

AFROCENTRIC INVESTMENT CORPORATION LIMITED

(Incorporated in the Republic of South Africa)

(Registration number: 1988/000570/06)

JSE Code: ACT

ISIN: ZAE000078416

("AfroCentric" or "the Company")

ACQUISITION OF VARIOUS ASSETS BY AFROCENTRIC FROM WAD HOLDINGS PROPRIETARY LIMITED ("WAD") AND WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

1. INTRODUCTION

AfroCentric shareholders ("**Shareholders**") are advised that on 30 September 2014, AfroCentric concluded the commercial terms of an agreement in terms of which it will acquire or has the right to acquire certain assets from WAD or its respective subsidiaries ("**WAD Assets**"), subject to the fulfilment of certain conditions precedent, for an aggregate upfront purchase consideration of R400.7 million, the majority of which will be settled through the issue of AfroCentric ordinary shares (collectively the "**WAD Acquisitions**").

2. THE WAD ASSETS

2.1 *Composition of the WAD Assets*

In terms of the WAD Acquisitions, the WAD Assets will comprise the following:

- 2.1.1 on the effective date (referred to in paragraph 4.2 below), 100% of the ordinary shares and on 1 September 2018 up to a 100% of the A class shares in both Pharmacy Direct Proprietary Limited ("**PD**") and Curasana Proprietary Limited ("**CS**"), (collectively "**Pharmacy Direct**"), a business that specialises in the wholesaling, dispensing and delivery of chronic medication for and on behalf of private and public sector clients and patients in South Africa;
- 2.1.2 on the effective date, 100% of the ordinary shares and on 1 March 2017 up to 100% of the A class shares of a wholly owned newly incorporated subsidiary of WAD ("**Newco**"), housing certain of the contracts and business previously conducted by an agency enterprise of WAD;
- 2.1.3 on the effective date, 26% of the ordinary shares in and shareholder loan claims against Activo Health Proprietary Limited ("**Activo**"), a Southern African distributor of generic medicines as well as complementary nutraceutical products ("**Activo Acquisition**");

- 2.1.3.1 the right to exercise a call option to acquire the remaining 74% of ordinary shares and shareholder loan claims in Activo from WAD during the six month period after 1 September 2019 (“the **Call Option**”);
- 2.1.3.2 the right to exercise a put option to dispose of the 26% of ordinary shares and shareholder loan claims in Activo to WAD during the six month period after 1 September 2019; and
- 2.1.4 an option, exercisable in the sole discretion of AfroCentric, prior to 30 June 2018 to acquire the warehouse properties currently occupied and used by Pharmacy Direct that are owned by another subsidiary of WAD, by 30 June 2018 (“**Properties**”).

2.2 Description of the WAD Assets and rights attaching to the equity instruments

2.2.1 Pharmacy Direct

Pharmacy Direct was established 10 years ago and is the designated service provider to a wide range of South African medical aid schemes. The business supplies chronic medication under prescribed minimum benefits regulation and normal chronic benefits to 110,000 patients nationally. In January 2014, Pharmacy Direct was awarded a tender with the Department of Health (“the **DOH Tender**”) in terms of which chronic medication are dispensed on behalf of the Government to districts in 5 of the 9 provinces.

PD and CS shall, at the time of the WAD Acquisitions, have two classes of equity shares in issue, being ordinary and A class shares. The A class shares are intended to represent an incentive for WAD to develop and grow the profitability of the DOH Tender.

Accordingly and in terms of the DOH Tender incentive mechanism, AfroCentric shall acquire 100% of the ordinary shares on the effective date and have the right to acquire up to 100% of the A class shares as detailed in 4.4 below. The principal rights attaching to the shares are as follows:

- Ordinary shareholders have 100% of the voting rights in respect of all company and business matters;
- A class shareholders shall have no voting rights and no initial claim on economic benefits of the Company. Economic benefits shall vest in the A class shares from 1 July 2018 following the achievement of certain profitability levels relative to the DOH Tender by 30 June 2018.

2.2.2 Newco

Newco will acquire a software marketing contract (“Agency Contract”) from an agency enterprise of WAD. The purchase consideration for Newco shall be payable in two tranches,

as detailed in paragraph 4.4 below. Newco shall, at the time of the WAD Acquisitions, have two classes of shares in issue, being ordinary shares and A class shares. The A class shares will act as an incentive for the ongoing development and growth of this business and facilitate a deferred payment should certain profitability thresholds be achieved.

