



AfroCentric
GROUP

Unaudited Interim Results and Dividend Declaration

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016



45.88% Profit before tax



25.51% Total revenue



16.66% Dividends



A Member of AfroCentric Group



SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited six months ended 31 December 2016 R'000	Unaudited six months ended 31 December 2015 R'000	Audited year ended 30 June 2016 R'000
ASSETS			
Non-current assets	2 121 295	2 157 815	2 190 076
Property and equipment	208 623	159 689	189 362
Investment property	15 000	15 000	15 000
Intangible assets (NOTE 2)	1 440 173	1 417 866	1 388 815
Available for sale investment	18 444	18 444	18 444
Listed investments	41 608	27 001*	37 182
Managed funds and deposits	278 851	396 253*	411 934
Investment in associates	29 374	33 039	24 477
Deferred income tax assets	89 222	90 523	104 862
Current assets	867 714	838 104	850 640
Trade and other receivables	361 100	348 628	365 004
Inventory	77 465	79 321	72 310
Current tax asset	30 792	27 916	19 821
Receivables from associates and joint venture	12 637	–	20 437
Cash and cash equivalents	385 720	382 239*	373 068
Total assets	2 989 009	2 995 919	3 040 716
EQUITY AND LIABILITIES			
Capital and reserves	1 081 596	1 140 454	1 047 979
Issued ordinary share capital	18 686	18 686	18 686
Share premium	970 358	970 358*	970 358
Share-based payment reserve	28 700	23 382	26 604
Treasury shares	(2 324)	(2 324)	(2 324)
Conditional put option reserve	(750 913)	(703 000)	(727 960)
Foreign currency translation reserve	4 020	7 370	7 027
Distributable reserve	813 069	825 982	755 588
Non-controlling interest	549 504	525 194	515 603
Total equity	1 631 100	1 665 648	1 563 582
Non-current liabilities	1 004 497	1 031 986	977 573
Deferred income tax liabilities	90 394	163 518	82 390
Non-current provisions	8 350	8 350	8 350
Post-employment medical obligations	2 691	3 134	2 691
Second tranche payment	134 893	135 970	134 893
Conditional put option obligation	750 913	703 000	727 960
Accrual for straight lining of leases	17 256	18 014	21 289
Current liabilities	353 412	298 285	499 561
Provisions	11 406	9 636	9 755
Trade and other payables	288 076	255 762	383 029
Employment benefit provisions	53 930	32 887	106 777
Total liabilities	1 357 909	1 330 271	1 477 134
Total equity and liabilities	2 989 009	2 995 919	3 040 716

NOTE 1
Certain amounts have been regrouped for a more meaningful comparison with the June 2016 audited results.
♦ The audited results for the year ended 30 June 2016 have been restated.

	Carrying value 31 December 2016	Amortisation 31 December 2016	Amortisation 31 December 2015
Intangible assets			
Goodwill – AfroCentric Health	398 122	–	–
Goodwill – WAD acquisition	473 954	–	–
Customer relationships – WAD acquisition	76 808	(4 474)	(16 824)
AfroCentric Health intangible assets	491 289	(37 661)	(33 892)
AfroCentric Health intangible PPA	25 931	(2 916)	(7 059)
AfroCentric Health intangible Software	369 214	(24 298)	(18 485)
Insurance Fraud Manager (Fraud Management Software)	96 144	(10 447)	(8 348)
	1 440 173	(42 135)	(50 716)

SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited six months ended 31 December 2016 R'000	Unaudited six months ended 31 December 2015 R'000	Restated audited year ended 30 June 2016 R'000
Balance at beginning of the period	1 563 582	1 167 079	1 167 079
Issue of share capital	–	445 589	445 590
Share-based awards reserve	2 096	3 222	6 444
Distribution to shareholders	(66 525)	(55 438)	(121 963)
Net profit for the period	98 046	99 194	145 320
Transferred to conditional put option reserve	22 953	–	24 960*
Conditional put option reserve	(22 953)	(703 000)	(727 960)
Conditional put option reserve at inception	–	(703 000)	(703 000)
Transferred from distributable reserve	(22 953)	–	(24 960)
Profit attributable to minorities	52 166	15 531	53 323
Sanlam investment	–	703 000	703 000
Premium on subscription	–	246 738	246 738
Changes in ownership	–	456 262	456 262
AHL minorities share buy-back	–	–	(122 164)
Increase in shareholding of Klinikka	–	–	(525)
Distribution to minorities	(18 265)	(9 529)	(9 522)
Balance at end of the period	1 631 100	1 665 648	1 563 582

