3. Financial instruments and financial risks

Financial instruments carried on the statement of financial position include:

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

Financial liabilities
- Borrowings
- Trade and other payables

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 instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

Subsequent recognition is dependent on how financial instruments are classified on initial recognition. IAS 39 has several categories but the group only has financial instruments classified as loans and receivables, fair value through profit and loss and financial liabilities at amortised cost. Financial assets are only derecognised when the criteria for derecognition in IAS 39 are achieved.

Category	Measurement
Loans and receivables • Loans receivable • Trade and other receivables • Starter pack assets • Cash and cash equivalents	Amortised cost using the effective interest method with interest recognised in interest income, less any impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.
Fair value through profit and loss • Contingent purchase consideration • Contingent consideration receivable	Fair value, with gains and losses recognised in profit and loss.
Financial liabilities • Borrowings • Trade and other payables	Amortised cost using the effective interest method with interest recognised in interest expense. Directly attributable transaction costs and fees received are capitalised and amortised through interest expense as part of the effective interest rate.

Impairment of financial assets
A financial asset is impaired if objective evidence indicates that a loss event has occurred after initial recognition which has a negative effect on the estimated future cash flows of the financial asset that can be estimated reliably. The Group assesses at each reporting date whether there is objective evidence that a financial asset which is carried at amortised cost is impaired.

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

3. Financial instruments and financial risks continued

Financial risks

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

Risk management is monitored and managed by key personnel of each entity in the Group on a daily basis based on their specific operational requirements.

Classes of financial instruments

	2016 R'000	2015 R'000
2016		
Financial assets		
Cash and cash equivalents	**589 027**	788 411
Trade and other receivables*	**2 520 624**	2 724 253
Contingent consideration receivable	**15 860**	17 757
Loans receivable	**104 127**	74 302
Loans to associates and joint ventures	**282 196**	201 086
	3 511 834	3 805 809
Financial liabilities		
Non-interest-bearing borrowings	**16 087**	16 087
Trade and other payables*	**2 547 378**	2 890 319
Contingent consideration	**83 563**	123 902
	2 647 028	3 030 308
Net financial position	**864 806**	775 501

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

Credit risk

Credit risk arises because a counterparty may fail to meet its obligations to the Group.

The Group is exposed to credit risk on financial assets mainly in respect of trade receivables, loan receivables and cash and cash equivalents.

Trade receivables

Trade receivables consist primarily of invoiced amounts from normal trading activities. The Group has a diversified customer base and policies are in place to ensure sales are made to customers with an appropriate credit history and payment history. Individual credit limits are set for each customer and the utilisation of these credit limits is monitored regularly. Customers cannot exceed their set credit limit, without specific Senior Management approval. Such approval is assessed and granted on a case-by-case basis. Management regularly reviews the debtors age analysis and follows up on long-outstanding debtors. Where necessary, a provision for impairment is made. A portion of the Group's customer base is made up of major retailers and wholesalers with the balance of the customer base being widely dispersed.

3. Financial instruments and financial risks continued

Starter packs

The risk of starter pack receivables is assessed as low due to the fact that annuity income can be utilised in the settlement of the receivable balances and are recoverable within a period which may exceed 12 months.

Loans receivable

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

Cash and cash equivalents

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

The Group has significant concentrations of credit risk with Investec Bank Limited in line with its treasury function. Investec Bank Limited has a credit rating of BBB- based on the latest S&P Global Ratings local currency long-term issuer default ratings.

The Group'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 Group could have to pay if the sureties are called on, amounting to R78.8 million (2015: R62 million). The Group holds collateral in the form of sureties in respect of 50% of the loan receivable from 2DFine Holdings Mauritius. Refer to note 8.

Liquidity risk

Liquidity risk arises when a company encounters difficulties in meeting commitments associated with liabilities and other payment obligations. The Group'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. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

Cash flow forecasting is performed in the operating entities of the Group to ensure sufficient cash to meet operational needs while maintaining sufficient headroom to ensure that borrowing limits (where applicable) are not breached.

Surplus cash held by the operating entities over and above the balance required for working capital management is transferred to the Group treasury. Group treasury invests surplus cash in interest-bearing accounts, identifying instruments with sufficient liquidity to provide adequate headroom as determined by the above mentioned forecasts.

The Group has a short-term loan facility with Investec Bank Limited of R1.5 billion (2015: R1.5 billion). The facility was unutilised at year-end. Drawdowns were made and fully repaid during the year.

The facility bears certain debt covenants. The Group has not been in breach in respect of these covenants. The Group has pledged certain securities in respect of this facility. Refer to notes 3.1.2, 3.1.3 and 4.4.

The Company and a subsidiary company issued a cross surety in respect of an overdraft facility in the amount of R19.85 million (2015: R19.85 million) in favour of FNB, a division of First National Bank Limited (FNB). This facility was unutilised as at 31 May 2016. In addition, the Company and four of its subsidiaries issued a cross surety in the amount of R1.3 million in respect of credit card facilities granted by FNB.

Guarantees to the value of R116 million (2015: R131 million) are issued by the Group's bankers in favour of suppliers on behalf of the Group. The Group does not have access to this cash while amounts owing to suppliers are outstanding.

3. Financial instruments and financial risks continued

Maturity of financial liabilities

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

The amounts disclosed in the table are the contractual undiscounted cash flows.

	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
2016					
Non-interest-bearing borrowings	**16 087**	**—**	**—**	**—**	**—**
Trade and other payables*	**1 801 482**	**729 843**	**28 327**	**—**	**—**
Contingent consideration	**—**	**56 033**	**33 895**	**—**	**—**
Total	**1 817 569**	**785 876**	**62 222**	**—**	**—**
2015					
Non-interest-bearing borrowings	16 087	—	—	—	—
Trade and other payables*	1 947 194	890 651	22 781	10 133	—
Contingent consideration	—	13 593	66 869	63 000	—
Total	1 963 281	904 244	89 650	73 133	—

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

3.1 Financial assets

3.1.1 Loans receivable

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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.

	2016 R'000	2015 R'000
Interest-free loans	**53 189**	41 041
Interest-bearing loans receivable	**50 938**	33 261
	104 127	74 302
Less: Amounts included in current portion of loans receivable	**(98 217)**	(44 569)
	5 910	29 733

All loans receivable are unsecured and repayable within five years. Interest-bearing loans bear interest at a range of between prime and prime plus 4%.

The loans receivable are neither past due nor impaired with a low risk of default. Of this amount, R47 million (2015: R19 million) relates to loans receivable from related parties, of which R21 million (2015: R19 million) is interest free. Refer to note 8.