A class shares in the Glen Eden Trading 58 Proprietary Limited. The Glen Eden A class shares will be entitled to 10% of the votes at any meeting attended by WAD Holdings Proprietary Limited or its proxy. The Glen Eden A class shares will not be entitled to any dividends or profit before 1 January 2017 and will rank *pari passu* with ordinary shares in terms of voting rights and distribution rights from 1 January 2017. AfroCentric purchased the A class shares in the current financial year for an amount of R194.5 million.

WAD Holdings Proprietary Limited holds A class shares in Pharmacy Direct Proprietary Limited and Curasana Wholesaler Proprietary Limited. The A class shares shall have no voting rights but shall have right to 100% of the distribution of the after tax profits attributable to the Department of Health contract from 1 July 2018. In the 2019 financial year, AfroCentric has a right to purchase the A class shares by 1 September 2018. The minimum threshold per the stipulated formula was not achieved for the purchase of the shares. The shares will now be transferred to ACT Healthcare Assets Proprietary Limited.

WAD Holdings Proprietary Limited is the 100% shareholder of Northern Lights Trading 172 Proprietary Limited. Curasana Wholesaler entered into an agreement with Northern Lights Trading 172 Proprietary Limited on 29 February 2016 whereby Curasana Wholesaler has purchased Portion 3 of Erf 1903, Zwartkop X15, which is the premises of the main business operations and was leased from Northern Lights Trading 172 Proprietary Limited, for the amount of R32 000 000. This was completed in the 2017 financial year.

29.2 Transactions with entities in the Group

During the period the Group entered into the following related party transactions:

	Group	
	30 June 2018 R'000	30 June 2017 R'000
Directors		
Medical aid contributions paid by directors – to schemes administered by Medscheme Holdings Proprietary Limited	164	242
Mr MJ Madungandaba (70%) and Dr ATM Mokgokong (30%) control Namane Financial Services – Consulting and marketing fees paid to Namane Financial Services	–	2 532
Mr SM Rothbart has a controlling interest in Rothbart Inc. – Consulting fees paid by Medscheme Holdings Proprietary Limited	–	1 474
Mr MJ Madungandaba (42%) and Dr ATM Mokgokong (18%) control Mesure Facilities Management Proprietary Limited – Management fees and other expenses paid to Mesure Facilities Management Proprietary Limited. The fees represents outsourced facilities management for the AfroCentric Group that represent the following categories	71 526	90 883
– Salaries	14 414	13 584
– Cleaning and security	23 117	25 672
– Refurbishments, projects and capex	10 785	33 844
– Utilities	20 541	15 518
– Other	2 669	2 265
Mr MJ Madungandaba (41.91%) and Dr ATM Mokgokong (17.96%) collectively control Skynet South Africa Proprietary Limited – Courier fees to Skynet South Africa	1 552	1 278
Mr MJ Madungandaba (8.29%) and Dr ATM Mokgokong (3.55%) have an interest in Jasco Electronics Holdings Limited – IT service fees to Jasco Electronics Holdings Limited	17 921	17 281

