Summary of annual results and dividend declaration

for the year ended 30 June 2019

FINANCIAL HIGHLIGHTS

↑ **25.7%** Total revenue

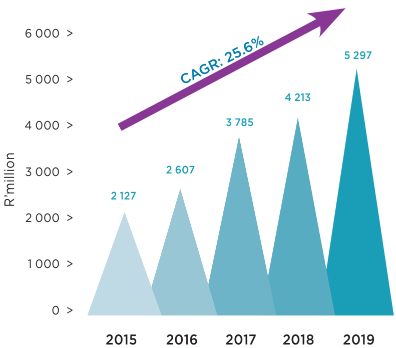
↑ **90.6%** Healthcare retail operating profit

↑ **6.25%** Dividend increase

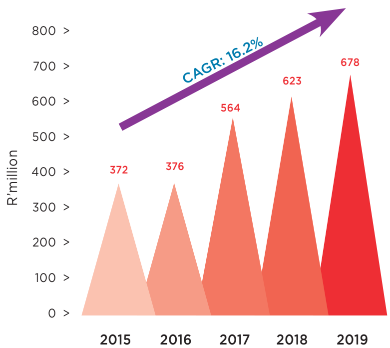
↑ **4** Acquisitions completed

↑ **8.8%** Group operating profit

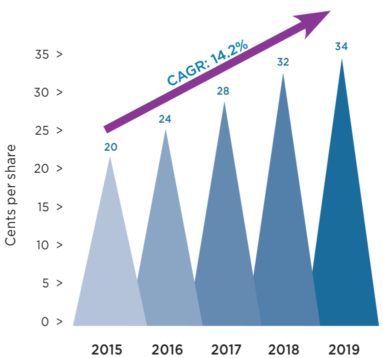
Total revenue



Operating profit



Dividend declared half year



COMMENTARY

Introduction and review

AfroCentric is a majority black-owned JSE listed investment holding company which operates in and provides specialised services to the public and private healthcare sectors. AfroCentric has and continues to maintain its deliberate objective of being the leading exemplar of transformation and empowerment in the South African healthcare sector.

The Board is pleased to present comments on AfroCentric's ("ACT") summary results for the twelve months ended 30 June 2019. The period under review has been characterised by investment in new and growing contracts/entities, certain complementary acquisitions, consolidation and rationalisation of several processes within Group enterprises. The earnings are stable, and majority of the Group enterprises have contributed to the Group's growing operations and earnings. AfroCentric's vision of being the most diversified healthcare group in South Africa is being realised through its earnings diversification and continuous acquisition strategies.

Apart from ACT's principal subsidiary Medscheme providing healthcare administration and managed care services to the membership of a growing number of prominent institutional clients, (having memberships of 3.7 million lives), the Group is also heavily invested in other essential segments of the public and private healthcare markets in South Africa, with rapidly expanding activity and application in its pharmaceutical wholesale supply, its chronic medication distribution networks, specialised disease management, information technology (IT) solutions, transactional switching, fraud detection and not least, the development and marketing of tailored health and insurance solutions and products, in partnership with Sanlam.

Accounting policies and basis of preparation

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for summary financial statements, and the requirements of the Companies Act applicable to summary financial statements.

The Listings Requirements require summary financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Financial Reporting*. The accounting policies applied in the preparation of these summarised interim financial statements are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

Industry highlights

- AfroCentric Health (Proprietary) Limited, the main operating subsidiary within the Group, achieved a level 1 B-BBEE in December 2018.
- AfroCentric Investment Corporation Limited was awarded a Merit Award (small cap) at the CSSA/JSE Integrated Reporting Awards.

Financial performance

Profit before tax decreased by 1.8% for the period under review amounting to R528.5 million (2018: R538.4 million). Profit after tax (PAT) decreased by 0.1% compared to prior financial period.

The earnings results depict a picture of transition as the group is transforming its healthcare offerings and composition of earnings.

