Notes to the Group annual financial statements
continued

for the year ended 31 May 2021

3. Financial risk management and financial instruments continued

3.5 Financial assets

3.5.1 Loans receivable

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. For details related to the ECLs, refer to note 3.1.

	2021 R'000	2020 R'000
Interest-free loans	45 949	50 611
Interest-bearing loans receivable	37 397	40 461
Less: Provision for impairment	(13 542)	(18 952)
	69 804	72 120
Less: Amounts included in current portion of loans receivable	(25 572)	(35 604)
	44 232	36 516

All loans receivable are unsecured and repayable within five years. Interest-bearing loans bear interest at a range of between 9.75% and prime plus three percent. The fair value of interest-free loans, which include loans to product distributors, approximates their carrying value. This has been corroborated through discounted cash flow calculations at the effective interest rate the lender would have been able to secure from a financing institution, using an expected payment timeframe.

3.5.2 Trade and other receivables

Trade receivables comprise receivables that are due from customers which arise from transactions for the sale of goods, rendering of services and leasing of equipment in the ordinary course of business. Trade receivables are primarily accounted for at amortised cost, in accordance with the accounting policies of the Group. Sundry receivables are accounted for at amortised cost in accordance with the accounting policies of the Group. For details related to the ECLs, refer to note 3.1. Receivables for prepayments and VAT are stated at their nominal values.

The following table provides an analysis of the Group's trade and other receivables, including an analysis of trade receivables by originating transaction type as well as by counterparty:

	2021 R'000	2020 R'000
Trade receivables arising on revenue from contracts with customers	1 413 761	2 126 745
Banks	102 242	231 424
Independent and informal retail customers	648 391	1 010 711
Formal market retail customers	244 195	446 342
Customers in the petroleum sector	74 922	94 275
Receivables for starter packs	126 966	160 005
Cell C	16 329	13 297
Other cellular networks	72 877	48 006
Municipalities and private utilities	127 839	122 200
Associates, joint ventures and related parties	—	485
Trade receivables arising on financing transactions	1 683 401	1 269 019
Cell C	1 660 864	1 253 602
Other	22 537	15 417
Less: Provision for impairment	(54 772)	(131 229)
Net trade receivables	3 042 390	3 264 535
Net sundry debtors	250 578	210 806
Prepayments	357 636	412 308
VAT	101 415	42 094
	3 752 019	3 929 743

3. Financial risk management and financial instruments continued

3.5 Financial assets continued

3.5.2 Trade and other receivables continued

Included in trade receivables are debtors of R122 million (2020: R150 million) which have a cycle period in excess of 12 months but are considered current due to management expecting to realise the assets in their normal operating cycle.

In the prior year the Group had further insurance cover to the value of R10 million over trade receivable balances with certain material customers. All insured values exclude VAT.

There is a cession of trade receivables (including inter-group balances) of R4.083 billion (2020: R4.337 billion) in favour of Investec Bank Limited as security for facilities referred to in note 3.2.

3.5.3 Advances to customers

Advances to customers comprise receivables arising on financing transactions where, in substance, the nature of the business activities undertaken by certain subsidiaries of the Group is to engage in the provision of financing. Refer to note 3.1 for further detail.

Advances to customers are primarily accounted for at amortised cost, in accordance with the accounting policies of the Group.

	2021 R'000	2020 R'000
Collateralised handset financing receivables	**612 974**	1 432 143
Handset financing and subscription income sharing receivables	**1 043 954**	—
Other receivables	**230 979**	255 421
Less: Provision for impairment	**(75 619)**	(5 489)
	1 812 288	1 682 075
Less: Amounts included in current portion of advances to customers	**(1 241 832)**	(1 232 250)
	570 456	449 825

Cell C guarantees bad debts and cancellations of customers in terms of the *Amended and Restated Product Procurement and Financing Agreement*. At 31 May 2021, bad debts and cancellations amounted to R151 million (2020: R214 million). These amounts are included in the trade receivables balance owing from Cell C. In terms of the above agreement, if Cell C is unable or admits inability to make a payment as it falls due, or is deemed to or declared to be unable to pay its debts under the applicable law, suspends or threatens to suspend making payments by reason of actual or anticipated financial difficulties, it would be in breach of its agreement. If not remedied, CEC ultimately has a right to port the Cell C base to another network operator.

Under the new *Supply, Sale and Financing of Products Agreement* effective 1 November 2020, Cell C no longer guarantees bad debts and cancellations and this now exposes the Group to the credit risk of the population of the underlying subscribers who are all customers of Cell C Proprietary Limited. In the prior year the Group was only exposed in an indirect manner to the credit risk of Cell C. The guarantees of the previous deal with Cell C remain in place on the portion of the book still operated under this previous business model.

3.5.4 Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held on call with banks.

	2021 R'000	2020 R'000
Cash at bank	**2 417 224**	2 014 531
Cash on hand	**101**	386
	2 417 325	2 014 917
Bank overdraft	**(118)**	(192)
	2 417 207	2 014 725

Included in this balance is restricted cash of R12.1 million (2020: R15.6 million), received on behalf of and immediately due to third parties, that may not be utilised in the Group's ordinary course of business.