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Annual financial statements

Prominent notice

These annual financial statements have been audited by our external auditor PricewaterhouseCoopers Incorporated in compliance with the applicable requirements of the Companies Act, No 71 of 2008. David Rivkind, financial director, supervised the preparation of the annual financial statements.

DB Rivkind CA(SA)
Financial director

Statement of directors' responsibility

The directors are responsible for the maintenance of adequate accounting records and the preparation, integrity and fair presentation of the group and company financial statements of Blue Label Telecoms Limited. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

The directors consider that having applied IFRS in preparing the group and company financial statements they have selected the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all IFRS statements that they consider to be applicable have been followed.

The directors are satisfied that the information contained in the group and company financial statements fairly presents the results of operations for the year and the financial position of the group at year end. The directors also prepared the other information included in the integrated report and are responsible for both its accuracy and its consistency with the financial statements.

In addition, the directors are responsible for the company's system of internal financial control. This is designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The group and company financial statements have been prepared on the going-concern basis, since the directors have every reason to believe that the group and company have adequate resources in place to continue in operation for the foreseeable future, based on forecasts and available cash resources. These group and company financial statements support the viability of the company and the group.

The group and company financial statements have been audited by the independent auditors, PricewaterhouseCoopers Inc., which was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

Approval of the financial statements

The financial statements which appear on pages 106 to 247 were produced and approved by the board of directors on 18 August 2013 and are signed on their behalf by:

LM Nestadt
Non-executive chairman

DB Rivkind
Financial director

BM Levy
Joint chief executive officer

MS Levy
Joint chief executive officer

Declaration by company secretary

In terms of section 88(2)(e) of the Companies Act, No 71 of 2008 (the Act), I confirm that for the year ended 31 May 2013, Blue Label Telecoms Limited has lodged with the Companies and Intellectual Property Commission all such returns and notices as are required of a public company in terms of the Act and that all such returns and notices are true, correct and up to date.

J van Eden
Company secretary

Sandton
18 August 2013

Report from the Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee (ARCC or the committee) is pleased to present its report for the financial year ended 31 May 2013.

The committee is an independent statutory committee appointed by the shareholders of the company. In addition to its statutory duties the board has delegated further duties to the committee. This report covers both these sets of duties and responsibilities.

Mandate and terms of reference

The committee has adopted comprehensive and formal terms of reference which have been approved by the board and which are reviewed on an annual basis. The responsibilities of the ARCC include the following:

- examining and reviewing the group's financial statements and reporting of interim and final results;
- reviewing and considering, for recommendation to the board, the consolidated budget for the ensuing financial year;
- overseeing integrated reporting;
- overseeing the Internal Risk and Compliance Committee function;
- monitoring the risk management framework and assessing the risks impacting the group's ability to achieve its strategic objectives;
- reviewing and satisfying itself of the expertise, resources and experience of the Blue Label finance function;
- overseeing the internal audit function and internal financial control process;
- recommending the appointment of the external auditor and overseeing the external audit process including their audit fee, independence, nature and extent of any non-audit services; and
- monitoring compliance activities.

Membership and meetings held

In accordance with the requirements of the Act, Messrs JS Mthimunye, GD Harlow, NN Lazarus SC and JS Vilakazi were appointed to the committee by shareholders at the annual general meeting held on 29 November 2012.

Membership of the committee remained unchanged during the year under review, as follows:
JS Mthimunye (independent non-executive chairman)
GD Harlow (independent non-executive director)
NN Lazarus SC (non-executive director), and
JS Vilakazi (independent non-executive director)

The members of the committee collectively have experience in audit, accounting, commerce, economics, law, corporate governance and general industry. All of the members of the ARCC, save for Mr Lazarus SC, are independent non-executive directors. Mr Lazarus SC has specialist professional skills and experience and makes an important contribution to the work of the committee.

