1. SUMMARY OF ACCOUNTING POLICIES continued

(i) The carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated
(ii) Non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified; and
(iii) Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the parent shareholders' equity in them. Non-controlling interests in the net assets consist of:
  - The amount of those non-controlling interests at the date of the original combination calculated in accordance with IFRS 3; and
  - The non-controlling interest's share of changes in equity since the date of the combination.

OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Chief Financial Officer, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Operating Decision-Maker as the person that makes strategic decisions.

2. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed as follows:

IMPAIRMENT OF GOODWILL

The carrying amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the cash-generating units ("CGU") has been determined based on value-in-use calculation, being the net present value of the discounted cash flows of the CGU less the tangible net asset value of that CGU. Details of the main assumptions applied in determining the net present value of the CGU are provided in note 8 in these Group Annual Financial Statements.

CARRYING VALUE OF TANGIBLE AND INTANGIBLE ASSETS

The Group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors.

The carrying amount of tangible and intangible assets at 30 June 2016 was R189 million (June 2015: R103 million) and R1389 million (June 2015: R744 million) respectively

GOODWILL AND CUSTOMER RELATIONSHIPS ON THE PURCHASE OF PHARMACY DIRECT, CURASANA WHOLESALER AND GLEN EDEN TRADING 58

The Group acquired Pharmacy Direct, Curasana Wholesaler and Glen Eden Trading 58 as part of the WAD transaction. As part of the purchase price allocation the Group has identified intangible assets in the new entities being customer relationships (R89.4 million) and goodwill (R473.9 million).

The fair value of the customer relationships have been determined by using budgeted free cash flows over the remaining length of the customer relationships (10 years). The free cash flows are based on the entities budgeted profit after tax.

For further details and main assumptions please refer to Note 4 and 8 in these Group Annual Financial Statements.

CONTINGENT CONSIDERATION RELATING TO GLEN EDEN TRADING 58

Under the contingent consideration arrangement, AfroCentric Investment Corporation Limited is required to issue Glen Eden Trading 58 (Proprietary) Limited an additional 26 192 902 shares based on management's best estimate as per the Acquisition of shares agreement. R134.9 million is the estimated fair value of this obligation at year-end. For further details and main assumptions please refer to Note 4, 9.10 and 36 in these Group Annual Financial Statements.

DEFERRED TAX ASSETS

The deferred tax assets include an amount of R66.3 million which relates to carried forward tax losses. Some companies have incurred losses over the past financial years but management have concluded that the deferred tax assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for these companies. In the previous financial periods, AfroCentric and its related subsidiaries have attained their approved business plans and budget targets.

The main contributors to the assessed losses within the Group relate to losses brought forward in AfroCentric Investment Corporation Limited, and a subsidiary being Aid for Aids Management (Pty) Ltd and AfroCentric Health (Pty) Limited.

The assessed losses brought forward in AfroCentric Investment Corporation Limited, Aid for Aids Management (Pty) Ltd and AfroCentric Health (Pty) Limited are expected to be utilised on an annual basis going forward. This is due to the change in approach to the deductibility of expenses against taxable income in AfroCentric Investment Corporation and the expectation that Aid for Aids Management (Pty) Ltd and AfroCentric Health (Pty) Limited will be generating taxable profits in the foreseeable future.

Although Helios IT Solutions, another subsidiary of AfroCentric Investment Corporation Limited, have also declared an assessed loss for the 2016 financial year, it is expected that the assessed losses will decrease in future years of assessment due to the reduction of exempt income within the entity.

IMPAIRMENT OF SAPLING TRADE AND INVEST (PROPRIETARY) LIMITED

As part of the purchase price allocation of the Sapling Trade and Invest 41 (Proprietary) Limited transaction in September 2012, the Group identified the following intangible assets:

- Contractual customer relationships
- Goodwill

However, in 2014 the sole income generating contract with the primary client was prematurely terminated resulting in no foreseeable future income.

This has resulted in the full impairment of the contractual customer relationship intangible asset (R17.52 million) and goodwill (R23.1 million) in the 2015 financial year.

CONTINGENCIES

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events as disclosed in Note 32.

CONTINGENT LITIGATION LIABILITY

The contingent liabilities which remained after the purchase price of the AfroCentric Health (Pty) Limited acquisition was settled, have been determined by the Directors using the maximum loss and the probability of these contingencies materialising at the date of acquisition as indicated as follows:

	Maximum loss R'000	Probability %	Fair value R'000
2016			
Neil Harvey & Associates	**83 500**	**10%**	**8 350**
	83 500	**10%**	**8 350**
2015			
Neil Harvey & Associates	83 500	10%	8 350
	83 500	10%	8 350

	June 2016 R'000	June 2015 R'000
Carrying amount of contingent litigation liability at the beginning of year	**8 350**	8 350
Fair value adjustments	**–**	–
Carrying amount of contingent litigation liability at the end of period	**8 350**	8 350

The contingent litigation liability is disclosed under 'Provisions', note 18.