29. Related party transactions (continued)

29.2 Transactions with entities in the Group (continued)

	Group	
	30 June 2018 R'000	30 June 2017 R'000
Associates		
Invisible card company Proprietary Limited – loan advanced by AfroCentric Health Limited	–	3 000
The Cheese Has Moved Proprietary Limited – interest charged on loan from AfroCentric Health Proprietary Limited	289	51
Subsidiaries		
AfroCentric Health Limited – management fees paid to Medscheme Holdings Proprietary Limited	13 051	914
AfroCentric Management Services Proprietary Limited – profile fees paid to Helios IT Solutions Proprietary Limited	62	51
AfroCentric Management Services Proprietary Limited – Telkom ,TMS and printer fees paid to Helios IT Solutions Proprietary Limited	36	34
AfroCentric Management Services Proprietary Limited – IT support services paid to Helios IT Solutions Proprietary Limited	2	18
Aid for Aids Management Proprietary Limited – management fees paid to Medscheme Holdings Proprietary Limited	–	4 674
Aid for Aids Management Proprietary Limited – management fees paid to AfroCentric Health Proprietary Limited	7 792	–
Aid for Aids Management Proprietary Limited – Telkom ,TMS and printer fees paid to Helios IT Solutions Proprietary Limited	596	655
Aid for Aids Management Proprietary Limited – profile fees paid to Helios IT Solutions Proprietary Limited	2 348	2 325
Allegra Proprietary Limited – switching fees paid to Helios IT Solutions Proprietary Limited	5 201	5 281
Allegra Proprietary Limited –TMS and Telkom fees paid to Helios IT Solutions Proprietary Limited	17	24
Allegra Proprietary Limited – Licence and support fee paid to Helios IT Solutions Proprietary Limited	1 434	1 342
Allegra Proprietary Limited – Dividend paid to Helios IT Solutions Proprietary Limited	–	3 168
ACT Healthcare Assets Proprietary Limited – dividends paid to AfroCentric Investment Corporation Limited	119 784	35 650
Medscheme Namibia Proprietary Limited – dividends paid to Medscheme Holdings Proprietary Limited	9 473	43 324
Pharmacy Direct Proprietary Limited – inventory purchases from Curasana Wholesalers Proprietary Limited	867 827	758 233
Aid for Aids Management Proprietary Limited – NAPWA fees paid to Glen Eden Trading 58 Proprietary Limited	–	234
Helios IT Solutions Proprietary Limited – consulting fees paid to Glen Eden Trading 58 Proprietary Limited	36 843	33 095
Pharmacy Direct Proprietary Limited – rental costs, electricity and security costs paid to Curasana Wholesalers Proprietary Limited	3 571	2 784
Medscheme International – management fees paid to Medscheme Holdings Proprietary Limited	–	28
Medscheme International – management fees paid to AfroCentric Health Proprietary Limited	30	–

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

29. Related party transactions (continued)

29.2 Transactions with entities in the Group (continued)

	Group	
	30 June 2018 R'000	30 June 2017 R'000
Subsidiaries (continued)		
Medscheme Mauritius – management fees paid to AfroCentric Health Proprietary Limited	267	–
Medscheme Zimbabwe – management fees paid to AfroCentric Health Proprietary Limited	238	–
AfroCentric Health Limited – IT support services paid to Helios IT Solutions Proprietary Limited	595	–
AfroCentric Health Limited – TMS and Telkom fees paid to Helios IT Solutions Proprietary Limited	119	–
AfroCentric Health Limited – Profile fees paid to Helios IT Solutions Proprietary Limited	4 884	–
Aid for Aids Management Proprietary Limited – dividends paid to AfroCentric Health Proprietary Limited	70 400	–
AfroCentric Health Proprietary Limited – dividends paid to ACT Healthcare Assets Proprietary Limited	168 000	–
Glen Eden Proprietary Limited – dividends paid to ACT Healthcare Assets Proprietary Limited	57 234	–
Medscheme Limited – dividends paid to AfroCentric Health Proprietary Limited	43 999	–
AfroCentric Distribution Services Proprietary Limited – on site support fees paid to Helios IT Solutions Proprietary Limited	161	34
AfroCentric Distribution Services Proprietary Limited – Out Of scope fees paid to Helios IT Solutions Proprietary Limited	223	–
Medscheme Mauritius – management fees paid to Medscheme Holdings Proprietary Limited	–	250
Helios IT Solutions Proprietary Limited – management fees paid to Medscheme Holdings Proprietary Limited	–	15 359
Helios IT Solutions Proprietary Limited – management fees paid to AfroCentric Health Proprietary Limited	16 358	–
Medscheme Zimbabwe – management fees paid to Medscheme Holdings Proprietary Limited	–	223
Medscheme Holdings Proprietary Limited – TMS and Telkom fees paid to Helios IT Solutions Proprietary Limited	15 647	17 151
Medscheme Holdings Proprietary Limited – out of scope and recovery costs paid to Helios IT Solutions Proprietary Limited	1 101	929
Klinikka Proprietary Limited – hosting fees paid to Helios IT Solutions Proprietary Limited	–	188
AfroCentric Health Limited – hosting fees paid to Helios IT Solutions Proprietary Limited	–	51
Medscheme Administrators Swaziland Proprietary Limited – management fees paid to Medscheme Holdings Proprietary Limited	–	1 469
Medscheme Administrators Swaziland Proprietary Limited – management fees paid to AfroCentric Health Proprietary Limited	1 565	–
Klinikka Proprietary Limited – corporate service fees paid to Helios IT Solutions Proprietary Limited	74	70
Medscheme Administrators Swaziland Proprietary Limited – IT support services paid to Helios IT Solutions Proprietary Limited	463	815
Medscheme Administrators Swaziland Proprietary Limited – profile fees paid to Helios IT Solutions Proprietary Limited	125	323