The Healthcare services business experienced increased membership and additional managed care contracts but operating profit was depressed by take on costs for the initial uptake. Our open schemes under administration have seen combined growth in total membership but the composition of members has changed. The affordability of healthcare in the economy has had an effect on revenue earned by Medscheme as members select lower options upon which the group earns lower fees.

The Retail Cluster has expanded with the addition of the 74% interest in Activo, Scriptpharm and MMed. Pharmacy Direct grew its operating profit by 11% year-on-year on the back of no growth at interim results stage due to the take on costs of the additional volumes from the DOH contract.

The two startup companies, Scriptpharm and MMed have also turned profitable in the last 6 months as the uptake on their contracts got traction and efficiencies started being realised.

The relatively flat headline earnings is therefore mainly attributable to increased gearing (interest paid and less interest received) and higher amortisation costs of the intangible assets.

Developments

AfroCentric has for some time been focused on opportunities which will serve to create a platform, designed to establish affordable healthcare services, to optimise the purchasing power of every Rand through models of integration, mergers, partnerships and economic incentives devised to improve the effectiveness of patient care and viable treatment outcomes, within the broader healthcare delivery system.

COMMENTARY continued

During the period under review and prior to the publishing of these results, the following projects have been concluded:

- Acquisition of a further 74% interest in Activo Health, which now has become 100% held, effective 1 March 2019.
- Acquisition of the iThrive Business Solutions Group, main subsidiary PHA, effective 1 October 2018 (a smaller administration company).
- Scriptpharm has secured the Polmed Chronic Medicine Management contract valued at R500 million, effective 1 January 2019.
- Medscheme has secured the Medshield Hospital Benefit Management contract valued at R30 million, effective October 2018.
- Medscheme Forensic Services secured the Medshield Fraud Prevention and Recovery contract, effective 1 January 2019.
- Medscheme has secured the Hosmed Hospital Benefit Management contract effective 1 July 2019.
- Acquisition of an additional 25% stake in AFA Botswana, pending regulatory approvals in Botswana. This effectively increases Medscheme's shareholding to 49%.
- Acquisition of Sanlam Health, which represents an administrator with specialised skills in combined corporate health offerings and an administration system.

The Group has continued to invest in Pharmacy Direct, to support it as it implemented the DOH CCMDD contract in KwaZulu-Natal (KZN) – this programme has substantially alleviated the congestion at public hospitals and clinics. Through this KZN contract, the number of scripts that are dispensed per month is now in excess of 0.8 million.

AfroCentric's Insurance Fraud Manager ("IFM") continues as a great developmental success, with direct savings and recoveries to our clients in excess of R1.6 billion over the past 3 years. Through the success of our existing clients, this has created an opportunity for other Medical Schemes to procure the services of our forensics team.

The Fusion project in our IT business unit, AfroCentric Technologies, was successfully completed in various phases in 2019. The project entailed the replacement of certain modules in our core administration system which are being rolled out to various schemes over a 12 month period ending April 2020. The enhanced system will drive efficiencies in administration costs that will start materialising in the last quarter of the 2020 financial year.

Prospects

The benefits of the Group's maintained programme of expansion, including the general and sustained quality of earnings from within the underlying businesses, all contributed to the satisfactory financial outcome of the Group during this period under review.

The Group's financial position remains sound, cash reserves are adequate with some gearing having been implemented to acquire Activo Health from 1 March 2019. At corporate and operational level, management is assessing and implementing plans for real growth and pursuing selective local opportunities to complement the existing product and service offering.

