



BLUE LABEL TELECOMS



CONTENTS

Statement of Directors' responsibility	1
Approval of the financial statements	2
Declaration by the Company Secretary	2
Audit, Risk and Compliance Committee report	3
Directors' report	6
Independent auditor's report	9
Group income statement	10
Group statement of comprehensive income	10
Group statement of financial position	11
Group statement of changes in equity	12
Group statement of cash flows	14
Notes to the Group annual financial statements	16
Company statement of financial position	80
Company statement of comprehensive income	81
Company statement of changes in equity	82
Company statement of cash flows	84
Notes to the Company annual financial statements	85
Annexure to the Company annual financial statements	108

PROMINENT NOTICE

These annual financial statements have been audited by our external auditor PricewaterhouseCoopers Inc. in compliance with the applicable requirements of the Companies Act, No 71 of 2008. Dean Suntup, Financial Director, supervised the preparation of the annual financial statements.

DA Suntup CA(SA)
Financial Director



STATEMENT OF DIRECTORS' RESPONSIBILITY

For the year ended 31 May 2016

The Directors are responsible for the maintenance of adequate accounting records and the preparation, integrity and fair presentation of the Group and Company financial statements of Blue Label Telecoms Limited, its subsidiaries, joint ventures and associates (the Group).

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the Financial Reporting Guides as issued by the South African Institute of Chartered Accountants (SAICA) Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act of 2008.

The Directors consider that having applied IFRS in preparing the Group and Company financial statements they have selected the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all IFRS statements that they consider to be applicable have been followed.

The Directors are satisfied that the information contained in the Group and Company financial statements fairly presents the results of operations for the year and the financial position of the Group at year-end. The Directors also prepared the other information included in the Group and Company financial statements and are responsible for both its accuracy and its consistency.

In addition, the Directors are responsible for the Company's system of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The Group and Company financial statements have been prepared on the going concern basis, since the Directors have every reason to believe that the Group and Company have adequate resources in place to continue in operation for the foreseeable future, based on forecasts and available cash resources. These Group and Company financial statements support the viability of the Group and the Company.

The independent auditing firm PricewaterhouseCoopers Inc., which was given unrestricted access to all financial records and related data including minutes of all meetings of shareholders, the Board of Directors and Committees of the Board has audited the Group financial statements. The Directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements which appear on pages 10 to 109 were produced and approved by the Board of Directors on 23 August 2016 and are signed on its behalf by:



LM Nestadt
Non-executive Chairman



DA Suntut
Financial Director



BM Levy
Joint Chief Executive Officer



MS Levy
Joint Chief Executive Officer

DECLARATION BY THE COMPANY SECRETARY

For the year ended 31 May 2016

In terms of section 88(2)(e) of the Companies Act, No 71 of 2008 (the Act), I confirm that for the year ended 31 May 2016, Blue Label Telecoms Limited has lodged with the Companies and Intellectual Property Commission all such returns and notices as are required of a public company in terms of the Act and that all such returns and notices are true, correct and up to date.



J van Eden
Group Company Secretary

Sandton
23 August 2016

AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT

The Audit, Risk and Compliance Committee (ARCC) is pleased to present its report for the financial year ended 31 May 2016.

The Committee is an independent statutory committee appointed by the shareholders of the Company. In addition to its statutory duties the Board has delegated further duties to the Committee. This report covers both these sets of duties and responsibilities.

Mandate and terms of reference

The Committee has adopted comprehensive and formal terms of reference which have been approved by the Board and which are reviewed on an annual basis. The responsibilities of the ARCC include:

- examining and reviewing the Group's financial statements and reporting of interim and final results;
- reviewing and considering, for recommendation to the Board, the consolidated budget for the ensuing financial year;
- overseeing integrated reporting;
- overseeing the Internal Risk and Compliance Committee function;
- monitoring the risk management framework and assess the risks impacting the Group's ability to achieve its strategic objectives;
- reviewing and satisfying itself of the expertise, resources and experience of the Blue Label finance function;
- overseeing the internal audit function and internal financial control process;
- recommending the appointment of the external auditor and overseeing the external audit process including their audit fee, independence, nature and extent of any non-audit services; and
- monitoring compliance activities.

Membership and meetings held

In accordance with the requirements of the Companies Act, No 71 of 2008 (the Act) Messrs JS Mthimunye, GD Harlow and SJ Vilakazi were appointed to the Committee by shareholders at the Annual General Meeting held on 27 November 2015.

Membership of the Committee remained unchanged during the year under review:

- JS Mthimunye (Independent Non-Executive Chairman)
- GD Harlow (Independent Non-Executive Director)
- SJ Vilakazi (Independent Non-Executive Director)

The members of the Committee collectively have experience in audit, accounting, commerce, economics, law, corporate governance and general industry. All of the members of the ARCC are independent non-executive directors.

The Committee meets quarterly and the quorum for each meeting is three members present throughout the meeting. Mandatory attendees at the meetings are the Joint Chief Executive Officers and the Financial Director of Blue Label. The external audit partner from PricewaterhouseCoopers Inc. (PwC) and a director from KPMG Services Proprietary Limited (KPMG), to whom Blue Label outsources its internal audit function, are also attendees. Both internal and external auditors are afforded the opportunity to address the meeting and have unlimited access to the Committee. During the year, the Committee met with the external and internal auditors respectively without the presence of management. The internal audit function reports directly to the ARCC and is also responsible to the Financial Director on day-to-day administrative matters.

Statutory duties discharged

In execution of its statutory duties during the year under review, the Committee:

- nominated and recommended to shareholders the reappointment of PwC as independent external auditors, with Deon Storm the audit partner as the registered independent auditor;
- approved the fees to be paid to PwC and other external auditors, where applicable, and approved the terms of engagement;
- maintained a non-audit services policy which determines the nature and extent of any non-audit services that PwC may provide to the Group;
- discharged those statutory duties as prescribed by section 94 of the Act acting in its capacity as the appointed audit committee of the subsidiary companies of Blue Label;
- considered the Committee's report describing how duties have been discharged; and
- submitted matters to the Board concerning the Company's accounting policies, financial controls, records and reporting, as appropriate.

AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT continued

Other duties discharged

Financial statements and reporting

The Committee:

- monitored compliance with accounting standards and legal requirements and ensured that all regulatory compliance matters had been considered in the preparation of the financial statements;
- reviewed the external auditor's report to the Committee and management's responses thereto and made appropriate recommendations to the Board of Directors regarding actions to be taken;
- reviewed and commented on the annual financial statements, interim reports, paid advertisements, announcements and the accounting policies and recommended these to the Board for approval;
- reviewed and recommended to the Board for adoption the consolidated budget for the ensuing financial year; and
- considered the going concern status of the Company and Group on the basis of review of the annual financial statements and the information available to the Committee and recommended such going concern status for adoption by the Board. The Board statement on the going concern status of the Group and Company is contained on page 6 in the Directors' report.

External audit and non-audit services

The ARCC has satisfied itself as to the independence of the external auditor, PwC, as set out in section 94(7) of the Act, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought from and provided by PwC that internal governance processes within the firm support and demonstrate its claim to independence.

To assess the effectiveness of the external auditors, the Committee considered PwC's fulfilment of the agreed audit plan and variations from the plan, and the robustness and perceptiveness of PwC in its handling of key accounting treatments and disclosures.

The Committee, in consultation with Executive Management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2016 financial year.

Any non-audit services to be provided by the external auditors are governed by a formal written policy which incorporates a monetary delegation of authority in terms of non-audit services to be provided. The non-audit services rendered by the external auditors during the year ended 31 May 2016 comprised tax advisory services, tax compliance services and general advisory services. The fees applicable to the aforementioned services totalled R2.4 million (2015: R0.5 million).

The ARCC has nominated, for approval at the Annual General Meeting, the reappointment of PwC as registered auditors for the 2016 financial year. The Committee also satisfied itself that PwC is accredited and appears on the JSE List of Accredited Auditors as contemplated in paragraph 3.86 of the JSE Listings Requirements.

Internal audit and internal controls

The Committee:

- reviewed the co-operation and co-ordination between the internal and external audit functions to avoid duplication of work. This will be further formalised through a combined assurance facilitation;
- examined and reviewed the progress made by internal audit against the approved 2015/16 audit plan;
- approved the internal audit plan for the 2016/17 financial year;
- considered the effectiveness of internal audit;
- considered internal audit findings and corrective actions taken in response to such findings; and
- reviewed the effectiveness of the systems of internal control, including internal financial control and risk management.

AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT continued

Risk management and compliance

The Committee:

- reviewed the integrity of the risk control systems and ensured that the risk policies and strategies of the Company are effectively managed;
- made recommendations to the Board concerning the levels of tolerance and risk appetite;
- monitored bi-annual risk assessments;
- ensured that management considered and implemented appropriate risk responses;
- reviewed legal matters that could have a material impact on the Group; and
- reviewed developments in corporate governance and best practice and considered their impact and implications across the Group with particular reference to the principles of King III.

Expertise and experience of the Financial Director and finance function

The Committee considered the appropriateness of the expertise and experience of the Financial Director and finance function in accordance with the JSE Listings Requirements and governance best practice. The ARCC concluded that the finance function is adequately resourced with technically competent individuals and is effective. The Committee confirms that it is satisfied that Dean Suntutu possesses the appropriate expertise and experience to discharge his responsibilities as Financial Director.

Annual financial statements

The Committee has reviewed the accounting policies and financial statements of the Company and the Group and is satisfied that they are appropriate and comply with International Financial Reporting Standards, the JSE Listings Requirements and the requirements of the Act.

The Committee recommended the approval of the adoption of the annual financial statements to the Board.

The ARCC is satisfied that it complied with its legal, regulatory and other responsibilities as per its terms of reference.

On behalf of the Audit, Risk and Compliance Committee



JS Mthimunye
Chairman

22 August 2016

DIRECTORS' REPORT

The Directors have pleasure in presenting the Group and Company annual financial statements of Blue Label Telecoms Limited (Blue Label Telecoms or the Company) and its subsidiary, associate and joint venture companies (the Group) for the year ended 31 May 2016.

Principal activities and strategy

Blue Label Telecoms' core business is the virtual distribution of secure electronic tokens of value and transactional services across its global footprint of touch points. The Group's stated strategy is to extend its global footprint of touch points, both organically and acquisitively, to meet the significant demand for the delivery of multiple prepaid products and services through a single distributor, across various delivery mechanisms and via numerous merchants or vendors.

Financial results

The Group recorded a net profit after tax attributable to equity holders for the year ended 31 May 2016 of R692 million (2015: R578 million). Full details of the financial position and results of the Company, the Group and its segments are set out in the annual financial statements and Group annual financial statements. The Group and Company annual financial statements for the year ended 31 May 2016 were approved by the Board and signed on its behalf on 23 August 2016.

Going concern

The financial statements have been prepared on the going concern basis, since the Directors have every reason to believe that the Blue Label Telecoms Group and the Company have adequate resources in place to continue in operation for the foreseeable future.

Disposal

On 30 October 2015 the Group disposed of its interest in Velociti Proprietary Limited for an amount of R16.5 million. Refer to note 2.2 of the Group annual financial statements for further information.

Acquisitions

The Group's effective shareholding in Oxigen Services India Private Limited (OSI) prior to March 2016 was 55.83%. Of this shareholding, 37.22% was held by Gold Label Investments (GLI), a wholly owned subsidiary of the Group and 18.61% indirectly through the Group's 50% shareholding in 2DFine Holdings Mauritius. In March 2016, rights issue was offered by OSI for USD10.5 million (R167 million). The Group exercised its rights for the entire amount through GLI congruent with 2DFine Holdings Mauritius waiving its rights. The effect of this is that GLI's shareholding has increased from 37.22% to 40.97% and its indirect shareholding of 18.61% has been diluted to 17.21%. The latter has in turn resulted in a gain of R30 million on dilution, being the Group's share of the increased net asset value emanating from the rights issue. The Group's effective shareholding in OSI therefore increased by 2.35% to 58.18%.

In September 2015 the Group increased its holding by 0.92% to 47.56% in Blue Label Mexico S.A. de C.V. for an amount of R42.5 million.

Refer to note 2.1 of the Group annual financial statements for further information.

Share capital

Full details of the authorised, issued and unissued capital of the Company at 31 May 2016 are contained in note 6 of the Group annual financial statements. There were no shares issued during the financial year ended 31 May 2016 (2015: nil).

Subsequent events

Subsequent to year-end, dividend number 7 was declared and approved by the Board.

Dividend

On 23 August 2016 the Board approved a dividend of 36 cents per ordinary share. The dividend in respect of ordinary shares for the year ended 31 May 2016 of R242 823 255 has not been recognised in the financial statements as it was declared after this date. The salient dates are as follows:

Last date to trade cum dividend	Tuesday, 13 September 2016
Shares commence trading ex dividend	Wednesday, 14 September 2016
Record date	Friday, 16 September 2016
Payment of dividend	Monday, 19 September 2016

Share certificates may be dematerialised or rematerialised between Wednesday, 14 September 2016 and Friday, 16 September 2016, both days inclusive.

DIRECTORS' REPORT continued

Before declaring the final dividend the Board applied the solvency and liquidity test on the Company and reasonably concluded that the Company will satisfy the solvency and liquidity test immediately after payment of the final dividend. The final dividend will be paid 26 days after the Directors have performed the solvency and liquidity testing.

Dividend tax is provided for at 15% of the amount of any dividend paid by Blue Label Telecoms, subject to certain exemptions. The dividend tax is a tax borne by the beneficial owner of the dividend and will be withheld by either the issuer of the dividend or by regulated intermediaries.

Directorate

The following are the details of the Company's Directors:

Name	Office	Appointment date	Date and nature of change
Larry M Nestadt	Independent Non-Executive Director	5 October 2007	—
Brett M Levy	Joint Chief Executive Officer	1 February 2007	—
Mark S Levy	Joint Chief Executive Officer	1 February 2007	—
Kevin M Ellerine	Non-Executive Director	8 December 2009	—
Gary D Harlow	Independent Non-Executive Director	5 October 2007	—
Yusuf Mahomed	Independent Non-Executive Director	18 August 2015	—
Joe S Mthimunye	Independent Non-Executive Director	5 October 2007	—
Mark V Pamensky	Chief Operating Officer	5 October 2007	Resigned 30 November 2015
Dean A Suntup	Financial Director	14 November 2013	—
Jeremiah S Vilakazi	Independent Non-Executive Director	19 October 2011	—

Directors' interests

The individual interests declared by Directors in the Company's share capital as at 31 May 2016, held directly or indirectly, were as follows:

Director/officer	Nature of interest			
	Direct beneficial		Indirect beneficial	
	2016	2015	2016	2015
BM Levy	62 883 164	62 548 690	21 272 778	21 272 778
MS Levy	55 475 756	55 141 282	21 272 777	21 272 777
KM Ellerine	—	—	266 667	266 667
GD Harlow	—	—	2 414 815	2 414 815
Y Mahomed	—	—	12 500	—
JS Mthimunye	30 000	30 000	5 000	—
LM Nestadt	—	—	8 204 674	8 204 674
MV Pamensky	—	—	—	5 565 738
DA Suntup	540 005	394 176	3 877 778	3 877 778
JS Vilakazi	—	—	—	—

The aggregate interest of the current Directors in the capital of the Company was as follows:

Director/officer	Number of shares	
	2016	2015
Beneficial	176 255 914	180 989 375

The beneficial interest held by Directors and officers of the Company constitutes 26.46% (2015: 27.20%) of the issued share capital of the Company.

Details of Directors' emoluments and equity compensation benefits are set out in note 5.3 of the Group annual financial statements and details of the forfeitable share plan are set out in note 5.2.

DIRECTORS' REPORT continued

Resolutions

On 27 November 2015 the Company passed and filed with the Companies and Intellectual Property Commission the following special resolutions:

- approving the remuneration of non-executive directors; and
- granting a general authority to repurchase the Company's shares.

Except for the aforementioned, no other special resolutions, the nature of which might be significant to shareholders in their appreciation of the state of affairs of the Group, were passed by the Company or its subsidiaries during the period covered at the date of signing these Group and Company annual financial statements.

Company Secretary

The Board is satisfied that Ms J van Eden has the requisite knowledge and experience to carry out the duties of a company secretary of a public company in accordance with section 88 of the Act and is not disqualified to act as such. She is not a director of the Board and maintains an arm's-length relationship with the Board.

The business and postal address of the Company Secretary appear on the Company's website at www.bluelabeltelecoms.co.za.

American depository receipt facility

Blue Label Telecoms has a sponsored American depository receipt facility. The facility is sponsored by BNY Mellon and details of the administrators are reflected on the Company's website.

Auditors

PricewaterhouseCoopers Inc. will continue in office in accordance with section 90(6) of the Companies Act.



Larry Nestadt
Chairman

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BLUE LABEL TELECOMS LIMITED

For the year ended 31 May 2016

Report on the financial statements

We have audited the Group and Company financial statements of Blue Label Telecoms Limited set out on pages 10 to 107, which comprise the Group and Company statements of financial position as at 31 May 2016, and the Group income statement, Group and Company statements of comprehensive income, Group and Company statements of changes in equity and Group and Company statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Group and Company financial statements present fairly, in all material respects, the consolidated and separate financial position of Blue Label Telecoms Limited as at 31 May 2016, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 31 May 2016, we have read the Directors' report, the Audit, Risk and Compliance Committee's report and the Declaration by the Company Secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited the reports and accordingly do not express an opinion on these reports.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in *Government Gazette Number 39475* dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Blue Label Telecoms Limited for 12 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: D Storm
Registered Auditor
Johannesburg
23 August 2016

GROUP INCOME STATEMENT

For the year ended 31 May 2016

	Notes	2016 R'000	2015 R'000
Revenue	1.2	26 204 722	22 044 222
Other income		126 294	99 972
Changes in inventories of finished goods		(24 375 028)	(20 399 882)
Employee compensation and benefit expense	5.2	(427 116)	(407 448)
Depreciation, amortisation and impairment charges		(98 183)	(94 019)
Other expenses		(288 313)	(256 699)
Operating profit	1.3	1 142 376	986 146
Finance costs	1.4	(214 110)	(233 165)
Finance income	1.4	193 899	173 047
Share of losses from associates and joint ventures	2.1	(71 770)	(79 338)
Net profit before taxation		1 050 395	846 690
Taxation	7.1	(318 783)	(265 497)
Net profit for the year		731 612	581 193
Net profit for the year attributable to:			
Equity holders of the parent		691 590	577 617
Non-controlling interest		40 022	3 576
Earnings per share for profit attributable to:			
Equity holders (cents)			
– Basic	1.5	103.85	86.86
– Diluted	1.5	102.84	85.03

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 May 2016

	2016 R'000	2015 R'000
Net profit for the year	731 612	581 193
Other comprehensive income:		
Items reclassified to profit or loss		
Foreign currency translation reserve reclassified to profit or loss*	—	(18 467)
Items that may be subsequently reclassified to profit or loss		
Foreign exchange profit/(loss) on translation of associates and joint ventures*	81 544	(10 497)
Foreign exchange (loss)/profit on translation of foreign operations*	(15)	5 863
Other comprehensive income/(loss) for the year, net of tax	81 529	(23 101)
Total comprehensive income for the year	813 141	558 092
Total comprehensive income for the year attributable to:		
Equity holders of the parent	770 652	549 691
Non-controlling interest	42 489	8 401

* These components of other comprehensive income do not attract any tax.

GROUP STATEMENT OF FINANCIAL POSITION

As at 31 May 2016

	Notes	2016 R'000	2015 R'000
Assets			
Non-current assets			
		2 275 161	2 040 214
Property, plant and equipment	4.3	100 434	106 684
Intangible assets	4.2	598 333	648 284
Goodwill	4.1	603 440	606 609
Investments in and loans to associates and joint ventures	2.1	910 567	548 572
Loans receivable	3.1.1	5 910	29 733
Starter pack assets		6 099	4 449
Trade and other receivables	3.1.2	29 166	65 085
Deferred taxation assets	7.2	21 212	30 798
Current assets			
		5 030 790	4 986 606
Starter pack assets		1 576	1 938
Inventories	4.4	1 658 860	1 433 104
Loans receivable	3.1.1	98 217	44 569
Trade and other receivables	3.1.2	2 679 023	2 712 165
Current tax assets		4 087	6 419
Cash and cash equivalents	3.1.3	589 027	788 411
Total assets			
		7 305 951	7 026 820
Equity and liabilities			
Capital and reserves			
		4 519 567	3 917 981
Share capital	6	*	*
Share premium		4 012 359	4 012 359
Treasury shares		(69 847)	(68 471)
Restructuring reserve		(1 843 912)	(1 843 912)
Foreign currency translation reserve		179 784	100 722
Non-distributable reserve		7 821	7 821
Transactions with non-controlling interest reserve		(965 861)	(965 861)
Equity compensation benefit reserve		42 039	39 297
Retained earnings		3 105 050	2 622 558
Total ordinary shareholders' equity		4 467 433	3 904 513
Non-controlling interest		52 134	13 468
Non-current liabilities			
		102 954	197 673
Deferred taxation liabilities	7.2	62 141	54 451
Trade and other payables	3.2.1	40 813	143 222
Current liabilities			
		2 683 430	2 911 166
Trade and other payables	3.2.1	2 601 807	2 831 000
Provisions	4.5	24 928	21 491
Current tax liabilities		40 608	42 588
Borrowings	3.2.2	16 087	16 087
Total equity and liabilities			
		7 305 951	7 026 820

* Less than R1 000.

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2016

	Notes	Share capital R'000	Share premium R'000	Treasury shares R'000	Retained earnings R'000
Balance as at 31 May 2014		*	4 012 359	(66 527)	2 222 685
Net profit for the year		—	—	—	577 617
Other comprehensive loss		—	—	—	—
Total comprehensive income		—	—	—	577 617
Treasury shares purchased	6	—	—	(19 131)	—
Equity compensation benefit scheme shares vested		—	—	17 187	—
Equity compensation benefit movement		—	—	—	—
Share of equity movement in associates		—	—	—	—
Associate disposed		—	—	—	3 081
Dividends declared		—	—	—	(182 117)
Transaction with non-controlling interest reserve movement		—	—	—	—
Non-controlling interest acquired		—	—	—	1 292
Non-controlling interest disposed of		—	—	—	—
Balance as at 31 May 2015		*	4 012 359	(68 471)	2 622 558
Net profit for the year		—	—	—	691 590
Other comprehensive income		—	—	—	—
Total comprehensive income		—	—	—	691 590
Treasury shares purchased	6	—	—	(23 052)	—
Equity compensation benefit scheme shares vested		—	—	21 676	—
Equity compensation benefit movement		—	—	—	—
Share of equity movement in associates		—	—	—	—
Dividends declared		—	—	—	(209 098)
Balance as at 31 May 2016		*	4 012 359	(69 847)	3 105 050

* Less than R1 000.