SEGMENTAL ANALYSIS

	Unaudited six months ended 31 December 2016			Unaudited six months ended 31 December 2015			Restated audited year ended 30 June 2016		
	Revenue R'000	Profit before tax R'000	Total assets R'000	Revenue R'000	Profit before tax R'000	Total assets R'000	Revenue R'000	Profit before tax R'000	Total assets R'000
Healthcare SA	1 134 075	141 231	3 508 397	968 743	110 414	3 342 946	2 066 327	170 115	3 328 479
Healthcare Africa	76 382	18 025	92 695	87 877	32 710	135 607	180 534	67 166	160 739
Healthcare Retail	509 778	32 502	305 149	320 406	13 582	236 146	748 477	46 310	238 198
Total Healthcare	1 720 235	191 758	3 906 241	1 377 026	156 706	3 714 699	2 995 338	283 591	3 727 416
Information technology	269 686	33 849	333 855	242 244	14 178	256 119	499 411	40 178	310 001
Other (including inter-segment elimination)	(179 988)	(5 788)	(1 251 087)	(177 203)	(20 204)	(974 899)	(346 603)	(52 582)	(996 701)
	1 809 933	219 819	2 989 009	1 442 067	150 680	2 995 919	3 148 146	271 187	3 040 716

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	% change	Unaudited six months ended 31 December 2016 R'000	Unaudited six months ended 31 December 2015 R'000	Restated audited year ended 30 June 2016 R'000
Healthcare service revenue		1 300 155	1 121 661*	2 399 669
Healthcare service operating costs		(1 069 204)	(913 173)*	(2 055 514)
Healthcare service operating profit	10.77	230 951	208 488	344 155
Healthcare retail revenue		509 778	320 406*	748 477
Healthcare retail cost of sales		(409 909)	(251 219)*	(588 204)
Healthcare retail gross profit	44.35	99 869	69 187	160 273
Healthcare retail operating costs		(72 070)	(69 113)*	(128 067)
Total healthcare operating profit	24.06	258 750	208 562	376 361
Impairment of assets		2 895	–	(21 469)
Net finance and investment income		13 150	11 230	29 964
– Finance and investment income		36 130	13 636	59 471
– Finance cost: Conditional put option obligation		(22 953)	–	(24 960)*
– Finance cost: Other		(27)	(2 406)	(4 547)
Share-based payment expense		(2 096)	(3 222)	(6 444)
Share of associate profits		9 907	2 469	10 118
Profit before depreciation and amortisation		282 606	219 039	388 530
Depreciation		(20 652)	(17 643)	(38 011)
Amortisation of intangible assets (NOTE 2)		(42 135)	(50 716)	(79 332)
Profit before income taxation	45.88	219 819	150 680	271 187
Taxation expense		(66 600)	(41 121)	(77 515)
Profit for the period after taxation	39.85	153 219	109 559	193 672
Other comprehensive (loss)/income		(3 007)	5 166	4 971
Total comprehensive income for the period		150 212	114 725	198 643
Attributable to:				
Equity holders of the Parent		98 046	99 194	145 320
Non-controlling interest (NOTE 3)		52 166	15 531	53 323
		150 212	114 725	198 643

NOTE 3
The significant increase in the comparable amount attributable to Non-controlling interest arises substantially through the subscription by Sanlam for 28.7% of the shares in ACT Healthcare Assets (Pty) Ltd.

EARNINGS ATTRIBUTABLE TO EQUITY HOLDERS

	Restated unaudited six months ended 31 December 2016 R'000	Restated unaudited six months ended 31 December 2015 R'000	Restated audited year ended 30 June 2016 R'000
Number of ordinary shares in issue	554 377 328	554 377 328	554 377 328
Weighted average number of ordinary shares	554 377 328	551 555 951	552 958 931
Weighted average number of shares for diluted EPS (including estimated second tranche share issue to WAD asset vendors)	580 570 230	577 957 910	579 151 833
Basic earnings	101 053	94 028	140 349*
Adjusted by:	(111)	612	5 218
– Reversal of impairment	–	–	10 217*
– Loss on disposal of assets	(216)	928	245
Total tax effects of adjustments	60	(260)	(1 429)
Total NCI effects of adjustments	45	(56)	(3 815)*
Headline earnings	100 942	94 640	145 567*
Earnings per share (cents)			
– Attributable to ordinary shares (cents)	18.23	17.05	25.38*
– Diluted earnings per share (cents)	17.41	16.27	24.23*
Headline earnings per share (cents)			
– Attributable to ordinary shares (cents)	18.21	17.16	26.33*
– Diluted earnings per share (cents)	17.39	16.37	25.13*

SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited six months ended 31 December 2016 R'000	Unaudited six months ended 31 December 2015 R'000	Restated audited year ended 30 June 2016 R'000
Cash generated from operations	105 249	23 670	393 851
Net finance income	20 918	7 999	27 839
Distribution to shareholders	(84 791)	(64 969)	(131 485)
Dividends received	5 010	–	4 112
Tax and other payments	(55 063)	(69 893)	(102 584)
Net cash (outflow)/inflow from operating activities	(8 677)	(103 193)	191 733
Net cash inflow/(outflow) from investing activities	13 640	(495 561)*	(677 151)*
Net cash inflow from financing activities	10 696	641 776	519 612*
Net increase in cash and cash equivalents	15 659	43 022	34 194
Effect of foreign exchange benefit	(3 007)	5 166	4 823
Cash and cash equivalents at beginning of the period	373 068	334 051	334 051
Cash and cash equivalents at end of the period (NOTE 4)	385 720	382 239*	373 068

	Unaudited six months ended 31 December 2016	Unaudited six months ended 31 December 2015	Restated audited year ended 30 June 2016
Cash and cash equivalents	385 720	382 239	373 068
Managed funds and deposits	278 851	396 253	411 934
	664 571	778 492	785 002

COMMENTARY

INTRODUCTION

The Board is pleased to present the interim results of the AfroCentric Group for the six months ended 31 December 2016. Reference to the commentary for the previous corresponding reporting period, will reveal the number of determining corporate actions at that time, including new clients taken on during that reporting period. The Board is therefore pleased to record, that each of those events, has not only contributed towards the Group's overall profitability in this period, but has almost enabled the Group, within a year, to exceed the dilution in earnings impact, arising on the subscription by Sanlam for 28.7% ("the Sanlam subscription") of the shares in ACT Healthcare Assets (Pty) Ltd ("AHA") and the WAD acquisition through the issue of AfroCentric shares.

ACCOUNTING POLICIES AND BASIS OF PREPARATION

The summarised consolidated interim financial statements for the six months ended 31 December 2016 are prepared in accordance with International Financial Reporting Standard, IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. 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 applied in the previous consolidated annual financial statements.

The Audited June 2016 results have however been restated to take into account, interest accrued on the conditional put option obligation, accounted for in those results as an adjustment to equity, instead of being provided for through the Statement of Comprehensive Income. Further detail on the restatement is set out below. The restatement has been made in terms of IAS 8.

NATURE OF BUSINESS

AfroCentric is a JSE listed investment holding company which operates in and provides specialized services to the healthcare sector. AfroCentric continues to maintain its deliberate objective of being the leading enterprise of transformation and empowerment in the healthcare sector. The Group has achieved a Level 2 B-BBEE rating, based on the new codes and is easily the highest ranked BEE healthcare-related enterprise on the JSE. AfroCentric's core business is to provide health administration and health risk management solutions to its medical scheme clients. Through other specialty competencies within its integrated network of health services, AfroCentric provides a range of complementary services which include, inter alia, information technology ("IT") solutions; fraud detection, transactional switching; specialised disease management; pharmaceutical wholesaling and courier distribution services. AfroCentric continues to seek new and expansion opportunities within the healthcare sector, that are aligned with Group interests and are likely to contribute to the health and welfare of South Africa's diverse communities.

OTHER HIGHLIGHTS

- Top ranking B-BBEE status achieved for the fifth successive year, based on the revised codes.
- Titanium Award for Service Excellence – Managed Care for Healthcare entities 2016.
- Titanium Award for Service Excellence – Administration 2016.
- BHF Member of the year 2016.

FINANCIAL PERFORMANCE

Profits before tax increased by 45.88% for the period under review amounting to R219.8 million (2015: R150.7 million). Profits after tax (PAT) increased by 39.85%, a satisfying result through great effort and efficient control by the Group's management and staff. Earnings per share and headline earnings per share increased marginally in this period by 6.92% and 6.12% respectively, substantially as a result of the immediate dilutionary impact of the Sanlam subscription.