Directors

The following changes were made to the Board during the period under review:

- Professor SA Zinn was appointed as an Independent Non-Executive Director effective 23 November 2018.
- Mr JB Fernandes was appointed as an Independent Non-Executive Director effective 23 November 2018.
- Mr SE Mmakau resigned as an Independent Non-Executive Director effective 1 December 2018 as he accepted the position of Group Chief Information Officer on the same day.
- Ms LL Dhlamini was appointed as the Lead Independent Non-Executive Director effective 23 November 2018.
- Mr A Banderker was appointed as the Group CEO effective 1 April 2019, and thus resigned as a Non-Executive Director.
- Mr AV van Buuren retired as the Group CEO effective 31 March 2019.
- Mr T Alsworth-Elvey was appointed as a Non-Executive Director effective 1 July 2019.
- Mr I Kirk retired as a Non-Executive Director effective 12 September 2019, he was replaced by Mr G Allen on the same date (a Sanlam representative with Healthcare experience).

Dividends

The Board has pleasure in announcing that in addition to the interim gross dividend per ordinary share of 17 cents, a final gross dividend of 17 cents per ordinary share has been declared for the year ended 30 June 2019. Dividends are subject to Dividends Withholding Tax. The payment date for the dividend is 4 November 2019.

- Dividends have been declared out of profits available for distribution.
- Local Dividends Withholding Tax rate is 20%.
- The gross dividend amount is 17 cents per ordinary share.

COMMENTARY continued

- The net cash dividend amount is therefore 13.6 cents per ordinary share.
- The Company has 574 241 248 ordinary shares in issue as at the declaration date.
- The Company's income tax reference number is 9600/148/71/3.

The salient dates relating to the dividend are as follows:

Last day to trade cum dividend	Tuesday, 29 October 2019
Shares commence trading ex-dividend	Wednesday, 30 October 2019
Dividend record date	Friday, 1 November 2019
Dividend payment date	Monday, 4 November 2019

Share certificates for ordinary shares may not be dematerialised or rematerialised between Wednesday, 30 October 2019 and Friday, 1 November 2019, both days inclusive.

Basis of preparation

The financial information contained in this report is extracted from audited information, but is itself not audited. This announcement does not include the information required pursuant to paragraph 16A(i) of IAS34. The full provisional report is available on our website (http://www.afrocentric.za.com/inv-reporting.php), or at our offices upon request. The Directors take full responsibility for the preparation of this report and the financial information has been correctly underlying annual financial statements. The annual financial statements were audited by PricewaterhouseCoopers Inc. who expressed an unmodified opinion thereon. The audited annual financial statements and the auditor's report thereon are available for inspection at the Company's registered office.

On behalf of the Board

Dr ATM Mokgokong
Chairperson
Johannesburg

Mr A Banderker
Group Chief Executive Officer

13 September 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Year ended 30 June 2019 R'000	Year ended 30 June 2018 R'000
ASSETS		
Non-current assets	**3 364 615**	2 306 326
Property and equipment	**220 409**	255 076
Right of use asset **(NOTE 3)**	**290 136**	—
Land and buildings	**196 149**	120 573
Investment property	**15 418**	15 418
Goodwill **(NOTE 1)**	**1 336 842**	883 488
Intangible assets **(NOTE 1)**	**1 219 170**	855 598
Available for sale investment	—	9 000
Managed funds and deposits **(NOTE 3)**	—	65 028
Investment in associates **(NOTE 4)**	**29 943**	56 935
Deferred income tax assets	**56 548**	45 210
Current assets	**1 085 620**	823 735
Trade and other receivables	**531 494**	348 527
Inventory	**283 732**	83 532
Current tax asset	**5 098**	20 768
Receivables from associates and joint venture	—	5 740
Managed funds and deposits **(NOTE 2)**	—	152 250
Cash and cash equivalents **(NOTE 2)**	**265 296**	212 918
Total assets	**4 450 235**	3 130 061
EQUITY AND LIABILITIES		
Capital and reserves	**2 095 282**	1 940 614
Issued ordinary share capital	**18 885**	18 686
Share premium **(NOTE 4)**	**1 080 301**	999 058
Share-based payment reserve	**11 286**	3 501
Treasury shares	**(2 324)**	(2 324)
Capital contribution by non-controlling interest	**55 874**	55 874
Foreign currrency translation reserve	**(3 114)**	793
Distributable reserve	**934 374**	865 026
Non-controlling interest	**787 713**	679 277
Total equity	**2 882 995**	2 619 891
Non-current liabilities	**881 194**	153 860
Deferred income tax liabilities	**230 228**	121 667
Lease liability **(NOTE 6)**	**261 104**	—
Borrowings **(NOTE 5)**	**371 566**	—
Non-current provisions	**8 350**	8 350
Post-employment medical obligations	**2 611**	2 665
Deferred payment	**7 335**	5 263
Accrual for straight lining of leases	—	15 915
Current liabilities	**686 046**	356 310
Provisions	**9 606**	8 597
Borrowings **(NOTE 5)**	**120 000**	—
Lease liability **(NOTE 6)**	**61 551**	—
Trade and other payables	**406 230**	284 029
Taxation	—	13 729
Employment benefit provisions	**88 659**	49 955
Total liabilities	**1 567 240**	510 170
Total equity and liabilities	**4 450 235**	3 130 061

