Notes to the group annual financial statements continued

For the year ended 31 May 2017

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:

	2017 R'000	2016 R'000
Group 1	—	5 427
Group 2	224 861	98 340
Group 3	219	360
	225 080	104 127

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.

	2017 R'000	2016 R'000
Trade receivables	2 470 705	2 440 111
Less: Provision for impairment	(19 020)	(13 850)
	2 451 685	2 426 261
Sundry debtors	98 521	75 244
Contingent consideration receivable[1]	—	15 860
Prepayments[2]	175 955	72 272
VAT	52 646	92 833
Receivables from related parties (refer to note 8)	22 702	25 719
	2 801 509	2 708 189
Less: Amounts included in current portion of trade and other receivables[3]	(2 758 997)	(2 679 023)
	42 512	29 166

[1] *Ukash was disposed of in April 2015. The proceeds included a contingent receivable of R17.5 million. The contingent consideration arrangement required the acquirer to pay in cash to the Group an additional amount of R18.1 million if certain warranties were achieved. The amounts were receivable in four six-month intervals commencing 30 September 2015. In the current year, the Group received R12.8 million (2016: R5.8 million) relating to this.*

[2] *Included in the amount above are prepayments to customers of R89 million (2016: R23 million).*

[3] *Included in the amount above are starter pack debtors that have a normal operating 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).

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

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:

	2017 R'000	2016 R'000
Opening balance	**15 860**	17 757
Receipts	**(12 839)**	(5 813)
Gains or losses recognised in profit or loss	**(3 021)**	3 916
Closing balance	**—**	15 860
Total gains or losses for the period included in profit or loss for receivables held at the end of the reporting period, under:		
(Other expenses)/other income	**(3 104)**	3 650
Interest received	**83**	266
Unrealised gains or losses for the period included in profit or loss for receivables held at the end of the reporting period	**—**	3 919

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 2017			
Fully performing	**2 459 389**	**—**	**2 459 389**
Past due by one to 30 days	**20 341**	**(4 681)**	**15 660**
Past due by 31 to 60 days	**7 408**	**(32)**	**7 376**
Past due by 61 to 90 days	**2 938**	**(190)**	**2 748**
Past due by more than 90 days	**32 443**	**(14 117)**	**18 326**
	2 522 519	**(19 020)**	**2 503 499**
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

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

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

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 (2016: 10.5% per annum) over average debtors' days outstanding. The effect of discounting of the trade receivables balance which amounts to R8.271 million (2016: R9.514 million) is not taken into account in the previous table.

The Group holds guarantees to the value of R30 million (2016: R50 million) as security over specific customers included in trade receivables. The Group has further insurance cover to the value of R245 million (2016: R375 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.

	2017 R'000	2016 R'000
Provision for impairment of receivables		
Balance at the beginning of the year	**13 850**	10 927
Allowances made during the year	**20 811**	8 891
Disposal of subsidiary	**—**	(5 814)
Amounts utilised and reversal of unutilised amounts	**(15 641)**	(154)
At 31 May	**19 020**	13 850
There is a cession of trade receivables of R2.330 billion (2016: R2.289 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	**9 232**	30 525
Group 2	**2 479 711**	2 453 930
Group 3	**13 195**	11 603
Total unimpaired trade receivables	**2 502 138**	2 496 058

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.