3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.7 Financial instruments at fair value through profit and loss continued

Fair value estimate

A discounted cash flow valuation of Glocell Distribution has been used to determine the value of Glocell's 40% shareholding in Glocell Distribution. This is used to determine the fair value of the loan. This valuation has been performed by the finance department of the Group using cash flow projections based on forecasts for up to five years, which are based on assumptions of the business, industry and economic growth.

Based on the outcome of the value-in-use calculation, a fair value movement of R141 million was recognised against the financial asset.

The derivatives are level 3 instruments in the fair value hierarchy.

Key assumption applied to value-in-use calculation	
Discount rate	20.7%
Terminal growth rate	4.2%

Effect on fair value due to change in key assumption	%	Increase/ (decrease) in loan at fair value
Change in discount rate	1	(12 122)
	(1)	13 679
Change in terminal growth rate	2	17 386
	(2)	(13 627)

Put option liability

Put option liabilities represent contracts that impose an obligation on the Group to purchase the shares of a subsidiary for cash or another financial asset. Put option liabilities are initially raised from the transaction with non-controlling interest reserve in equity at the present value of the expected redemption amount payable. Subsequent revisions to the expected redemption amount payable as well as the unwinding of the discount related to the measurement of the present value of the put option liability, are recognised in the income statement. Where a put option liability expires unexercised or is cancelled, the carrying value of the financial liability is released to the transaction with non-controlling interest reserve in equity. The Group recognises the non-controlling interest over which a put option exists at acquisition date.

This relates to a put option that the Group has on the remaining 40% shareholding in Airvantage Proprietary Limited and Airvantage Technology Limited. This is exercisable within the next 12 months. The Group will settle this from available cash resources. The option is valued based on the audited net profit after tax for 12 months ending 28 February 2019 at a six multiple.

4. NON-FINANCIAL INSTRUMENTS

Non-financial instruments comprise:

- Goodwill
- Intangible assets
- Property, plant and equipment
- Inventories
- Provisions

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.

4. NON-FINANCIAL INSTRUMENTS continued

Impairment of non-financial assets continued

An impairment loss is recognised in the income statement 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 income statement in the same line item as the original impairment charge.

4.1 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 income statement. 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.

Critical accounting estimates and assumptions

Assessment of goodwill for impairment

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

	2019 R'000	2018 R'000
Year ended 31 May		
Opening carrying amount	**1 036 243**	604 590
Acquisition of subsidiary	**313 664**	433 686
Impairment of goodwill	**(124 400)**	—
FCTR on goodwill	**9 488**	(2 033)
Closing carrying amount	**1 234 995**	1 036 243
At 31 May		
Cost	**1 371 523**	1 048 371
Accumulated impairments	**(136 528)**	(12 128)
Carrying amount	**1 234 995**	1 036 243

The carrying amount of goodwill and intangible assets was reduced to their recoverable amounts through recognition of an impairment loss of R124.4 million (2018: nil).