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	% change	Year ended 30 June 2019 R'000	Year ended 30 June 2018 R'000
Healthcare services revenue	12.0	**3 258 658**	2 910 702
Healthcare services operating costs	15.1	**(2 710 237)**	(2 355 416)
Healthcare services operating profit	(1.2)	**548 421**	**555 286**
Healthcare retail revenue	56.5	**2 038 135**	1 302 003
Healthcare retail cost of sales	71.2	**(1 565 338)**	(914 305)
Healthcare retail operating costs	7.4	**(343 563)**	(319 898)
Healthcare retail operating profit	90.6	**129 234**	**67 800**
Total healthcare operating profit (excluding lease reversals)	8.8	**677 655**	623 086
IFRS 16: Lease reversals (NOTE 6)		**94 418**	—
Total healthcare operating profit (Including lease reversals)	23.9	**772 073**	623 086
Loss on sale of investments		—	(2 717)
Loss on disposal of intangibile assets		**(40 000)**	—
Fair value gain on investment disposal **(NOTE 4)**		**118 715**	—
Impairment of assets		**(68 587)**	(1 667)
Net finance and investment income		**(14 891)**	43 481
– Finance and investment income		**37 524**	55 081
– Fair value loss in listed investment		—	(9 738)
– Finance costs: Lease liability **(NOTE 6)**		**(31 822)**	—
– Finance costs		**(20 593)**	(1 862)
Share-based payment expense		**(7 785)**	(3 501)
Indemnity expense		—	(3 150)
Share of associate profits		**18 479**	23 626
Profit before depreciation and amortisation	14.6	**778 004**	679 158
Right of use asset depreciation **(NOTE 6)**		**(82 666)**	—
Depreciation		**(55 909)**	(51 109)
Amortisation of intangible assets **(NOTE 1)**		**(110 941)**	(89 603)
Profit before taxation	(1.8)	**528 488**	538 446
Taxation expense		**(143 475)**	(153 544)
Profit for the period after taxation		**385 013**	384 902
Other comprehensive (loss)/income		**(4 040)**	(2 753)
Comprehensive net income for the year	(0.3)	**380 973**	382 149
Attributable to:			
Equity holders of the Parent		**265 841**	253 858
Non-controlling interest		**115 132**	128 291
		380 973	382 149

NOTES

NOTE 1
Intangible assets

	Carrying value 2019 R'000	Carrying value 2018 R'000	Amortisation 2019 R'000	Amortisation 2018 R'000
Goodwill	**1 336 842**	883 488	**—**	—
Goodwill – AfroCentric Health	**460 460**	409 534	**—**	—
Goodwill – Retail Cluster	**876 382**	473 954	**—**	—
Intangible Assets	**1 219 170**	855 598	**(110 941)**	(89 603)
AfroCentric Health intangible PPA	**55 149**	35 226	**(8 367)**	(4 992)
Customer relationships – Retail Cluster	**312 830**	63 385	**(14 204)**	(8 948)
AfroCentric Health intangible Software	**297 240**	181 106	**(36 203)**	(31 087)
AfroCentric Health Nexus	**253 152**	283 111	**(21 393)**	(20 058)
AfroCentric Health Fusion*	**195 165**	150 917	**—**	—
Insurance Fraud Manager (Fraud Management Software)	**105 634**	141 853	**(30 774)**	(24 518)

