3. Financial instruments and financial risks continued

3.1 Financial assets continued

3.1.1 Loans receivable continued

The Group considers its maximum exposure in respect of loans receivable, without taking into account any collateral and financial guarantees, to be as follows:

	2016 R'000	2015 R'000
Group 1	**5 427**	—
Group 2	**98 340**	74 083
Group 3	**360**	219
	104 127	74 302

The rating groups for counterparties 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 or are in the process of being recovered.

3.1.2 Trade and other 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 income statement.

Critical accounting estimates and assumptions

Management has assessed the probabilities on the contingent sale arrangement.

	2016 R'000	2015 R'000
Trade receivables	**2 474 675**	2 642 059
Less: Provision for impairment	**(13 850)**	(10 927)
	2 460 825	2 631 132
Sundry debtors	**40 570**	34 265
Contingent consideration receivable*	**15 860**	17 757
Prepayments	**72 382**	68 958
VAT	**92 833**	15 960
Receivables from related parties (refer to note 8)	**25 719**	9 178
	2 708 189	2 777 250
Less: Amounts included in current portion of trade and other receivables**	**(2 679 023)**	(2 712 165)
	29 166	65 085

* *Ukash was disposed of in April 2015. The proceeds included a contingent receivable of R17.5 million. The contingent consideration arrangement requires the acquirer to pay in cash to the Group an additional amount of R18.1 million if certain warranties are achieved. The amounts are receivable in four six-month intervals commencing 30 September 2015. In the current year, the Group received R5.8 million relating to this.*

** *Included in the amount above are starter pack debtors that have a cycle period which may be in excess of 12 months.*

Fair value estimation

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).

3. Financial instruments and financial risks continued

3.1 Financial assets continued

3.1.2 Trade and other receivables continued

Contingent consideration receivable

Changes in level 3 instruments are as follows:

	2016 R'000	2015 R'000
Opening balance	**17 757**	—
Disposal of Ukash	**—**	17 497
Receipts	**(5 813)**	—
Gains or losses recognised in profit or loss	**3 916**	260
Closing balance	**15 860**	17 757
Total gains or losses for the period included in profit or loss for receivables held at the end of the reporting period, under:		
Other income	**3 650**	217
Interest received	**266**	43
Change in unrealised gains or losses for the period included in profit or loss for receivables held at the end of the reporting period	**3 919**	216

The potential undiscounted amount of all future receipts that the Group could receive is between Rnil and R15.9 million (£nil and £0.7 million).

The fair value of the contingent consideration arrangement of R15.9 million was estimated by applying the income approach. The fair value estimates are based on a discount rate of 1.5% based on the United Kingdom prime lending rate. For all remaining warranties management has assumed a probability of 98% based on the historical knowledge of the business and the warranties appearing achievable.

The Group's exposure to credit and currency risk relating to trade and other receivables is disclosed in this note and note 3.

Performance of trade debtors and receivables from related parties is assessed to be as follows:

	Gross R'000	Impairment R'000	Net R'000
31 May 2016			
Fully performing	**2 313 935**	**—**	**2 313 935**
Past due by one to 30 days	**100 853**	**342**	**100 511**
Past due by 31 to 60 days	**32 298**	**118**	**32 180**
Past due by 61 to 90 days	**16 346**	**150**	**16 196**
Past due by more than 90 days	**46 476**	**11 660**	**34 816**
	2 509 908	**12 270**	**2 497 638**
Portfolio impairment		**1 580**	**(1 580)**
	2 509 908	**13 850**	**2 496 058**
31 May 2015			
Fully performing	2 515 633	—	2 515 633
Past due by one to 30 days	50 545	111	50 434
Past due by 31 to 60 days	28 742	98	28 644
Past due by 61 to 90 days	26 154	310	25 844
Past due by more than 90 days	38 390	9 408	28 982
	2 659 464	9 927	2 649 537
Portfolio impairment		1 000	(1 000)
	2 659 464	10 927	2 648 537

Receivables in respect of starter pack debtors are included in fully performing debtors above.

3. Financial instruments and financial risks continued

3.1 Financial assets continued

3.1.2 Trade and other receivables continued

Trade receivables are discounted at a discount rate of 10.5% per annum (2015: 9.25% per annum) over average debtors' days outstanding. The effect of discounting of the trade receivables balance which amounts to R9.514 million (2015: R8.227 million) is not taken into account in the previous table.

The Group holds guarantees to the value of R50 million (2015: R50 million) as security over specific customers included in trade receivables. The Group has further insurance cover to the value of R375 million (2015: R225 million) over trade receivable balances with certain material customers. All insured values exclude VAT.

The trade receivables that are neither past due nor impaired relate to independent customers for whom there is no recent history of default.

Sundry debtors are considered to be fully performing.

	2016 R'000	2015 R'000
Provision for impairment of receivables		
Balance at the beginning of the year	**10 927**	15 665
Allowances made during the year	**8 891**	6 994
Disposal of subsidiary	**(5 814)**	—
Amounts utilised and reversal of unutilised amounts	**(154)**	(11 732)
At 31 May	**13 850**	10 927
There is a cession of trade receivables of R2.289 billion (2015: R2.485 billion) in favour of Investec Bank Limited as security for facilities referred to in note 3.		
The Group considers its maximum exposure in respect of trade receivables which have not been impaired, without taking into account any collateral and financial guarantees, to be as follows:		
Group 1	**30 525**	10 699
Group 2	**2 453 930**	2 619 334
Group 3	**11 603**	18 504
Total unimpaired trade receivables	**2 496 058**	2 648 537

The effect of discounting of the trade receivables is not taken into account in the table above.

The rating groups for counterparties 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 or are in the process of being recovered.