1. ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The accounting policies and critical accounting estimates and assumptions applied to the Company annual financial statements are consistent with the Group accounting policies as detailed on pages 97 to 117.

2. FINANCIAL RISKS

In the course of its business, the Company is exposed to a number of financial risks: credit risk, liquidity risk and market risk (including foreign currency and other price risk). This note presents the Company's objectives, policies and processes for managing its financial risk and capital.

Credit risk

Credit risk arises because a counterparty may fail to meet its obligations to the Company. The Company is exposed to credit risks on financial instruments such as receivables, loans receivable and cash.

Trade and other receivables consist primarily of invoiced amounts owing from related parties. The recoverability of these amounts are regularly monitored with reference to the counterparties' financial performance. Where necessary, a provision for impairment is made.

The Company places cash and cash equivalents with major banking groups and quality institutions that have high credit ratings.

Loans are only granted to holders with an appropriate credit history, taking into account the holder's financial position and past experience.

The Company's maximum credit risk exposure is the carrying amount of all financial assets on the statement of financial position and sureties provided with the maximum amount the Company could have to pay if the sureties are called on amounting to R1.5 billion (2014: R1 billion).

		2015 R'000	2014 R'000
2.	**FINANCIAL RISKS continued**		
	Loans to subsidiaries and joint venture		
	Group 1	**—**	—
	Group 2	**976**	32 619
	Group 3	**—**	—
		976	32 619
	Loans receivable		
	Group 1	**—**	—
	Group 2	**80 672**	63 035
	Group 3	**—**	—
		80 672	63 035
	Trade receivables		
	Counterparties without external credit rating		
	Group 1	**—**	—
	Group 2	**3 592**	—
	Group 3	**—**	—
	Total unimpaired trade receivables	**3 592**	—

The rating groups for counterparties without external credit ratings are categorised as follows:

Group 1 – New customers/related parties (less than six months).

Group 2 – Existing customers/related parties (more than six months) with no defaults in the past.

Group 3 – Existing customers/related parties (more than six months) with some defaults in the past. All defaults were fully recovered.

Cash at bank and short-term bank deposits

Credit rating based on latest Fitch local currency long-term issuer default ratings.

	2015 R'000	2014 R'000
BBB	**2 088**	—
BBB-	**195**	1 418
	2 283	1 418

2. FINANCIAL RISKS continued

Liquidity risk

Liquidity risk arises when a company encounters difficulties to meet commitments associated with liabilities and other payment obligations. The Company's objective is to maintain prudent liquidity risk management by maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Company finance monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. Due to the dynamic nature of the underlying businesses, the Company aims to maintain flexibility in funding by keeping committed credit lines available.

Management is satisfied as to the liquidity of the Company since the majority of the current liabilities relate to the loans from subsidiaries. These subsidiaries are 100% held by the Company and therefore the Company has control of their assets including cash resources.

The Company and a subsidiary company have issued a cross surety in respect of a guarantee for an overdraft facility in the amount of R19.85 million in favour of FNB, a division of FirstRand Bank Limited. This facility was unutilised as at 31 May 2015. In addition, the Company and four of its subsidiaries have issued a cross surety in the amount of R1.3 million.

The Company has issued a surety in respect of a guarantee in the amount of R80.7 million in favour of third parties, for normal trade obligations of group companies.

Maturity of financial liabilities

	Payable in:				
	Less than one month or on demand R'000	More than one month but not exceeding one year R'000	More than one year but not exceeding two years R'000	More than two years but not exceeding five years R'000	More than five years R'000
2015					
Loans from subsidiaries	**754 891**	—	—	—	—
Trade and other payables*	**2 785**	**10 946**	**48 425**	**55 300**	—
Total	**757 676**	**10 946**	**48 425**	**55 300**	—
2014					
Loans from subsidiaries	474 949	—	—	—	—
Trade and other payables*	2 512	11 557	—	—	—
Total	477 461	11 557	—	—	—

** Trade and other payables exclude non-financial instruments being VAT and certain amounts within accruals and sundry creditors.*

2. FINANCIAL RISKS continued

Market risk

Market risk is the risk that changes in market prices (interest rate and currency risk) will affect the Company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company is exposed to risks from movements in foreign exchange rates and interest rates that affect its assets, liabilities and anticipated future transactions.