** Amortisation starting in 2020 financial year as modules are operationally deployed.*

NOTE 2
Total group cash resources

	Year ended 30 June 2019 R'000	Year ended 30 June 2018 R'000
Cash and cash equivalents	**265 296**	212 918
Managed funds and deposits (current)	**—**	152 250
Total current cash, managed funds and deposits	**265 296**	365 168
Managed funds and deposits (non current)	**—**	65 028
Total cash resources	**265 296**	430 196

NOTE 3
The decrease in the managed funds and deposits is attributed to the disinvestment of funds that were then used to fund acquisitions.

NOTE 4
Effective 1 March 2019, AfroCentric Healthcare Assets (Proprietary) Limited (a 71.3% held subsidiary of AfroCentric Investment Corporation Limited) acquired the remaining 74% shares in Activo Health (Proprietary) Limited. As part of the purchase consideration payable to the minority shareholders, 19 864 753 shares in AfroCentric Investment Corporation Limited were issued to them, resulting in an increase in the share premium.

The acquisition resulted in the associate share (26% of Activo Health) being transferred to the Investment is subsidiaries (R44million).

The transfer of the associate investment (26%) in Activo Health resulted in a fair value gain of R118.7 million, upon recognition of the 100% held subsidiary effective 1 March 2019.

NOTE 5
The Group utilised R550 million of its credit facilities during the year of which R59 million was repaid as at year end over and above the cash resources of R265 million available at year-end. The balance of the facility is R491.5 million (R371.5 million + R120 million).

NOTE 6
On adoption of IFRS16-Leases, a right of use asset was recognised and a corresponding lease liability raised. This resulted in depreciation on the right of use asset and the interest unwinding on the liability being recognised in the statement of comprehensive income.

The operating lease reversal line, has been included to show the impact of rental expenses on operating profit.

Refer to Note 7 for the detailed impact of the new accounting standards.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year ended 30 June 2019 R'000	Year ended 30 June 2018 R'000
Balance at beginning of the period	**2 619 891**	2 379 053
Issue of share capital	**81 442**	–
Adjustment to opening balance	**(14 080)**	–
Share-based awards reserve	**7 785**	3 501
Distributions to shareholders	**(186 321)**	(166 313)
Net profit for the period	**265 841**	253 858
Profit attributable to minorities	**115 132**	128 291
Sanlam investment	**–**	55 874
Recognition of attributable non-controlling interest on Tendahealth, Klinnika and Essential Group and Eswatini	**3 646**	17 171
Distributions to non-controlling interests	**(10 341)**	(51 544)
Balance at end of the period	**2 882 995**	2 619 891

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 30 June 2019 R'000	Year ended 30 June 2018 R'000
Net cash inflow from operating activities	**244 115**	290 519
Cash generated from operations	**569 062**	552 695
Net finance income	**4 471**	34 869
Distribution to shareholders	**(196 662)**	(217 857)
Dividends received	**4 168**	5 209
Tax and other payments	**(136 924)**	(84 397)
Net cash outflow from investing activities	**(679 396)**	(298 077)
Net additions to property and equipment	**(97 895)**	(212 664)
Net additions to intangible assets	**(241 697)**	(310 845)
Net acquisition of financial assets, investments and subsidiaries	**(342 404)**	218 166
Repayment of loan by associate	**2 600**	7 266
Net cash outflow from financing activities	**491 566**	(138 601)
Net second tranche settlement	**–**	(138 601)
Proceeds from credit facility	**491 566**	–
Effect of foreign exchange benefit	**(3 907)**	(2 661)
Net increase in cash and cash equivalents	**52 378**	(148 820)
Cash and cash equivalents at beginning of the period	**212 918**	361 738
Cash and cash equivalents at end of the period (NOTE 4)	**265 296**	212 918

