



# AFROCENTRIC GROUP

## Unaudited Interim Results FOR THE SIX MONTHS ENDED 31 DECEMBER 2013



The Board of Directors has pleasure in presenting the Group's unaudited results for the six month period ended 31 December 2013.

The Group has once again achieved a positive growth in earnings for the period under review. Further details of which are set out in the commentary below.

Given the expiry of the three-year profit warranty period in AfroCentric Health Limited ("AHL") on 30 June 2013 the profit performance was measured against the qualifying formula for purposes of calculating the second tranche payments to "Lethimvula" vendor shareholders. Information on the outcome of this exercise including other significant events during the period under review are also set out in more detail in the commentary below.



### CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited 6 months ended 31 December 2013 R'000	Unaudited 6 months ended 31 December 2012 R'000	Audited year ended 30 June 2013 R'000
<b>Non-current assets</b>	1,388,192	1,027,820	1,031,881
Property, plant and equipment	97,113	96,137	90,349
Investment property	15,000	10,300	15,000
Intangible assets (Note 1)	989,780	661,007	628,305
Unlisted investments	280	280	280
Investment in associates	54,100	88,470	42,484
Investment in preference shares	100,000	100,000	100,000
Interest bearing loan	63,652	-	74,000
Deferred income tax assets	68,266	71,626	81,463
<b>Current assets</b>	483,945	367,746	496,780
Trade and other receivables	138,494	116,733	127,279
Short term portion on interest bearing loan	7,000	-	2,378
Receivables from associates and joint venture	-	12,260	-
Current tax asset	20,227	29,756	6,912
Cash and cash equivalents	318,225	208,997	360,211
<b>Total assets</b>	1,872,137	1,395,566	1,528,661

### EQUITY AND LIABILITIES

	Unaudited 6 months ended 31 December 2013 R'000	Unaudited 6 months ended 31 December 2012 R'000	Audited year ended 30 June 2013 R'000
<b>Capital and reserves</b>	1,409,074	924,841	1,002,874
Issued capital (Note 1)	901,000	352,669	356,711
Contingent shares to be issued	-	188,540	137,258
Share-based awards reserve	2,793	20,759	49,225
Treasury shares	(2,324)	(2,701)	(2,324)
Foreign currency translation reserve	1,437	(171)	1,254
Distributable reserve	506,167	365,745	460,750
Non-controlling interest	54,540	38,449	50,205
<b>Total equity</b>	1,463,614	963,290	1,053,079
<b>Non-current liabilities</b>	261,139	278,685	268,375
Deferred income tax liabilities	39,044	51,846	51,090
Interest bearing loan	200,000	200,000	200,000
Provisions	8,350	8,350	8,350
Post-employment medical obligations	3,551	3,504	3,551
Accrual for straight lining of leases	10,194	14,985	5,384
<b>Current liabilities</b>	147,385	153,591	207,207
Borrowings	-	-	7,926
Provisions	7,068	7,181	8,677
Trade and other payables	78,975	92,644	94,246
Employment benefit provisions	61,342	53,766	96,358
<b>Total liabilities</b>	408,523	432,276	475,582
<b>Total equity and liabilities</b>	1,872,137	1,395,566	1,528,661

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 6 months ended 31 December 2013 R'000	Unaudited 6 months ended 31 December 2012 R'000	Audited year ended 30 June 2013 R'000
<b>Revenue</b>	937,170	822,422	1,770,330
Operating costs	(792,479)	(687,239)	(1,436,673)
<b>Operating profit</b>	144,691	135,183	333,657
Other income	4,995	4,482	2,307
Foreign exchange benefit	183	-	1,900
Net finance income/(cost)	5,384	(893)	8,168
Share of associate profits/(losses) - Jasco	1,889	3,881	(30,030)
Share of associate profits - Healthcare	759	3,210	8,553
<b>Profit before impairment and amortisation</b>	157,901	145,863	324,555
Fair value gain of investment	-	-	5,252
Fair value gain/(loss) in associate	(7,884)	(308)	7,253
IFRS 2 share-based awards	(2,793)	(11,402)	(39,868)
Profit on sale of investment	-	-	51,014
Depreciation	(20,236)	(17,744)	(37,251)
Amortisation of intangible assets	(23,435)	(17,706)	(40,098)
<b>Profit before income tax</b>	103,553	99,732	270,857
Income tax expense	(26,109)	(30,917)	(84,848)
<b>Profit for the year</b>	77,444	68,815	186,009
Other comprehensive income	-	-	-
<b>Total comprehensive income for the year</b>	77,444	68,815	186,009
<b>Attributable to:</b>			
Equity holders of the Parent	71,153	59,529	163,570
Non-controlling interest	6,291	9,286	22,439
	77,444	68,815	186,009