Fair value measurement hierarchy:

- Level 1: fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); or
- Level 3: fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Contingent consideration, included in trade and other payables, are level 3 financial liabilities.

Changes in level 3 instruments are as follows:

	2015 R'000	2014 R'000
Contingent consideration		
Opening balance	**7 256**	3 030
Acquisition of Panacea Proprietary Limited	**—**	6 155
Acquisition of Viamedia Proprietary Limited	**84 783**	—
Settlements	**(4 113)**	(1 800)
Gains and losses recognised in profit or loss	**5 354**	(129)
Closing balance	**93 280**	7 256
Total gains or losses for the period included in profit or loss for liabilities held at the end of the reporting period, under:		
Other income	**(923)**	(827)
Interest paid	**6 277**	698
Change in unrealised gains or losses for the period included in profit or loss for liabilities held at the end of the reporting period	**1 382**	698

2. FINANCIAL RISKS continued

Cash flow and fair value interest rate risk

The Company's cash flow interest rate risk arises from loans receivable and cash and cash equivalents. The Company is not exposed to fair value interest rate risk as the Company does not have any fixed interest-bearing instruments carried at fair value nor any interest-bearing borrowings.

As part of the process of managing the Company's exposure to interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates.

Foreign currency risk

The Company is exposed to foreign currency risk from transactions. Transaction exposure arises due to the Company granting loans to affiliated companies in foreign currencies.

The Company manages its exposure to foreign currency risk by ensuring that the net foreign currency exposure remains within acceptable levels. Hedging instruments are used in certain instances to reduce risks arising from foreign currency fluctuations. The Company did not enter into any forward exchange contracts during the period under review.

IFRS 7 – *Sensitivity Analysis*

The Company has used a sensitivity analysis technique that measures the estimated change to the statement of comprehensive income of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates or a 10% strengthening or weakening of the rand against all other currencies, from the rates applicable at 31 May 2015, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

Interest rate risks

The interest rate sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect the interest income or expense of variable interest financial instruments; and
- Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at fair value.

Under these assumptions, a 1% increase or decrease in market interest rates at 31 May 2015 would increase or decrease profit before tax by R22 830 (2014: R655 070).

2. FINANCIAL RISKS continued

Foreign currency risk

Financial instruments by currency

	2015 ZAR R'000	2015 USD R'000	2015 Total R'000	2014 ZAR R'000	2014 USD R'000	2014 Total R'000
Financial assets						
Cash	**2 283**	**—**	**2 283**	1 418	—	1 418
Trade and other receivables*	**3 592**	**—**	**3 592**	177	—	177
Loans to subsidiaries and associates	**976**		**976**	31 565	1 054	32 619
Loans receivable	**—**	**80 672**	**80 672**	—	63 035	63 035
	6 851	**80 672**	**87 523**	33 160	64 089	97 249
Financial liabilities						
Non-interest-bearing borrowings	**754 891**	**—**	**754 891**	474 949	—	474 949
Trade and other payables*	**117 456**	**—**	**117 456**	14 069	—	14 069
	872 347	**—**	**872 347**	489 018	—	489 018
Net financial position	**(865 496)**	**80 672**	**(784 824)**	(455 858)	64 089	(391 769)

** Trade and other receivables and trade and other payables exclude non-financial instruments.*

With a 10% strengthening or weakening in the rand against the US dollar, profit before tax would increase or decrease by R8.1 million respectively.

Capital risk

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Although the Company is in a deficit position, the value of its significant subsidiary exceeds the carrying value.

In order to maintain or adjust this capital structure, the Company may issue new shares, adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt.

The Company defines capital as capital and reserves and non-current borrowings.

The Company is not subject to externally imposed capital requirements. There were no changes to the Company's approach to capital management during the year.

Fair value measurement

For all short-term financial assets and liabilities, the carrying amount is regarded as an approximation of the fair value.