¹ The restructuring reserve arose as a result of the restatement of Group comparatives, as required in terms of the principles of predecessor accounting. This reserve represents the difference between the fair value of the entities under the Group's control and their respective net asset values, as at the assumed restructure date of 1 June 2006.

² The non-distributable reserve arose as a result of BLT's share of share premium issued by associate companies pre-2010.

³ The transactions with non-controlling interest reserve relates to the excess payments over the carrying amounts arising on transactions with non-controlling shareholders as these are treated as equity participants.

⁴ This relates to the Group's movement in equity compensation benefit (refer to note 5.2) as well as the Group's share of the movement in equity compensation benefit of associate companies (refer to note 2.1).

⁵ The share-based payment reserve relates to a BEE transaction concluded by Cigicell Proprietary Limited, a subsidiary of BLT. In September 2009 Ventury Proprietary Limited sold 26% of its stake in Cigicell Proprietary Limited to Sangrilor Proprietary Limited. The Group previously did not recognise this disposal and accounted for Cigicell Proprietary Limited as a wholly owned subsidiary until the purchase consideration was settled by Sangrilor Proprietary Limited. The purchase consideration was settled through the declaration of dividends by Cigicell Proprietary Limited on 1 April 2015. On this date the share-based payment reserve was released to retained earnings. The Group accounted for this sale on that date.

GROUP STATEMENT OF CHANGES IN EQUITY continued

For the year ended 31 May 2016

Restructuring reserve ¹ R'000	Foreign currency translation reserve R'000	Non-distributable reserve ² R'000	Transactions with non-controlling interest reserve ³ R'000	Equity compensation benefit reserve ⁴ R'000	Share-based payment reserve ⁵ R'000	Total ordinary shareholders' equity R'000	Non-controlling interest R'000	Total equity R'000
(1 843 912)	128 648	10 150	(957 230)	32 368	1 292	3 539 833	(15 844)	3 523 989
—	—	—	—	—	—	577 617	3 576	581 193
—	(27 926)	—	—	—	—	(27 926)	4 825	(23 101)
—	(27 926)	—	—	—	—	549 691	8 401	558 092
—	—	—	—	—	—	(19 131)	—	(19 131)
—	—	—	—	(16 949)	—	238	(238)	—
—	—	—	—	24 082	—	24 082	208	24 290
—	—	—	—	548	—	548	—	548
—	—	(2 329)	—	(752)	—	—	—	—
—	—	—	—	—	—	(182 117)	(4 874)	(186 991)
—	—	—	(1 499)	—	—	(1 499)	—	(1 499)
—	—	—	(7 132)	—	(1 292)	(7 132)	21 529	14 397
—	—	—	—	—	—	—	4 286	4 286
(1 843 912)	100 722	7 821	(965 861)	39 297	—	3 904 513	13 468	3 917 981
—	—	—	—	—	—	691 590	40 022	731 612
—	79 062	—	—	—	—	79 062	2 467	81 529
—	79 062	—	—	—	—	770 652	42 489	813 141
—	—	—	—	—	—	(23 052)	—	(23 052)
—	—	—	—	(21 429)	—	247	(247)	—
—	—	—	—	23 421	—	23 421	424	23 845
—	—	—	—	750	—	750	—	750
—	—	—	—	—	—	(209 098)	(4 000)	(213 098)
(1 843 912)	179 784	7 821	(965 861)	42 039	—	4 467 433	52 134	4 519 567

GROUP STATEMENT OF CASH FLOWS

For the year ended 31 May 2016

	Notes	2016 R'000	2015 R'000
Cash flows from operating activities			
Cash received from customers		26 271 886	21 499 455
Cash paid to suppliers and employees		(25 527 701)	(21 069 649)
Cash generated by operations	1.6	744 185	429 806
Interest received		42 082	15 995
Interest paid		(48 207)	(67 811)
Taxation paid	7.3	(305 118)	(245 495)
Net cash generated from operating activities		432 942	132 495
Cash flows from investing activities			
Acquisition of intangible assets	4.2	(85 175)	(125 366)
Proceeds on disposal of intangible assets		*	308
Proceeds on disposal of property, plant and equipment		3 585	3 116
Acquisition of property, plant and equipment	4.3	(41 956)	(53 318)
Disposal of subsidiaries net of cash disposed	2.2	13 219	2 334
Acquisition of subsidiaries net of cash acquired		—	(157 460)
Acquisition of associate and joint venture		*	(100)
Proceeds on disposal of associate		—	94 897
Loans advanced to Blue Label Mexico**		—	(48 979)
Capital contribution to Blue Label Mexico		(42 654)	—
Capital contribution to Oxigen Services India		(159 425)	—
Equity loans advanced to Lornanox		(58 883)	—
Loans advanced to associates and joint ventures		(2 213)	(14 353)
Loans repaid by associates and joint ventures		593	—
Loans granted		(59 182)	(17 837)
Loans receivable repaid		31 876	7 522
Settlement of contingent consideration		(1 931)	(19 515)
Contingent proceeds received		5 813	—
Net cash utilised in investing activities		(396 333)	(328 751)
Cash flows from financing activities			
Interest-bearing borrowings repaid		—	(3 573)
Interest-bearing borrowings raised		—	4 419
Acquisition of treasury shares	6	(23 052)	(19 131)
Dividends paid to non-controlling interest		(4 000)	(4 874)
Dividends paid to equity holders of the parent		(209 098)	(182 117)
Net cash utilised in financing activities		(236 150)	(205 276)
Net decrease in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		788 411	1 184 131
Exchange gains on cash and cash equivalents		157	5 812
Cash and cash equivalents at the end of the year	3.1.3	589 027	788 411

* Less than R1 000.

** These loans were subsequently capitalised. Refer to note 2.1.

INDEX TO THE NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 May 2016

1. Results of operations	16	5. Employees	61
1.1 Segmental summary		5.1 Employee compensation benefit	
1.2 Revenue		5.2 Employee compensation and benefit expense	
1.3 Operating profit		5.3 Directors' emoluments	
1.4 Finance costs and finance income		6. Share capital	68
1.5 Earnings per share		7. Taxation	69
1.6 Cash generated by operations		7.1 Income tax expense	
2. Group composition	23	7.2 Deferred taxation	
2.1 Investments in and loans to associates and joint ventures		7.3 Taxation paid	
2.2 Disposal of subsidiary		8. Related parties	72
2.3 Non-controlling interests		9. Unrecognised items	74
2.4 Interests in subsidiaries, associates and joint ventures		9.1 Commitments	
3. Financial instruments and financial risks	40	9.2 Subsequent events	
3.1 Financial assets		10. Accounting framework	75
3.1.1 Loans receivable		10.1 Basis of preparation	
3.1.2 Trade and other receivables		10.2 Going concern	
3.1.3 Cash and cash equivalents		10.3 Standards, amendments and interpretations not yet effective	
3.2 Financial liabilities		10.4 Other accounting policies	
3.2.1 Trade and other payables			
3.2.2 Borrowings			
4. Non-financial instruments	52		
4.1 Goodwill			
4.2 Intangible assets			
4.3 Property, plant and equipment			
4.4 Inventories			
4.5 Provisions			

Where applicable, accounting policies and critical accounting estimates and judgements are included in the relevant note.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

1. Results of operations

1.1 Segmental summary

The Group's segment reporting follows the organisational structure as reflected in its internal management reporting systems, which are the basis for assessing the financial performance of the business segments and for allocating resources to these segments. Management's assessment of the Group's organisational structure takes the geographical location of the segments into account.

Operating segments are reported internally to the chief operating decision-maker in a manner consistent with the financial statements. In addition, the chief operating decision-maker uses core net profit and core headline earnings as non-IFRS measures in evaluating the Group's performance on a segmental level. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors, who are responsible for making strategic decisions on behalf of the Group.

Transactions between reportable segments are conducted on similar terms as other transactions of a similar nature.

The segment results for the year ended 31 May are as follows:

	Total		South Africa Distribution	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Total segment revenue	32 439 100	27 780 173	31 934 736	27 364 493
Inter-segment revenue	(6 234 378)	(5 735 951)	(6 212 196)	(5 706 602)
Revenue	26 204 722	22 044 222	25 722 540	21 657 891
Segment result				
Operating profit/(loss) before depreciation, amortisation and impairment charges	1 240 559	1 080 165	1 133 433	1 038 252
Depreciation and amortisation	(95 615)	(89 112)	(74 562)	(72 649)
Impairment of property, plant and equipment	—	—	—	—
Impairment of intangible assets	(2 568)	—	(1 042)	—
Impairment of loans	—	(4 907)	—	(219)
Finance costs	(214 110)	(233 165)	(203 713)	(225 994)
Finance income	193 899	173 047	169 198	156 703
Share of (losses)/profits from associates and joint ventures	(71 770)	(79 338)	(4 937)	—
Taxation	(318 783)	(265 497)	(258 313)	(222 905)
Net profit/(loss) for the year	731 612	581 193	760 064	673 188
Reconciliation of net profit for the year to core headline earnings for the year				
Net profit/(loss) for the year	731 612	581 193	760 064	673 188
Amortisation of intangibles raised through business combinations net of tax	17 457	19 628	11 617	13 389
Core net profit/(loss) for the year*	749 069	600 821	771 681	686 577
Headline earnings adjustment	(23 029)	(30 570)	435	(1 016)
Core headline earnings for the year*	726 040	570 251	772 116	685 561
Core headline earnings for the year attributable to:				
Equity holders of parent	684 911	566 012	751 086	683 744
Non-controlling interest	41 129	4 239	21 030	1 817
Non-cash items				
Net (loss)/profit on sale of subsidiaries	(3 885)	3 691	—	—
Net profit on disposal of associates	—	18 771	—	—
Discounting of receivables	129 633	142 326	129 633	142 326
Discounting of payables	(165 903)	(165 201)	(165 903)	(165 201)
The segment assets and liabilities at 31 May are as follows:				
Assets excluding investments in associates and joint ventures	6 395 384	6 478 248	5 725 082	5 866 457
Investments in associates and joint ventures	910 567	548 572	62 649	6 000
Total assets	7 305 951	7 026 820	5 787 731	5 872 457
Additions to non-current assets				
Property, plant and equipment	41 956	54 897	37 706	44 673
Intangible assets and goodwill	85 175	374 095	53 562	344 909
Investment in associates	210 416	51 424	—	—
Investment in joint ventures	—	30 051	—	—
Total liabilities	(2 786 387)	(3 108 839)	(2 482 650)	(2 781 588)

Segmental summary

The Company is domiciled in the Republic of South Africa. The result of its revenue from external customers in South Africa is R26.188 billion (2015: R22.026 billion), and the total revenue from external customers from other countries is R16.9 million (2015: R18.6 million).

The total non-current assets other than financial instruments and deferred tax assets located in South Africa is R1.426 billion (2015: R1.483 billion), and the total non-current assets located in other countries is R792 million (2015: R459 million).

The South African Distribution segment includes revenues of R7.647 billion and R4.637 billion earned from two external customers.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

1. Results of operations continued

1.1 Segmental summary continued

At 31 May 2016, the Group is managed on the basis of five main business segments:

- South African Distribution, which includes the distribution of physical and virtual prepaid airtime and electricity of the South African mobile/fixed-line network operators and utility suppliers, and the distribution of starter packs in South Africa.
- International Distribution, which includes international distribution of physical and virtual prepaid airtime in India and Mexico, and payment solutions in India. This segment also incorporates the Africa Prepaid Services group.
- Mobile, which includes the provision of a complete mobile transactional ecosystem and services provisioning platform delivering mobile-centric products and services through any mobile channel, including location-based and WASP services, and music and digital content provision.
- Solutions, which includes marketing of cellular and financial products and services through outbound telemarketing and other channels, provides inbound customer care and technical support, and markets data and analytics services.
- Corporate, which performs the head office administration function.

International Distribution		Mobile		Solutions		Corporate	
2016 R'000	2015 R'000	2016 R'000	2015 R'000	2016 R'000	2015 R'000	2016 R'000	2015 R'000
—	—	307 661	251 085	196 703	164 595	—	—
—	—	(15 805)	(10 917)	(6 377)	(18 432)	—	—
—	—	291 856	240 168	190 326	146 163	—	—
44 152	35 379	111 142	51 359	35 889	40 831	(84 057)	(85 656)
—	—	(13 288)	(7 068)	(1 521)	(2 877)	(6 244)	(6 518)
—	—	—	—	—	—	—	—
—	(4 688)	(1 526)	—	—	—	—	—
(1)	(152)	(2 584)	(733)	—	(2)	(7 812)	(6 284)
10 224	7 190	3 277	1 322	933	449	10 267	7 383
(70 283)	(81 267)	2 690	2 658	760	(729)	—	—
(16 062)	(14 701)	(23 826)	(15 732)	(14 680)	(9 480)	(5 902)	(2 679)
(31 970)	(58 239)	75 885	31 806	21 381	28 192	(93 748)	(93 754)
(31 970)	(58 239)	75 885	31 806	21 381	28 192	(93 748)	(93 754)
2 641	3 593	3 199	2 646	—	—	—	—
(29 329)	(54 646)	79 084	34 452	21 381	28 192	(93 748)	(93 754)
(29 975)	(25 379)	1 060	(213)	5 448	—	3	(3 962)
(59 304)	(80 025)	80 144	34 239	26 829	28 192	(93 745)	(97 716)
(59 327)	(72 337)	65 333	28 346	21 564	23 975	(93 745)	(97 716)
23	(7 688)	14 811	5 893	5 265	4 217	—	—
—	—	—	—	(3 885)	—	—	3 691
—	18 771	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
16 608	18 894	489 351	425 046	135 841	151 077	28 502	16 774
792 488	500 203	54 210	41 905	1 220	464	—	—
809 096	519 097	543 561	466 951	137 061	151 541	28 502	16 774
—	—	2 469	8 257	928	1 657	853	310
—	—	31 198	27 722	407	1 445	8	19
210 416	51 424	—	—	—	—	—	—
—	—	—	30 051	—	—	—	—
(35 974)	(26 792)	(120 457)	(147 536)	(17 101)	(18 011)	(130 205)	(134 912)

* Core net profit and core headline earnings

Historically, a measurement of the Group's performance and the growth thereon was based on core earnings per share. This has been substituted to core headline earnings per share which is a more informative measurement of the day-to-day operations of the Group. Core net profit and core headline earnings are non-IFRS measures used by the Group in evaluating the Group's performance. These supplement the IFRS measures. Core net profit is calculated by adjusting net profit for the year with the amortisation of intangible assets net of deferred taxation and non-controlling interests that arise as a consequence of the purchase price allocations completed in terms of IFRS 3 – *Business Combinations*. Core headline earnings is calculated by adjusting core net profit with the headline earnings adjustments required by SAICA circular 2/2015.

Reconciliation of core net profit and core headline earnings to relevant IFRS measures are presented in note 1.5.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

1. Results of operations continued

1.2 Revenue

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of indirect taxes, estimated returns, rebates and discounts, and after eliminated sales within the Group.

Revenue from the sale of goods is recognised when:

- the Group has transferred to the customer the risks and rewards of ownership of the goods; and
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; and
- the amount of revenue, and associated costs incurred or to be incurred, can be measured reliably; and
- it is probable that the economic benefits associated with a transaction will flow to the Group.

Revenue from the rendering of a service is recognised when:

- the amount of revenue, and associated costs incurred or to be incurred, can be measured reliably; and
- it is probable that the economic benefits associated with a transaction will flow to the Group; and
- the stage of completion of the transaction at the end of the reporting period can be measured reliably.

The main categories of revenue are as follows:

(a) Prepaid airtime, data and related revenue

Sales of prepaid airtime and data are recognised when the Group sells airtime and data to the customer. Incentives relating to these sales, based on contractual criteria, are recognised only once the associated criteria have been met. For this category of revenue the Group will act as either a principal or an agent.

(b) Postpaid airtime, data and related revenue

Sales of postpaid airtime and data are recognised on airtime and data contracted to be delivered to customers for a period of time and billed on a monthly basis in arrears. Incentives relating to these sales, based on contractual criteria, are recognised only once the associated criteria have been met. For this category of revenue the Group will act as either a principal or an agent.

(c) Prepaid and postpaid SIM cards

Revenue is recognised when a SIM card is initially sold to the customer. Activation bonuses received from the networks are recognised when the SIM card is activated on the relevant cellular network. Ongoing revenue and other incentives are recognised once the associated contractual criteria have been met. The point of activation is determined by the relevant cellular networks. For this category of revenue the Group acts as a principal.

(d) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. These services include location-based services, SMS transaction services, media, call centre and data transaction revenue, and technology revenue. For this category of revenue the Group will act as either a principal or an agent.

(e) Electricity commission

Commissions on the sale of prepaid electricity are recognised when the Group sells electricity to the customer on behalf of the utility suppliers. Commissions are recorded based on agreed rates per the contracts. For this category of revenue the Group acts as an agent.

(f) Sales of handsets, tablets and other devices

Revenue is recognised when the handset, tablet or device is sold to the customer. For this category of revenue the Group acts as a principal.

Critical accounting estimates and assumptions

Significant judgements are made by management when concluding whether the Group is transacting as an agent or a principal. The assessment is performed for each separate revenue stream in the Group. The assessment requires an analysis of key indicators, specifically whether the Group:

- carries any inventory risk;
- has the primary responsibility for providing the goods or services to the customer;
- has the latitude to establish pricing; and
- bears the customer's credit risk.

These indicators are used to determine whether the Group has exposure to the significant risks and rewards associated with the sale of goods or rendering of services. For example, any sale relating to inventory that is held by the Group, not on consignment, is a strong indicator that the Group is acting as a principal.

Where the Group acts in its capacity as principal for the sale of goods or the rendering of services, as it does in the sale of physical prepaid airtime and the sale of handsets, revenue is recognised as the fair value of the consideration receivable net of discounts and taxes. Where the Group acts in its capacity as an agent, as it does in the sale of electricity and PINless airtime, the amount of revenue recorded is the fair value of commission received or receivable.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

1. Results of operations continued

1.2 Revenue continued

	2016 R'000	2015 R'000
Prepaid airtime, data and related revenue	24 147 786	20 245 563
Postpaid airtime, data and related revenue	141 397	127 030
Prepaid and postpaid SIM cards	607 833	701 223
Services	542 748	442 600
Electricity commission	246 371	201 170
Handsets, tablets and other devices	322 967	178 886
Other revenue*	195 620	147 750
	26 204 722	22 044 222

* Other revenue primarily comprises meter installations, device rentals and ticket sales.

1.3 Operating profit

	2016 R'000	2015 R'000
The following has been charged/(credited) in arriving at operating profit:		
Acquisition-related costs	21 639	1 971
Advertising and promotional expenses	12 215	14 252
Amortisation of intangible assets**	130 353	121 819
Audit fees – services as auditors	16 816	14 188
Audit fees – other	2 468	491
Consulting fees	28 261	29 645
Contingent purchase price release* (refer to note 3.2.1)	(48 120)	(923)
Depreciation	42 738	40 813
Foreign exchange profit*	(73 499)	(20 443)
Impairment of loans	—	4 907
Impairment of trade receivables	6 418	14 463
Impairment of trade receivables – provision	2 923	(4 738)
Impairment of intangible assets	2 568	—
Impairment of inventory	5 368	—
IT infrastructure costs and computer-related costs	23 321	21 117
Legal fees	3 282	14 701
Loss/(profit) on disposal of subsidiaries	3 885	(3 962)
Profit on disposal of associates	—	(37 238)
Management fees paid	6 241	5 624
Motor vehicle expenses	9 559	9 484
Operating lease rentals – premises ^(a)	32 894	33 692
Overseas travel	6 512	5 536
Profit on disposal of property, plant and equipment*	(500)	(1 707)

* Included in other income on the Group income statement.

** Included in the amortisation charge is an amount of R77.5 million (2014: R73.5 million) in respect of the purchased starter pack bases and postpaid bases, which is charged to the changes in inventories of finished goods line in the income statement.

^(a) Leases in which a significant portion of the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments under operating leases, net of incentives, are charged to the income statement on a straight-line basis over the period of the lease.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

1. Results of operations continued

1.4 Finance costs and finance income

Finance costs/income are recognised in profit and loss using the effective interest rate method as the instruments to which this relates are measured at amortised cost.

	2016 R'000	2015 R'000
Finance costs		
– Bank	61	54
– Loans and facilities	33 851	60 557
– Unwinding of contingent purchase price	9 712	6 999
– Other	4 583	354
– Discounting of payables	165 903	165 201
	214 110	233 165
Finance income		
– Bank	(34 002)	(13 458)
– Loans	(4 336)	(2 522)
– Related-party loans (refer to note 8)	(25 351)	(14 486)
– Other	(577)	(255)
– Discounting of receivables	(129 633)	(142 326)
	(193 899)	(173 047)
Net finance costs	20 211	60 118

1.5 Earnings per share

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

(b) Headline

Headline earnings are calculated by applying the principles contained in Circular 2/2015 as issued by the South African Institute of Chartered Accountants, as required by JSE Limited.

The weighted average number of ordinary shares used is the same as that used for the basic earnings per share.

(c) Diluted – basic and headline

Diluted earnings per share are calculated by adjusting the number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are the forfeitable shares granted. For this calculation, an adjustment is made for the number of shares that would be issued on vesting under the forfeitable share plan.

