NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2018

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 7 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 2018 was R391 million (June 2017: R227 million) and R1 739 million (June 2017: R1 464 million) respectively

Contingent consideration relating to Glen Eden Trading 58

Under the contingent consideration arrangement, AfroCentric Investment Corporation Limited was required to issue WAD Holdings Proprietary Limited an additional 31 366 977 shares based on management's best estimate as per the acquisition of shares agreement. R194.5 million was the estimated fair value of this obligation at the prior financial year-end. WAD Holdings Proprietary Limited elected to receive the contingent consideration in cash and not shares and this was settled in the current financial year. For further details and main assumptions please refer to notes 8.6 and 31 in these Annual Financial Statements.

Deferred tax assets

The deferred tax assets include an amount of R17.2 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 relating to Aid for Aids Management Proprietary Limited, AfroCentric Health Proprietary Limited and Wellworx Proprietary Limited.

The assessed losses brought forward Aid for Aids Management Proprietary Limited, AfroCentric Health Proprietary Limited and Wellworx Proprietary Limited are expected to be utilised on an annual basis going forward. This is due to the expectation that Aid for Aids Management Proprietary Limited, AfroCentric Health Proprietary Limited and Wellworx Proprietary Limited will be generating taxable profits in the foreseeable future.

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 prior financial year due to the business ceasing operations.

2. Critical accounting estimates, 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 28.

Litigation liability

When AfroCentric Investment Corporation Limited acquired AfroCentric Health Limited (AHL), AHL had an at-acquisition contingent liability to the value of R83.5 million. The Directors estimated the fair value of the contingent liability to be R8.4 million, and recognised an at-acquisition liability in line with IFRS 3: Business Combinations.

The fair value was determined by using the maximum loss and the potential impact of this liability materialising at the date of acquisition.

	Fair value R'000
2018	
Neil Harvey & Associates	**8 350**
2017	
Neil Harvey & Associates	8 350

	June 2018 R'000	June 2017 R'000
Carrying amount of litigation liability at the beginning of year	8 350	8 350
Fair value adjustments	–	–
Carrying amount of litigation liability at the end of period	8 350	8 350

The litigation liability is included in the other liabilities amount disclosed in the non-current liabilities section on the face of the statement of financial position on page 20.

3. Financial risk management

General

Risk management is a priority issue because it affects every part of the business. It is pre-emptive process that allows the Group and Company to assess and analyse risk in an integrated fashion, identifying potential areas in advance and then to 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 Executive Committee's involved in risk management.

The healthcare and administration business activities are exposed to a variety of financial risks:
- market risk;
- credit risk; and
- liquidity risk.