

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Financial instruments carried on the statement of financial position include:

Financial assets

- ▶ Loans receivable
- ▶ Loans receivable from associates and joint ventures
- ▶ Trade and other receivables
- ▶ Advances to customers
- ▶ Cash and cash equivalents
- ▶ Financial assets at fair value through profit and loss

Financial liabilities

- ▶ Borrowings
- ▶ Trade and other payables
- ▶ Contingent purchase consideration
- ▶ Put option liability
- ▶ Financial guarantee contracts
- ▶ Financial liabilities at fair value through profit or loss (liquidity support and bond notes)

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are classified as current if expected to be realised within 12 months of the statement of financial position date; if not, they are classified as non-current. Financial liabilities are classified as non-current if the Group has the right to defer settlement beyond 12 months of the statement of financial position date.

The Group classifies financial assets on initial recognition as measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL) on the basis of the Group's business model for managing the financial asset and the cash flow characteristics of the financial asset.

Financial assets are classified as follows:

Measurement category	Criteria
Amortised cost	The asset is held within a business model with the objective to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.
Fair value through profit or loss	Debt investments that do not qualify for measurement at amortised cost or FVOCI (the Group does not currently hold any FVOCI instruments); and equity investments that are held-for-trading.

Financial assets are not reclassified unless the Group changes its business model for managing those financial assets. In rare circumstances where the Group does change its business model, reclassifications are done prospectively from the date that the Group changes its business model.

Financial liabilities are classified as measured at amortised cost except for those derivative liabilities that are measured at FVTPL.

Measurement on initial recognition

All financial assets (unless it is a trade receivable without a significant financing component) and liabilities are initially measured at fair value, including transaction costs, except for those classified as at fair value through profit or loss which are initially measured at fair value excluding transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. A trade receivable without a significant financing component is initially recognised at the transaction price.

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3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

Subsequent measurement

Subsequent to initial recognition, financial instruments are measured as described below.

Category	Subsequent measurement
Financial assets	
Amortised cost	These financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. Where the amortised cost using the effective interest method is materially lower than the fair value, this is separately disclosed.
Fair value through profit or loss	These financial assets are subsequently measured at fair value and changes therein (including any interest or dividend income) are recognised in profit or loss.
Financial liabilities	
Amortised cost	These financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expenses and foreign exchange gains and losses are recognised in profit or loss. Where the amortised cost using the effective interest method is materially more than the fair value, this is separately disclosed.
Fair value through profit or loss	These financial liabilities are subsequently measured at fair value with changes therein recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire. On derecognition of a financial asset/liability, any difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

Impairment

Under IFRS 9 the Group calculates its allowance for credit losses as expected credit losses (ECLs) for financial assets measured at amortised cost. ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the original effective interest rate (EIR) of the financial asset.

To calculate ECLs the Group segments/Groups trade receivables by customer type, as disclosed in the trade and other receivables note (note 3.5.2). The Group applies the simplified approach to determine the ECL for trade and other receivables. This results in calculating lifetime expected credit losses for trade and other receivables. ECLs for trade and other receivables are calculated using a provision matrix. Refer to the credit risk note (note 3.1) for more detail about ECLs and how this is calculated.

ECLs for receivables other than trade receivables have been determined using the general approach in IFRS 9. Under the general approach, an entity calculates expected credit losses for loans and receivables at initial recognition by considering the consequences and probabilities of possible defaults only for the next 12 months, rather than the life of the asset. It continues to apply this method until a significant increase in credit risk has occurred, at which point the loss allowance is measured based on lifetime ECLs.

Financial risk management

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.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

Classes of financial instruments

	2019 R'000	Restated 2018 R'000
Financial assets		
Trade and other receivables*	3 812 824	4 202 518
Cash and cash equivalents	1 385 596	947 888
Loans to associates and joint ventures (refer note 2.1)	26 260	1 202 305
Loans receivable	147 526	206 064
Advances to customers	1 617 097	1 595 010
Financial assets at fair value through profit and loss	204 739	168 144
	7 194 042	8 321 929
Financial liabilities		
Interest-bearing borrowings	3 200 408	2 970 938
Non-interest-bearing borrowings	35 876	170
Trade and other payables*	5 232 241	4 928 352
Put option liability	158 638	97 947
Contingent consideration	1 923	4 559
Financial guarantee contracts	243 492	—
Financial liabilities at fair value through profit and loss	301 716	45 360
Bank overdraft	7 843	—
	9 182 137	8 047 326
Net financial position	(1 988 095)	274 603

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

Reconciliation of financial assets and non-financial assets:

	2019			2018		
	Total R'000	Financial asset R'000	Non- financial asset R'000	Total R'000	Financial asset R'000	Non- financial asset R'000
Loans receivable	232 529	147 526	85 003	261 069	206 064	55 005
Trade and other receivables	4 257 266	3 812 824	444 442	4 315 727	4 202 518	113 209
Advances to customers	1 617 097	1 617 097	—	1 595 010	1 595 010	—
Cash and cash equivalents	1 385 596	1 385 596	—	947 888	947 888	—
Financial assets at fair value through profit and loss	204 739	204 739	—	168 144	168 144	—
Loans to associates and joint ventures	26 260	26 260	—	1 202 305	1 202 305	—
	7 723 487	7 194 042	529 445	8 490 143	8 321 929	168 214

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Reconciliation of financial liabilities and non-financial liabilities:

	2019			2018		
	Total R'000	Financial liability R'000	Non-financial liability R'000	Total R'000	Financial liability R'000	Non-financial liability R'000
Interest-bearing borrowings	3 200 408	3 200 408	—	2 970 938	2 970 938	—
Non-interest-bearing borrowings	35 876	35 876	—	170	170	—
Trade and other payables	5 369 463	5 232 241	137 222	4 986 239	4 928 352	57 887
Contingent consideration	1 923	1 923	—	4 559	4 559	—
Financial guarantee contracts	243 492	243 492	—	—	—	—
Bank overdraft	7 843	7 843	—	—	—	—
Put option liability	158 638	158 638	—	97 947	97 947	—
Financial liabilities at fair value through profit and loss	301 716	301 716	—	45 360	45 360	—
	9 319 359	9 182 137	137 222	8 105 213	8 047 326	57 887

3.1 Credit risk

Credit risk, or the risk of financial loss to the Group due to customers or counterparties not meeting their contractual obligations, is managed through the application of credit approvals, limits and monitoring procedures. The Group is exposed to credit risk on financial assets mainly in respect of those assets detailed in the table below. The carrying amounts of financial assets represent the maximum credit exposure, this exposure is considered without taking into account any collateral and financial guarantees, to be as follows:

	2019 R'000	Restated 2018 R'000
Financial assets		
Trade and other receivables	3 812 824	4 202 518
Cash and cash equivalents	1 385 596	947 888
Loans to associates and joint ventures	26 260	1 202 305*
Loans receivable	147 526	206 064
Advances to customers	1 617 097	1 595 010
	6 989 303	8 153 785

* As a result of the prior year error the Group has restated their comparative financial information. Refer to note 11 for details.