29. Related party transactions (continued)

29.2 Transactions with entities in the Group (continued)

	Group	
	30 June 2018 R'000	30 June 2017 R'000
Medscheme Administrators Swaziland Proprietary Limited – licence and support fees paid to Helios IT Solutions Proprietary Limited	–	3 026
AfroCentric Health Limited – sales to Klinikka Proprietary Limited	–	2 800
Medscheme Holdings Proprietary Limited – management fees paid to AfroCentric Management Services Proprietary Limited	20 400	27 540
Mmed Proprietary Ltd – IT Support service fees paid to Helios IT Solutions Proprietary Limited	8	–
Medscheme Holdings Proprietary Limited – IT support services paid to Helios IT Solutions Proprietary Limited	69	69
Medscheme Holdings Proprietary Limited – management fees paid to AfroCentric Health Limited	147 836	2 089
Medscheme Holdings Proprietary Limited – Switching fees paid to Allegra Proprietary Limited	33 439	31 787
Medscheme Holdings Proprietary Limited – management fees paid to AfroCentric Health Limited	–	30 000
Medscheme Holdings Proprietary Limited – management fees paid to AfroCentric Management Services Proprietary Limited	–	7 000
Curasana Wholesaler Proprietary Limited – management fees paid to AfroCentric Management Services Proprietary Limited	2 372	–
Medscheme Holdings Proprietary Limited – information technology admin fees paid to Helios IT Solutions Proprietary Limited	148 271	143 315
Helios IT Solutions Proprietary Limited – Commission payable to Medscheme Holdings Proprietary Limited for services rendered (CIMAS and First Mutual Life)	2 395	3 715
Medscheme Holdings Proprietary Limited – profile fees paid to Helios IT Solutions Proprietary Limited	95 535	92 433
Medscheme Holdings Proprietary Limited – Dividend paid to AfroCentric Health Limited	168 000	–
Medscheme Namibia Proprietary Limited – licence and support fees paid to Helios IT Solutions Proprietary Limited	5 869	5 614
Medscheme Namibia Proprietary Limited – profile fees paid to Helios IT Solutions Proprietary Limited	1 188	977
Medscheme Namibia Proprietary Limited – management fees paid to Medscheme Holdings Proprietary Limited	1 011	935
Klinikka Proprietary Limited – interest charged on loan from AfroCentric Health Limited	211	563
Pharmacy Direct Proprietary Limited – interest charged on loan from Medscheme Holdings Proprietary Limited	–	40
Curasana Wholesalers Proprietary Limited – interest charged on loan from Medscheme Holdings Proprietary Limited	–	12
	Company	
	30 June 2018 R'000	30 June 2017 R'000
AfroCentric Health Proprietary Limited loan account	9 519	(10 242)

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

29. Related party transactions (continued)

29.3 Key management personnel

	Group		Company	
	30 June 2018 R'000	30 June 2017 R'000	30 June 2018 R'000	30 June 2017 R'000
Short-term employee benefits	7 687	7 904	–	–
Share-based payments (note 27)	3 501	2 096	–	–

Key management personnel comprise executive Directors within the AfroCentric Health Proprietary Limited Group.

29.4 Inter-Group guarantees

The following Group companies have provided cross guarantees to the AfroCentric Health Proprietary Limited bankers, for facilities offered to that Company:

- Medscheme Holdings Proprietary Limited
- Aids for Aids Management Proprietary Limited
- Helios IT Solutions Proprietary Limited
- Klinikka Proprietary Limited

30. Pensions and other retirement obligations

The Group has made provision for pension and provident schemes covering substantially all employees. All eligible employees are members of defined contribution schemes administered by third parties. The assets of the schemes are held in administered trust funds separated from the Group's assets. Scheme assets primarily consist of listed shares, bonds and cash. The South African funds are governed by the Pensions Fund Act of 1956.