EARNINGS ATTRIBUTABLE TO EQUITY HOLDERS

	Year ended 30 June 2019 R'000	Year ended 30 June 2018 R'000
Number of ordinary shares in issue	**574 241 248**	554 377 328
Weighted average number of ordinary shares	**560 826 280**	554 377 328
Weighted average number of shares for diluted EPS	**569 396 280**	558 667 328
Basic earnings	**269 880**	256 611
Adjusted by:	**(4 639)**	4 305
– Reversal of impairment	**67 515**	1 285
– Reversal of fair value gains	**(118 715)**	–
– Loss on disposal of assets	**44 694**	3 428
Total tax adjustments	**–**	1 325
Total non-controlling interest adjustments	**1 867**	(1 733)
Headline earnings	**265 241**	260 916
Earnings per share (cents)		
– Attributable to ordinary shares (cents)	**48.12**	46.29
– Fully Diluted EPS (cents)	**47.40**	45.93
Headline earnings per share (cents)		
– Attributable to ordinary shares (cents)	**47.29**	47.06
– Fully Diluted HEPS (cents)	**46.58**	46.70

NORMALISED EARNINGS (NON IFRS MEASURE)

	% change	Year ended 30 June 2019 R'000	Year ended 30 June 2018 R'000
Heading earnings		**265 241**	260 916
Adjusted by:		**10 303**	3 150
– Less rental reversal (new IFRS 16 effect) **NOTE 6***		**(94 418)**	—
– Depreciation (new IFRS 16 effect) **NOTE 6***		**82 666**	—
– Interest (new IFRS 16 effect) **NOTE 6***		**31 822**	—
– Sanlam indemnity expense		**—**	3 150
Total tax effects of adjustments		**(5 620)**	—
Total NCI effects of adjustments		**(4 147)**	—
Normalised Headline earnings	4.3	**275 544**	264 066
Normalised Headline earnings per share (cents)			
– Attributable to ordinary shares (cents)	3.1	**49.13**	47.63
– Fully Diluted HEPS (cents)	2.4	**48.39**	47.27

The adjusting amounts have no tax and non-controlling interest implications.

** Adjusted in 2019 due to early adoption.*

SEGMENTAL ANALYSIS

	Growth 2018/2019	
	Revenue %	Operating profit %
Healthcare SA	11	(21)
Information Technology	9	10
Total SA administration business	10	(4)
Healthcare Africa	10	23
Total Group administration business	10	(2)
Healthcare Retail	57	91
Pharmacy Direct & Curasana Wholesaler	5	11
Activo		
Scriptpharm	411	(1 107)
MMed	2 632	1
Total Healthcare	23	8
Lease reversal adjustment		
Other (including inter-segment elimination)		
Total		

	Growth 2018/2019	
	Profit before tax %	After tax %
Healthcare SA	(28)	(36)
Information Technology	(55)	(73)
Total SA administration business	(39)	(52)
Healthcare Africa	11	16
Total Group administration business	(33)	(43)
Healthcare Retail	42	27
Pharmacy Direct & Curasana Wholesaler	(13)	(20)
Activo		
Scriptpharm	(2 041)	(2 331)
MMed	95	56
Total Healthcare	(22)	(31)
Lease reversal adjustment		
Other (including inter-segment elimination)		
Total		

COMPOSITION OF OPERATING PROFIT – % CONTRIBUTION

	Operating profit 2019 %	Operating profit 2018 %	Operating profit 2019 R'000	Operating profit 2018 R'000
Total SA administration business	74	80	569 658	501 214
Healthcare Africa	9	9	70 087	54 072
Healthcare Retail	17	11	132 328	67 800
Total	100	100	772 073	623 086

