



1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The principal accounting policies applied in the preparation of the Group and Company annual financial statements are set out below in the related notes and are consistent with those adopted in the prior year, unless otherwise specified.

The Group and Company annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, the JSE Listings Requirements and the Companies Act, No 71 of 2008.

The term IFRS includes International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). The standards referred to are set by the International Accounting Standards Board (IASB).

The Group and Company annual financial statements are prepared under the historical cost convention, except for certain financial and equity instruments which have been measured at fair value. Amounts are rounded to the nearest thousand with the exception of earnings per share, ordinary share capital and equity compensation benefit. The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

Going concern

The Group and Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group and Company should be able to operate within their current funding levels into the foreseeable future.

After making enquiries, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. The Group and Company therefore continue to adopt the going concern basis in preparing the financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES continued**Standards, interpretations and amendments effective in 2015**

The following standards, interpretations and amendments are effective for the first time for the year ended 31 May 2015 and have not had an impact on the Group's and Company's financial statements:

- Amendments to IFRS 10, IFRS 12 and IAS 27 for investment entities
- Amendments to IAS 32 – *Financial Instruments: Presentation* – requirements for offsetting financial assets and financial liabilities
- Amendment to IAS 36 – *Impairment of Assets* regarding recoverable amount disclosures
- Amendment to IAS 39 – *Financial Instruments: Recognition and Measurement* – novation of derivatives and hedge accounting
- Amendment to IAS 19 – *Employee Benefits* regarding defined benefit plan
- IFRIC 21 – *Accounting for Levies*

Standards, amendments and interpretations not yet effective

The Group has evaluated the effect of all new standards, amendments and interpretations that have been issued but which are not yet effective. Based on the evaluation, management does not expect these standards, amendments and interpretations to have a significant impact on the Group's results and disclosures. The expected implications of applicable standards, amendments and interpretations are dealt with below.

IFRS 9 – *Financial Instruments*

IFRS 9 – *Financial Instruments* addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is currently considering the impact on the consolidated financial statements.



1. SIGNIFICANT ACCOUNTING POLICIES continued

Standards, amendments and interpretations not yet effective continued

Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures – on sale or contribution of assets

The IASB has issued this amendment to eliminate the inconsistency between IFRS 10 and IAS 28. If the non-monetary assets sold or contributed to an associate or joint venture constitute a “business”, then the full gain or loss will be recognised by the investor. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

This statement is effective for periods beginning on or after 1 January 2016. The Group is currently considering the impact on the consolidated financial statements.

Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures – on applying the consolidation exemption

The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

This statement is effective for periods beginning on or after 1 January 2016. The Group does not believe the statement will have a significant impact, given that the Group does not apply the exemption currently.

Amendment to IFRS 11 – Joint Arrangement – on acquisition of an interest in a joint operation

This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

This statement is effective for periods beginning on or after 1 January 2016. The Group is currently considering the impact on the consolidated financial statements.

IFRS 14 – Regulatory Deferral Accounts

The IASB has issued IFRS 14, an interim standard on the accounting for certain balances that arise from rate-regulated activities (regulatory deferral accounts).

This statement is effective for periods beginning on or after 1 January 2016 and is not applicable to the Group.

Amendments to IAS 1 – Presentation of Financial Statements – disclosure initiative

In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

This statement is effective for periods beginning on or after 1 January 2016. The Group is currently considering the impact on the consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES continued**Standards, amendments and interpretations not yet effective continued****Amendment to IAS 16 – *Property, Plant and Equipment* and IAS 38 – *Intangible Assets* – on depreciation and amortisation**

In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

This statement is effective for periods beginning on or after 1 January 2016. The Group is currently considering the impact on the consolidated financial statements.

Amendments to IAS 16 – *Property, Plant and Equipment* and IAS 41 – *Agriculture* – on bearer plants

This statement is effective for periods beginning on or after 1 January 2016 and is not applicable to the Group.

Amendments to IAS 27 – *Separate Financial Statements* – on equity accounting

In this amendment the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

This statement is effective for periods beginning on or after 1 January 2016 and is not applicable to the Group. The Company does not believe the statement will have a significant impact, given that the Company does not intend on applying this option.

