2. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS CONTINUED

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 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 2017 was R212 million (June 2016: R189 million) and R1 464 million (June 2016: R1 389 million) respectively.

Goodwill and customer relationships on the purchase of Pharmacy Direct, Curasana Wholesaler and Glen Eden Trading 58

In the 2016 financial year, 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 entities being customer relationships (R89.4 million) and goodwill (R473.9 million).

The fair value of the customer relationships has 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 Notes 4 and 8 in these Annual Financial Statements.

Contingent consideration relating to Glen Eden Trading 58

Under the contingent consideration arrangement, AfroCentric Investment Corporation Limited is required to issue WAD Holdings Proprietary Limited an additional 31 366 977 (June 2016: 26 192 902) shares based on management's best estimate as per the Acquisition of Shares agreement. R194.5 million (June 2016: R134.9 million) is the estimated fair value of this obligation at year-end. WAD Holdings Proprietary Limited has now elected to receive the contingent consideration in cash and not shares. For further details and main assumptions please refer to Notes 4, 9.8 and 34 in these Annual Financial Statements.

Deferred tax assets

The deferred tax assets include an amount of R36.4 million which relates to carried forward tax losses. Some companies have incurred losses over the past financial years, but management has 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 Proprietary Limited and AfroCentric Health Limited.

The assessed losses brought forward in AfroCentric Investment Corporation Limited, Aid for Aids Management Proprietary Limited and AfroCentric Health 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 Limited and the expectation that Aid for Aids Management Proprietary Limited and AfroCentric Health Limited will be generating taxable profits in the foreseeable future.

Although Helios IT Solutions, another subsidiary of AfroCentric Investment Corporation Limited, has also declared an assessed loss for the 2017 financial year, for which a deferred tax asset has been raised, 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 IE Business Insight Strategic Consulting Proprietary Limited

IE Business Insight Strategic Consulting Proprietary Limited is a 100% subsidiary of AfroCentric Distribution Services Proprietary Limited.

The full impairment of the Investment in IE Business Insight Strategic Consulting Proprietary Limited (R12.67 million) and goodwill (R16.64 million) occurred in the current financial year due to the business ceasing operations.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

2. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS CONTINUED

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 31.

Litigation liability

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

	Maximum loss R'000	Potential impact %	Fair value R'000
2017			
Neil Harvey & Associates	**83 500**	**10%**	**8 350**
	83 500	**10%**	**8 350**
2016			
Neil Harvey & Associates	83 500	10%	8 350
	83 500	10%	8 350

	June 2017 R'000	June 2016 R'000
Carrying amount of litigation liability at the beginning of the year	**8 350**	8 350
Fair value adjustments	**–**	–
Carrying amount of litigation liability at the end of the year	**8 350**	8 350

The litigation liability is disclosed under 'Provisions' (Note 17).

3. FINANCIAL RISK MANAGEMENT

General

Risk management is a priority issue because it affects every part of the business. It is a pre-emptive process that allows the Group and Company to assess and analyse risk in an integrated fashion, identify potential areas in advance and then proactively create processes and measures for compliance.

Fundamentally, the Board's responsibility in managing risk is to protect the Group's employees, stakeholders and the Group in every facet. It fully accepts overall responsibility for risk management and internal control and in so doing the Board has deployed effective control mechanisms to prevent and mitigate the impact of risk.

Primary responsibility for risk management at an operational level rests with the Executive Committee. Management and various specialist Committees are tasked with integrating the management of risk into the day-to-day activities of the Group and Company. Refer to the Corporate Governance statement in the Annual Integrated Report for more detail regarding the Committees involved in risk management.

The Healthcare and Administration business activities are exposed to a variety of financial risks:
- Market risk
- Credit risk
- Liquidity risk

The Group's and Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Refer to Note 9 for classes of financial assets and liabilities.