Year ended 30 June 2019			Year ended 30 June 2018		
Revenue R'000	Operating profit R'000	Operating margin %	Revenue R'000	Operating profit R'000	Operating margin %
3 002 327	184 683	6	2 716 846	234 265	9
632 918	296 999	47	580 845	268 958	46
3 635 245	481 682	13	3 297 691	503 222	15
202 842	66 554	33	184 910	54 072	29
3 838 087	548 236	14	3 482 601	557 294	16
2 038 135	129 234	6	1 302 003	67 800	5
1 294 599	82 756	6	1 230 421	74 263	6
192 327	38 546	20	—	—	0
322 738	13 155	4	63 219	(1 306)	(2)
228 471	(5 223)	(2)	8 363	(5 157)	(62)
5 876 222	677 470	12	4 784 604	625 094	13
—	94 418	—	—	—	—
(579 430)	185	—	(571 898)	(2 008)	—
5 296 792	772 073	—	4 212 705	623 086	—

Year ended 30 June 2019				Year ended 30 June 2018			
Profit before tax R'000	After tax R'000	Net margin %	Total assets R'000	Profit before tax R'000	After tax R'000	Net margin %	Total assets R'000
167 465	103 283	3	3 954 563	232 125	161 194	6	3 354 205
75 799	32 690	5	856 217	168 779	119 271	21	511 217
243 264	135 973	4	4 810 780	400 904	280 465	9	3 865 422
63 383	48 311	24	145 861	57 302	41 526	22	144 233
306 647	184 284	5	4 956 641	458 206	321 991	9	4 009 655
117 784	83 122	4	920 469	82 668	65 658	5	437 952
62 038	41 642	3	506 863	88 807	69 844	6	415 838
49 939	39 291	20	294 959	—	—	0	—
16 169	8 164	3	14 254	(833)	(366)	(1)	7 886
(10 362)	(5 975)	(3)	104 393	(5 305)	(3 820)	(46)	14 228
424 431	267 406	5	5 877 110	540 874	387 649	8	4 447 606
(20 070)	(14 450)	—		—	—	—	—
124 127	132 057	—	(1 425 499)	(2 428)	(2 747)	—	(1 317 545)
528 488	385 013	—	4 451 611	538 446	384 902	—	3 130 061

NOTES

NOTE 7
New accounting standards adopted by the group

7.1 IFRS 16 – Leases
The Group has elected to early adopt IFRS 16 from 1 July 2018 and elected the modified retrospective approach. This resulted in the cumulative impact of applying IFRS 16 being accounted for as an adjustment to Right of use of asset amounting to R12.7 million at the start of the current accounting period. The most significant impact of the adoption was the right of use asset recognised on the balance sheet and the corresponding lease liability.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2018. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2018 was 9.3%.

	R'000
Operating lease commitments disclosed as at 30 June 2018	527 172
Discounted using the group's incremental borrowing rate of 9.3%	394 475
(Less): short-term leases recognised on a straight-line basis as expense	(20 692)
Add/(less): adjustments as a result of a difference treatment of extension and termination options	—
Lease liability recognised as at 1 July 2018	**373 783**

The associated right of use assets for the property leases were measured on a modified retrospective basis, with the new rules applied effective 1 July 2018. The right of use assets were measured at the account equal to the lease liability on adoption date.

In applying IFRS 16 for the first time, the group use/applied the following practical expedients permitted by the standard:
- the use of a single discount rate to a portfolio of leases with reasonable similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July as short term leases;
- the exclusion of initial direct costs for the measurement of the right of use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

	June 2019 R'000
Right use of asset 1 July 2018 as equal to lease liability	**373 783**
IFRS 16 modified approached adjustment/Accrual for straight-lining	**(12 757)**
Right of use assets 1 July 2018	**361 026**

7.1.1 Changes to the group's accounting policies
The group had to change its accounting policies and make certain retrospective adjustments following the adoption of IFRS 16.

The Group has initially applied IFRS 16 from 1 July 2018.