Note 1: The significant increase in Intangible assets and Issued share capital is due to the 100,805,395 shares issued in terms of the second tranche payment provisions. In terms of IFRS, this share issue has been accounted for at market value.

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited 6 months ended 31 December 2013 R'000	Unaudited 6 months ended 31 December 2012 R'000	Audited year ended 30 June 2013 R'000
<b>Balance at beginning of the period</b>	1,053,079	913,440	913,440
Issue of share capital	544,450	3,304	7,345
Share-based awards reserve	(46,432)	11,402	39,868
Reversal of contingent shares to be issued (Note 1)	(137,258)	-	(51,282)
Revaluation of treasury shares issued	-	(453)	(552)
Second tranche cash payments	(26,740)	-	-
Redemption of preference shares at par	(166)	-	-
Dividends paid/Distribution to shareholders	-	(33,218)	(33,219)
Net profit for the period (year)	71,153	59,529	163,570
Profit attributable to minorities	6,291	9,286	22,439
Acquisition of businesses	-	-	(4,477)
Distribution to AHL minorities	(763)	-	(4,053)
<b>Balance at end of the period</b>	1,463,614	963,290	1,053,079

### CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 6 months ended 31 December 2013 R'000	Unaudited 6 months ended 31 December 2012 R'000	Audited year ended 30 June 2013 R'000
Cash generated from operations	80,015	115,180	340,413
Net finance income	5,384	7,329	8,168
Distribution to shareholders	-	(8,222)	(33,196)
Tax and other payments	(38,272)	(39,310)	(88,305)
Net cash inflow in operating activities	47,127	74,977	227,080
Net cash outflow from investing activities	(83,348)	(70,096)	(114,459)
Net cash inflow from financing activities	(5,948)	(37,794)	3,780
Effect of foreign exchange benefit	183	-	1,900
<b>Net (decrease)/increase in cash and cash equivalents</b>	(41,986)	(32,913)	118,301
Cash and cash equivalents at beginning of the period	360,211	241,910	241,910
<b>Cash and cash equivalents at end of the period</b>	318,225	208,997	360,211

### EARNINGS ATTRIBUTABLE TO EQUITY HOLDERS

	Unaudited 6 months ended 31 December 2013 R'000	Unaudited 6 months ended 31 December 2012 R'000	Audited year ended 30 June 2013 R'000
<b>Headline earnings reconciliation</b>			
Number of ordinary shares in issue	467,797,446	269,154,524	270,010,639
Number of preference shares in issue	-	16,638,000	16,638,000
Weighted average number of ordinary shares	302,656,582	268,894,005	269,256,170
Weighted average number of shares for diluted EPS	302,656,582	334,333,038	*452,953,162
*Calculated in anticipation of dilution on maximum second tranche payments and maximum preference share redemption election			
<b>Basic earnings</b>	20%	71,153	59,529
Adjusted by:			
- Loss/(profit) on disposal of assets	-	-	(51,014)
- Fair value gain on investment	-	(929)	(5,252)
- Fair value adjustment of investment in associate	7,884	308	(7,253)
- Adjustment of impairment recognised by associate	-	-	30,030
- Loss/(profit) on disposal of assets	(62)	35	(440)
- Fair value adjustments (other)	-	-	(4)
<b>Headline earnings</b>	34%	78,976	58,943
<b>Basic earnings per share (cents)</b>			
- Attributable to ordinary shares (cents)	23.51	22.14	60.75
- Diluted (cents)	23.51	17.81	36.11
<b>Headline earnings per share (cents)</b>			
- Attributable to ordinary shares (cents)	26.09	21.92	48.15
- Diluted (cents)	26.09	17.63	28.62

