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.

3. FINANCIAL RISK MANAGEMENT CONTINUED

Market risk

Currency risk

Currency risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the Group's functional currency.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The Group is not exposed to any currency risk in relation to its foreign operations in Namibia and Swaziland as the currencies of these countries are fixed to the South African Rand.

The most significant exposure is to the Mauritian Rupee and US Dollar as a result of translation risk. The impact of currency risk on the statement of other comprehensive income amounted to a profit/(loss) (foreign currency gains/(losses)) of -R3.573 million (June 2016: R4.823 million).

At 30 June 2017, if the currency had weakened/strengthened by 10% against the Mauritian Rupee with all other variables held constant, post-tax profit for the year would have been R446 164 lower/higher, mainly as a result of foreign exchange gains/losses on translation of the Mauritian operations.

At 30 June 2017, if the currency had weakened/strengthened by 10% against the Dollar with all other variables held constant, post-tax profit for the year would have been R369 499 lower/higher, mainly as a result of foreign exchange gains/losses on translation of the Zimbabwean operations.

Price risk

The Group and Company is exposed to equity securities price risk due to its investment in Jasco Electronics Holdings Limited. As such, the fair value of the investments is affected by changes in the share price. The Company's own shares are also listed on the Johannesburg Stock Exchange.

Fair value risk

The Group and Company investments in collective share investment schemes are subject to the terms and conditions of the respective collective share investment schemes offering documentation and are susceptible to market price risk arising from uncertainties about future values of those collective share investment schemes. The investment manager makes investment decisions after extensive due diligence of the underlying fund, its strategy and the overall quality of the underlying fund's manager. All of the collective share investment schemes in the investment portfolio are managed by portfolio managers who are compensated by the respective collective share investment schemes for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee and is reflected in the valuation of the Group's investment in each of the collective share investment schemes.

The right of the Group to request redemption of its investments in collective share investment schemes ranges in frequency from weekly to annually.

The exposure to investments in collective share investment schemes at fair value by strategy employed is disclosed in the following table at 30 June 2017. These investments are included in financial assets at fair value through profit or loss in the statement of financial position.

Strategy	Number of collective investment schemes	Net asset value of collective investment schemes R	Investment fair value R
Multi-strategy	6	93 459 098 960	327 718 813

The Group's maximum exposure to loss from its interests in collective share investment schemes is equal to the total fair value of its investments in collective share investment schemes.

Once the Group has disposed of its shares in a collective share investment scheme, it ceases to be exposed to any risk from that collective share investment scheme.

Total purchases in collective share investment schemes during the year ended 30 June 2017 was R35 508 000. As at 30 June 2017 and 30 June 2016, there were no capital commitment obligations and no amounts due to collective share investment schemes for unsettled purchases.

During the year ended 30 June 2017, total net gains on investments in collective share investment schemes were R21 848 669.

To manage the price risk the Group's and Company's investment committee reviews its investments regularly to ensure that the downside price risk is mitigated and assesses the economic environment to make informed decisions.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

3. FINANCIAL RISK MANAGEMENT CONTINUED

Market risk continued

Fair value risk continued

The table below summarises the impact of an increase/decrease of the share price of collective share investment schemes on the post-tax profit of the Group and Company:

Change in percentage share price	Increase on post-tax profit R	Decrease on post-tax profit R
5% increase/(decrease)	14 562 535	(14 562 535)
10% increase/(decrease)	29 125 071	(29 125 071)
15% increase/(decrease)	43 687 606	(43 687 606)

The table below summarises the impact of an increase/decrease of the share price of Jasco Electronics Holdings Limited on the post-tax profit of the Group and Company:

Change in percentage share price	Increase on post-tax profit R	Decrease on post-tax profit R
5% increase/(decrease)	1 814 816	(1 814 816)
10% increase/(decrease)	3 629 631	(3 629 631)
15% increase/(decrease)	5 444 447	(5 444 447)

Cash flow and fair value interest rate risk

The Group does not have any external borrowings and is therefore not exposed to downside interest rate risk.

The Group and Company's interest income arises from interest-bearing instruments and fixed deposits. The Group's Treasury manages excess funds on a daily basis into call/deposit accounts to ensure that the best yield is obtained for the Group.