IFRS 15 – *Revenue From Contracts with Customers*

This statement establishes principles for reporting useful information to users of the financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

This statement is effective for periods beginning on or after 1 January 2017. The Group is currently considering the impact on the consolidated financial statements.



1. SIGNIFICANT ACCOUNTING POLICIES continued

Annual improvements project

The IASB decided to initiate an annual improvements project in 2007 as a method of making necessary, but non-urgent, amendments to IFRS that will not be included as part of another major project. The IASB's objective was to ease the burden for all concerned.

Improvements to IFRS were issued by the IASB as part of the "annual improvements process" resulting in the following amendments to standards issued, but not effective for 31 May 2015 year-ends:

IFRS 5 – Non-current Assets Held-for-Sale and Discontinued Operations

This is an amendment to the changes in methods of disposal – Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5.

The amendment also clarifies that changing the disposal method does not change the date of classification.

IFRS 7 – Financial Instruments: Disclosures

Applicability of the offsetting disclosures to condensed interim financial statements – The amendment removes the phrase "and interim periods within those annual periods" from paragraph 44R, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. However, the Board noted that IAS 34 requires an entity to disclose an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Therefore, if the IFRS 7 disclosures provide a significant update to the information reported in the most recent annual report, the Board would expect the disclosures to be included in the entity's condensed interim financial report.

IFRS 7 – Financial Instruments: Disclosures

Servicing contracts – The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required.

IAS 19 – Employee Benefits

Discount rate: regional market issue – The amendment to IAS 19 clarifies that market depth of high-quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high-quality corporate bonds in that currency, government bond rates must be used.

1. SIGNIFICANT ACCOUNTING POLICIES continued

Annual improvements project continued

IAS 34 – Interim Financial Reporting

Disclosure of information “elsewhere in the interim financial report” – The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report.

The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, the interim financial report is incomplete.

Management is currently considering the effect of the changes.

Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured 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 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.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

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 are 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 remeasured, and its subsequent settlement is accounted for within equity.



1. SIGNIFICANT ACCOUNTING POLICIES continued

Basis of consolidation continued

(a) Subsidiaries continued

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. If the total consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also 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, i.e. 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.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) Associates

Associates are all entities over which the Group has significant influence but not 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 of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, 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.

1. SIGNIFICANT ACCOUNTING POLICIES continued

Basis of consolidation continued

(d) Associates continued

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) from associates in the statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investors' 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.

Dilution gains and losses arising in investments in associates are recognised in the statement of comprehensive income.

The Company financial statements account for investments in associates at cost less any accumulated impairment.

(e) Joint arrangements

Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture 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) from joint ventures in the statement of comprehensive income.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Company financial statements account for investments in joint ventures at cost less any accumulated impairment.



1. SIGNIFICANT ACCOUNTING POLICIES continued

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Group financial statements are presented in South African rand (ZAR), which is the functional and presentation currency of the parent company.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 statement of comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate as at statement of financial position date.
- Income and expenses 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 dates of the transactions).
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the closing rate.

Financial instruments

Financial instruments carried on the statement of financial position include:

Financial assets

- Loans receivable.
- Trade and other receivables.
- Cash and cash equivalents.

Financial liabilities

- Borrowings.
- Trade and other payables.

1. SIGNIFICANT ACCOUNTING POLICIES continued**Financial instruments continued****Financial liabilities continued**

The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item.

Regular way purchases and sales of financial assets that require delivery are recognised on trade date, being the date on which the Group commits to purchase or sell the asset.

The Group recognises a financial asset or a financial liability on its statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities (or a part of a financial liability) are removed from its statement of financial position when, and only when, they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, and cash and cash equivalents. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category does not include those loans and receivables that the Group intends to sell in the short term or that it has designated as at fair value through profit or loss or available-for-sale. These assets are included in current assets, except for maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets.

Financial assets classified as loans and receivables are initially recognised at fair value plus transaction costs. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest rate method, less any provision for impairment.

Loans and receivables comprise loans receivable, trade and other receivables (excluding prepayments and VAT) and cash and cash equivalents.



1. SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A provision for impairment 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. Objective evidence that receivables are impaired includes observable data that comes to the attention of the Group about the following events:

- Significant financial difficulty of the debtor;
- A breach of contract, such as default or delinquency in payments; or
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

The amount of the provision is the difference between the carrying amount and the recoverable amount of the assets being the present value of expected cash flows discounted at the original effective interest rate. The amount of the provision is recognised as a charge in the statement of comprehensive income.

When a receivable is uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Refer to accounting policies on borrowings and trade and other payables for financial liabilities (which exclude employee-related liabilities and VAT), and share capital for equity instruments issued by the Group.

Property, plant and equipment

Property, plant and equipment is initially recorded at historical cost, being the purchase cost plus any cost to prepare the assets for their intended use. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial year in which they are incurred.

Property, plant and equipment is subsequently carried at historical cost less accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment is depreciated on the straight-line basis over each asset's estimated useful life.

1. SIGNIFICANT ACCOUNTING POLICIES continued

Property, plant and equipment continued

Depreciation is calculated on the straight-line basis to write off the cost of the assets to their residual values over their estimated useful lives as follows:

Motor vehicles	20% – 25%
Furniture and fittings	16.67% – 25%
Office equipment	25%
Computer equipment	25% – 33.3%
Terminals and vending machines	16.67%
Media equipment	33.33%
Plant and machinery	20%
Buildings	8.33%

Major leasehold improvements are amortised over the shorter of their respective lease periods and estimated useful lives.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. No such qualifying assets exist at year-end.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at year-end. Where the assets' residual value is higher than the carrying value, no depreciation is provided.

Gains and losses on disposal of property, plant and equipment are determined as the difference between the carrying amount and the fair value of the sale proceeds, and are included in operating profit.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software has a finite useful life and is subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the computer software over its estimated useful life (three to 10 years).

Costs associated with the maintenance of existing computer software programs are expensed as incurred.

(b) Trademarks

Trademarks are shown at historical cost. Trademarks have a finite useful life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives (10 years).

Trademarks are initially shown at fair value as determined in accordance with IFRS 3 – *Business Combinations*, and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses.



1. SIGNIFICANT ACCOUNTING POLICIES continued

Intangible assets continued

(c) Franchise fees

Franchise fees are shown at historical cost. Franchise fees have a finite useful life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of franchise fees over their estimated useful lives (20 years).

Franchise fees are initially shown at fair value as determined in accordance with IFRS 3 – *Business Combinations*, and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses.

(d) Databases, customer listings, distribution agreements and customer relationships

Databases, customer listings, distribution agreements and customer relationships acquired through business combinations are initially shown at fair value as determined in accordance with IFRS 3 – *Business Combinations*, and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the value of these assets over their estimated useful lives (three to 10 years).

Distribution agreements purchased are initially shown at cost, and are subsequently carried at the initial cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the value of these assets over their estimated useful lives (10 years).

(e) Research and development

Costs incurred on development projects are recognised as intangible assets when the following criteria are fulfilled:

- It is technically feasible to complete the intangible asset and that it will be available for use or sale;
- Management intends to complete the intangible asset and use or sell it;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Research expenditure is recognised as an expense as incurred. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is available for use (i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management) on a straight-line basis over its useful life (five to 10 years). Direct costs include the product development employee costs and an appropriate portion of relevant overheads. Costs associated with the maintenance of existing products are expensed as incurred.

1. SIGNIFICANT ACCOUNTING POLICIES continued

Intangible assets continued

(f) Purchased starter pack bases and postpaid bases

Purchased starter pack bases represent the right to earn future revenue from starter packs already distributed and are initially recognised at the cost to the Group. Starter pack bases have a finite life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives (seven years).

Purchased postpaid bases represent the right to earn revenue from the cellular network in respect of contracts forming part of the acquired base. Postpaid bases have a finite life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives (10 years). Where the Group is entitled to a warranty refund on the initial cost of a base, this is disclosed as a reduction in the cost of the asset.

(g) 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, associate or jointly controlled entity at the date of acquisition. Goodwill is attributable to synergies that the Group expects to derive from the transaction. If the cost of acquisition is less than the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income. Goodwill on the acquisition of subsidiaries is included in "goodwill" in the statement of financial position. Goodwill on acquisitions of associates and joint ventures is included in "investments in and loans to associates and joint ventures".