(d) Core headline

Core headline earnings per share are calculated by adding back to headline earnings, the amortisation of intangible assets net of deferred taxation and non-controlling interests as a consequence of the purchase price allocations completed in terms of IFRS 3(R) – *Business Combinations*.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

1. Results of operations continued

1.5 Earnings per share continued

(a) Basic

	2016	2015
Profit attributable to equity holders of the parent (R'000)	691 590	577 617
Weighted average number of ordinary shares in issue (thousands)	665 950	665 030
Basic earnings per share (cents per share)	103.85	86.86

(b) Headline

	Profit before tax and non- controlling interest R'000	Tax R'000	Non- controlling interest R'000	Headline earnings R'000
2016				
Profit attributable to equity holders of the parent	1 050 395	(318 783)	(40 022)	691 590
Profit on disposal of property, plant and equipment	(500)	140	—	(360)
Loss on disposal of intangible assets	4	(1)	—	3
Impairment of intangible assets	2 568	(719)	(300)	1 549
Loss on disposal of subsidiary	3 885	1 569	—	5 454
Profit on dilution/disposal of associate and joint venture	(29 975)	—	—	(29 975)
Headline earnings				668 261
Weighted average number of ordinary shares in issue (thousands)				665 950
Headline earnings per share (cents per share)				100.35
2015				
Profit attributable to equity holders of the parent	846 690	(265 497)	(3 576)	577 617
Profit on disposal of property, plant and equipment	(1 707)	478	4	(1 225)
Impairment of property, plant and equipment in joint venture	3 264	—	—	3 264
Profit on disposal of subsidiary	(3 962)	—	—	(3 962)
Profit on disposal of associate	(37 238)	8 595	—	(28 643)
Headline earnings				547 051
Weighted average number of ordinary shares in issue (thousands)				665 030
Headline earnings per share (cents per share)				82.26

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

1. Results of operations continued

1.5 Earnings per share continued

	2016 R'000	2015 R'000
(c) Diluted – basic and headline		
Basic earnings (R'000)	691 590	577 617
Dilutive instrument (R'000)	—	(5 603)
Diluted earnings (R'000)	691 590	572 014
Weighted average number of ordinary shares in issue (thousands)	665 950	665 030
Adjusted for forfeitable shares (thousands)	6 570	7 672
Weighted average number of ordinary shares for diluted earnings (thousands)	672 520	672 702
Diluted basic earnings per share (cents per share)	102.84	85.03
Headline earnings (R'000)	668 261	547 051
Dilutive instrument (R'000)	—	(5 603)
Diluted headline earnings (R'000)	668 261	541 448
Weighted average number of ordinary shares for diluted headline earnings (thousands)	672 520	672 702
Diluted headline earnings per share (cents)	99.37	80.49
(d) Core headline		
Reconciliation between net profit for the period and core headline earnings for the period:		
Net profit for the period (R'000)	691 590	577 617
Amortisation on intangibles raised through business combinations net of tax and non-controlling interest (R'000)	16 650	18 961
Core net profit for the period (R'000)	708 240	596 578
Headline earnings adjustments (R'000)	(23 329)	(30 566)
Core headline earnings (R'000)	684 911	566 012
Weighted average number of ordinary shares in issue (thousands)	665 950	665 030
Core headline earnings per share (cents per share)	102.85	85.11
1.6 Cash generated by operations		
Reconciliation of operating profit to cash generated by operating activities:		
Operating profit	1 142 376	986 146
Adjustments for:		
Depreciation of property, plant and equipment	42 738	40 813
Amortisation of intangible assets	130 353	121 819
Impairment of intangible assets	2 568	—
Discounting of receivables recognised in revenue	129 633	142 326
Discounting of payables recognised in changes in inventories of finished goods	(165 903)	(165 201)
Impairment of loans	—	4 907
Profit on disposal of property, plant and equipment	(500)	(1 707)
Loss on disposal of intangible assets	4	—
Loss/(profit) on disposal of subsidiary	3 885	(3 962)
Profit on disposal of associates	—	(37 238)
Equity compensation benefit expense	23 845	24 290
Net forex profit	(68 857)	(25 718)
Changes in working capital (excluding the effects of acquisitions and disposals):		
Increase in inventories	(225 756)	(123 152)
Decrease/(increase) in trade and other receivables	52 252	(538 269)
(Decrease)/increase in trade and other payables	(319 884)	2 500
(Increase)/decrease in loans receivable	(1 281)	5 322
Increase in starter pack assets	(1 288)	(3 070)
	744 185	429 806

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

2. Group composition

Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognised in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

The Company accounts for investment in subsidiaries at cost, less accumulated impairment losses.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, i.e. transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

2. Group composition continued

Basis of consolidation continued

(d) Associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates and joint ventures includes goodwill identified on acquisition. Loans made to associates and joint ventures that are equity in nature are treated as part of the cost of the investment made.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. The carrying amount of the investment is also adjusted for the Group's share of post-acquisition movements in other net assets.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount adjacent to share of profit/(loss) from associates in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates and joint ventures are recognised in the Group's financial statements only to the extent of unrelated investors' interests in the associates and joint ventures. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates and joint ventures are recognised in the income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

When the Group's share of losses in an associate or joint venture equals or exceeds its interests in the associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

The Company financial statements account for investments in associates and joint ventures at cost less any accumulated impairment.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

2. Group composition continued

Critical accounting estimates and assumptions

(a) Valuation of intangible assets acquired as part of a business combination

The fair values of all identifiable intangible assets acquired as part of a business combination are determined using recognised valuation techniques. Such techniques often rely on forecasts of future cash flows and the use of appropriate discount rates that reflect the risk factors associated with the cash flows.

These valuations are based on information at the time of the acquisition and the expectations and assumptions that have been deemed reasonable by the Group's management. The risk exists that the underlying assumptions or events associated with such assets will not occur as projected. For these reasons, among others, the actual cash flows may vary from forecasts of future cash flows.

(b) Assessment of investment in associates and joint ventures for impairment

The Group tests annually whether investment in associates and joint ventures has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of the investment in associates and joint ventures have been determined based on value-in-use calculations. These calculations require the use of estimates. Refer to note 2.1 for details on these estimates.

(c) Classification of significant joint arrangements

The Group exercises judgement in determining the classification of its joint arrangements.

Blue Label Mexico S.A. de C.V.

The Group holds an effective interest of 47.56% in the issued ordinary share capital of Blue Label Mexico S.A. de C.V. The joint arrangement provides the Group and the other parties to the agreement with rights to the net assets of the entity. The investment is classified as a joint venture as unanimous approval of the shareholders is required for decisions.

2DFine Holdings Mauritius

The Group holds an effective interest of 50% in the issued ordinary share capital of 2DFine Holdings Mauritius. The joint arrangement provides the Group and the other parties to the agreement with rights to the net assets of the entity. The investment is classified as a joint venture as unanimous approval of the shareholders is required for decisions.

SupaPesa Africa Limited

Viamedia Proprietary Limited (75% owned by the Group) holds 50% of SupaPesa Africa Limited. Therefore the Group equity accounts for 50% of net assets. The joint arrangement provides the Group and the other parties to the agreement with rights to the net assets of the entity. The investment is classified as a joint venture as unanimous approval of the shareholders is required for decisions.

(d) Classification of significant associates

Oxigen Services India Private Limited (Oxigen Services India)

Blue Label Telecoms Limited (BLT) acting through its wholly owned subsidiary, Gold Label Investments Proprietary Limited (GLI), acquired a 50% interest in 2DFine Holdings Mauritius. The investment is classified as a joint venture as unanimous approval of the shareholders is required for decisions. 2DFine Holdings Mauritius and GLI hold 34.42% and 40.96% respectively of Oxigen Services India. In terms of IFRS, an entity does not aggregate its interests held through associates and joint ventures when assessing for control as BLT through this relationship cannot direct the financial and operating policies of Oxigen Services India. Therefore, even though BLT has an effective interest of 58.18% in Oxigen Services India, the Group neither controls nor jointly controls Oxigen Services India.

The Group has the right to appoint two directors out of a total of five. Therefore we have concluded that the Group has significant influence over the financial and operating policies of Oxigen Services India.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures

Company	Associate Oxigen Services India Private Limited		Joint venture Blue Label Mexico S.A. de C.V.		Joint venture 2DFine Group ¹	
	Principal activity Airtime and payment solution provider		Distributor of terminals to vend e-tokens of value		Investment holding company	
Country of incorporation	India		Mexico		Mauritius	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Cost and share of reserves at the beginning of the year	61 543	58 317	267 568	318 508	(23 806)	(13 483)
Acquisition of associates and joint ventures	167 762	—	42 654	50 033	—	—
Share of (losses)/profits from associates and joint ventures	2 307	2 621	(63 293)	(88 508)	(10 245)	(7 574)
Share of results after tax	(27 106)	4 095	(61 219)	(86 389)	(10 245)	(7 574)
Amortisation of intangible assets	(786)	(2 047)	(2 881)	(2 943)	—	—
Deferred tax on intangible assets amortisation	220	573	807	824	—	—
Dilution of associate ²	29 979	—	—	—	—	—
Foreign currency translation reserve	71 150	1 445	7 926	(12 465)	(8 235)	(2 749)
Equity compensation benefit	750	548	—	—	—	—
Dividends received	—	(1 388)	—	—	—	—
Disposal of associate/joint venture included in other income	—	—	—	—	—	—
Cost and share of reserves at the end of the year	303 512	61 543	254 855	267 568	(42 286)	(23 806)
Loans at the beginning of the year	29 552	25 069	—	1 054	163 634	127 372
Loans granted to associates and joint ventures	—	—	—	48 979	20 454	15 027
Loans repaid by associates and joint ventures	—	—	—	—	—	—
Loan granted to joint venture capitalised	—	—	—	(50 033)	—	—
Unrealised foreign exchange profit on loans to associates and joint ventures	8 807	4 483	—	—	50 804	21 235
Loans at the end of the year	38 359	29 552	—	—	234 892	163 634
Closing net book value	341 871	91 095	254 855	267 568	192 606	139 828

¹ 2DFine Group consists of 2DFine Holdings Mauritius and 2DFine Investments Mauritius.

² This dilution relates to the 2DFine Group's shareholding in Oxigen Services India Private Limited decreasing from 37.22% to 34.42%. (The Group's effective share decreased from 18.1% to 17.21%). Refer to page 33.

³ This represents an equity loan granted to Lornanox Proprietary Limited. These loans are repayable from surplus reserves at the discretion of the board.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

Joint venture SupaPesa Africa Limited Content provider		Other associates		Other joint ventures		Total	
Mauritius							
2016 R'000	2015 R'000	2016 R'000	2015 R'000	2016 R'000	2015 R'000	2016 R'000	2015 R'000
33 908	—	7 709	80 079	564	1 193	347 486	444 614
—	29 951	59 949 ³	7 086	—	100	270 365	87 170
348	2 658	(3 606)	12 194	2 719	(729)	(71 770)	(79 338)
348	2 658	(3 606)	12 194	2 719	(729)	(99 109)	(75 745)
—	—	—	—	—	—	(3 667)	(4 990)
—	—	—	—	—	—	1 027	1 397
—	—	—	—	—	—	29 979	—
10 208	1 299	495	1 973	—	—	81 544	(10 497)
—	—	—	—	—	—	750	548
—	—	—	—	—	—	—	(1 388)
—	—	—	(93 623)	(4)	—	(4)	(93 623)
44 464	33 908	64 547	7 709	3 279	564	628 371	347 486
—	—	—	—	7 900	—	201 086	153 495
—	—	—	—	1 638	7 900	22 092	71 906
—	—	—	—	(593)	—	(593)	—
—	—	—	—	—	—	—	(50 033)
—	—	—	—	—	—	59 611	25 718
—	—	—	—	8 945	7 900	282 196	201 086
44 464	33 908	64 547	7 709	12 224	8 464	910 567	548 572

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures continued

Company	Associate Oxigen Services India Private Limited	
Principal activity	Airtime and payment solution provider	
Country of incorporation	India	
	2016 R'000	2015 R'000
Statement of financial position		
Non-current assets	339 096	129 691
Current assets	451 256	226 721
Cash and cash equivalents	168 248	119 757
Other current assets	283 008	106 964
	790 352	356 412
Total equity	224 477	75 737
Non-current liabilities	10 864	36 687
Current liabilities	555 011	243 988
Trade and other payables	368 146	180 044
Other current liabilities	186 865	63 944
	790 352	356 412
Effective percentage held	58.18	55.83
Net assets	224 477	75 737
Company net assets	207 571	59 252
Carrying value of purchase price allocations net of deferred taxation	16 906	16 485
Interest in associate and joint ventures	123 664 ²	36 148 ²
Goodwill	179 848	25 395
Balance at the end of the year	303 512	61 543
Statement of comprehensive income		
Revenue	6 391 207	4 858 126
Operating profit before depreciation, amortisation and impairment charges	5 061	25 219
Depreciation and amortisation	(34 037)	(16 030)
Finance costs	(22 284)	(10 132)
Finance income	5 491	4 679
Net profit/(loss) before taxation	(45 769)	3 736
Taxation	(2 292)	957
Net profit/(loss) after taxation	(48 061)	4 693
Other comprehensive income/(loss)	25 932	(2 484)
Total comprehensive income/(loss)	(22 129)	2 209
Effective percentage held	58.18	55.83
Share of total comprehensive income	(16 940)³	1 233

We have aligned prior year disclosure in line with current year.

¹ 2DFine Group consists of 2DFine Holdings Mauritius and 2DFine Investments Mauritius.

² The purchase price allocation arose when the 2DFine Group purchased its holding into OSI in June 2011. The Group therefore only accounts for its effective share of the carrying value of the purchase price allocations. The effective share is 17.21% (2015: 18.61%).

³ During the year BLT increased its effective holding by 2.35% to 58.18% in OSI.

⁴ During the year BLT increased its holding by 0.92% to 47.56% in BLM. In the prior year BLT increased its shareholding by 1.07% to 46.64% in BLM.

⁵ Viamedia Proprietary Limited (75% owned by the Group) holds 50% of SupaPesa Africa Proprietary Limited. Therefore the Group equity accounts for 50% of net assets.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

Joint venture Blue Label Mexico S.A. de C.V.		Joint venture 2DFine Group ¹		Joint venture SupaPesa Africa Proprietary Limited	
Distributor of terminals to vend e-tokens of value Mexico		Investment holding company Mauritius		Content provider Mauritius	
2016 R'000	2015 R'000	2016 R'000	2015 R'000	2016 R'000	2015 R'000
171 701	214 368	154 706	118 463	10 654	8 207
193 490	150 609	59	45	8 645	6 906
88 498	46 320	2	1	4 702	—
104 992	104 289	57	44	3 943	6 906
365 191	364 977	154 765	118 508	19 299	15 113
228 233	261 721	(84 570)	(47 611)	7 889	5 380
7 464	8 483	—	—	9 855	8 207
129 494	94 773	239 335	166 119	1 555	1 526
129 090	93 564	897	191	1 311	1 154
404	1 209	238 438	165 928	244	372
365 191	364 977	154 765	118 508	19 299	15 113
47.56	46.64	50	50	37.5	37.5
228 233	261 721	(84 570)	(47 611)	7 889	5 380
209 039	239 959	(84 570)	(47 611)	7 889	5 380
19 194	21 762	—	—	—	—
108 548	122 067	(42 286)	(23 806)	3 944 ⁵	2 690 ⁵
146 307	145 502	—	—	40 520	31 215
254 855	267 569	(42 286)	(23 806)	44 464	33 905
4 016 614	3 526 451	—	—	13 052	8 110
(70 042)	(124 452)	(645)	(907)	1 583	5 900
(67 425)	(68 275)	—	—	—	—
—	—	(19 844)	(14 240)	(865)	(420)
1 927	1 719	—	—	—	—
(135 540)	(191 008)	(20 489)	(15 147)	718	5 480
1 109	(2 671)	—	—	(22)	(164)
(134 431)	(193 679)	(20 489)	(15 147)	696	5 316
16 370	(14 765)	(16 470)	(5 499)	1 811	64
(118 061)	(208 444)	(36 959)	(20 646)	2 507	5 380
47.56	46.64	50	50	37.5 ⁵	37.5 ⁵
(55 696) ⁴	(92 749) ⁴	(18 479)	(10 323)	1 254	2 690

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures continued

The Group's interests in its other associates, which are unlisted, are as follows:

	Country of incorporation	Non-current assets R'000	Current assets R'000
2016			
Lornanox Proprietary Limited	South Africa	40 464	111 732
Mpower Softcomm Private Limited	India	20 958	15 819
2015			
Lornanox Proprietary Limited	South Africa	—	6 000
Mpower Softcomm Private Limited	India	17 700	7 288
Forensic Intelligence Data Solutions Proprietary Limited	South Africa	1 328	3 063

The Group's interests in its other joint ventures, which are unlisted, are as follows:

	Country of incorporation	Non-current assets R'000	Current assets R'000
2016			
Supa Pesa South Africa Proprietary Limited	South Africa	148	4 618
Banosign Proprietary Limited	South Africa	118	5 356
Datacision Proprietary Limited	South Africa	—	15 654
2015			
Supa Pesa South Africa Proprietary Limited	South Africa	142	1 186
Datacision Proprietary Limited	South Africa	*	14 513

* Less than R1 000.

Loans to associates and joint ventures

	Interest rate	2016 R'000	2015 R'000
Oxygen Services India Private Limited	LIBOR + 1.50%	38 359	29 552
2DFine Holdings Mauritius*	10%	234 892	163 634
Supa Pesa South Africa Proprietary Limited	11%	7 307	7 900
Banosign Proprietary Limited	0%	1 638	—
		282 196	201 086

* Refer to note 8 for details on the surety relating to this loan.

The loans are neither past due nor impaired with a low risk of default.

The loans to associates and joint ventures are repayable on demand.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

Non-current liabilities R'000	Current liabilities R'000	Revenues R'000	Net profit/ (loss) R'000	Total comprehensive profit/ (loss) R'000	Effective percentage interest held %	Carrying value of investment R'000
—	97 626	149 044	(11 389)	(11 389)	40	61 394
3 170	11 632	49 160	6 711	6 711	21.6	3 153
—	—	—	—	—	40	6 000
282	12 801	23 262	1 323	2 227	21.6	1 709
—	2 011	2 641	11 908	11 908	20.25	—

Non-current liabilities R'000	Current liabilities R'000	Revenues R'000	Net profit/ (loss) R'000	Total comprehensive profit/ (loss) R'000	Effective percentage interest held %	Carrying value of investment R'000
7 308	404	973	4 530	4 530	37.5	9 750
1 638	4 600	2 414	(764)	(764)	50.1	1 254
37	3 784	10 858	1 520	1 520	40.5	1 220
8 429	378	2 180	*	*	37.5	8 000
2	4 199	22 454	3 174	3 174	40.5	464

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures continued

Loans to associates and joint ventures continued

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

	2016 R'000	2015 R'000
Group 1	—	7 900
Group 2	282 196	193 186
Group 3	—	—
	282 196	201 086

The Group has subordinated a portion of its loan to 2DFine Holdings Mauritius Limited in favour of other creditors, to the value of R41 million.

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.

Impairment of associates and joint ventures

There was no impairment of investment in associates and joint ventures. This was tested by comparing the recoverable amount against the carrying value of the investment in associates and joint ventures.

The recoverable amount is the higher of fair value less cost of disposal and the value-in-use. These value-in-use calculations use cash flow projections based on financial budgets approved by the Board of Directors for the forthcoming year and forecasts for up to five years which are based on assumptions of the business, industry and economic growth. Cash flows beyond this period are extrapolated using terminal growth rates, which do not exceed the expected long-term economic growth rate.

The key assumptions used for the value-in-use calculations are as follows:

	2016		2015	
	Growth rate %	Discount rate %	Growth rate %	Discount rate %
Oxygen Services India Private Limited	5.0	35.00	5.0	21.00
SupaPesa Africa Limited	4.0	17.74	4.0	17.38
Blue Label Mexico S.A.de C.V.	3.5	16.44	3.5	18.46

The discount rates used are post-tax and reflect specific risks relating to the relevant associates and joint ventures. The growth rate is used to extrapolate cash flows beyond the budget period. The growth rates were consistent with publicly available information relating to long-term average growth rates for each of the markets in which the companies operate.

The inputs used when calculating the value-in-use would need to be increased/(decreased) by the following amounts before any impairment would need to be recognised:

	2016	
	Growth rate %	Discount rate %
SupaPesa Africa Limited	(3)	2

For Oxygen Services India Private Limited and Blue Label Mexico S.A. de C.V., if one or more of the inputs were changed to a reasonable possible alternative, there would be no impairments that would have to be recognised.

In considering the impairment of the Group's investment in Oxygen Services India Private Limited (OSI), the Group has evaluated the company's historical performance and future strategy. OSI currently has 127 000 touch points operational in its offline division, with the Group's share of profits from this division increasing by R21.4 million in the current year. In India there has been a shift in demand for online wallets. Accordingly a strategic decision was made to enter this market. Through the extensive marketing OSI has undertaken, the number of wallet subscribers acquired as well as the volume of transactions performed will continue to increase. This growth is evidenced by the fact that the wallet subscriber base has increased from 5.4 million to 22.6 million in the current financial year. Daily money transfer deposits have grown from USD3.3 million per day as at 31 May 2015 to USD4.0 million per day as at 31 July 2016, increasing exponentially through its connectivity with the National Payment Corporation of India. Accordingly, the Group's share of losses generated by the online division increased by R31.5 million in the current year.

In assessing the Group's investment into the 2DFine Group, the factors relating to OSI above were taken into account as this is 2DFine Group's main investment.

Based on these factors, as well as the impairment testing performed the Group has concluded that no impairment is indicated.

The Group has concluded that no impairment of its investment in Blue Label Mexico S.A. de C.V. (BLM) is required. The losses in BLM are primarily due to BLM becoming a multicarrier distributor as opposed to historically being confined to one network. This has created a more competitive environment amongst the networks to the benefit of BLM. The introduction of the distribution of starter packs that generate monthly compounded annuity income is expected to gain momentum which will result in further declines in losses going forward.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures continued

Shares in associates and joint ventures acquired during the current year

		Date acquired	Effective percentage
Banosign Proprietary Limited	Joint venture	01-Apr-16	50.1
Oxigen Services India Private Limited	Associate	01-Mar-16	2.35
Blue Label Mexico S.A. de C.V.	Joint venture	01-Sep-15	0.92

The Group's effective shareholding in OSI prior to March 2016 was 55.83%. Of this shareholding, 37.22% was held by Gold Label Investments (GLI), a wholly owned subsidiary of the Group and 18.61% indirectly through the Group's 50% shareholding in 2DFine Holdings Mauritius. In March 2016, a rights issue was offered by OSI for USD10.5 million. The Group exercised its rights for the entire amount through GLI congruent with 2DFine Holdings Mauritius waiving its rights. The effect of this is that GLI's shareholding has increased from 37.22% to 40.97% and its indirect shareholding of 18.61% has been diluted to 17.21%. The latter has in turn resulted in a gain of R30 million on dilution, being the Group's share of the increased net asset value emanating from the rights issue. The Group's effective shareholding in OSI therefore increased by 2.35% to 58.18%. The amount paid for this was R159.4 million, the difference of R8.3 million relates to foreign exchange differences.