The Group and Company have used a sensitivity analysis technique that measures the estimated change to the statement of comprehensive income and equity of an instantaneous increase of 1% (100 basis points) in the market interest rates for each class of financial instrument with all other variables remaining constant. The sensitivity analysis excludes the impact of market risks on net post-employment benefit obligations.

	GROUP	COMPANY
Instruments exposed	**Increase in 1% on statement of comprehensive income R'000**	**Increase in 1% on statement of comprehensive income R'000**
June 2017		
Bank balances and short-term investments	**3 982**	**591**
Financial assets at amortised cost	**799**	**799**
Total	**4 781**	**1 390**
June 2016		
Bank borrowings	(461)	–
Bank balances and short-term investments	1 052	604
Financial assets at amortised cost	2 996	2 996
Total	3 587	3 600

Under these assumptions, a 1% increase in market interest rates at 30 June 2017 would increase Group profit before tax by approximately R4 781 000 (June 2016: R3 587 000) and Company profit before tax by approximately R1 390 000 (June 2016: R3 600 000).

Credit risk

Credit risk arises from cash and cash equivalents and other investments, i.e. deposits with banks and financial institutions, as well as credit exposures to clients, including outstanding receivables and committed transactions. The trade and other receivables from the WAD Healthcare Assets acquisition are receivable from medical schemes in 14 days. For banks and financial institutions only independently rated parties with a minimum rating of 'BBB' are accepted (please refer to Note 9.5). If clients do not have an independent rating, risk control assesses the credit quality of the client, taking into account its financial position, past experience and other factors. Credit risk is managed at both the Group and Company levels.

3. FINANCIAL RISK MANAGEMENT CONTINUED

Credit risk continued

A significant portion of the Group and Company's client base comprises high-credit quality financial institutions. The "Healthcare business" has under agreement the authority to draw funds due and payable to it directly from the bank accounts of certain medical schemes using a collection module. Revenue from medical schemes is therefore settled in cash.

No credit limits were exceeded during the reporting period.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities to meet debt repayment and operating requirements. Management monitors the cash position on a daily basis from the Group and Company levels. Due to the dynamic nature of the underlying businesses, management maintains flexibility in funding by keeping committed credit facilities available.

The contingent consideration will be settled by the issuance of shares and as such will not place a liquidity burden on the Group.

Management monitors rolling forecasts of the liquidity reserve on the basis of expected cash flow.

The table below analyses all cash flows from the financial liabilities into the time buckets in which they are contractually due to be paid:

Time buckets applicable to the Group

	GROUP						
	Less than 3 months or on demand R'000	More than 3 months but not exceeding 6 months R'000	More than 6 months but not exceeding 9 months R'000	More than 6 months but not exceeding 1 year R'000	Between 1 to 2 years R'000	Between 2 to 3 years R'000	Total R'000
June 2017							
Trade and other payables	**258 304**	**2 030**	**2 030**	**2 030**	**–**	**–**	**264 394**
June 2016							
Trade and other payables	379 759	1 090	1 090	1 090	–	–	383 029

Time buckets applicable to the Company

	COMPANY						
	Less than 3 months or on demand R'000	More than 3 months but not exceeding 6 months R'000	More than 6 months but not exceeding 9 months R'000	More than 6 months but not exceeding 1 year R'000	Between 1 to 2 years R'000	Between 2 to 3 years R'000	Total R'000
June 2017							
Loans from Group companies	**10 242**	**–**	**–**	**–**	**–**	**–**	**10 242**
Trade and other payables	**3 103**	**5 357**	**5 357**	**5 357**	**–**	**–**	**19 174**
June 2016							
Loans from Group companies	44 477	–	–	–	–	–	44 477
Trade and other payables	1 181	1 986	1 986	1 986	–	–	7 139

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

3. FINANCIAL RISK MANAGEMENT CONTINUED

Liquidity risk continued

The table below analyses all undiscounted cash flows from financial assets into the time buckets that they are contractually due to be received.