7.2 IFRS 9 – Financial Instruments
The group has applied IFRS9 from 1 July 2018 and elected not to restate comparatives on transition, with the impact of adoption recognised as an adjustment to the opening balance of retained earnings as at 1 July 2018.

The most significant impact of adoption was an increase in impairment allowances on trade receivables due to the IFRS 9 requirement to consider forward looking information when determining impairment allowances. The cumulative net impact of adopting IFRS 9 was an increase of R2.8 million in impairment allowances and a corresponding decrease of R2.8 million in retained earnings.

The total impact on the group's retained earnings as at 1 July 2018 is as follows:

	R'000
Closing retained earnings 30 June 2018	**865 026**
Increase in provision for trade receivables	(2 818)
Increase in deferred tax assets relating to impairment provisions	788
Adjustment to retained earnings from adoption of IFRS 9 on 1 July 2018	(2 030)
Opening retained earnings 1 July – IFRS 9 (before restatement for IFRS 16)	862 996

	R'000
IAS 39 Provision on 30 June 2018	24 800
ECL adjustments to provision	2 818
IFRS 9 Provision on 1 July 2018	27 618

7.2.1 **Changes to the group's accounting policies**

The group had to change its accounting policies and make certain retrospective adjustments following the adoption of IFRS 9. The Group has initially applied IFRS 9 from 1 July 2018.

The adoption of IFRS 9 Financial Instruments from 1 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

Classification and measurement

IFRS 9 contains three principal classification categories for financial assets:

- Measured at amortised cost;
- Fair value through other comprehensive income ("FVOCI") and;
- Fair value through profit and loss ("FVTPL").

The classification of financial assets within IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

On the date of initial application, 1 July 2018, the financial instruments of the group were as follows with any reclassifications noted:

	Measurement category		Carrying amount		
	Original (IAS 39)	**New (IFRS 9)**	**Original R'000**	**New R'000**	**Difference R'000**
Non-current financial assets					
Available for sale financial instruments	Available for sale	FVPL	9 000	9 000	—
Financial assets	FVPL	FVPL	65 028	65 028	—
Current financial assets					
Trade and other receivables	Amortised cost	Amortised cost	354 267	354 267	—
Cash and cash equivalents	Amortised cost	Amortised cost	212 918	212 918	—
Financial assets	FVPL	FVPL	152 250	152 250	—
Non-current financial liabilities					
Deferred Payment	FVPL	FVPL	5 263	5 263	—
Current financial liabilities					
Trade and other payables	Amortised cost	Amortised cost	292 626	292 626	—
Employment benefit liability	Amortised cost	Amortised cost	49 955	49 955	—

Impairment of financial assets

With the adoption of IFRS 9 in the current financial year, the 'incurred loss' model in IAS 39 has been replaced with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets that the Group measures at amortised cost as the standard requires assessment of contractual cash flows for financial assets measured at amortised cost and fair value through other comprehensive income (FVTOCI). This has resulted in the losses being recognized earlier than under IAS 39.

The Group's trade and other receivables do not contain a significant financing component and therefore the allowance is measured at initial recognition as expected credit losses that result from all possible defaults events over the expected life these assets. The Group uses a provision matrix and time value of money approach to estimate ECL for these financial assets.

The group was required to revise its impairment methodology under IFRS 9 for trade and other receivables. The impact of the change in the impairment methodology on the group's retained earnings and equity is disclosed in the table in note 7.2 above.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

7.3 **IFRS 15 – Revenue from contracts with customers**

The application of IFRS 15 did not have a significant impact on the group's results of financial position.

7.3.1 **Changes to the group's accounting policies**

IFRS 15 did not have any impact on the amounts recognised in the prior periods and does not affect the current period in terms of revenue recognition.

COMPANY INFORMATION

AfroCentric Investment Corporation Limited
Incorporated in the Republic of South Africa
Registration number 1988/000570/06
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ISIN: ZAE 000078416
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