In September 2015 BLT increased its holding by 0.92% to 47.56% in BLM for an amount of R42.5 million.

Shares in associates disposed of during the current year

		Date disposed	Effective percentage
Forensic Intelligence Data Solutions Proprietary Limited	Associate	01-Dec-15	20.25

The Group disposed of Forensic Intelligence Data Solutions Proprietary Limited for a nominal value.

Blue Label Telecoms Limited has guaranteed 45% of the amount owed by BLM to Radiomovil Dipsa S.A. de C.V. (trading as Telcel). At year-end there is no balance due to them by BLM.

There are no other contingent liabilities relating to the Group's interest in joint ventures.

For details on related-party transactions, refer to note 8.

2.2 Disposal of subsidiary

Date disposed % disposed	30 October 2015 100 Velociti Proprietary Limited R'000
Carrying/fair value of subsidiary disposed of	17 216
Goodwill	3 169
Carrying/fair value of net assets disposed of	20 385
Loss on disposal of subsidiary	(3 885)
Total proceeds on disposal received in cash	16 500
Less: Cash and cash equivalents in subsidiary	(3 281)
Cash inflow on disposal	13 219

On 30 October 2015, Blue Label Telecoms Limited sold its 100% shareholding in Velociti Proprietary Limited to a third party for an amount of R16.5 million. The loss on disposal of R3.9 million has been recognised in the income statement.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

2. Group composition continued

2.3 Non-controlling interests

Set out below is the summarised financial information relating to each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations with other companies in the Group.

Subsidiary Principal place of business Segment	TJ Group ¹		Cigicell Proprietary Limited	
	RSA		RSA	
	SA Distribution		SA Distribution	
	2016	2015	2016	2015
NCI %	40	40	26	26
	R'000	R'000	R'000	R'000
Non-current assets	20 903	15 956	1 721	1 588
Current assets	33 008	22 744	644 525	468 758
Total assets	53 911	38 700	646 246	470 346
Capital and reserves	46 980	32 653	44 979	3 649
Non-current liabilities	964	791	3 366	1 643
Current liabilities	5 967	5 256	597 901	465 054
Total equity and liabilities	53 911	38 700	646 246	470 346
Accumulated NCI³	18 792	13 061	11 695	949
Summarised statement of comprehensive income for the period ended 31 May				
Revenue	68 856	54 040	207 924	217 564
Total comprehensive income/(loss) for the year	24 327	16 055	41 330	2 689
Comprehensive income/(loss) allocated to NCI	9 731	6 422	10 746	(4 853) ⁴
Summarised cash flows for the period ended 31 May				
Cash flows from operating activities	27 737	17 299	(15 097)	28 017
Cash flows from investing activities	(11 278)	(883)	(410)	(502)
Cash flows from financing activities	(9 268)	(21 817)	3 506	(28 714)
Net (decrease)/increase in cash and cash equivalents	7 191	(5 401)	(12 001)	(1 199)
Dividends paid to NCI	4 000	—	—	1 330

¹ The TJ Group consists of Transaction Junction Proprietary Limited and Transaction Junction (Namibia) Proprietary Limited.

² Viamedia Proprietary Limited was acquired 1 September 2014. The prior year results reflect the nine-month period ended May 2015.

³ Accumulated NCI excludes the share-based payment reserve adjustments.

⁴ The allocation of comprehensive income to the non-controlling shareholders of Cigicell Proprietary Limited commenced 1 April 2015.

* The APS Group consists of African Prepaid Services Proprietary Limited and African Prepaid Services Nigeria Limited. The NCI percentage is 10% and 30.09% respectively.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

APS Group*		Viamedia Proprietary Limited ²		Blue Label Data Solutions Proprietary Limited	
RSA and Nigeria International Distribution		RSA Mobile		RSA Solutions	
2016 *	2015 *	2016 25	2015 25	2016 19	2015 19
R'000	R'000	R'000	R'000	R'000	R'000
—	—	115 492	105 307	7 692	6 973
61	38	92 447	57 220	72 942	36 825
61	38	207 939	162 527	80 634	43 798
(130 471)	(129 088)	159 288	92 050	55 226	27 518
60 245	51 700	16 222	16 560	1 471	680
70 287	77 426	32 429	53 917	23 937	15 600
61	38	207 939	162 527	80 634	43 798
(29 250)	(29 187)	39 822	23 013	10 493	5 228
—	—	186 575	153 754	155 881	100 170
(1 383)	(19 980)	67 238	33 167	27 708	22 198
(63)	(7 688)	16 810	8 292	5 265	4 217
(2 417)	(19 539)	35 667	33 929	24 628	26 398
—	—	(2 242)	(1 506)	(194)	(75)
2 440	19 530	(2 725)	(5 755)	(24 848)	(19 446)
23	(9)	30 700	26 668	(414)	6 877
—	—	—	—	—	3 544

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

2. Group composition continued

2.4 Interest in subsidiaries, associates and joint ventures

	Country	Number of issued ordinary shares	Percentage held
2016			
<i>Subsidiaries</i>			
<i>Directly held:</i>			
<i>Subsidiaries of Blue Label Telecoms Limited</i>			
Activi Deployment Services Proprietary Limited	RSA	100	100
Africa Prepaid Services Proprietary Limited	RSA	420	90
Africa Prepaid Services Nigeria Limited	Nigeria	10 000 000	24.01
Blue Label Distribution Proprietary Limited	RSA	100	100
Blue Label One Proprietary Limited	RSA	300	100
Blu Money Proprietary Limited	RSA	100	100
BLT USA Inc.	USA	100	100
Budding Trade 1170 Proprietary Limited	RSA	100	100
Cellfind Proprietary Limited	RSA	1 000	100
Datacel Direct Proprietary Limited	RSA	100	100
Gold Label Investments Proprietary Limited	RSA	1 000	100
Kwikpay SA Proprietary Limited	RSA	100	100
Panacea Mobile Proprietary Limited	RSA	100	100
Simigenix Proprietary Limited	RSA	120	100
The Prepaid Company Proprietary Limited	RSA	10 000	100
The Post Paid Company Proprietary Limited	RSA	200	100
TicketPros Proprietary Limited	RSA	250	100
Transaction Junction Proprietary Limited	RSA	120	60
Uninex Proprietary Limited	RSA	100	100
Ventury Group Proprietary Limited	RSA	2 000	100
Viamedia Proprietary Limited	RSA	3 230 000	75
Virtual Voucher Proprietary Limited	RSA	200	100
<i>Indirectly held:</i>			
<i>Subsidiary of The Prepaid Company Proprietary Limited</i>			
Blue Label Connect Proprietary Limited***	RSA	42 431	100

*** Formerly known as Retail Mobile Credit Specialists Proprietary Limited.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

2. Group composition continued

2.4 Interest in subsidiaries, associates and joint ventures continued

	Country	Number of issued ordinary shares	Percentage held
2016 continued			
<i>Subsidiary of Ventury Group Proprietary Limited</i>			
Cigicell Proprietary Limited	RSA	100	74
<i>Subsidiary of Africa Prepaid Services Proprietary Limited</i>			
Africa Prepaid Services Nigeria Limited	Nigeria	10 000 000	51
<i>Subsidiaries of Datacel Direct Proprietary Limited</i>			
Blue Label Call Centre Proprietary Limited	RSA	300	100
CNS Call Centre Proprietary Limited	RSA	1 000	100
Blue Label Data Solutions Proprietary Limited	RSA	100	81
<i>Subsidiary of Transaction Junction Proprietary Limited</i>			
Transaction Junction (Namibia) Proprietary Limited	Namibia	100	100
<i>Subsidiary of 2DFine Holdings Mauritius</i>			
2DFine Investments Mauritius	Mauritius	1	100
<i>Subsidiaries of Blue Label Mexico S.A. de C.V.</i>			
SGC Servicios Y Gestion Corporation S.A. de C.V.	Mexico	500	99.8
Connecta Systems LLC	USA	1 000	100
Pagacel S.A. de C.V.	Mexico	500	99.8
Transipago S.A. de C.V.	Mexico	500	99.8
<i>Associates</i>			
<i>Directly held:</i>			
<i>Associate of Blue Label Telecoms Limited</i>			
Lornanox Proprietary Limited	RSA	120	40
<i>Indirectly held:</i>			
<i>Associates of Gold Label Investments Proprietary Limited</i>			
Oxygen Services India Private Limited	India	14 244 294	40.96
Mpower Softcomm Private Limited	India	16 286	14.4*
<i>Associate of 2DFine Investments Mauritius</i>			
Mpower Softcomm Private Limited	India	16 286	14.4*
<i>Joint ventures</i>			
<i>Directly held:</i>			
<i>Joint ventures of Blue Label Telecoms Limited</i>			
Blue Label Mexico S.A. de C.V.	Mexico	9 200	47.56**
Banosign Proprietary Limited	RSA	501	50.1**
<i>Indirectly held:</i>			
<i>Joint venture of Blue Label Data Solutions Proprietary Limited</i>			
Datacision Proprietary Limited	RSA	100	50
<i>Joint venture of Gold Label Investments Proprietary Limited</i>			
2DFine Holdings Mauritius	Mauritius	2	50
<i>Joint venture of 2DFine Investments Mauritius</i>			
Oxygen Services India Private Limited	India	14 244 294	34.42**
<i>Joint ventures of Viamedia Proprietary Limited</i>			
SupaPesa Africa Limited	Mauritius	100	50
Supa Pesa South Africa Proprietary Limited	RSA	200	50

* Significant influence is demonstrated by the Company as a result of representation on the Board of Directors.

** Joint control is demonstrated by the composition of and decision-making powers afforded to the Board of Directors.

*** Formerly known as Retail Mobile Credit Specialists Proprietary Limited.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

2. Group composition continued

2.4 Interest in subsidiaries, associates and joint ventures continued

	Country	Number of issued ordinary shares	Percentage held
2015			
<i>Subsidiaries</i>			
<i>Directly held:</i>			
<i>Subsidiaries of Blue Label Telecoms Limited</i>			
Activi Deployment Services Proprietary Limited	RSA	100	100
Africa Prepaid Services Proprietary Limited	RSA	420	90
Africa Prepaid Services Nigeria Limited	Nigeria	10 000 000	24.01
Airtime Xpress Proprietary Limited	RSA	200	100
Blue Label Distribution Proprietary Limited	RSA	100	100
Blue Label One Proprietary Limited	RSA	300	100
Blue Label Investments Proprietary Limited	RSA	1 200 000	100
Blu Money Proprietary Limited	RSA	100	100
BLT USA Inc.	USA	100	100
Budding Trade 1170 Proprietary Limited	RSA	100	100
Cellfind Proprietary Limited	RSA	1 000	100
Datacel Direct Proprietary Limited	RSA	100	100
Kwikpay SA Proprietary Limited	RSA	100	100
Panacea Mobile Proprietary Limited	RSA	100	100
Simigenix Proprietary Limited	RSA	120	100
The Prepaid Company Proprietary Limited	RSA	10 000	100
The Post Paid Company Proprietary Limited	RSA	200	100
TicketPros Proprietary Limited	RSA	250	100
Transaction Junction Proprietary Limited	RSA	120	60
Uninex Proprietary Limited	RSA	100	100
Ventury Group Proprietary Limited	RSA	2 000	100
Viamedia Proprietary Limited	RSA	3 230 000	75
Virtual Voucher Proprietary Limited	RSA	200	100
<i>Indirectly held:</i>			
<i>Subsidiary of Blue Label Investments Proprietary Limited</i>			
Gold Label Investments Proprietary Limited	RSA	1 000	100
<i>Subsidiary of The Prepaid Company Proprietary Limited</i>			
Retail Mobile Credit Specialists Proprietary Limited	RSA	42 431	100
<i>Subsidiary of Ventury Group Proprietary Limited</i>			
Cigicell Proprietary Limited	RSA	100	74

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

2. Group composition continued

2.4 Interest in subsidiaries, associates and joint ventures continued

	Country	Number of issued ordinary shares	Percentage held
2015 continued			
<i>Subsidiary of Africa Prepaid Services Proprietary Limited</i>			
Africa Prepaid Services Nigeria Limited	Nigeria	10 000 000	51
<i>Subsidiaries of Datacel Direct Proprietary Limited</i>			
Blue Label Call Centre Proprietary Limited	RSA	300	100
CNS Call Centre Proprietary Limited	RSA	1 000	100
Velociti Proprietary Limited	RSA	1 000	100
Blue Label Data Solutions Proprietary Limited	RSA	100	81
<i>Subsidiary of 2DFine Holdings Mauritius</i>			
2DFine Investments Mauritius	Mauritius	1	100
<i>Subsidiaries of Blue Label Mexico S.A. de C.V.</i>			
SGC Servicios Y Gestion Corporation S.A. de C.V.	Mexico	500	99.8
Connecta Systems LLC	USA	1 000	100
Pagacel S.A. de C.V.	Mexico	500	99.8
Transipago S.A. de C.V.	Mexico	500	99.8
<i>Associates</i>			
<i>Directly held:</i>			
<i>Associate of Blue Label Telecoms Limited</i>			
Lornanox Proprietary Limited	RSA	120	40
<i>Indirectly held:</i>			
<i>Associates of Gold Label Investments Proprietary Limited</i>			
Oxigen Services India Private Limited	India	14 244 294	37.22
Mpower Softcomm Private Limited	India	16 286	14.4*
<i>Associate of Blue Label Data Solutions Proprietary Limited</i>			
Forensic Intelligence Data Solutions Proprietary Limited	RSA	100	25
<i>Associate of 2DFine Investments Mauritius</i>			
Mpower Softcomm Private Limited	India	16 286	14.4*
<i>Joint ventures</i>			
<i>Directly held:</i>			
<i>Joint venture of Blue Label Telecoms Limited</i>			
Blue Label Mexico S.A. de C.V.	Mexico	9 200	46.64**
<i>Indirectly held:</i>			
<i>Joint venture of Blue Label Data Solutions Proprietary Limited</i>			
Datacision Proprietary Limited	RSA	100	50
<i>Joint venture of Gold Label Investments Proprietary Limited</i>			
2DFine Holdings Mauritius	Mauritius	2	50
<i>Joint venture of 2DFine Investments Mauritius</i>			
Oxigen Services India Private Limited	India	14 244 294	37.22**
<i>Joint ventures of Viamedia Proprietary Limited</i>			
SupaPesa Africa Limited	Mauritius	100	50
Supa Pesa South Africa Proprietary Limited	RSA	200	50

* Significant influence is demonstrated by the Company as a result of representation on the Board of Directors.

** Joint control is demonstrated by the composition of and decision-making powers afforded to the Board of Directors.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

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 <ul style="list-style-type: none">• 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 <ul style="list-style-type: none">• Contingent purchase consideration• Contingent consideration receivable	Fair value, with gains and losses recognised in profit and loss.
Financial liabilities <ul style="list-style-type: none">• 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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

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.

	Less than one month or on demand R'000	More than one month but not exceeding one year R'000	Payable in: 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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

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).

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

3. Financial instruments and financial risks continued

3.1 Financial assets continued

3.1.3 Cash and cash equivalents

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

	2016 R'000	2015 R'000
Cash at bank	588 950	788 283
Cash on hand	77	128
	589 027	788 411
<p>Included in this balance is restricted cash of R26.2 million (2015: R2.3 million), received on behalf of and immediately due to third parties, that may not be utilised in the Group's ordinary course of business.</p> <p>Cash at bank and short-term bank deposits Credit rating based on latest S&P Global Ratings local currency long-term issuer default ratings</p>		
AA	—	102 822
AA-	207 822	—
A	—	1 045
A-	310	—
BBB-	380 806	683 822
Other	12	594
	588 950	788 283

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

3. Financial instruments and financial risks continued

3.2 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Refer to accounting policies on borrowings and trade and other payables for financial liabilities (which exclude employee-related liabilities and VAT), and share capital for equity instruments issued by the Group.

Critical accounting estimates and assumptions

Management has assessed the probabilities on the contingent purchase arrangements.

3.2.1 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within the normal operating cycle of the business. If not, they are presented as non-current liabilities.

	2016 R'000	2015 R'000
Trade payables	2 322 408	2 671 779
Accruals	116 240	70 103
Employee benefits	70 142	61 740
Sundry creditors	16 031	20 974
Deferred revenue	2 044	1 221
Contingent consideration	83 563	123 902
VAT	9 048	16 675
Payables to related parties (refer to note 8)	23 144	7 828
	2 642 620	2 974 222
Less: Amounts included in current portion of trade and other payables	(2 601 807)	(2 831 000)
	40 813	143 222

Trade payables are discounted at a discount rate of 10.5% per annum (2015: 9.25% per annum) based on average creditors' days outstanding. The effect of discounting of the trade payables balance amounts to R13.648 million (2015: R18.513 million).

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 2016

3. Financial instruments and financial risks continued

3.2 Financial liabilities continued

3.2.1 Trade and other payables continued

Contingent consideration

Changes in level 3 instruments are as follows:

	2016 R'000	2015 R'000
Opening balance	123 902	22 607
Acquisition of Viamedia Proprietary Limited	—	84 783
Acquisition of SupaPesa Africa Limited	—	29 851
Acquisition of Supa Pesa South Africa Proprietary Limited	—	100
Settlements	(1 931)	(19 515)
Gains or losses recognised in profit or loss	(38 408)	6 076
Closing balance	83 563	123 902
Total gains or losses for the period included in profit or loss for liabilities held at the end of the reporting period, under:		
Other income	(48 120)	(923)
Interest paid	9 712	6 999
Change in unrealised gains or losses for the period included in profit or loss for liabilities held at the end of the reporting period	9 127	2 052

The closing balance includes R15.8 million relating to SupaPesa Africa Limited, R65.8 million relating to Viamedia Proprietary Limited and R2 million to other contingent consideration.

Acquisition of SupaPesa Africa Limited

In the prior year, the fair value of the contingent consideration arrangement of R29.9 million was originally estimated by applying the income approach. The fair value estimates are based on a discount rate of 9.25%. For all profit targets management has assumed a probability of 100% initially. In determining these probabilities management has assessed the cash flow projections based on financial budgets for the forthcoming three years which are based on assumptions of the business, industry and economic growth.

In the current year management reassessed the cash flows taking into account the profit targets and the probability of meeting these as well as the forecasted financial budget. The probabilities have been adjusted downwards from 100% to between 32% and 55%. This has resulted in a release of R17.2 million into the income statement, included in other income.

Acquisition of Viamedia Proprietary Limited (Viamedia)

The contingent consideration arrangement requires Blue Label Telecoms Limited to pay in cash the former owner of Viamedia, an additional amount of R215.6 million if certain profit warranties are achieved. The first three amounts of R24.1 million are based on the profits of Viamedia for the year ended 31 May 2015 and 31 May 2016, and ending 31 May 2017. The fourth and fifth amounts of R30.9 million and R112.5 million are based on the profits of Viamedia for the three years ending 31 May 2017.

In the prior year, the fair value of the contingent consideration arrangement of R84.8 million was estimated by applying the income approach. The fair value estimates are based on a discount rate of 9%. For the first, second, third and fourth profit targets management has assumed a probability of 100%. For the fifth profit target management has assumed a probability of 0%. In determining these probabilities management has assessed the cash flow projections based on financial budgets for the forthcoming three years which are based on assumptions of the business, industry and economic growth.

In the current year management reassessed the cash flows taking into account the profit targets and the probability of meeting these as well as the forecasted financial budget. For the first, second and third profit targets, the probabilities have been adjusted downwards from 100% to between 84% and 100%. For the fourth profit target management has assumed a probability of 0%. This has resulted in a release of R30.8 million into the income statement, included in other income.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

3. Financial instruments and financial risks continued

3.2 Financial liabilities continued

3.2.2 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, when the relevant contracts are entered into. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after year-end.

	2016 R'000	2015 R'000
Non-interest-bearing borrowings	16 087	16 087
Less: Amounts included in current portion of borrowings	(16 087)	(16 087)
	—	—

The Group did not default on any loans or breach any terms of the underlying agreements during the period. Borrowings are unsecured and are repayable on demand. Included in borrowings is R4.7 million (2015: R4.7 million) owing to related parties, which is interest-free (refer to note 8).

Market risk

Market risk is the risk that changes in market prices (interest rate and currency risk) will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group is exposed to risks from movements in foreign exchange rates and interest rates that affect its assets, liabilities and anticipated future transactions. The Group is not exposed to significant levels of price risk.

Cash flow and fair value interest rate risk

The Group's cash flow interest rate risk arises from loans receivable, cash and cash equivalents, and borrowings carrying interest at variable rates. The Group is not exposed to fair value interest rate risk as the Group does not have any fixed interest-bearing instruments carried at fair value.

As part of the process of managing the Group's exposure to interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates.

Foreign currency risk

The Group is exposed to foreign currency risk from transactions and translation. Transaction exposure arises because affiliated companies undertake transactions in currencies other than their functional currency. Translation exposure arises where affiliated companies have a functional currency other than the rand.

The Group manages its exposure to foreign currency risk by ensuring that the net foreign currency exposure remains within acceptable levels. Hedging instruments may be used in certain instances to reduce risks arising from foreign currency fluctuations.

IFRS 7 – Sensitivity analysis

The Group has used a sensitivity analysis technique that measures the estimated change to the income statement of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates or a 10% strengthening or weakening of the rand against all other currencies, from the rates applicable at 31 May 2016, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

Interest rate sensitivity

The interest rate sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect the interest income or expense of variable interest financial instruments;
- Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at fair value; and
- Under these assumptions, a 1% increase or decrease in market interest rates at 31 May 2016 would increase or decrease profit before tax by R5.9 million (2015: R8.5 million).