Time buckets applicable to the Group

	GROUP						
	Less than 3 months or on demand R'000	More than 3 months but not exceeding 6 months R'000	More than 6 months but not exceeding 9 months R'000	More than 6 months but not exceeding 1 year R'000	Between 1 to 2 years R'000	Between 2 to 3 years R'000	Total R'000
June 2017							
Trade and other receivables*	**265 052**	**15 967**	**15 967**	**23 250**	**–**	**–**	**320 236**
Cash and cash equivalents	**361 738**	**–**	**–**	**–**	**–**	**–**	**361 738**
Financial assets at fair value through profit and loss	**–**	**–**	**276 743**	**–**	**–**	**59 976**	**336 719**
Financial assets at amortised cost	**–**	**79 892**	**–**	**–**	**–**	**–**	**79 892**
June 2016							
Trade and other receivables*	325 550	8 942	8 942	21 570	–	–	365 004
Cash and cash equivalents	373 068	–	–	–	–	–	373 068
Financial assets at fair value through profit and loss	–	–	–	–	–	268 173	268 173
Financial assets at amortised cost	–	–	–	–	143 761	–	143 761

* *This includes pre-payments and deposits. These are not considered 'past due' as no repayment terms are applicable to them.*

The carrying amount of all the financial assets and liabilities approximate the fair value.

Time buckets applicable to the Company

	COMPANY						
	Less than 3 months or on demand R'000	More than 3 months but not exceeding 6 months R'000	More than 6 months but not exceeding 9 months R'000	More than 6 months but not exceeding 1 year R'000	Between 1 to 2 years R'000	Between 2 to 3 years R'000	Total R'000
June 2017							
Trade and other receivables	**280**	**–**	**–**	**–**	**–**	**–**	**280**
Cash and cash equivalents	**22 699**	**–**	**–**	**–**	**–**	**–**	**22 699**
Financial assets at fair value through profit and loss	**–**	**–**	**276 743**	**–**	**–**	**59 976**	**336 719**
Financial assets at amortised cost	**–**	**79 892**	**–**	**–**	**–**	**–**	**79 892**
June 2016							
Trade and other receivables	815	–	–	–	–	–	815
Cash and cash equivalents	145 884	–	–	–	–	–	145 884
Financial assets at fair value through profit and loss	–	–	–	–	–	268 173	268 173
Financial assets at amortised cost	–	–	–	–	143 761	–	143 761

3. FINANCIAL RISK MANAGEMENT CONTINUED

Liquidity risk continued

The accounting policies for the Group's financial instruments have been applied to the line items below:

Description per the statement of financial position

			GROUP		COMPANY	
			June 2017 R'000	June 2016 R'000	June 2017 R'000	June 2016 R'000
	Fair value	Amortised cost	Carrying value		Carrying value	
Loans and receivables						
Trade and other receivables		√	**320 236**	365 004	**280**	815
Cash and cash equivalents		√	**361 738**	373 068	**22 699**	145 884
Financial liabilities						
Trade and other payables		√	**264 394**	383 029	**19 174**	7 139
Contingent consideration	√		**194 475**	134 893	**194 475**	134 893
Deferred payment		√	**5 051**	–	**–**	–

The carrying value of loans and receivables and financial liabilities at amortised cost approximates the fair value, and as a result the fair values have not been disclosed in the fair value hierarchy.

Capital risk management

The objective of the Group and Company when managing capital is to safeguard its 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. The Group is not subject to external capital requirements.

Consistent with others in the industry, the Group and Company monitors cash flow on the basis of the gearing ratio. This ratio is calculated as long-term debt divided by total capital employed. Total capital employed is calculated as 'Equity' as shown in the statement of financial position plus long-term debt. The Group is not subject to long-term debt as it does not have any external capital requirements.

During 2017, the Group and Company's strategy, which was unchanged from 2016, was to maintain the gearing ratio within 0% to 15%.

The gearing ratios at 30 June 2017 and 30 June 2016 respectively are as follows:

	GROUP		COMPANY	
	June 2017 R'000	June 2016 R'000	June 2017 R'000	June 2016 Restated* R'000
Total long-term borrowings	**–**	–	**–**	–
Total equity	**2 379 053**	1 563 582	**678 058**	851 005
Total capital employment	**2 379 053**	1 563 582	**678 058**	851 005
Gearing ratio	**–**	–	**–**	–
Adjusted to include short-term borrowings:				
Total borrowings	**–**	–	**–**	–
Total equity	**2 379 053**	1 563 582	**678 058**	851 005
Total capital employed	**2 379 053**	1 563 582	**678 058**	851 005
Gearing ratio (including short-term borrowings)	**–**	–	**–**	–