The principal rights attaching to the shares are as follows:

- Ordinary shareholders have 90% of the voting rights in respect of all company and business matters and 100% of the economic benefits;
- A class shareholders shall have 10% of the voting rights and no initial claim on economic benefits of Newco. Economic benefits shall vest in the A class shares from 1 January 2017 following a determination of the prospective contract based profitability of the business for the following three fiscal years. From 1 January 2017, the A shares will rank *pari passu* with the ordinary shares and, prior to the second tranche as contemplated in 4.4.2.2, will represent 50% of the fully diluted shares outstanding.

2.2.3 Activo

Activo is a wholesale pharmaceutical distributor to South African-based customers, including Pharmacy Direct. In terms of the WAD Acquisitions a strategic minority interest in Activo will be acquired in order to align the interests of the parties and to provide AfroCentric with an opportunity to increase its interest in Activo by means of the Call Option.

2.2.4 Properties

AfroCentric shall have the option to acquire, in its sole discretion, prior to 30 June 2018, the Properties. The Properties comprise warehouses and packaging and distribution facilities based in Centurion and Midrand that are occupied and used by Pharmacy Direct.

2.3 ***Profits and net asset value attributable to the WAD Assets***

The after tax profits attributable to the WAD Assets (Pharmacy Direct, 26% of Activo and the Agency Contract in Newco) for the year ended 28 February 2014, being WAD's most recent year end, is R45 million while the net asset value as at 28 February 2014 was R79 million.

3. **RATIONALE FOR THE WAD ACQUISITION**

AfroCentric is a black-controlled, diversified investment holding company. AfroCentric holds a 94.1% majority stake in AfroCentric Healthcare Limited (“**AHL**”). AHL owns 100% of the issued share capital in Medscheme Holdings Proprietary 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, Bonitas and Fedhealth. 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.

The WAD Acquisitions will not only add diversification to ACT’s investment portfolio, but are complementary to AHL’s core business through their provision of services and products to the broader healthcare community, both private and public. The integration of the WAD Assets will unlock value, as AHL will extend the acquired product and service offerings to the healthcare market. The incorporation of key members of WAD management in the AfroCentric group will further expand management capacity, provide executive continuity and strengthen core skills required in an ever-changing and challenging business environment.

4. **TERMS OF THE WAD ACQUISITIONS**

4.1 ***Acquisition of the WAD Assets by an AfroCentric subsidiary***

Upon completion of the WAD Acquisitions by AfroCentric, the WAD Assets will be transferred to its currently wholly owned subsidiary ACT Healthcare Assets Proprietary Limited (“**ACT Assets**”) (“**ACT Acquisition**”).

4.2 ***Effective date of the WAD Acquisitions***

The effective date of the WAD Acquisitions shall be the date of fulfilment or waiver, as the case may be, of the conditions precedent detailed in paragraph 4.3 below.

4.3 Conditions precedent

The WAD Acquisitions are subject to the fulfilment or waiver, as the case may be, by or before 15 December 2014, of, *inter alia*, the following outstanding conditions precedent:

- 4.3.1 the conclusion and execution of definitive transaction agreements;
- 4.3.2 Mr Antoine van Buuren, currently the Chief Executive Officer (“**CEO**”) of Pharmacy Direct, is appointed as CEO of AHL;
- 4.3.3 Mr Willem Britz, currently CEO of WAD, is appointed as an executive director of AfroCentric;
- 4.3.4 the approval of the WAD Acquisitions by the Medicine Control Council; and
- 4.3.5 regulatory approvals of the WAD Acquisitions including by, and to the extent that such approval may be required, the Takeover Regulation Panel and Competition Commission.

4.4 Consideration for the WAD Acquisitions

The maximum total aggregate purchase consideration for the WAD Assets, including the second tranches, is R593.8 million (based on a price of R4.40 per AfroCentric share) and will be payable by AfroCentric to WAD, substantially through the issue of AfroCentric ordinary shares (“**AfroCentric Shares**”) and a certain amount in cash, as follows:

4.4.1 Pharmacy Direct

The aggregate purchase consideration payable by AfroCentric in respect of Pharmacy Direct will be settled in two tranches as follows:

- 4.4.1.1 Tranche 1 – in respect of 100% of the ordinary shares of PD and CS – the issue of 67 405 228 AfroCentric Shares (valued at R296,6 million at R4.40 per AfroCentric share) to WAD on the effective date; and
- 4.4.1.2 Tranche 2 - in respect of up to 100% of the A class shares in PD and CS – an amount to be determined based on a multiple of the after tax profit attributable to the DOH Tender for the year ended 30 June 2018, adjusted for aggregate capital expenditure and net accumulated losses on the DOH Tender since the effective date. The purchase price will be settled on 1 September 2018 through the issue of AfroCentric Shares based on the volume weighted average price of AfroCentric Shares for the 90 days preceding 1 September 2018. The multiple will be a 10% discount to the average price earnings multiple of AfroCentric Shares for the 90 (ninety) trading days immediately prior to 1 September 2018. The maximum number of shares AfroCentric will be obliged to issue for this tranche is 13 000 000

AfroCentric Shares plus any AfroCentric Shares that were not issued in terms of the maximum referred to in 4.4.2.2 below (“the Maximum Share Issue”).