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

3. Financial instruments and financial risks continued

3.2 Financial liabilities continued

3.2.2 Borrowings continued

Foreign currency sensitivity

Financial instruments by currency

	ZAR R'000	USD R'000	NgN R'000	GBP R'000	GHS R'000	EUR R'000	LSL R'000	Total R'000
2016								
Financial assets								
Cash and cash equivalents	588 717	310	—	—	—	—	—	589 027
Trade and other receivables*	2 525 960	318	—	15 959	—	3 223	—	2 545 460
Loans receivable	104 126	—	—	—	—	—	—	104 126
Loans to associates and joint ventures	8 945	273 251	—	—	—	—	—	282 196
	3 227 748	273 879	—	15 959	—	3 223	—	3 520 809
Financial liabilities								
Non-interest-bearing borrowings	16 087	—	—	—	—	—	—	16 087
Trade and other payables*	2 646 837	214	—	—	119	2 368	42	2 649 580
	2 662 924	214	—	—	119	2 368	42	2 665 667
Net financial position	564 824	273 665	—	15 959	(119)	855	(42)	855 142
2015								
Financial assets								
Cash and cash equivalents	787 365	1 045	1	—	—	—	—	788 411
Trade and other receivables*	2 723 842	97	—	18 071	—	—	—	2 742 010
Loans receivable	74 302	—	—	—	—	—	—	74 302
Loans to associates and joint ventures	7 900	193 186	—	—	—	—	—	201 086
	3 593 409	194 328	1	18 071	—	—	—	3 805 809
Financial liabilities								
Non-interest-bearing borrowings	16 087	—	—	—	—	—	—	16 087
Trade and other payables*	3 013 412	171	638	—	—	—	—	3 014 221
	3 029 499	171	638	—	—	—	—	3 030 308
Net financial position	563 910	194 157	(637)	18 071	—	—	—	775 501

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

With a 10% strengthening or weakening in the rand against the US dollar, profit before tax would have decreased or increased by R27.4 million. In the prior year, with a 10% strengthening or weakening in the rand against the US dollar, profit before tax would have decreased or increased by R19.4 million. The effects of movements in other currencies are insignificant.

Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust this capital structure, the Company may issue new shares, adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt. The Group defines capital as capital and reserves and non-current borrowings. The Group is not subject to externally imposed capital requirements.

There were no changes to the Group's approach to capital management during the year.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

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.

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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

4. Non-financial instruments continued

4.1 Goodwill continued

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.

	2016 R'000	2015 R'000
Year ended 31 May		
Opening carrying amount	606 609	423 384
Acquisition of subsidiary	—	185 967
Disposal of subsidiary	(3 169)	(2 742)
Closing carrying amount	603 440	606 609
At 31 May		
Cost	615 568	618 737
Accumulated impairments	(12 128)	(12 128)
Carrying amount	603 440	606 609

The carrying amount of goodwill and intangible assets was reduced to their recoverable amounts through recognition of an impairment loss when required 2016: nil (2015: nil).

The cash-generating units to which goodwill is allocated are presented below:

	2016 R'000	2015 R'000
Blue Label Distribution Proprietary Limited	36 364	36 364
Cellfind Proprietary Limited	21 406	21 406
Viamedia Proprietary Limited	185 967	185 967
Blue Label Connect Proprietary Limited*	205 749	205 749
The Prepaid Company Proprietary Limited	62 113	62 113
Panacea Mobile Proprietary Limited	6 883	6 883
TicketPros Proprietary Limited	5 104	5 104
Datacel Group**	79 854	83 023
	603 440	606 609

* Formerly known as Retail Mobile Credit Specialists Proprietary Limited.

** Velociti Proprietary Limited, a wholly owned subsidiary of Datacel, was disposed of during the year. Refer to note 2.2.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

4. Non-financial instruments continued

4.1 Goodwill continued

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The recoverable amount has been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Board of Directors for the forthcoming year and forecasts for up to five years which are based on assumptions of the business, industry and economic growth. Cash flows beyond this period are extrapolated using terminal growth rates, which do not exceed the expected long-term economic growth rate.

The key assumptions used for the value-in-use calculations are as follows:

	2016		2015	
	Terminal growth rate %	Discount rate %	Terminal growth rate %	Discount rate %
Blue Label Distribution Proprietary Limited	4.2	17.54	4.2	17.33
Cellfind Proprietary Limited	4.0	19.24	4.0	18.88
Viamedia Proprietary Limited	4.0	17.74	4.0	17.38
Blue Label Connect Proprietary Limited*	4.2	17.54	4.2	17.33
The Prepaid Company Proprietary Limited	4.5	16.54	4.5	16.33
Panacea Mobile Proprietary Limited	4.0	19.24	4.0	18.88
TicketPros Proprietary Limited	4.2	17.54	4.2	17.33
Datacel Group	2.5	22.23	2.5	21.87

* Formerly known as Retail Mobile Credit Specialists Proprietary Limited.

The discount rates used are post-tax and reflect specific risks relating to the relevant companies. The growth rate is used to extrapolate cash flows beyond the budget period. The growth rates were consistent with publicly available information relating to long-term average growth rates for each of the markets in which the cash-generating units operate.

For The Prepaid Company Proprietary Limited, Blue Label Connect Proprietary Limited, Blue Label Distribution Proprietary Limited, TicketPros Proprietary Limited, Cellfind Proprietary Limited and Panacea Mobile Proprietary Limited if one or more of the inputs were changed to a reasonable possible alternative assumption, there would be no impairments that would have to be recognised.

For the remaining balances of goodwill, the discount rate used when calculating the value-in-use calculations would need to be increased by the following amounts before any impairments would need to be recognised:

	Increase in discount rate %
Viamedia Proprietary Limited	3.4
Datacel Group	2.9

The goodwill balances did not result in impairment charges for the year when compared to recoverable amounts (2015: nil).

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

4. Non-financial instruments continued

4.2 Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software has a finite useful life and is subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the computer software over its estimated useful life (three to 10 years).

Costs associated with the maintenance of existing computer software programs are expensed as incurred.

(b) Trademarks and franchise fees

Trademarks and franchise fees are shown at historical cost. They have a finite useful life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and franchise fees over their estimated useful lives (10 years and 20 years respectively).

Trademarks and franchise fees are initially shown at fair value as determined in accordance with IFRS 3 – *Business Combinations*, and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses.

(c) Databases, customer listings, distribution agreements and customer relationships

Databases, customer listings, distribution agreements and customer relationships acquired through business combinations are initially shown at fair value as determined in accordance with IFRS 3 – *Business Combinations*, and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the value of these assets over their estimated useful lives (three to 10 years).

Distribution agreements purchased are initially shown at cost, and are subsequently carried at the initial cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the value of these assets over their estimated useful lives (10 years).

(d) Internally generated software development

Costs incurred on development projects are recognised as intangible assets when the following criteria are fulfilled:

- It is technically feasible to complete the intangible asset and that it will be available for use or sale;
- Management intends to complete the intangible asset and use or sell it;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Research expenditure is recognised as an expense as incurred. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised internally generated software development costs are recorded as intangible assets and amortised from the point at which the asset is available for use (i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management) on a straight-line basis over its useful life (five to 10 years). Direct costs include the product development employee costs and an appropriate portion of relevant overheads. Costs associated with the maintenance of existing products are expensed as incurred.

(e) Purchased starter pack bases and postpaid bases

Purchased starter pack bases represent the right to earn future revenue from starter packs already distributed and are initially recognised at the cost to the Group. Starter pack bases have a finite life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives (seven years).

Purchased postpaid bases represent the right to earn revenue from the cellular network in respect of contracts forming part of the acquired base. Postpaid bases have a finite life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives (10 years).

Critical accounting estimates and assumptions

Purchased starter pack bases and postpaid starter pack bases

The relative size of the Group's purchased starter pack bases and postpaid starter pack bases makes the judgements surrounding the estimated useful lives and residual values critical to the Group's financial position and performance. Useful lives are reviewed on an annual basis with the effects of any changes in estimate accounted for on a prospective basis. The residual values of these assets are assumed to be zero. The current useful life of these bases is estimated to be seven to 10 years, based on management's estimates and taking into account historical experience as well as future events which may impact the useful lives.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

4. Non-financial instruments continued

4.2 Intangible assets continued

	Trademarks R'000	Customer listing R'000
Year ended 31 May 2016		
Opening carrying amount	621	766
Additions	—	2 233
Disposals	—	—
Disposal of subsidiary	—	—
Amortisation charge	(621)	(879)
Impairment charges	—	(1 526)
Closing carrying amount	—	594
At 31 May 2016		
Cost	6 835	35 539
Accumulated amortisation	(6 835)	(33 419)
Accumulated impairments	—	(1 526)
Carrying amount	—	594
Year ended 31 May 2015		
Opening carrying amount	1 298	1 031
Additions	—	—
Acquisition of subsidiary	—	—
Disposals	—	—
Disposal of subsidiary	—	—
Amortisation charge	(677)	(265)
Closing carrying amount	621	766
At 31 May 2015		
Cost	6 835	33 306
Accumulated amortisation	(6 214)	(32 540)
Accumulated impairments	—	—
Carrying amount	621	766

* Included in the amortisation charge is an amount of R77.5 million (2015: R73.5 million) in respect of the purchased starter pack bases and postpaid bases, which is charged to the changes in inventories of finished goods line in the income statement.

** This represents independently distributed starter pack bases and postpaid bases purchased. The remaining amortisation periods range between 7 months and 79 months.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

Distribution agreement R'000	Computer software R'000	Internally generated software development R'000	Franchise fees R'000	Customer relationships R'000	Purchased starter pack bases and postpaid bases** R'000	Total R'000
253 508	43 573	19 246	1 090	4 500	324 980	648 284
17 757	30 273	23 839	—	—	11 073	85 175
—	(4)	—	—	—	—	(4)
—	(2 201)	—	—	—	—	(2 201)
(28 290)	(13 409)	(5 023)	(155)	(4 500)	(77 476)*	(130 353)
—	(1 020)	(22)	—	—	—	(2 568)
242 975	57 212	38 040	935	—	258 577	598 333
317 451	123 727	81 776	3 118	131 023	574 981	1 274 450
(72 598)	(65 085)	(29 147)	(2 183)	(130 408)	(316 404)	(656 079)
(1 878)	(1 430)	(14 589)	—	(615)	—	(20 038)
242 975	57 212	38 040	935	—	258 577	598 333
180 257	32 351	16 500	1 351	4 500	345 262	582 550
35 907	22 146	14 073	—	—	53 240	125 366
61 448	1 314	—	—	—	—	62 762
—	(308)	—	—	—	—	(308)
—	(267)	—	—	—	—	(267)
(24 104)	(11 663)	(11 327)	(261)	—	(73 522)*	(121 819)
253 508	43 573	19 246	1 090	4 500	324 980	648 284
299 694	103 431	58 954	3 118	131 023	563 908	1 200 269
(44 308)	(59 448)	(25 141)	(2 028)	(125 908)	(238 928)	(534 515)
(1 878)	(410)	(14 567)	—	(615)	—	(17 470)
253 508	43 573	19 246	1 090	4 500	324 980	648 284

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

4. Non-financial instruments continued

4.3 Property, plant and equipment

Property, plant and equipment is initially recorded at historical cost, being the purchase cost plus any cost to prepare the assets for their intended use. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial year in which they are incurred.

Property, plant and equipment is subsequently carried at historical cost less accumulated depreciation and any accumulated impairment losses.

Major leasehold improvements are amortised over the shorter of their respective lease periods and estimated useful lives.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at year-end. Where the assets' residual value is higher than the carrying value, no depreciation is provided.

Gains and losses on disposal of property, plant and equipment are determined as the difference between the carrying amount and the fair value of the sale proceeds, and are included in operating profit.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

	Computer equipment R'000	Furniture and fittings R'000	Motor vehicles R'000
Year ended 31 May 2016			
Opening carrying amount	23 047	2 560	7 843
Additions	15 812	683	6 445
Disposals	(81)	(6)	(1 198)
Disposal of subsidiary	(1 735)	(466)	—
Depreciation charge	(14 188)	(845)	(3 046)
Closing carrying amount	22 855	1 926	10 044
At 31 May 2016			
Cost	77 940	7 922	16 747
Accumulated depreciation	(54 915)	(5 292)	(6 703)
Accumulated impairments	(170)	(704)	—
Carrying amount	22 855	1 926	10 044
Year ended 31 May 2015			
Opening carrying amount	16 561	2 245	7 342
Additions	17 834	1 202	3 992
Acquisition of subsidiary	1 428	89	—
Disposals	(116)	—	(875)
Disposal of subsidiary	(64)	—	—
Depreciation charge	(12 596)	(976)	(2 616)
Closing carrying amount	23 047	2 560	7 843
At 31 May 2015			
Cost	72 529	10 835	14 974
Accumulated depreciation	(49 312)	(7 571)	(7 131)
Accumulated impairments	(170)	(704)	—
Carrying amount	23 047	2 560	7 843

There are no property, plant and equipment assets that are encumbered.

The residual values of buildings are estimated to be higher than the carrying value and therefore there is no depreciation charge.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

4. Non-financial instruments continued

4.3 Property, plant and equipment continued

Depreciation is calculated on the straight-line basis to write off the cost of the assets to their residual values over their estimated useful lives as follows:

Computer equipment	25% – 33.3%
Furniture and fittings	16.67% – 25%
Motor vehicles	20% – 25%
Office equipment	25%
Terminals and vending machines	16.67%
Media equipment	33.33%
Plant and machinery	20%
Buildings	8.33%

	Office equipment R'000	Leasehold improve- ments R'000	Terminals and vending machines R'000	Media equipment R'000	Plant and machinery R'000	Buildings R'000	Total R'000
	984	11 960	52 202	3 225	764	4 099	106 684
	558	175	15 112	3 167	4	—	41 956
	(270)	(17)	(1 513)	—	—	—	(3 085)
	(102)	(80)	—	—	—	—	(2 383)
	(356)	(6 622)	(16 814)	(669)	(198)	—	(42 738)
	814	5 416	48 987	5 723	570	4 099	100 434
	7 081	47 333	124 892	6 409	1 030	4 099	293 453
	(5 847)	(41 479)	(72 318)	(686)	(460)	—	(187 700)
	(420)	(438)	(3 587)	—	—	—	(5 319)
	814	5 416	48 987	5 723	570	4 099	100 434
	1 033	17 447	46 713	106	798	4 955	97 200
	338	1 145	25 516	3 128	163	—	53 318
	50	12	—	—	—	—	1 579
	(23)	—	(2 666)	—	—	(856)	(4 536)
	—	—	—	—	—	—	(64)
	(414)	(6 644)	(17 361)	(9)	(197)	—	(40 813)
	984	11 960	52 202	3 225	764	4 099	106 684
	7 254	48 275	124 391	3 242	1 026	4 099	286 625
	(5 850)	(35 877)	(68 602)	(17)	(262)	—	(174 622)
	(420)	(438)	(3 587)	—	—	—	(5 319)
	984	11 960	52 202	3 225	764	4 099	106 684

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

4. Non-financial instruments continued

4.4 Inventories

Inventories comprise prepaid airtime (including physical prepaid airtime), handsets and other related products.

Inventories are stated at the lower of cost or estimated net realisable value. Cost comprises direct materials and, where applicable, overheads that have been incurred in bringing the inventories to their present location and condition, excluding borrowing costs. The cost of inventory is determined by means of the weighted average cost basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses. Provisions are made for obsolete, unusable and unsaleable inventory and for latent damage first revealed when inventory items are taken into use or offered for sale.

	2016 R'000	2015 R'000
Finished goods		
Prepaid airtime	1 473 828	1 400 084
Handsets	158 815	8 683
Other*	26 217	24 337
	1 658 860	1 433 104

*Other inventory mainly consists of starter packs and consumables.

Inventories with a cost of R24.4 billion (2015: R20.4 billion) were sold during the year and have been charged to the income statement.

A general notarial bond is held by Investec Bank Limited over airtime up to R1.5 billion (2015: R1.5 billion).

4.5 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating expenses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The increase in the provision due to the passage of time is recognised as an interest expense.

	Un- redeemed electricity provision R'000	Onerous contracts R'000	Retail platform clawback provision R'000	Total R'000
Opening balance	18 874	2 617	—	21 491
Additions	769 354	—	9 411	778 765
Used during the year	(767 199)	—	(4 997)	(772 196)
Reversed	—	(2 617)	(515)	(3 132)
Closing carrying amount	21 029	—	3 899	24 928

Unredeemed electricity provision

The unredeemed electricity provision raised represents the value of electricity vouchers sold and unredeemed as at year-end, payable by the Group to the municipalities on redemption by the end customer.

Redemption is dependent on activation by customers. This is expected to occur within the first quarter of the following financial year.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

4. Non-financial instruments continued

4.5 Provisions continued

Onerous contracts

The onerous contracts related to line subscriptions for which the Group was contracted to incur unavoidable charges that were expected to exceed the related economic benefits to be received. A provision was raised due to the uncertainty associated with the amount of net outflow for each subscription.

As at 31 May 2016, the Group holds no line subscriptions that give rise to onerous contracts.

Retail platform clawback provision

The retail platform clawback provision represents the estimated value payable as a clawback on deficient debtors for amounts already received on goods sold through a third-party platform provider.

The provision will be utilised within nine months of the following financial year per the contractual terms of the clawback arrangement.

5. Employees

5.1 Equity compensation benefit

During the year 2 591 066 (2015: 2 937 836) forfeitable shares were granted to Executive Directors and qualifying employees (participant). The participant will forfeit the forfeitable shares if he/she ceases to be an employee of an employer company before the vesting date or if the specified performance conditions have not been met, unless otherwise specified by the rules or determined by the Board. In the event that the participant is not in the employ of the Group, or the performance conditions are not met, the shares allocated to the participant will be forfeited and will either be sold on the open market by the escrow agent and the proceeds will be returned to the participating employer, or may be retained by the Group for future awards.

Dividends declared in respect of these forfeitable shares are held in escrow until such time as the performance conditions are met and the shares have vested. Shares forfeited during the vesting period will forfeit any dividends pertaining to such shares. A dividend of 31 cents (2015: 27 cents) per ordinary share was declared on 18 August 2015 (2015: 19 August 2014).

The performance condition of the forfeitable shares for the fifth, sixth, seventh and eighth award vesting on 31 August 2015, 31 August 2016, 31 August 2017 and 31 August 2018 respectively are as follows:

- 40% of the awards are allocated towards retention. In order to receive this portion of the allocation the employee is required to be employed within the Group at the vesting date.
- 60% of the awards are allocated on the basis of 50% for growth in core headline earnings per share and 10% for shareholder returns.

The 50% for growth in core headline earnings will be based on the following achievements:

- If growth is 5% above CPI over three years, 20% of the 50% will vest.
- If growth is 10% above CPI over three years, an additional 50% (i.e. a total of 70%) of the 50% will vest.
- If growth is 25% above CPI over three years, a further 30% (i.e. a total of 100%) of the 50% will vest.

The 50% for growth in core headline earnings in respect of the seventh and eight awards has been amended to include growth in core headline earnings at subsidiary level with regards to qualifying employees.

The 10% for shareholder return will be based on a 10% compounded growth in the share price over the three-year vesting period measured with reference to the weighted average price per share during the month of the commencement of the allocation and the weighted average share price for the month during which the vesting takes place, plus dividends over the three-year period.

In November 2015 a decision was made to accelerate the vesting of all qualifying employees in Velociti Proprietary Limited in anticipation of the disposal of this Group company. The expense that would have been recognised over the vesting period has been recognised in the income statement in the current year.

Critical accounting estimates and assumptions

In determining the number of forfeitable shares that will vest due to performance conditions being met, management assesses the attrition rates of staff based on the grades of staff that have been granted awards as well as the historic staff turnover.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

5. Employees continued

5.1 Equity compensation benefit continued

Movements in the number of forfeitable shares outstanding during the year are as follows:

	Grant date	Vesting date	Number of shares	Fair value of grant R'000
At 31 May 2014			9 714 449	62 419
Fourth award			3 819 409	17 187
Fifth award			3 112 499	20 885
Sixth award			2 782 541	24 347
Granted during the year			2 937 836	26 147
Seventh award	3 September 2014	31 August 2017	2 937 836	26 147
Shares forfeited during the year			(419 998)	(3 346)
Fifth award			(161 233)	(1 082)
Sixth award			(258 765)	(2 264)
Shares vested during the year			(3 819 409)	(17 187)
Fourth award		31 August 2014	(3 819 409)	(17 187)
At 31 May 2015			8 412 878	68 033
Fifth award			2 951 266	19 803
Sixth award			2 523 776	22 083
Seventh award			2 937 836	26 147
Granted during the year			2 591 066	26 351
Eighth award	1 September 2015	31 August 2018	2 591 066	26 351
Shares forfeited during the year			(612 453)	(5 407)
Sixth award			(287 142)	(2 512)
Seventh award			(325 311)	(2 895)
Shares vested during the year			(3 163 359)	(21 676)
Fifth award		31 August 2015	(2 951 266)	(19 803)
Sixth award		30 November 2015	(94 961)	(831)
Seventh award		30 November 2015	(117 132)	(1 042)
At 31 May 2016			7 228 132	67 301
Sixth award			2 141 673	18 740
Seventh award			2 495 393	22 210
Eighth award			2 591 066	26 351

Refer to note 5.2 for the expense recognised in the income statement relating to the equity compensation benefits.

The fair value of the shares is based on the open market closing price at grant date.

The total number of forfeitable shares issued to Executive Directors during the period is 664 875 (2015: 955 617).

The share-based payment expense in relation to these Executive Directors is R5.7 million (2015: R8.9 million).

Refer to note 5.3 for details per Director.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

5. Employees continued

5.2 Employee compensation and benefit expense

(a) Equity compensation benefit

The Group operates an equity-settled forfeitable share incentive plan, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the services received in exchange for the grant of forfeitable shares is recognised as an expense. The total amount to be expensed is determined by the fair value of the forfeitable shares granted. The total amount expensed is recognised over the vesting period, which is the period over which all of the vesting conditions are to be satisfied. At each reporting date, the entity recognises the impact of any shares that have been forfeited prior to the end of the vesting period, if any, in the income statement with a corresponding adjustment to equity.

(b) Bonus plans

The Group recognises a liability and an expense for bonuses. A liability is recognised where the Group is contractually obliged or where there is a past practice that has created a constructive obligation.

The bonus expense is determined based on overall Group performance and other non-financial measures.

In terms of the Group Remuneration Policy, the Joint CEOs may earn an annual incentive bonus of up to 120% of fixed remuneration, and other executive directors of up to 70%. Senior Management may earn up to 50% of their annualised fixed salary package.