### COMMENTARY

#### INTRODUCTION

The AfroCentric Group's ("AfroCentric") interim financial results are set out alongside this commentary. The Board selected this long format for publication substantially for shareholders to gain a more detailed appreciation of the outcome and impact of the long-awaited AHL profit warranty calculations, including the resultant second tranche share issues and cash payments. In addition, by 31 December 2013 preference shareholders were obliged to either elect the redemption option for ordinary shares, or have their preference shares redeemed in cash. The outcome of this process, only effective after the reporting date, is nevertheless highlighted and explained in the commentary below.

In a period of somewhat volatile and unpredictable economic direction, the Group satisfactorily continued its past trend of growth in earnings and comparable market presence. The detailed operational review is also set out hereunder.

#### ACCOUNTING POLICIES AND BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 31 December 2013 are prepared in accordance with the requirements of International Financial Reporting Standards ("IFRS"), IAS 34 - Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Limited Listings Requirements, and the Companies Act 71 of 2008, as amended. The condensed consolidated interim financial statements are prepared on the historical cost basis and the accounting policies are consistent with those adopted and applied for the year ended 30 June 2013 in terms of IFRS.

#### NATURE OF BUSINESS

AfroCentric is a black-controlled, diversified investment holding company. It is listed on the Johannesburg Stock Exchange ("JSE") in the Healthcare Sector under the code: ACT. AfroCentric holds a substantial 94.1% majority stake in AHL. AHL owns 100% of the issued share capital in Medscheme Holdings (Pty) Limited ("Medscheme"), a multi-medical scheme administrator and managed care provider. As the largest health risk management services provider and third largest medical scheme administrator in South Africa, Medscheme's focus is to achieve sustainability through innovation, effective health risk management, complemented by a relentless drive for operational and service excellence. Medscheme has over 3.2 million lives under management. Medscheme's healthcare management expertise has been gained over 41 years, which includes several years of experience with the Government Employees Medical Scheme ("GEMS"). Although Medscheme is essentially a South African enterprise, the Group has a meaningful presence in Botswana, Namibia, Mauritius, Swaziland, Kenya and Zimbabwe. Medscheme's operations in Mauritius provide an excellent platform for further international expansion. Health Management and technical support services are provided to clients in the Republic of Ireland out of the Medscheme Mauritius office.

#### OPERATIONAL REVIEW AND FINANCIAL RESULTS

Notwithstanding early costs incurred for additional capacity anticipating new business in early 2014, AfroCentric's operating profits increased by 7% to R145 million (2012: R135 million). The improved profitability arises through strong organic revenue growth of 14% to R937 million (2012: R822 million). In addition, the improved operating profit reveals AHL's continuing efficiencies in all of its business units through a focus on cost containment and overhead rationalisation arising inter alia, through economies of scale. AHL's administration and managed care contracts are reviewed annually in January and accordingly, profits of AHL are normally favourably weighted towards the second period January to June in each year. AfroCentric's basic earnings increased by 19.5% to R71 million (2012: R59 million) and headline earnings increased by 34% to R79 million (2012: R59 million). The Group once again generated strong cash flows with cash and cash equivalents increasing by 52% to R318 million (2012: R209 million).

Jasco Electronic Holdings Limited ("Jasco"), the listed entity in which AfroCentric holds a 27.3% interest, returned to profitability during the period. However, the decline in market price of a Jasco share at 31 December 2013 required a negative fair value adjustment of R7.9 million.

#### PROFIT WARRANTY, SECOND TRANCHE PAYMENTS AND EXECUTIVE SHARE AWARDS

The profit warranty undertakings by AHL vendors in 2008 were finally measured during the period under review. Given the 90% level of attainment, 100,805,395 ordinary shares were issued to the original vendors, together with a cash consideration of R26 million calculated in terms of the second tranche payments formula in the acquisition agreement. In addition, 27 000 000 ordinary shares were issued to selected AHL management who participated in the warranty incentive programme. Shareholders will be pleased to note that the final acquisition price of AHL based on the 2013 results calculates at a PE ratio of less than four times earnings.