If the tranche 2 payment as calculated requires more than the Maximum Share Issue, the percentage of the A shares of PD and CS to be acquired by AfroCentric will be reduced accordingly. AfroCentric shall have the option to acquire, in its sole discretion, prior to 1 March 2019, any remaining A shares.

4.4.2 *Newco*

The aggregate purchase consideration payable by AfroCentric in respect of Newco will be settled in two tranches as follows:

4.4.2.1 Tranche 1 – in respect of 100% of the ordinary shares of Newco –the issue of 19 117 000 AfroCentric Shares (valued at R84.1 million at R4.40 per AfroCentric share)to WAD on the effective date; and

4.4.2.2 Tranche 2 - in respect of up to 100% of the A class shares in Newco – an amount to be determined based on a multiple of 5 times the expected annual average after tax earnings in contracted income from the Agency Contract for the three forecast years ending 30 June 2018, 2019 and 2020. The purchase price will be settled on 1 March 2017 through the issue of AfroCentric Shares at an agreed upon price of R4.40 per share. The maximum number of shares Afrocentric will be obligated to issue for this tranche is 30 883 000 AfroCentric Shares.

If the tranche 2 payment as calculated requires more than 30 883 000 AfroCentric Shares to be issued, the A class shares of Newco to be acquired by AfroCentric will be reduced accordingly. AfroCentric shall have the option to acquire, in its sole discretion, prior to 1 March 2019, any remaining A class shares.

4.4.3 *Activo*

4.4.3.1 The aggregate purchase consideration payable by AfroCentric for the Activo Acquisition will be R20 million payable in cash on the effective date.

4.4.3.2 ACT or its nominee shall have the option to increase or dispose of its shareholding after 30 June 2019 but before 1 March 2020, by means of:

4.4.3.2.1 a call option on the remaining 74% at the higher of:

- the average profit after tax of the company for the 12 (twelve) month periods ending 30 June 2019 and 30 June 2018 respectively multiplied by 10; or
- fair market value at 30 June 2019.

4.4.3.2.2 a put option at a value for R30 million, adjusted for any movement on shareholder claims since the effective date.

4.4.4 *Option to acquire Properties*

AfroCentric has the option to acquire the Properties by 30 June 2018 at the fair market value thereof, as agreed between AfroCentric and WAD, in consultation with a jointly appointed property valuer and payable in cash.

4.4.5 *Warranties and indemnities*

AfroCentric and WAD have given each other the warranties and indemnities that are usual in transactions of this nature.

4.4.6 *WAD interest in AfroCentric post the WAD Acquisitions*

Following the implementation of the WAD Acquisitions and at the effective date WAD will hold a total beneficial interest of 16% in AfroCentric.

WAD has undertaken not to dispose nor transfer any of the AfroCentric Shares held by it for a period of 24 months after the effective date ("the Restricted Period"), but subject to, the ability to dispose of up to 15% of its holding *per annum* under certain circumstances during the Restricted Period.

5. **CATEGORISATION OF THE WAD ACQUISITIONS**

The WAD Acquisitions are considered a Category 2 transaction in terms of the JSE Limited Listings Requirements and do not require shareholder approval.

6. **WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT**

Shareholders are referred to the cautionary announcement dated 10 June 2014 and the subsequent renewal thereof dated 23 July 2014 and 3 September 2014.

Shareholders are advised that further to the announcement published today, 30 September 2014, on the Stock Exchange News Service regarding the subscription for shares by Sanlam in ACT Assets and this announcement regarding the WAD Acquisitions, Shareholders no longer need to exercise caution when dealing in the Company's securities.

Sponsor

Sasfin Capital (a division of Sasfin Bank Limited)

Corporate Advisor to AfroCentric

Sinergi Corporate Advisors Proprietary Limited

Joint Legal Advisor to AfroCentric

HR Levin Attorneys, Notaries and Conveyancers

Joint Legal Advisor to AfroCentric

Rothbart Ingham Inc

Corporate Advisor to WAD

KPMG Services Proprietary Limited