	2016	2015
	R'000	R'000
Salaries and wages	331 546	329 447
Bonuses	71 342	53 038
Equity compensation benefit	23 845	24 290
Other	383	673
	427 116	407 448

Average number of employees for the year was 1 076 (2015: 1 271).

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

5. Employees continued

5.3 Directors' emoluments

	Blue Label Services as Directors of Blue Label Telecoms Limited R'000	Salary and allowances R'000	Bonuses and performance- related payments R'000	Other benefits R'000	Subtotal R'000
For the year ended 31 May 2016					
Executive directors					
BM Levy	—	7 492	9 165	146	16 803
MS Levy	—	7 503	9 165	135	16 803
M Pamensky*	—	4 212	—	80	4 292
DA Suntup	—	3 910	2 831	135	6 876
	—	23 117	21 161	496	44 774
Non-executive directors					
LM Nestadt	995	—	—	—	995
K Ellerine	369	—	—	—	369
G Harlow	658	—	—	—	658
J Mthimunya	491	—	—	—	491
JS Vilakazi	311	—	—	—	311
Y Mahomed#	152	—	—	—	152
	2 976	—	—	—	2 976
	2 976	23 117	21 161	496	47 750

For the year ended 31 May 2015

Executive directors

BM Levy	—	7 073	6 917	132	14 122
MS Levy	—	7 083	6 917	122	14 122
M Pamensky	—	5 962	3 402	112	9 476
DA Suntup	—	3 694	2 137	122	5 953
	—	23 812	19 373	488	43 673

Non-executive directors

LM Nestadt	984	—	—	—	984
K Ellerine	286	—	—	—	286
G Harlow	593	—	—	—	593
NN Lazarus**	373	—	—	—	373
J Mthimunya	498	—	—	—	498
JS Vilakazi	341	—	—	—	341
	3 075	—	—	—	3 075
	3 075	23 812	19 373	488	46 748

* M Pamensky resigned with effect from 30 November 2015.

** NN Lazarus resigned with effect from 27 January 2015.

Y Mahomed appointed with effect from 18 August 2015.

The fair value of forfeitable shares per Director has been included.

No Director has a notice period of more than one year.

No Director's service contract includes predetermined compensation as a result of termination that would exceed one year's salary and benefits.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

Services as Directors of subsidiaries of Blue Label Telecoms Limited R'000	Salary and allowances from subsidiaries R'000	Bonuses and performance- related payments from subsidiaries R'000	Retirement and related benefits from subsidiaries R'000	Corporate finance and legal fees for services rendered to Blue Label Telecoms Group R'000	Total R'000	Fair value of forfeitable shares R'000
—	—	—	—	—	16 803	12 843
—	—	—	—	—	16 803	12 843
—	—	—	—	—	4 292	—
—	—	—	—	—	6 876	6 403
—	—	—	—	—	44 774	32 090
—	—	—	—	—	995	—
—	—	—	—	—	369	—
399	—	—	—	—	1 057	—
45	—	—	—	—	536	—
—	—	—	—	—	311	—
22	—	—	—	—	174	—
466	—	—	—	—	3 442	—
466	—	—	—	—	48 216	32 090
—	—	—	—	—	14 122	7 189
—	—	—	—	—	14 122	7 189
—	—	—	—	—	9 476	6 061
—	—	—	—	—	5 953	3 349
—	—	—	—	—	43 673	23 788
—	—	—	—	—	984	—
—	—	—	—	—	286	—
473	—	—	—	—	1 066	—
—	—	—	—	7 524	7 897	—
21	—	—	—	—	519	—
—	—	—	—	—	341	—
494	—	—	—	7 524	11 093	—
494	—	—	—	7 524	54 766	23 788

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

5. Employees continued

5.3 Directors' emoluments continued

	Issue date	Issue price R	Vesting date
Forfeitable share scheme per Director			
For the year ended 31 May 2016			
BM Levy	3 September 2012	6.71	31 August 2015
BM Levy	2 September 2013	8.75	31 August 2016
BM Levy	3 September 2014	8.90	31 August 2017
BM Levy	1 September 2015	10.17	31 August 2018
<hr/>			
MS Levy	3 September 2012	6.71	31 August 2015
MS Levy	2 September 2013	8.75	31 August 2016
MS Levy	3 September 2014	8.90	31 August 2017
MS Levy	1 September 2015	10.17	31 August 2018
<hr/>			
MV Pamensky	3 September 2012	6.71	31 August 2015
MV Pamensky	2 September 2013	8.75	31 August 2016
MV Pamensky	3 September 2014	8.90	31 August 2017
MV Pamensky	1 September 2015	10.17	31 August 2018
<hr/>			
DA Suntup	3 September 2012	6.71	31 August 2015
DA Suntup	2 September 2013	8.75	31 August 2016
DA Suntup	3 September 2014	8.90	31 August 2017
DA Suntup	1 September 2015	10.17	31 August 2018
<hr/>			
Forfeitable share scheme per Director			
For the year ended 31 May 2015			
BM Levy	1 October 2011	4.50	31 August 2014
BM Levy	3 September 2012	6.71	31 August 2015
BM Levy	2 September 2013	8.75	31 August 2016
BM Levy	3 September 2014	8.90	31 August 2017
<hr/>			
MS Levy	1 October 2011	4.50	31 August 2014
MS Levy	3 September 2012	6.71	31 August 2015
MS Levy	2 September 2013	8.75	31 August 2016
MS Levy	3 September 2014	8.90	31 August 2017
<hr/>			
MV Pamensky	1 October 2011	4.50	31 August 2014
MV Pamensky	3 September 2012	6.71	31 August 2015
MV Pamensky	2 September 2013	8.75	31 August 2016
MV Pamensky	3 September 2014	8.90	31 August 2017
<hr/>			
DA Suntup	1 October 2011	4.50	31 August 2014
DA Suntup	3 September 2012	6.71	31 August 2015
DA Suntup	2 September 2013	8.75	31 August 2016
DA Suntup	3 September 2014	8.90	31 August 2017

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

Awards outstanding as at the beginning of the year	Number of shares awarded	Awards forfeited during the year	Awards vested during the year	Balance as at the end of the year
334 474	—	—	(334 474)	—
271 883	—	—	—	271 883
283 339	—	—	—	283 339
—	262 834	—	—	262 834
889 696	262 834	—	(334 474)	818 056
334 474	—	—	(334 474)	—
271 883	—	—	—	271 883
283 339	—	—	—	283 339
—	262 834	—	—	262 834
889 696	262 834	—	(334 474)	818 056
281 982	—	—	(281 982)	—
229 214	—	(229 214)	—	—
238 872	—	(238 872)	—	—
—	221 585	(221 585)	—	—
750 068	221 585	(689 671)	(281 982)	—
145 829	—	—	(145 829)	—
118 540	—	—	—	118 540
150 067	—	—	—	150 067
—	139 207	—	—	139 207
414 436	139 207	—	(145 829)	407 814
470 507	—	—	(470 507)	—
334 474	—	—	—	334 474
271 883	—	—	—	271 883
—	283 339	—	—	283 339
1 076 864	283 339	—	(470 507)	889 696
470 507	—	—	(470 507)	—
334 474	—	—	—	334 474
271 883	—	—	—	271 883
—	283 339	—	—	283 339
1 076 864	283 339	—	(470 507)	889 696
396 667	—	—	(396 667)	—
281 982	—	—	—	281 982
229 214	—	—	—	229 214
—	238 872	—	—	238 872
907 863	238 872	—	(396 667)	750 068
205 139	—	—	(205 139)	—
145 829	—	—	—	145 829
118 540	—	—	—	118 540
—	150 067	—	—	150 067
469 508	150 067	—	(205 139)	414 436

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

6. Share capital

Ordinary shares are classified as equity and the shares are fully paid up.

Shares acquired by Blue Label Telecoms for its own employees' equity compensation benefit scheme, as well as the shares procured by the subsidiaries in terms of this scheme, are accounted for as treasury shares in the Group statement of financial position.

	2016 Number of shares	2015 Number of shares	2016 R'000	2015 R'000
Authorised				
Total authorised share capital of ordinary shares (par value of R0.000001 each)	1 000 000 000	1 000 000 000	1	1
Issued				
Balance at the beginning of the year	665 463 346	663 896 358	*	*
Shares acquired during the year	(2 383 471)	(2 252 420)	*	*
Shares vested during the year	3 163 359	3 819 408	*	*
Balance at the end of the year	666 243 234	665 463 346	*	*

* Less than R1 000.

All issued shares are fully paid up.

The total number of shares in issue including shares held as treasury shares as at 31 May 2016 is 674 509 042 (2015: 674 509 042).

The Company acquired 2 383 471 (2015: 2 252 420) shares at an average price of R9.67 (2015: R8.49) on the JSE in order to grant forfeitable shares to employees and directors as part of the Group's forfeitable share plan.

The amount paid to acquire these shares was R23 052 001 (2015: R19 131 983) and has been deducted from shareholders' equity. These shares are held as treasury shares.

Refer to note 5.1 for details on the forfeitable shares.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

7. Taxation

7.1 Income tax expense

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at year-end in the countries where the Company's subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Uncertain tax positions are considered by the Group at the level of the individual uncertainty or group of related uncertainties.

Critical accounting estimates and assumptions

As with any enterprise, the Group faces uncertainties in the markets in which it operates and over which it has little or no control. The Group is subject to income tax in numerous jurisdictions and judgement is required in determining the provision for tax.

There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised to the extent that it is probable that taxable income will be available in the future against which these can be utilised. Future taxable income is estimated based on business plans which include estimates and assumptions regarding economic growth, interest rates, inflation and competitive forces.

	2016 R'000	2015 R'000
Current tax	305 420	275 768
Current year	305 652	276 297
Adjustment in respect of prior years	(232)	(529)
Deferred tax	13 363	(10 271)
Current year	14 749	(9 845)
Adjustment in respect of prior years	(1 386)	(426)
	318 783	265 497
Profit before tax	1 050 395	846 690
Tax at 28%	294 111	237 073
Income of a capital nature	—	(6 219)
Fair value adjustments	(10 829)	1 675
Expenditure of a capital nature	9 082	4 138
Other income not subject to tax	(5 238)	(9 639)
Other expenses not deductible for tax purposes	8 090	610
Capital gains tax	2 431	8 698
Tax effect of assessed losses not recognised	2 467	7 901
Share of losses from associates and joint ventures	20 096	22 215
Adjustment in respect of prior years	(1 618)	(955)
Effect of different tax dispensations	191	—
Tax charge	318 783	265 497
Effective tax rate (%)	30	31

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

7. Taxation continued

7.2 Deferred taxation

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by year-end and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Critical accounting estimates and assumptions

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

	Capital allowances R'000	Fair value gains R'000	Provisions R'000	Tax losses R'000	Pre-payments R'000	Un-realised foreign exchange differences R'000	Other R'000	Total R'000
At 31 May 2014	426	37 730	(10 999)	(20 057)	2 330	7 535	(107)	16 858
Charged/(credited) to the income statement	(104)	(6 950)	(8 084)	(1 275)	395	6 875	(1 128)	(10 271)
Disposal of subsidiary	—	—	51	159	(371)	—	161	—
Acquisition of subsidiary	—	17 205	(139)	—	—	—	—	17 066
At 31 May 2015	322	47 985	(19 171)	(21 173)	2 354	14 410	(1 074)	23 653
Charged/(credited) to the income statement	(841)	(6 270)	(359)	1 471	1 973	19 458	(2 069)	13 363
Disposal of subsidiary	61	—	869	3 083	(59)	—	(41)	3 913
At 31 May 2016	(458)	41 715	(18 661)	(16 619)	4 268	33 868	(3 184)	40 929

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

7. Taxation continued

7.2 Deferred taxation continued

	2016 R'000	2015 R'000
Capital allowances	(817)	(121)
Provisions	(18 768)	(19 681)
Tax losses	(16 619)	(21 173)
Other	(3 184)	(1 967)
Total deferred tax asset	(39 388)	(42 942)
Deferred tax liability comprises:		
Capital allowances	359	443
Fair value gains	41 715	47 985
Provisions	107	510
Prepayments	4 268	2 354
Unrealised foreign exchange differences	33 868	14 410
Other	—	893
Total deferred tax liability	80 317	66 595
Net deferred tax	40 929	23 653
The analysis of deferred tax assets and deferred tax liabilities is as follows:		
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	1 713	(561)
Deferred tax assets to be recovered within 12 months	(22 925)	(30 237)
Net deferred tax asset	(21 212)	(30 798)
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	68 217	42 306
Deferred tax liabilities to be recovered within 12 months	(6 076)	12 145
Net deferred tax liability	62 141	54 451
Net deferred tax	40 929	23 653

Where deferred tax assets have been recognised in respect of entities which have incurred losses in the current or prior years, a formal process of assessment of the future profitability of the entity has been performed based on detailed budgets and cash flow forecasts. As a result, management believes that the current tax losses will be utilised within one to five years.

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of R44.3 million (2015: R42.6 million) in respect of losses amounting to R158.2 million (2015: R152.3 million) that can be carried forward against future taxable income.

There is no withholding tax that would be payable on any dividends received from the Group's associates and joint ventures and therefore no deferred tax has been raised in this regard.

	2016 R'000	2015 R'000
7.3 Taxation paid		
Balance outstanding at the beginning of the year	36 169	25 323
Taxation charge	305 420	275 768
Acquisition of subsidiaries	—	(19 403)
Translation differences	50	(24)
Balance outstanding at the end of the year	(36 521)	(36 169)
	305 118	245 495

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

8. Related parties

Transactions and balances with related parties:

	2016 R'000	2015 R'000
Sales to related parties		
Banosign Proprietary Limited*	988	—
Blue Label Mexico S.A. de C.V.	10 645	9 922
Datacision Proprietary Limited*	134	206
iBurst Proprietary Limited	—	752
Lornanox Proprietary Limited*	6 196	—
Mpower Softcomm Private Limited*	—	4
Stax Technologies Proprietary Limited	—	272
Stylco Proprietary Limited	12 488	636
Wildekrans Trust	27	—
ZOK Cellular Proprietary Limited	2 207	2 428
Purchases from related parties		
Banosign Proprietary Limited*	157	—
Black Ginger 59 Proprietary Limited	13 109	14 074
Datacision Proprietary Limited*	404	293
Forensic Intelligence Data Solutions Proprietary Limited*	—	2
Lornanox Proprietary Limited*	422	—
Mpower Softcomm Private Limited*	—	1
PLL Investments Proprietary Limited	—	27
Stax Technologies Proprietary Limited	991	252
Stylco Proprietary Limited	445	7 939
Wildekrans Wine Estate Proprietary Limited	—	4
Wireless Business Solutions Proprietary Limited	519	6 292
ZOK Cellular Proprietary Limited	26 001	69 946
Interest received from related parties		
2DFine Holdings Mauritius* (refer to note 2.1)	19 879	14 269
Lornanox Proprietary Limited* (refer to note 2.1)	1 066	—
Stylco Proprietary Limited	3 548	—
Supa Pesa South Africa Proprietary Limited* (refer to note 2.1)	858	217
Management fees received from related parties		
Datacision Proprietary Limited*	519	545
Forensic Intelligence Data Solutions Proprietary Limited*	88	192
Rent received from related parties		
Forensic Intelligence Data Solutions Proprietary Limited*	32	—
Rent paid to related parties		
Ellerine Bros. Proprietary Limited	7 597	6 875
Dataforce Trading 240 Proprietary Limited	—	253
Moneyline 311 Proprietary Limited	7 597	6 875
PLL Investments Proprietary Limited	1 285	1 526
Wildekrans Trust	3 626	3 087

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

8. Related parties continued

	2016 R'000	2015 R'000
Purchases of intangible assets from related parties		
Liquid NFC Proprietary Limited	—	13 000
Mpower Softcomm Private Limited*	374	3 580
Loans from related parties		
Datacision Proprietary Limited* (refer to note 3.2.2)	4 738	4 738
Loans to related parties		
2DFine Holdings Mauritius* [†] (refer to note 2.1)	234 892	163 634
Banosign Proprietary Limited* (refer to note 2.1)	1 638	—
Lornanox Proprietary Limited* (refer to note 2.1)	65 949	6 000
Oxigen Services India Private Limited* (refer to note 2.1)	38 359	29 552
Stylco Proprietary Limited (refer to note 3.1.1)	26 000	—
Supa Pesa South Africa Proprietary Limited* (refer to note 2.1)	7 307	7 900
ZOK Cellular Proprietary Limited (refer to note 3.1.1)	20 881	18 768
Amounts due from related parties included in trade receivables		
Banosign Proprietary Limited*	4 057	—
Black Ginger 59 Proprietary Limited	4 351	3 987
Blue Label Mexico S.A. de C.V.*	1 039	1 943
Datacision Proprietary Limited	3 330	3 165
iBurst Proprietary Limited	—	57
Lornanox Proprietary Limited*	5 846	—
Oxigen Services India Private Limited*	6 328	—
Stax Technologies Proprietary Limited	21	24
Stylco Proprietary Limited	747	—
ZOK Cellular Proprietary Limited	—	2
	25 719	9 178
Amounts due to related parties included in trade payables		
Black Ginger 59 Proprietary Limited	3 166	4 517
Datacision Proprietary Limited*	44	98
Moneyline 311 Proprietary Limited	—	2 110
Mpower Softcomm Private Limited*	—	901
PLL Investments Proprietary Limited	—	141
Stylco Proprietary Limited	7	3
Wildekrans Trust	15	—
Wireless Business Solutions Proprietary Limited	—	58
ZOK Cellular Proprietary Limited	19 912	—
	23 144	7 828

* 2DFine Holdings Mauritius, Banosign Proprietary Limited, Blue Label Mexico S.A. de C.V., Datacision Proprietary Limited, Forensic Intelligence Data Solutions Proprietary Limited, Lornanox Proprietary Limited, Mpower Softcomm Private Limited, and Supa Pesa South Africa Proprietary Limited are related parties in that they are associates and joint ventures of the Group (refer to note 2.4). The remaining companies are related parties due to Directors' shareholdings and the companies having certain common directorships.

[†] B Levy and M Levy have signed personal sureties for the loan owed by 2DFine Holdings Mauritius to Gold Label Investments Proprietary Limited. Their liability is limited to the difference between the loan owing to Gold Label Investments Proprietary Limited and the value of 17.21% (2015: 18.61%) of the shares in Oxigen Services India Private Limited on the 30th day after which the loan becomes due and payable or the extended date as may be agreed in writing by Gold Label Investments Proprietary Limited.

For details of emoluments to Directors refer to note 5.3. The Executive Directors of the Company are regarded as key management of the Group.

For details of the shareholdings in the Company, refer to the Directors' report.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

9. Unrecognised items

9.1 Commitments

Future operating lease commitments

The Group leases various offices under non-cancellable operating lease agreements.

The lease terms are between one and five years, and the majority of lease agreements are renewable at the end of the lease period at market rates.

The Group is required to give six months' notice for the termination of the majority of these agreements.

The lease expenditure charged to the income statement during the year is disclosed in note 1.3.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
	R'000	R'000
Premises		
Payable within one year	24 140	27 512
Payable in two to five years	18 666	29 663
Payable in greater than five years	—	—
	42 806	57 175

9.2 Subsequent events

A final dividend of R242 823 255 (36 cents per ordinary share) was declared for the year ended 31 May 2016, payable on Monday, 19 September 2016, to shareholders recorded in the register at the close of business on Friday, 16 September 2016.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

10. Accounting framework

10.1 Basis of preparation

The principal accounting policies applied in the preparation of the Group and Company annual financial statements are in the related notes and are consistent with those adopted in the prior year, unless otherwise specified.

The Group and Company annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, the JSE Listings Requirements and the Companies Act, No 71 of 2008.

The term IFRS includes International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). The standards referred to are set by the International Accounting Standards Board (IASB).

The Group and Company annual financial statements are prepared under the historical cost convention. Amounts are rounded to the nearest thousand with the exception of earnings per share, ordinary share capital and equity compensation benefit. The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the notes to which they relate.

10.2 Going concern

The Group and Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group and Company should be able to operate within its current funding levels into the foreseeable future.

After making enquiries, the directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. The Group and Company therefore continue to adopt the going-concern basis in preparing the financial statements.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

10. Accounting framework continued

10.3 Standards, amendments and interpretations not yet effective

The Group has evaluated the effect of all new standards, amendments and interpretations that have been issued but which are not yet effective. Based on the evaluation, management does not expect these standards, amendments and interpretations to have a significant impact on the Group's results and disclosures. The expected implications of applicable standards, amendments and interpretations are dealt with below.

IFRS 9 – Financial Instruments

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit and loss with the irrevocable option at inception to present changes in fair value in other comprehensive income. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is currently considering the impact on the consolidated financial statements. The impact on the financial statements has not yet been fully determined but it is expected to result in a change in the measurement of revenue to adjust for the effects of the time value of money.

IFRS 16 – Leases

IFRS 16, 'Leases' states that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the statement of financial position. Lessor accounting has not substantially changed in the new standard.

The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).

A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is currently considering the impact on the consolidated financial statements. The impact will be significant as the Group currently leases its premises. This will result in an increase in lease liabilities and right of use assets in the statement of financial position with a corresponding reduction in operating lease expenses and an increase in depreciation and finance costs in the income statement.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

10. Accounting framework continued

10.3 Standards, amendments and interpretations not yet effective continued

Amendments to IFRS 10 – Consolidated financial statements and IAS 28 – Investments in associates and joint ventures on sale or contribution of assets

The IASB has issued this amendment to eliminate the inconsistency between IFRS 10 and IAS 28. If the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business', then the full gain or loss will be recognised by the investor. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

No effective date has been set. The Group is currently considering the impact on the consolidated financial statements.

Amendment to IFRS 11 – Joint arrangements – on acquisition of an interest in a joint operation

This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

This statement is effective for periods beginning on or after 1 January 2016. The Group is currently considering the impact on the consolidated financial statements.

Amendments to IAS 1 – Presentation of financial statements – disclosure initiative

In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

This statement is effective for periods beginning on or after 1 January 2016. The Group has redesigned the Group annual financial statements in the current year and is considering further impacts on the consolidated financial statements.

Amendment to IAS 7 – Cash Flow Statements

In January 2016, the IASB issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt.

This statement is effective for periods beginning on or after 1 January 2017. The Group does not believe the statement will have a significant impact as this amendment results only in additional disclosures; there is no financial impact as a result of this amendment.