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment is recognised.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.



1. SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of non-financial assets

The Group evaluates the carrying value of assets with finite useful lives when events and circumstances indicate that the carrying value may not be recoverable and when there are indicators of impairment. Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

An impairment loss is recognised in the statement of comprehensive income when the carrying amount of an asset exceeds its recoverable amount. An asset's recoverable amount is the higher of the fair value less cost of disposal (the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable willing parties), or its value-in-use. Value-in-use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss recognised for an asset, other than goodwill, in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised and the recoverable amount exceeds the new carrying amount. The reversal of the impairment is limited to the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years. The reversal of such an impairment loss is recognised in the statement of comprehensive income in the same line item as the original impairment charge.

Leases

(a) Finance leases

Lease agreements that transfer substantially all the risks and rewards of ownership are classified as finance leases at inception of the lease. The asset is capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments at inception of the lease, with an equivalent amount being stated as a finance lease liability. Finance lease liabilities are classified as non-current or current liabilities, as appropriate. Each lease payment is allocated between the liability and finance charges using the effective interest rate. Finance costs are charged to the statement of comprehensive income over the lease period.

The capitalised asset is depreciated over the shorter of the useful life of the asset or the lease term to its residual value.

(b) Operating leases

Leases in which a significant portion of the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments under operating leases, net of incentives, are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

1. SIGNIFICANT ACCOUNTING POLICIES continued**Starter pack assets**

A starter pack is a tool which enables the connection of a mobile device to a mobile network operator, also known as a subscriber identity module (SIM) card.

The starter pack asset represents starter packs which have been distributed but not yet activated. On activation of the starter pack, the Group has a right to receive cash. Starter packs are stated at cost less provision for impairment and are determined by means of the weighted average cost basis. Provision for impairments are made for starter packs distributed but not expected to be activated.

Inventories

Inventories are stated at the lower of cost or estimated net realisable value. Cost comprises direct materials and, where applicable, overheads that have been incurred in bringing the inventories to their present location and condition, excluding borrowing costs. The cost of inventory is determined by means of the weighted average cost basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses. Provisions are made for obsolete, unusable and unsaleable inventory and for latent damage first revealed when inventory items are taken into use or offered for sale.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in the normal operating cycle of the business, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade 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 receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Share capital

Ordinary shares are classified as equity and the shares are fully paid up.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Share issue costs incurred directly in connection with a business combination are shown as a deduction from equity.

Shares acquired by Blue Label Telecoms for its own employees' equity compensation benefit scheme, as well as the shares procured by the subsidiaries in terms of this scheme, are accounted for as treasury shares in the Group statement of financial position.



1. SIGNIFICANT ACCOUNTING POLICIES continued

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating expenses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax 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 the passage of time is recognised as an interest expense.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, when the relevant contracts are entered into. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after year-end.

Normal taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at year-end in the countries where the Company's subsidiaries, associates and joint ventures 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 tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Uncertain tax positions are considered by the Group at the level of the individual uncertainty or group of related uncertainties.

1. SIGNIFICANT ACCOUNTING POLICIES continued**Deferred taxation**

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by year-end and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Dividends tax

Dividends tax is provided for at 15% of the amount of any dividend paid, subject to certain exemptions. The dividends tax is a tax borne by the beneficial owner of the dividend and will be withheld by either the issuer of the dividend or by regulated intermediaries.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within the normal operating cycle of the business. If not, they are presented as non-current liabilities.

Trade payables are measured initially at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of indirect taxes, estimated returns, rebates and discounts, and after eliminated sales within the Group.

Revenue from the sale of goods and the rendering of services is recognised when it is probable that the economic benefits associated with a transaction will flow to the Group and the amount of revenue, and associated costs incurred or to be incurred, can be measured reliably.

Consideration received in advance of goods sold or services rendered is recorded in trade and other payables as deferred revenue. The liability is reversed and the associated revenue is recognised only when the risks and rewards of ownership of the goods are transferred to the customer or the service has been rendered.



1. SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

The main categories of revenue and the bases of recognition are as follows:

(a) Prepaid and postpaid SIM cards

Revenue is recognised when the significant risks and rewards of ownership are transferred to the customer, and when the entity no longer retains continuing managerial involvement to the degree usually associated with ownership.

Activation bonuses received from the networks are recognised when the SIM card is activated on the relevant cellular network. Ongoing revenue and other incentives are recognised once certain criteria have been met. The point of activation is determined by the relevant cellular networks. For this category of revenue the Group acts as a principal.

(b) Sales of prepaid airtime

Sales of prepaid airtime are recognised when the Group sells the airtime to the customer. Sales are recorded based on the price specified in the sales contracts, net of discounts at the time of sale. The Group accounts for the sale of prepaid airtime based on the substance of the arrangement. Where the Group acts in its capacity as principal for the sale of airtime (for instance where the Group bears inventory risk), revenue is recognised as the fair value of the consideration receivable net of discounts and taxes. Revenue is recognised at the point at which risks and rewards are transferred to the customer and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the prepaid airtime.

Where the Group is acting in its capacity as an agent in the sale of prepaid airtime (for instance where the Group does not bear any inventory risk), the amount of revenue recorded is the fair value of commission received or receivable.

(c) Sales of postpaid airtime

Sales of postpaid airtime are recognised on airtime contracted to be delivered to customers for a period of time and billed on a monthly basis in arrears. Revenue is recognised when the significant risks and rewards of ownership are transferred to the customer, and when the entity no longer retains continuing managerial involvement to the degree usually associated with ownership.

Where the Group acts in its capacity as principal for the sale of postpaid airtime, revenue is recognised as the fair value of the consideration receivable net of discounts. Where the Group is acting in its capacity as an agent in the sale of postpaid airtime, revenue is recorded upfront as the fair value of commission received or receivable.

(d) Sales of handsets, tablets and other devices

Revenue is recognised at the point at which risks and rewards are transferred to the customer and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the handsets. For this category of revenue the Group acts as a principal.

(e) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. These services include location-based services, SMS transaction services, media, call centre and data transaction revenue, and technology revenue. For this category of revenue the Group acts as a principal.

1. SIGNIFICANT ACCOUNTING POLICIES continued**Revenue recognition continued****(f) Electricity commission**

Commissions on the sale of prepaid electricity are recognised when the Group sells electricity to the customer on behalf of the utility suppliers. Commissions are recorded based on agreed rates per the contracts. For this category of revenue the Group acts as an agent.

Employee benefits**(a) Equity compensation benefit**

The Group operates an equity-settled forfeitable share incentive plan, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the services received in exchange for the grant of forfeitable shares is recognised as an expense. The total amount to be expensed is determined by the fair value of the forfeitable shares granted. The total amount expensed is recognised over the vesting period, which is the period over which all of the vesting conditions are to be satisfied. At each reporting date, the entity recognises the impact of any shares that have been forfeited prior to the end of the vesting period, if any, in the statement of comprehensive income with a corresponding adjustment to equity.

The subsidiaries procure the shares in order to settle the award, but these are accounted for as a purchase of shares in the holding company, and only once the shares vest as the performance conditions are met would the share be derecognised. When shares are derecognised, the investment in shares in BLT will be credited and equity will be debited as a contribution to the shareholder.

(b) Bonus plans

The Group recognises a liability and an expense for bonuses. A liability is recognised where the Group is contractually obliged or where there is a past practice that has created a constructive obligation.

(c) Leave pay accrual

The Group recognises a liability and an expense for leave. The accrued liability is determined by valuing all future leave expected to be taken and payments expected to be made in respect of benefits.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest rate method.

When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group and Company's financial statements in the period in which they are approved by the shareholders.

Distributions of non-cash assets received from subsidiary companies are recognised as a dividend at the fair value of the non-cash assets received.

Core net profit

Core net profit is a non-IFRS measure used by the Group in evaluating the Group's performance. This supplements the IFRS measures. Core net profit is calculated by adjusting net profit for the year with the amortisation of intangible assets that arise as a consequence of the purchase price allocations completed in terms of IFRS 3 – *Business Combinations*.

Reconciliation of core net profit to relevant IFRS measures are presented in note 22 (core HEPS) and note 31 (segmental summary).