#### PREFERENCE SHARE REDEMPTION

By close of business on 31 December 2013 (the final election date), virtually all preference shareholders had elected to have their preference shares redeemed through the issue of AfroCentric ordinary shares. This was done in terms of the preference share covenants and the process applicable to such redemption. Accordingly, on the first available date after 31 December 2013, 69,981,412 ordinary shares were issued to the preference shareholders. In compliance with IFRS, the ordinary shares issued pursuant hereto, have been included in the calculation of the weighted average number of shares in issue for purposes of calculating diluted earnings and diluted headline earnings per share "as if" these shares were issued on 31 December 2013.

#### PROSPECTS

The high level attainment of the profit warranty provides a sense of reassurance on the earning capacity of the Group's principle subsidiary AHL. These interim results reflect the continuing growth pattern of profits after tax. Additional shares have been issued, both under the second tranche payment provisions and the preference share redemptions, the effect of which could have a dilutionary impact on the basic and headline earnings per share going forward. Notwithstanding the aforesaid, there exists a reasonably secure foundation for the health-related portfolio businesses. Having regard to the marginal profits of Jasco in this period the Group remains vigilant of its performance and will seek to support the company in its intended disposal of its investment in M-Tec.

There has been no further development in the status of the Group's proposed iron-ore joint venture project with Rio Tinto PLC and the Group awaits the relevant approval of rights from the Department of Mineral Resources.

#### SUBSEQUENT EVENTS

The Board is pleased to advise shareholders that Medscheme was appointed a service provider to the Road Accident Fund for the purpose of assessing and validating third party road accident claims. This service has commenced. No other significant events have occurred between the reporting date and the date of this announcement.

#### DIRECTORS

Mr Brian Joffe, a founder director of AfroCentric tendered his resignation from the Board with effect from 3 March 2014. The Board is highly appreciative of his contribution over the years.

#### DIVIDENDS

The policy of the Board is to review profits available for distribution to shareholders at the end of each financial year. Accordingly no distribution has been considered at this time.

#### BASIS OF PREPARATION

The unaudited interim results have been prepared under the supervision of Mr WRC Holmes CA (SA), in his capacity as the Group Chief Financial Officer.

### SEGMENTAL ANALYSIS

	UNAUDITED INTERIM RESULTS for the six months ended 31 December 2013			UNAUDITED INTERIM RESULTS for the six months ended 31 December 2012			AUDITED RESULTS for the year ended 30 June 2013		
	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
<b>Healthcare administration</b>	937,170	128,888	1,303,263	822,422	119,708	1,064,448	1,770,330	337,215	1,276,080
<b>Jasco (including Jasco investment income)</b>	-	1,889	-	-	3,881	-	-	(30,030)	-
<b>Treasury activities</b>	-	397	140,598	-	3,705	113,559	-	6,587	121,584
<b>Other (including inter-segment elimination)</b>	-	(27,621)	428,276	-	(27,562)	217,559	-	(42,915)	130,997
	937,170	103,553	1,872,137	822,422	99,732	1,395,566	1,770,330	270,857	1,528,661

<b>By Order of the Board</b> Wilbert Mhlanga Company secretary Johannesburg 24 March 2014	<b>Directors</b> AT Mokgokong** (Chairperson), D Dempers (CEO)***, WRC Holmes (CFO)***, NB Bam**, JM Kahn**, MJ Madungundaba**, Y Masithela*, G Napier*, J Appelgryn*, MI Sacks** *Independent non-executive **non-executive ***executive	<b>Registered Office</b> 37 Conrad Rd Florida North 1709 <b>Sponsor</b> Sasfin Capital (A division of Sasfin Bank Limited)	<b>AfroCentric Investment Corporation Limited</b> Registration number 1988/000570/06 JSE Code: ACT ISIN: ZAE 000078416, ZAE 000082269 ("AfroCentric" or "the Company" or "the Group")
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