Amendment to IAS 12 – Income Taxes

The amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets.

This statement is effective for periods beginning on or after 1 January 2017. The Group does not believe the statement will have a significant impact, given that this is a clarification to the existing standard; there is no change in the underlying principles for the recognition of deferred tax assets.

Amendment to IAS 16 – Property, plant and equipment – and IAS 38 – Intangible assets – on depreciation and amortisation

In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

This statement is effective for periods beginning on or after 1 January 2016. The Group is currently considering the impact on the consolidated financial statements.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

10. Accounting framework continued

10.3 Standards, amendments and interpretations not yet effective continued

Amendments to IAS 27 – Separate financial statements – on equity accounting

In this amendment the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

This statement is effective for periods beginning on or after 1 January 2016 and is not applicable to the Group. The Company does not believe the statement will have a significant impact, given that the Company does intend applying this option.

IFRS 15 – Revenue From Contracts With Customers

This statement establishes principles for reporting useful information to users of the financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

This statement is effective for periods beginning on or after 1 January 2017. The Group is currently considering the impact on the consolidated financial statements.

Annual improvements project

The September 2014, the IASB issued Annual improvements to IFRS 2012 – 2014 Cycle, which contains five amendments to four standards, excluding consequential amendments. The amendments are effective for annual periods beginning on or after 1 January 2016.

IFRS 5 – Non-current Assets Held-for-sale and Discontinued Operations

This is an amendment to the changes in methods of disposal:

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5.

The amendment also clarifies that changing the disposal method does not change the date of classification.

IFRS 7 – Financial Instruments: Disclosures

Applicability of the offsetting disclosures to condensed interim financial statements.

The amendment removes the phrase “and interim periods within those annual periods” from paragraph 44R, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. However, the Board noted that IAS 34 requires an entity to disclose an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period’. Therefore, if the IFRS 7 disclosures provide a significant update to the information reported in the most recent annual report, the Board would expect the disclosures to be included in the entity's condensed interim financial report.

IFRS 7 – Financial Instruments: Disclosures

Servicing contracts – The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required.

IAS 34 – Interim Financial Reporting

Disclosure of information “elsewhere in the interim financial report”

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g, in the management commentary or risk report).

The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

Management is currently considering the effect of the changes.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

10. Accounting framework continued

10.4 Other accounting policies

Starter pack assets

A starter pack is a tool which enables the connection of a mobile device to a mobile network operator, also known as a subscriber identity module (SIM) card.

The starter pack asset represents starter packs which have been distributed but not yet activated. On activation of the starter pack, the Group has a right to receive cash. Starter packs are stated at cost less provision for impairment and are determined by means of the weighted average cost basis.

Provision for impairments are made for starter packs distributed but not expected to be activated.

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Group financial statements are presented in South African rand (ZAR), which is the functional and presentation currency of the parent company.

(b) Transactions and balances

- Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate as at statement of financial position date;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the closing rate.

Dividend tax

Dividend tax is provided for at 15% of the amount of any dividend paid, subject to certain exemptions. The dividend tax is a tax borne by the beneficial owner of the dividend and will be withheld by either the issuer of the dividend or by regulated intermediaries.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group and Company's financial statements in the period in which they are approved by the shareholders.

Distributions of non-cash assets received from subsidiary companies are recognised as a dividend at the fair value of the non-cash assets received.

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 May 2016

	Notes	2016 R'000	2015 R'000
Assets			
Non-current assets			
		4 019 362	3 640 112
Property and equipment	3	5 318	10 911
Intangible assets	4	19	69
Deferred tax asset	5	—	4 058
Investment in and loans to subsidiaries	6.1	3 551 518	3 240 227
Investment in and loans to joint ventures and associates	6.2	346 829	304 175
Loan receivable	7	115 678	80 672
Current assets			
		8 539	7 739
Loans to subsidiaries	6.1	976	976
Trade and other receivables	8	6 260	4 209
Current tax assets		—	271
Cash and cash equivalents	9	1 303	2 283
Total assets		4 027 901	3 647 851
Equity and liabilities			
Capital and reserves			
		2 729 985	2 758 134
Share capital	10	*	*
Share premium		4 012 359	4 012 359
Treasury shares		(28 985)	(30 295)
		3 983 374	3 982 064
Equity compensation benefit reserve		14 959	15 366
Share-based payment reserve		295	295
Accumulated loss		(1 268 643)	(1 239 591)
Non-current liabilities			
		23 518	90 121
Deferred tax liability	5	1 844	—
Trade and other payables	12	21 674	90 121
Current liabilities			
		1 274 398	799 596
Trade and other payables	12	90 999	44 705
Loans from subsidiaries	13	1 183 399	754 891
Total equity and liabilities		4 027 901	3 647 851

* Less than R1 000.

COMPANY STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 May 2016

	Notes	2016 R'000	2015 R'000
Other income		335 342	142 245
Employee compensation and benefit expense	14	(86 568)	(85 186)
Depreciation, amortisation and impairment charges		(6 244)	(6 518)
Other expenses		(59 037)	(8 110)
Operating profit	15	183 493	42 431
Finance costs	16	(7 812)	(6 284)
Finance income	16	10 267	11 797
Net profit before taxation		185 948	47 944
Taxation	17	(5 902)	(2 679)
Net profit for the year		180 046	45 265
Other comprehensive income for the year, net of tax		—	—
Total comprehensive profit for the year		180 046	45 265

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2016

	Share capital R'000	Share premium R'000
Balance as at 31 May 2014	*	4 012 359
Net profit for the year	—	—
Other comprehensive income	—	—
Total comprehensive profit	—	—
Shares purchased during the year	—	—
Shares awarded to Group companies as part of equity compensation scheme	—	—
Shares forfeited by Group companies as part of equity compensation scheme	—	—
Equity compensation scheme shares vested	—	—
Equity compensation movements	—	—
Dividends	—	—
Balance as at 31 May 2015	*	4 012 359
Net profit for the year	—	—
Other comprehensive income	—	—
Total comprehensive profit	—	—
Shares purchased during the year	—	—
Shares awarded to Group companies as part of equity compensation scheme	—	—
Shares forfeited by Group companies as part of equity compensation scheme	—	—
Equity compensation scheme shares vested	—	—
Equity compensation movements	—	—
Dividends	—	—
Balance as at 31 May 2016	*	4 012 359

* Less than R1 000.

¹ This relates to the Company's movement in equity compensation benefit (refer to note 11).

COMPANY STATEMENT OF CHANGES IN EQUITY continued

For the year ended 31 May 2016

Treasury shares R'000	Equity compensation benefit reserve ¹ R'000	Share-based payment reserve R'000	Accumulated loss R'000	Total equity R'000
(30 887)	12 246	295	(1 102 739)	2 891 274
—	—	—	45 265	45 265
—	—	—	—	—
—	—	—	45 265	45 265
(19 131)	—	—	—	(19 131)
14 915	—	—	—	14 915
(3 346)	—	—	—	(3 346)
8 154	(8 154)	—	—	—
—	11 274	—	—	11 274
—	—	—	(182 117)	(182 117)
(30 295)	15 366	295	(1 239 591)	2 758 134
—	—	—	180 046	180 046
—	—	—	—	—
—	—	—	180 046	180 046
(23 052)	—	—	—	(23 052)
16 989	—	—	—	16 989
(1 275)	—	—	—	(1 275)
8 648	(8 648)	—	—	—
—	8 241	—	—	8 241
—	—	—	(209 098)	(209 098)
(28 985)	14 959	295	(1 268 643)	2 729 985

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 May 2016

	Notes	2016 R'000	2015 R'000
Cash flows from operating activities	18	(9 273)	47 833
Interest received		327	250
Interest paid		(7 812)	(6 284)
Taxation paid	19	271	(648)
Net cash (utilised)/generated by operations		(16 487)	41 151
Cash flows from investing activities			
Acquisition of property and equipment	3	(853)	(310)
Proceeds on sale of property and equipment		252	1
Acquisition of intangible assets	4	(8)	(19)
Loans repaid by subsidiaries		16 989	99 431
Loans advanced to subsidiaries		(164 332)	(22 416)
Acquisition of subsidiaries		—	(144 975)
Proceeds from disposal of subsidiary		8 086	2 400
Loans advanced to Blue Label Mexico	6	—	(48 979)
Capital contribution to Blue Label Mexico	6	(42 654)	—
Settlement of contingent consideration		(1 931)	(4 113)
Net cash utilised in investing activities		(184 451)	(118 980)
Cash flows from financing activities			
Borrowings raised from subsidiaries	13	432 108	279 942
Dividends paid		(209 098)	(182 117)
Treasury shares acquired	10	(23 052)	(19 131)
Net cash generated from financing activities		199 958	78 694
Net (decrease)/increase in cash and cash equivalents		(980)	865
Cash and cash equivalents at the beginning of the period		2 283	1 418
Cash and cash equivalents at the end of the period	9	1 303	2 283

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

For the year ended 31 May 2016

1. Accounting policies and critical accounting estimates and assumptions

The accounting policies and critical accounting estimates and assumptions applied to the Company annual financial statements are consistent with the Group accounting policies.

2. Financial risks

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

Credit risk

Credit risk arises because a counterparty may fail to meet its obligations to the Company. The Company is exposed to credit risks on financial instruments such as receivables, loans receivable and cash.

Trade and other receivables

Trade and other receivables consist primarily of invoiced amounts owing from related parties. The recoverability of these amounts are regularly monitored with reference to the counterparties' financial performance. Where necessary, a provision for impairment is made.

Cash and cash equivalents

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

Loans receivable

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

The Company'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 Company could have to pay if the sureties are called on amounting to R1.5 billion (2015: R1.5 billion).

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

	2016 R'000	2015 R'000
2. Financial risks continued		
Loans to subsidiaries and joint venture		
Group 1	—	—
Group 2	161 536	976
Group 3	—	—
	161 536	976
Loans receivable		
Group 1	—	—
Group 2	115 678	80 672
Group 3	—	—
	115 678	80 672
Trade receivables		
Counterparties without external credit rating		
Group 1	—	—
Group 2	5 329	3 592
Group 3	—	—
Total unimpaired trade receivables	5 329	3 592

The rating groups for counterparties without external credit ratings 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.

Cash at bank and short-term bank deposits

Credit rating based on latest S&P Global local currency long-term issuer default ratings.

	2016 R'000	2015 R'000
BBB-	1 303	2 283
	1 303	2 283

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

2. Financial risks continued

Liquidity risk

Liquidity risk arises when a company encounters difficulties to meet commitments associated with liabilities and other payment obligations. The Company'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. Company finance monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. Due to the dynamic nature of the underlying businesses, the Company aims to maintain flexibility in funding by keeping committed credit lines available.

Management is satisfied as to the liquidity of the Company since the majority of the current liabilities relate to the loans from subsidiaries. These subsidiaries are 100% held by the Company and therefore the Company has control of their assets including cash resources.

The Company and a subsidiary company have issued a cross surety in respect of a guarantee for an overdraft facility in the amount of R19.85 million in favour of FNB, a division of FirstRand Bank Limited. This facility was unutilised as at 31 May 2016. In addition, the Company and four of its subsidiaries have issued a cross surety in the amount of R1.3 million.

The Company has issued a surety in respect of guarantees in the amount of R98.8 million in favour of third parties, for normal trade obligations of Group companies.

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.

	Less than one month or on demand R'000	More than one month but not exceeding one year R'000	Payable in: 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					
Loans from subsidiaries	—	1 183 399	—	—	—
Trade and other payables*	3 537	54 282	24 790	—	—
Total	3 537	1 237 681	24 790	—	—
2015					
Loans from subsidiaries	754 891	—	—	—	—
Trade and other payables*	2 785	10 946	48 425	55 300	—
Total	757 676	10 946	48 425	55 300	—

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

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

2. Financial risks continued

Market risk

Market risk is the risk that changes in market prices (interest rate and currency risk) will affect the Company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company is exposed to risks from movements in foreign exchange rates and interest rates that affect its assets, liabilities and anticipated future transactions.

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).

Contingent consideration, included in trade and other payables, are level 3 financial liabilities.

Changes in level 3 instruments are as follows:

	2016 R'000	2015 R'000
Contingent consideration		
Opening balance	93 280	7 256
Acquisition of Viamedia Proprietary Limited	—	84 783
Settlements	(1 931)	(4 113)
Gains and losses recognised in profit or loss	(23 117)	5 354
Closing balance	68 232	93 280
Total gains or losses for the period included in profit or loss for liabilities held at the end of the reporting period, under:		
Other income	(30 924)	(923)
Interest paid	(7 807)	6 277
Change in unrealised gains or losses for the period included in profit or loss for liabilities held at the end of the reporting period	7 222	1 382

Refer to note 3.2.1 of the Group financial statements.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

2. Financial risks continued

Cash flow and fair value interest rate risk

The Company's cash flow interest rate risk arises from loans receivable and cash and cash equivalents. The Company is not exposed to fair value interest rate risk as the Company does not have any fixed interest-bearing instruments carried at fair value nor any interest-bearing borrowings.

As part of the process of managing the Company's exposure to interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates.

Foreign currency risk

The Company is exposed to foreign currency risk from transactions. Transaction exposure arises due to the Company granting loans to affiliated companies in foreign currencies.

The Company manages its exposure to foreign currency risk by ensuring that the net foreign currency exposure remains within acceptable levels. Hedging instruments are used in certain instances to reduce risks arising from foreign currency fluctuations. The Company did not enter into any forward exchange contracts during the period under review.

IFRS 7 – Sensitivity Analysis

The Company has used a sensitivity analysis technique that measures the estimated change to the statement of comprehensive income of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates or a 10% strengthening or weakening of the rand against all other currencies, from the rates applicable at 31 May 2016, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

Interest rate sensitivity

The interest rate sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect the interest income or expense of variable interest financial instruments; and
- Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at fair value.

Under these assumptions, a 1% increase or decrease in market interest rates at 31 May 2016 would increase or decrease profit before tax by R1.2 million (2015: R22 830).

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

2. Financial risks continued

Foreign currency sensitivity

Financial instruments by currency

	2016			2015		
	ZAR R'000	USD R'000	Total R'000	ZAR R'000	USD R'000	Total R'000
Financial assets						
Cash	1 303	—	1 303	2 283	—	2 283
Trade and other receivables*	6 203	—	6 203	3 592	—	3 592
Loans to subsidiaries	161 536**	—	161 536	976	—	976
Loans receivable	—	115 678	115 678	—	80 672	80 672
	169 042	115 678	284 720	6 851	80 672	87 523
Financial liabilities						
Loans from subsidiaries	1 183 399	—	1 183 399	754 891	—	754 891
Trade and other payables*	82 609	—	82 609	117 456	—	117 456
	1 266 008	—	1 266 008	872 347	—	872 347
Net financial position	(1 096 966)	115 678	(981 288)	(865 496)	80 672	(784 824)

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

** A portion of this loan in substance forms part of the Company's investment into Gold Label Investments Proprietary Limited.

With a 10% strengthening or weakening in the rand against the US dollar, profit before tax would decrease or increase by R11.6 million respectively.

Capital risk

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Although the Company is in a deficit position, the value of its significant subsidiary exceeds the carrying value.

In order to maintain or adjust this capital structure, the Company may issue new shares, adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt.

The Company defines capital as capital and reserves and non-current borrowings.

The Company is not subject to externally imposed capital requirements. There were no changes to the Company's approach to capital management during the year.

Fair value measurement

For all short-term financial assets and liabilities, the carrying amount is regarded as an approximation of the fair value.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

	Computer equipment R'000	Furniture and fittings R'000	Motor vehicles R'000	Office equipment R'000	Leasehold improve- ments R'000	Total R'000
3. Property and equipment						
Year ended 31 May 2016						
Opening carrying amount	161	214	453	94	9 989	10 911
Additions	107	40	704	2	—	853
Disposals	(15)	—	(241)	—	—	(256)
Depreciation charge	(93)	(166)	(187)	(32)	(5 712)	(6 190)
Closing carrying amount	160	88	729	64	4 277	5 318
At 31 May 2016						
Cost	1 107	2 123	1 277	2 431	39 008	45 946
Accumulated depreciation	(947)	(2 035)	(548)	(2 367)	(34 731)	(40 628)
Carrying amount	160	88	729	64	4 277	5 318
Year ended 31 May 2015						
Opening carrying amount	92	388	620	111	15 705	16 916
Additions	131	20	66	93	—	310
Disposals	—	—	—	—	—	—
Depreciation charge	(62)	(194)	(233)	(110)	(5 716)	(6 315)
Closing carrying amount	161	214	453	94	9 989	10 911
At 31 May 2015						
Cost	1 017	2 083	1 261	2 430	39 008	45 799
Accumulated depreciation	(856)	(1 869)	(808)	(2 336)	(29 019)	(34 888)
Carrying amount	161	214	453	94	9 989	10 911

There are no property and equipment assets that are encumbered.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

	Computer software R'000	Other R'000	Total R'000
4. Intangible assets			
Year ended 31 May 2016			
Opening carrying amount	34	35	69
Additions	8	—	8
Disposals	(4)	—	(4)
Amortisation charge	(19)	(35)	(54)
Closing carrying amount	19	—	19
At 31 May 2016			
Cost	2 606	700	3 306
Accumulated amortisation	(2 587)	(700)	(3 287)
Carrying amount	19	—	19
Year ended 31 May 2015			
Opening carrying amount	78	175	253
Additions	19	—	19
Amortisation charge	(63)	(140)	(203)
Closing carrying amount	34	35	69
At 31 May 2015			
Cost	2 606	700	3 306
Accumulated amortisation	(2 572)	(665)	(3 237)
Carrying amount	34	35	69

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

	2016 R'000	2015 R'000
5. Deferred taxation		
At the beginning of the year	(4 058)	(6 737)
Credited/(charged) to the statement of comprehensive income:		
Provisions	(1 736)	(5 876)
Tax losses	655	5 355
Capital allowances	(49)	(49)
Equity compensation benefit	(1 639)	3 237
Unrealised foreign exchange	7 018	2 930
Other	1 653	(2 918)
At the end of the year	1 844	(4 058)
Deferred taxation comprises:		
Provisions	(8 553)	(6 817)
Tax losses	(2 111)	(2 766)
Capital allowances	38	87
Equity compensation benefit	4 847	6 486
Unrealised foreign exchange	9 766	2 748
Other	(2 143)	(3 796)
	1 844	(4 058)
The analysis of deferred tax assets and deferred tax liabilities is as follows:		
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	—	3 398
Deferred tax assets to be recovered within 12 months	—	(7 456)
	—	(4 058)
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	10 205	—
Deferred tax liabilities to be recovered within 12 months	(8 361)	—
	1 844	—
Net deferred tax liability/(asset)	1 844	(4 058)

Where deferred tax assets have been recognised, a formal process of assessment of the future profitability of the Company has been performed based on detailed budgets and cash flow forecasts. As a result, management believes that the current tax losses will be utilised within one to five years. There are no unrecognised tax losses in the current year (2015: Rnil).

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

	2016 R'000	2015 R'000
6. Investments in Group companies and related loans		
6.1 Investments in and loans to subsidiaries		
Shares at cost less amounts written off	3 390 958	3 240 227
Non-current loans owing by subsidiaries less amounts written off	160 560	—
Current loans owing by subsidiaries less amounts written off	976	976
	3 552 494	3 241 203

In the current year Velociti Proprietary Limited was disposed of. Refer to note 2.2 of the Group annual financial statements.

Details are reflected below:

	Shares at cost	Loans owing by subsidiaries R'000	Provision for impairment R'000
2016			
Activi Deployment Services Proprietary Limited	5 060	—	—
Africa Prepaid Services Proprietary Limited	61 520	90 394	(151 914)
Africa Prepaid Services Nigeria Limited	14 000	28 740	(42 740)
Blue Label Distribution Proprietary Limited**	194 000	—	—
Blue Label One Proprietary Limited	40 000	—	—
BLT USA Inc.	307	—	—
Budding Trade Proprietary Limited**	6 000	—	—
Cellfind SA Proprietary Limited	290 000	—	—
Cigicell Proprietary Limited	295	—	—
Datacel Direct Proprietary Limited	150 000	—	—
Gold Label Investments Proprietary Limited	137 816	256 245***	(121 148)
Kwikpay SA Proprietary Limited**	22 500	—	—
Panacea Mobile Proprietary Limited	27 480	—	—
Simigenix Proprietary Limited	*	—	—
The Post Paid Company Proprietary Limited**	1 500	—	—
The Prepaid Company Proprietary Limited**	2 150 215	—	—
TicketPros Proprietary Limited**	14 700	—	—
Transaction Junction Proprietary Limited	4 200	—	—
Uninex Proprietary Limited	*	976	—
Ventury Group Proprietary Limited**	98 406	—	—
Viamedia Proprietary Limited	229 158	—	—
Virtual Voucher Proprietary Limited**	44 784	—	—
	3 491 941	376 355	(315 802)

* Less than R1 000.

** These investments have been pledged as security to Investec Bank Limited in terms of the facility. For details on percentage held, country of incorporation and issued shares, refer to note 2.4 in the Group notes. Refer to notes 15 and 21 for details on impairments.

*** This loan in substance forms part of the Company's investment into Gold Label Investments Proprietary Limited. Refer to note 21 for the terms of these loans.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

6. Investments in Group companies and related loans continued

6.1 Investments in and loans to subsidiaries continued

	Shares at cost	Loans owing by subsidiaries R'000	Provision for impairment R'000
2015			
Activi Deployment Services Proprietary Limited	5 060	—	—
Africa Prepaid Services Proprietary Limited	61 520	87 898	(149 418)
Africa Prepaid Services Nigeria Limited	14 000	28 740	(42 740)
Blue Label Distribution Proprietary Limited**	194 000	—	—
Blue Label Investments Proprietary Limited	108 416	—	—
Blue Label One Proprietary Limited	40 000	—	—
BLT USA Inc.	307	—	—
Budding Trade Proprietary Limited**	6 000	—	—
Cellfind SA Proprietary Limited	290 000	—	(141 841)
Cigicell Proprietary Limited	295	—	—
Datacel Direct Proprietary Limited	150 000	—	(16 073)
Gold Label Investments Proprietary Limited	29 400	95 683	(121 148)
Kwikpay SA Proprietary Limited**	22 500	—	—
Matragon Proprietary Limited**	*	—	—
Panacea Mobile Proprietary Limited	27 480	—	—
Simigenix Proprietary Limited	*	—	—
The Post Paid Company Proprietary Limited**	1 500	—	—
The Prepaid Company Proprietary Limited**	2 150 215	—	—
TicketPros Proprietary Limited**	14 700	—	—
Transaction Junction Proprietary Limited	4 200	—	—
Uninex Proprietary Limited	*	976	—
Velociti Proprietary Limited	7 185	—	—
Ventury Group Proprietary Limited**	98 406	—	—
Viamedia Proprietary Limited	229 158	—	—
Virtual Voucher Proprietary Limited**	44 784	—	—
	3 499 126	213 297	(471 220)

* Less than R1 000.