RESTATEMENT OF PRIOR RESULTS

Sanlam subscribed for 28.7% of the shares in AHA during the 2016 financial year for the sum of R703 million. A suspensive term of the transaction included inter alia, that AfroCentric achieve a minimum threshold of profit (as defined) for the year ending 30 June 2017 ("the profit warranty").

In the event that such 2017 warranted profit threshold is not achieved, several adjusting share allocation elections become available to Sanlam, including, in certain circumstances, Sanlam's right to put the 28.7% share interest in AHA back to the company at cost plus interest, from the date of the subscription payment, to the date the put option is exercised.

Given an error in the accounting treatment of interest accrued under the aforesaid conditional put option obligation, the Audited June 2016 results have been restated to provide for the interest charge (R25 million) now through the Statement of Comprehensive Income and not as previously endorsed, through an interest adjustment direct to equity. The required interest accrual (R23 million) has similarly been provided through the Statement of Comprehensive Income for this interim period.

In the prior years, AfroCentric calculated the EPS and HEPS using the total comprehensive income attributable to the parent instead of the profit and loss attributable to the parent and added back impairment of loans for HEPS purposes. From management's analysis the change in the EPS is immaterial but in compliance with IAS 33.

In the prior financial year loans to Group companies was reclassified from financing activities to investing activities in the statement of cash flows as this is more appropriate.

DEVELOPMENTS

Having regard to certain of the actions and events already referred to herein, a brief summary of related progress in each case is provided hereunder.

Apart from the comprehensive range of services provided in the normal course to the Group's respected and existing client base, management were able to professionally and efficiently capture the data and competently provide the administration under the "new Polmed contract", including completing the sizeable task on the amalgamation of the Liberty Medical Scheme into Bonitas. Both of these were significant events, with considerable investment demands. The investment appropriations in each case, were made in anticipation of growth in net revenues, further overhead rationalisation, not unexpected through the greater economies of scale.

The introduction of the Group's Insurance Fraud Manager (IFM) software from FICO during the period under review, has also proved to be a game changer within the Group's portfolio of clients, by identifying fraudulent conduct by members and providers, detecting waste and abuse within each of the client Medical Schemes, at the same time, contributing to the Group's revenues under a variety of fee structures reciprocally beneficial to the Group's clients and the company.

Pharmacy Direct has also made impressive progress in the subject period, by successfully securing further contracts for the delivery of chronic medication to patients, now in seven provinces of South Africa (previously five provinces). This contract has and continues to be efficiently managed, with growth in scripts for dispensing and distribution having doubled during the past twelve months.

PROSPECTS

While the economic environment within South Africa remains somewhat volatile and uncertain, AfroCentric remains confident in pursuing its interest in welcoming and facilitating the current market inclination towards medical administration consolidation. The Group also continues its objectives to acquire new and expand existing healthcare enterprises, so as to broaden its participation in the healthcare sector, ideally under a template of a widening market and better patient affordability.

AfroCentric has over the years, established a secure foundation for the future and its partnerships with Sanlam and others, present a sound model for sustainability, somewhat dependent on the progress and growth of the South African economy, including its political stability, with similar criteria being relevant and applicable in other targeted destinations in Africa.

DIRECTORS AND OFFICERS

Since the last published set of Group results there were the following changes on the Board of Directors:

- Dr NB Bam resigned as an Independent Non-executive Director effective 1 November 2016.
- Mr GL Napier resigned as an Independent Non-executive Director effective 1 November 2016.
- Mr JG Appelgryn ceased to serve as a Non-executive Director effective 1 November 2016.
- Ms NV Qangule was appointed as an Independent Non-executive Director effective 30 November 2016 and resigned 15 March 2017.
- Mr SE Mmakau was appointed as an Independent Non-executive Director effective 30 November 2016.

DIVIDENDS

The Board has pleasure in announcing that an interim dividend of 14 cents per ordinary share (gross) has been declared for the six months ended 31 December 2016. Dividends are subject to Dividends Withholding Tax. The payment date for the dividend is Monday, 15 May 2017. This interim dividend will constitute part of the Group's annual dividend, to be considered in due course with the results for the year ending on 30 June 2017.