Medscheme provident fund and medscheme employees provident fund

These funds are defined contribution plans. Contributions are fully expensed during the year in which they are funded.

Contributions of 7.6% of retirement funding remuneration are paid by the employer and contributions paid by the employee range between 0% and 12% of retirement funding remuneration. In the interest of the employee members of these funds, the trustees are encouraged to obtain an independent actuarial assessment of the performance of the funds.

31. Contingent consideration

	Group		Company	
	30 June 2018 R'000	30 June 2017 R'000	30 June 2018 R'000	30 June 2017 R'000
Current liability				
Contingent consideration on Glen Eden Trading 58 (Pty) Ltd	–	194 475	–	194 475

This is the estimated fair value of the contingent consideration relating to the acquisition of Glen Eden Trading 58 Proprietary Limited (refer to note 8.6). The contingent consideration was settled in the 2018 financial year.

In the current financial year Sanlam had contributed 28.7% which amounts to R55.9 million to the WAD contingent consideration payment, in order to retain their non-controlling level of ownership in ACT Healthcare Assets Proprietary Limited.

In the Company results this is disclosed in the Statement of Comprehensive Income and in Group results this is included in equity under the Statement of Financial Position as Capital contribution by non-controlling interest.

32. Deferred payment

	Group		Company	
	30 June 2018 R'000	30 June 2017 R'000	30 June 2018 R'000	30 June 2017 R'000
Deferred payment	5 263	5 051	–	–

On 1 March 2017 (“effective date”) AfroCentric concluded agreements governing the acquisition of 51% of The Cheese Has Moved Proprietary Limited. The Cheese Has Moved Proprietary Limited is an integrated marketing business which specialises in TV, print, radio, social media, relationship and direct marketing, graphic design, direct response advertising to name a few. The purchase consideration was R5.051 million broken into R1 cash consideration as well as R5.051 million as deferred payment liability (forfeited dividends in the future).

33. Subsequent events

Subsequent to the financial year end, the following material events occurred, brief details of which are as follows:

Purchase of Activo Health

AfroCentric acquired a 26% interest in Activo Health (“Activo”) as a component of the WAD Assets acquisitions in 2015. Agreement has been reached in principle with the Activo vendors to anticipate the exercise of the call option negotiated at the time, for the remainder of the shares in Activo (74%) not already owned by AfroCentric. The terms of the call option are substantially dictated by the valuation formulae and payment options provided for in the WAD Master Agreement. The acquisition is a related party transaction and is therefore subject *inter alia*, to the approval of AfroCentric shareholders in general meeting and an appropriate Circular with full details will be sent to shareholders, subject to all other contractual matters being concluded.

The Cheese has Moved

AfroCentric acquired 51% of The Cheese has Moved in the 2017 financial year. The shareholders agreement between the parties included a key clause which establishes a threshold of 75% of voting rights for key decisions affecting the strategy of the business. Apart from the mechanisms of power set out in the Shareholders’ Agreement and reference to the “standard MOI” in terms of the Companies Act, there are no other mechanisms through which AfroCentric could exert power directly. Several different combinations of shareholders voting in favour of key decisions can achieve the threshold. Therefore, it is evident that AfroCentric did not have control over The Cheese has Moved Proprietary Limited with its 51%. The Group exercised significant influence over this entity.

On 1 July 2018, the shareholders agreement has been amended and AfroCentric now controls The Cheese has Moved.

Directors

AfroCentric’s founding directors, Meyer Kahn (79) and Motty Sacks (75), having concluded that their objectives on behalf of AfroCentric have been achieved, have decided to retire from the Board. Their retirement has resulted in them not being available as Directors and will be effective immediately after AfroCentric’s Annual General Meeting, scheduled to take place during November 2018. The Board would like to thank them both for their invaluable contribution to the Group. Their experience, guidance and wisdom will be certainly missed at Board and Committee meetings and generally within the Group.

NOTES

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COMPANY INFORMATION

Registration number

1988/000570/06

Registered address:

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Florida North
Roodepoort
1709

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Group investor relations

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