** These investments have been pledged as security to Investec Bank Limited in terms of the facility. For details on percentage held, country of incorporation and issued shares, refer to note 2.4 in the Group notes. Refer to notes 15 and 21 for details on impairments.

All loans are interest-free and repayable on demand.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

6. Investments in Group companies and related loans continued

6.2 Investments in and loans to joint ventures and associates

	2016 R'000	2015 R'000
Investments in and loans to joint ventures and associates		
Shares as at the beginning of the year	304 175	254 142
Acquisition of joint venture and associate	42 654	50 033
Shares as at the end of the year	346 829	304 175
Loans at the beginning of the year	—	1 054
Loan granted to joint venture capitalised	—	(50 033)
Loans granted to joint venture	—	48 979
Loans at the end of the year	—	—
Closing net book value	346 829	304 175

There was no impairment of investment in joint ventures. The terminal growth rate applied was 3.5% (2015: 3.5%). The weighted average cost of capital used to discount these cash flows was 16.44% (2015: 18.46%). The discount rates used are post-tax and reflect specific risks relating to the relevant companies.

The discount rate used when calculating the value-in-use calculations would need to be increased by 13% before any impairments would need to be recognised. Refer to note 2.1. of the Group annual financial statements.

Shares in associate and joint venture acquired during the current year:

		Date acquired	Country of incorporation	Percentage interest acquired
Blue Label Mexico S.A. de C.V.	Joint venture	1 September 2015	Mexico	0.92
Banosign Proprietary Limited	Joint venture	1 April 2016	South Africa	50.1

Refer to note 2.1 of the Group financial statements for details of other associates held directly by the Company.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

6. Investments in Group companies and related loans continued

6.2 Investments in and loans to joint ventures and associates continued

	Assets R'000	Liabilities R'000	Revenues R'000	Loss R'000
2016				
Blue Label Mexico S.A. de C.V.	338 163	129 495	4 016 614	(130 024)
Lornanox Proprietary Limited	152 196	97 626	149 044	(11 389)
Banosign Proprietary Limited	5 474	6 238	2 414	(764)
2015				
Blue Label Mexico S.A. de C.V.	334 270	94 773	3 526 421	(186 156)
Lornanox Proprietary Limited	—	—	—	—

	2016 R'000	2015 R'000
7. Loan receivable		
Interest-bearing loan receivable	115 678	80 672
	115 678	80 672

Interest-bearing loans earn interest at 10% per annum.

The loans receivable are neither past due nor impaired with a low risk of default. Loan receivable balance is from a related party (refer to note 21).

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

	2016 R'000	2015 R'000
8. Trade and other receivables		
Sundry debtors	889	26
Prepayments	42	591
Amounts due from related parties (refer to note 21)	5 329	3 592
	6 260	4 209

The ageing of trade receivables, including amounts due from related parties, at the reporting date is as follows:

	Gross R'000	Impairment R'000	Net R'000
31 May 2016			
Fully performing	5 329	—	5 329
Past due by one to 30 days	—	—	—
Past due by 31 to 60 days	—	—	—
Past due by 61 to 90 days	—	—	—
Past due by more than 90 days	—	—	—
	5 329	—	5 329
31 May 2015			
Fully performing	3 592	—	3 592
Past due by one to 30 days	—	—	—
Past due by 31 to 60 days	—	—	—
Past due by 61 to 90 days	—	—	—
Past due by more than 90 days	—	—	—
	3 592	—	3 592

Based on the financial performance of the relevant debtors, management does not consider there to be any indications of potential default in respect of the fully performing book.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

	2016 R'000	2015 R'000
9. Cash and cash equivalents		
Cash at bank	1 303	2 283
	1 303	2 283

	2016 Number of shares	2015 Number of shares	2016 R'000	2015 R'000
10. Share capital				
Authorised				
Total authorised share capital of ordinary shares (par value of R0.000001 each)	1 000 000 000	1 000 000 000	1	1
Issued				
Balance at the beginning of the year	665 463 346	663 896 358	*	*
Shares acquired during the year	(2 383 471)	(2 252 420)	*	*
Shares vested during the year – Blue Label Telecoms Limited	1 288 836	1 811 995	*	*
Shares vested during the year – Blue Label Telecoms Limited subsidiaries	1 874 523	2 007 413	*	*
Balance at the end of the year	666 243 234	665 463 346	*	*

* Less than R1 000.

All issued shares are fully paid up.

The total number of shares in issue, including shares held as treasury shares as at 31 May 2016, is 674 509 042 (2015: 674 509 042).

The Company acquired 2 383 471 (2015: 2 252 420) shares at an average price of R9.67 (2015: R8.49) on the JSE in order to grant forfeitable shares to employees and directors as part of the Group's forfeitable share plan.

The amount paid to acquire these shares was R23 052 001 (2015: R19 131 983) and has been deducted from shareholders' equity.

These shares are held as treasury shares. Refer to note 11 for details on the forfeitable shares.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

11. Equity compensation benefit

Forfeitable shares

During the year 920 592 (2015: 1 261 973) forfeitable shares were granted to executive directors and qualifying employees (participant). The participant will forfeit the forfeitable shares if he/she ceases to be an employee of an employer company before the vesting date or if the specified performance conditions have not been met, unless otherwise specified by the rules or determined by the Board. In the event that the participant is not in the employ of the Group, or the performance conditions are not met, the shares allocated to the participant will be forfeited and will either be sold on the open market by the escrow agent and the proceeds will be returned to the participating employer, or may be retained by the Group for future awards.

Dividends declared in respect of these forfeitable shares are held in escrow until such time as the performance conditions are met and the shares have vested. Shares forfeited during the vesting period will forfeit any dividends pertaining to such shares. A dividend of 31 cents (2015: 27 cents) per ordinary share was declared on 18 August 2015 (2015: 19 August 2014).

The performance condition of the forfeitable shares for the fifth, sixth, seventh and eighth award vesting on 31 August 2015, 31 August 2016, 31 August 2017 and 31 August 2018 respectively are as follows:

- 40% of the awards are allocated towards retention. In order to receive this portion of the allocation the employee is required to be employed within the Group at the vesting date.
- 60% of the awards are allocated on the basis of 50% for growth in core headline earnings per share and 10% for shareholder returns.

The 50% for growth in core headline earnings will be based on the following achievements:

- If growth is 5% above CPI over three years, 20% of the 50% will vest.
- If growth is 10% above CPI over three years, an additional 50% (i.e. a total of 70%) of the 50% will vest.
- If growth is 25% above CPI over three years, a further 30% (i.e. a total of 100%) of the 50% will vest.

The 10% for shareholder return will be based on a 10% compounded growth in the share price over the three-year vesting period measured with reference to the weighted average price per share during the month of the commencement of the allocation and the weighted average share price for the month during which the vesting takes place, plus dividends over the three-year period.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

11. Equity compensation benefit continued

Movements in the number of forfeitable shares outstanding during the year are as follows:

	Grant date	Vesting date	Number of shares	Fair value of grant
At 31 May 2014			4 241 011	26 779
Fourth award			1 811 995	8 154
Fifth award			1 288 836	8 648
Sixth award			1 140 180	9 977
Granted during the year			1 261 973	11 232
Seventh award	3 September 2014	31 August 2017	1 261 973	11 232
Shares vested during the year			(1 811 995)	(8 154)
Fourth award		31 August 2014	(1 811 995)	(8 154)
At 31 May 2015			3 690 989	29 857
Fifth award			1 288 836	8 648
Sixth award			1 140 180	9 977
Seventh award			1 261 973	11 232
Shares forfeited during the year			(468 086)	(4 132)
Sixth award			(229 214)	(2 006)
Seventh award			(238 872)	(2 126)
Granted during the year			920 592	9 362
Eighth award	1 September 2015	31 August 2018	920 592	9 362
Shares vested during the year			(1 288 836)	(8 648)
Fifth award		31 August 2015	(1 288 836)	(8 648)
At 31 May 2016			2 854 659	26 439
Sixth award			910 966	7 971
Seventh award			1 023 101	9 106
Eighth award			920 592	9 362

Refer to note 14 for the expense recognised in the statement of comprehensive income relating to the equity compensation benefits.

The fair value of the shares is based on the open market closing price at grant date.

The total number of forfeitable shares issued to Executive Directors during the period is 664 875 (2015: 955 617).

The share-based payment expense in relation to these Executive Directors is R5.7 million (2015: R8.9 million).

Included in this is R1.4 million (2015: R659 000) paid by subsidiaries.

Refer to note 5.3 of the Group annual financial statements for details per Director.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

	2016 R'000	2015 R'000
12. Trade and other payables		
Trade payables	681	726
Accruals	8 552	4 520
Employee benefits	30 436	26 620
Sundry creditors	4 008	4 843
Contingent consideration (refer to note 2)	68 232	93 280
VAT	708	983
Payables to related parties (refer to note 21)	56	3 854
	112 673	134 826
<i>Less: Amounts included in current portion of trade and other payables</i>	90 999	44 705
	21 674	90 121
13. Loans from subsidiaries		
Blue Label Investments Proprietary Limited	—	3 638
The Prepaid Company Proprietary Limited	1 135 399	703 253
Ventury Group Proprietary Limited	48 000	48 000
	1 183 399	754 891
Refer to note 21 for terms of these loans.		
14. Employee compensation and benefit expense		
Salaries and wages	48 701	48 416
Bonuses	29 399	24 753
Equity compensation benefit	8 241	11 274
Other	227	743
	86 568	85 186
The average number of employees for the year is 32 (2015: 34).		

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

	2016 R'000	2015 R'000
15. Operating profit		
The following items have been charged/(credited), in arriving at operating profit/(loss):		
Acquisition-related costs	21 639	1 971
Audit fees – other	134	128
Audit fees – services as auditors	7 355	3 962
Consulting fees	6 882	9 909
Dividend received**	(9 821)	—
Foreign exchange profit**	(26 049)	(10 559)
Contingent purchase price release (refer to note 2)	(30 924)	(923)
Impairment of loans and investments*	2 496	23 484
Reversal of impairment of loans and investments	(157 914)#	(53 927)***
Insurance	899	890
Legal fees	198	914
Management fees received**	(109 499)	(108 272)
Operating lease rentals – premises	(897)	(1 298)
Rental paid	13 507	12 358
Rental recovery	(14 404)	(13 656)
Overseas travel	2 166	2 266
Loss/(profit) on disposal of property, plant and equipment**	4	(1)
(Profit)/loss on disposal of subsidiary	(900)	334

* An impairment loss of R2.5 million (2015: R23.5 million) was recognised in the current year relating to the impairment of a related party loan in line with our stated accounting policies (refer to note 21). The related-party loan has been fully impaired due to the continuing trading losses in these entities which are not considered to be immediately recoverable.

** Included in other income. Refer to note 21.

*** The reversal of impairment relates to the loan to Gold Label Investments Proprietary Limited (Gold Label). The reversal arose due to Gold Label repaying a portion of the loan previously impaired.

The reversal of impairment relates to the investment in Cellfind SA Proprietary Limited of R141.8 million and the investment in Datacel Direct Proprietary Limited of R16.1 million. The reversal arose due to the impairment indicators of these assets no longer being applicable. Value-in-use calculations were performed on these assets and their provisions for impairment reversed. Refer to note 4.1 of the Group financial statements.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

	2016 R'000	2015 R'000
16. Finance costs and finance income		
Finance costs		
– Bank	6	1
– Unwinding of contingent purchase price	7 806	6 277
– Other	—	6
	7 812	6 284
Finance income		
– Bank	(327)	(210)
– Loans	(9 940)	(11 586)
	(10 267)	(11 797)
Net finance income	(2 455)	(5 513)
17. Taxation		
Current tax	—	—
Current year	—	—
Adjustment in respect of prior year	—	—
Deferred tax	5 902	2 679
Current year	6 241	2 608
Adjustment in respect of prior year	(339)	71
	5 902	2 679
Tax rate reconciliation		
Net profit before tax	185 948	47 944
Tax at 28%	52 065	13 424
Income not subject to tax	(2 749)	(51)
Income of a capital nature	—	(6 219)
Fair value adjustments	(6 473)	1 500
Impairment reversal	(44 216)	(8 524)
Expenditure not deductible for tax purposes	1 212	684
Expenditure of a capital nature	6 654	1 794
Adjustment in respect of prior year	(339)	71
Capital gains tax	(252)	—
	5 902	2 679
Effective tax rate	3%	6%

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

	2016 R'000	2015 R'000
18. Cash (utilised)/generated by operations		
Reconciliation of operating loss to cash flows from operating activities		
Operating profit	183 493	42 431
Adjustments for:		
Dividends received	(3 598)	—
Depreciation of property and equipment	6 190	6 315
Amortisation on intangible assets	54	203
Impairment of loans and investments	2 496	23 484
Reversal of impairment of loans and investments	(157 914)	(53 927)
Loss/(profit) on disposal of property, plant and equipment	4	(1)
(Profit)/loss on disposal of subsidiaries	(900)	334
Equity compensation benefit expense	8 241	11 274
Net unrealised foreign exchange profit	(25 066)	(10 503)
Changes in working capital:		
Increase in trade and other receivables	(2 051)	(1 742)
(Decrease)/increase in trade and other payables	(20 222)	29 965
	(9 273)	47 833
19. Taxation paid		
Balance outstanding at the beginning of the year	271	377
Taxation charge	—	—
Balance outstanding at the end of the year	—	(271)
	271	648
20. Commitments		
Future operating lease commitments for:		
Premises		
Payable within one year	12 270	15 195
Payable in two to five years	—	12 270
Payable in greater than five years	—	—
	12 270	27 465

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

21. Related-party transactions

Related-party relationships

For details of subsidiaries and joint ventures, refer to note 2.1 in the Group notes.

For details of the Company's Directors, refer to the Directors' report.

ZOK Cellular Proprietary Limited, BSC Technologies Proprietary Limited, Black Ginger 59 Proprietary Limited, Moneyline 311 Proprietary Limited, aloeCap Proprietary Limited, Stylco Proprietary Limited, Wildekrans Wine Estate Proprietary Limited, Stax Technologies Proprietary Limited, and Ellerine Bros. Proprietary Limited are related parties due to Directors' shareholdings and the companies having certain common directorships.

For details of the shareholdings in the Company, refer to the Directors' report.

For details of emoluments to Directors, refer to note 5.3 of the Group annual financial statements and remuneration report. The Executive Directors of the Company are regarded as key management.

The following transactions were carried out with related parties:

	2016 R'000	2015 R'000
Purchases from related parties		
Black Ginger 59 Proprietary Limited	3 906	6 659
Blue Label Distribution Proprietary Limited	881	—
Cellfind SA Proprietary Limited	—	15
Stax Technologies Proprietary Limited	—	144
Stylco Proprietary Limited	50	50
Ticketpros Proprietary Limited	24	—
ZOK Cellular Proprietary Limited	—	11
Interest received from related parties		
Africa Prepaid Services Proprietary Limited	—	3 128
Africa Prepaid Services Nigeria Limited	—	1 286
2DFine Holdings Mauritius	9 940	7 135
Blue Label Mexico S.A. de C.V.	—	(18)
Management fees received from related parties		
Activi Deployment Services Proprietary Limited	117	106
Blue Label Distribution Proprietary Limited	4 046	3 678
Blue Label One Proprietary Limited	594	540
Cellfind SA Proprietary Limited	4 209	3 827
Cigicell Proprietary Limited	3 625	3 295
Datacel Direct Proprietary Limited	792	720
The Prepaid Company Proprietary Limited	96 000	96 000
Transaction Junction Proprietary Limited	117	106
Management fees paid to related parties		
Blue Label Distribution Proprietary Limited	718	—
Rent received from related parties		
Black Ginger 59 Proprietary Limited	14 404	13 866
Rent paid to related parties		
Ellerine Bros. Proprietary Limited	7 597	6 875
Moneyline 311 Proprietary Limited	7 597	6 875

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

continued

For the year ended 31 May 2016

21. Related-party transactions continued

Related-party relationships continued

	2016 R'000	2015 R'000
Impairment of related party loans		
Africa Prepaid Services Proprietary Limited	2 496	12 254
Africa Prepaid Services Nigeria Limited	—	11 231
Cellfind SA Proprietary Limited	(141 841)	—
Datacel Direct Proprietary Limited	(16 073)	—
Gold Label Investments Proprietary Limited	—	(53 927)
Loans to related parties		
Gold Label Investments Proprietary Limited*	160 560	—
<i>Loan is interest free.</i>		
2DFine Holdings Mauritius	115 678	80 672
<i>Loan is repayable on demand and bears interest at 10% per annum.</i>		
Uninex Proprietary Limited	976	976
<i>Loan is repayable on demand and is interest-free.</i>		
Loans from related parties		
Blue Label Investments Proprietary Limited	—	3 638
<i>Loan is repayable on demand and is interest-free.</i>		
The Prepaid Company Proprietary Limited	1 135 399	703 253
<i>Loan is repayable on demand and is interest-free.</i>		
Ventury Group Proprietary Limited	48 000	48 000
<i>Loan is repayable on demand and is interest-free.</i>		
Amounts due from related parties included in trade receivables		
Blue Label Distribution Proprietary Limited	978	—
Black Ginger 59 Proprietary Limited	4 351	3 592
	5 329	3 592
Amounts due to related parties included in trade payables		
Black Ginger 59 Proprietary Limited	—	1 745
Cellfind SA Proprietary Limited	56	—
Moneyline 311 Proprietary Limited	—	2 110
	56	3 855

* Carrying value after provision for impairment.

ANNEXURE TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

For the year ended 31 May 2016

Shareholder analysis

Shareholder spread	Number of shareholdings	%	Number of shares	%
1 – 1 000 shares	767	32.83	340 220	0.05
1 001 – 10 000 shares	962	41.18	3 502 312	0.52
10 001 – 100 000 shares	342	14.64	12 061 420	1.79
100 001 – 1 000 000 shares	181	7.75	63 723 702	9.45
1 000 001 shares and over	84	3.60	594 881 388	88.19
Totals	2 336	100.00	674 509 042	100.00
Distribution of shareholders				
Banks	49	2.10	83 926 458	12.44
Close corporations	27	1.16	273 234	0.04
Empowerment	1	0.04	6 863	0.00
Endowment funds	18	0.77	1 875 582	0.28
Individuals	1 769	75.73	144 703 959	21.45
Insurance companies	24	1.03	13 226 946	1.96
Investment companies	8	0.34	13 388 324	1.98
Medical schemes	7	0.30	999 035	0.15
Mutual funds	87	3.72	170 124 195	25.22
Other corporations	10	0.43	47 199	0.01
Private companies	58	2.48	134 813 653	19.99
Public companies	4	0.17	2 413 723	0.36
Retirement funds	117	5.01	64 122 348	9.51
Treasury stock	2	0.09	8 265 808	1.23
Trusts	155	6.64	36 321 715	5.38
Totals	2 336	100.00	674 509 042	100.00
Public/non-public shareholders				
Non-public shareholders	19	0.82	284 521 722	42.18
Directors and associates	16	0.69	176 255 914	26.13
Strategic holdings (more than 10%)	1	0.04	100 000 000	14.83
Treasury stock	2	0.09	8 265 808	1.23
Public shareholders	2 317	99.18	389 987 320	57.82
Totals	2 336	100.00	674 509 042	100.00

ANNEXURE TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

For the year ended 31 May 2016 continued

Shareholder analysis continued

Major holders holding 2% or more (directly or indirectly)	Number of shares	%
Allan Gray and clients	158 536 833	23.50
Shotput Investments Proprietary Limited*	100 000 000	14.83
Levy, BM	84 155 942	12.48
Levy, MS	76 748 533	11.38
36ONE Asset Management	19 531 886	2.90
Old Mutual Investment Group	17 924 061	2.66
Public Investment Corporation	15 627 941	2.32
Dimensional Fund Advisors	15 421 660	2.29
Totals	487 946 856	72.34

* A discretionary trust, of which Kevin Ellerin is one of a number of potential beneficiaries, holds an interest in Shotput Investments Proprietary Limited. The indirect beneficial shareholding of Kevin Ellerin as disclosed per the Directors' Report refers to his effective shareholding in Lucystat Investments Proprietary Limited.

NOTICE OF ANNUAL GENERAL MEETING

COPY TO BE SUPPLIED

NOTICE OF ANNUAL GENERAL MEETING continued

COPY TO BE
SUPPLIED

NOTICE OF ANNUAL GENERAL MEETING continued

**COPY TO BE
SUPPLIED**

NOTICE OF ANNUAL GENERAL MEETING continued

COPY TO BE
SUPPLIED

NOTICE OF ANNUAL GENERAL MEETING continued

**COPY TO BE
SUPPLIED**

NOTICE OF ANNUAL GENERAL MEETING continued

COPY TO BE
SUPPLIED

NOTICE OF ANNUAL GENERAL MEETING continued

COPY TO BE
SUPPLIED

NOTICE OF ANNUAL GENERAL MEETING continued

**COPY TO BE
SUPPLIED**

NOTICE OF ANNUAL GENERAL MEETING continued

**COPY TO BE
SUPPLIED**

FORM OF PROXY

COPY TO BE SUPPLIED

NOTES TO THE FORM OF PROXY

COPY TO BE SUPPLIED

NOTES TO THE FORM OF PROXY continued

**COPY TO BE
SUPPLIED**

NOTES TO THE FORM OF PROXY continued

**COPY TO BE
SUPPLIED**

NOTES TO THE FORM OF PROXY continued

**COPY TO BE
SUPPLIED**

GLOSSARY

COPY TO BE SUPPLIED

GLOSSARY continued

COPY TO BE SUPPLIED

GLOSSARY continued

COPY TO BE SUPPLIED

GLOSSARY continued

COPY TO BE SUPPLIED

GLOSSARY continued

COPY TO BE SUPPLIED