The committee meets quarterly and the quorum for each meeting is three members present throughout the meeting. Mandatory attendees at the meetings are the joint chief executive officers, the financial director of Blue Label and the financial director of TPC. The audit partner from PricewaterhouseCoopers Inc. (PwC) and a director from KPMG, to whom Blue Label outsources its internal audit function, are also attendees. Both internal and external auditors are afforded the opportunity to address the meeting and have unlimited access to the chairman of the committee.

During the year, the committee met with the external and internal auditors respectively without the presence of management. The internal audit function reports directly to the ARCC and is also responsible to the financial director on day-to-day administrative matters.

Refer to page for the attendance table of the committee.

Statutory duties discharged

In execution of its statutory duties during the year under review, the committee:

- nominated and recommended to shareholders the re-appointment of PwC as independent external auditors, with Eben Gerryts the audit partner, as the registered independent auditor;
- approved the fees to be paid to PwC and other external auditors, where applicable, and approved the terms of engagement;
- maintained a non-audit services policy which determines the nature and extent of any non-audit services that PwC may provide to the group;
- discharged those statutory duties as prescribed by section 94 of the Act acting in its capacity as the appointed Audit Committee of the subsidiary companies of Blue Label;
- considered the committee's report describing how duties have been discharged; and
- submitted matters to the board concerning the company's accounting policies, financial controls, records and reporting, as appropriate.

Other duties discharged

Financial statements and reporting

The committee:

- monitored compliance with accounting standards and legal requirements and ensured that all regulatory compliance matters had been considered in the preparation of the financial statements;
- reviewed the external auditors' report to the committee and management's responses thereto and made appropriate recommendations to the board of directors regarding actions to be taken;
- reviewed and commented on the annual financial statements, interim reports, paid advertisements, announcements and the accounting policies and recommended these to the board for approval;
- reviewed and recommended to the board for adoption the consolidated budget for the ensuing financial year; and
- considered the going concern status of the company and group on the basis of review of the annual financial statements and the information available to the committee and recommended such going concern status for adoption by the board. The board statement on the going concern status of the group and company is contained on page 100 in the directors' report.

External audit and non-audit services

The ARCC has satisfied itself as to the independence of the external auditor, PwC, as set out in section 94(7) of the Act, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought from and provided by PwC that internal governance processes within the firm support and demonstrate its claim to independence.

To assess the effectiveness of the external auditors, the committee considered PwC's fulfilment of the agreed audit plan and variations from the plan, and the robustness and perceptiveness of PwC in its handling of key accounting treatments and disclosures.

The committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2013 financial year.

Any non-audit services to be provided by the external auditors are governed by a formal written policy which incorporates a monetary delegation of authority in terms of non-audit services to be provided. The non-audit services rendered by the external auditors during the year ended 31 May 2013, comprised tax advisory services, tax compliance services and general advisory services. The fees applicable to the aforementioned services totaled R0.9 million (2012: R1.4 million).

The ARCC has nominated, for approval at the annual general meeting, the re-appointment of PwC as registered auditors for the 2014 financial year and Eben Gerryts, the audit partner, as the independent registered auditor of Blue Label. The committee also satisfied itself that PwC is accredited and appears on the JSE List of Accredited Auditors as contemplated in paragraph 3.86 of the JSE Listings Requirements.

Internal audit and internal controls

The committee:

- reviewed the co-operation and co-ordination between the internal and external audit functions and co-ordinated the formal internal audit work plan with external auditors to avoid duplication of work;
- examined and reviewed the progress made by internal audit against the approved 2012/13 audit plan;
- approved the internal audit plan for the 2013/14 financial year;
- considered the effectiveness of internal audit;
- considered internal audit findings and corrective actions taken in response to such findings; and
- reviewed the effectiveness of the company's systems of internal control, including internal financial control and business risk management.

As recommended by King III, internal audit provides a written assessment on the system of internal control and risk management to the board and a written assessment on internal financial control to the ARCC. The board's report on the effectiveness of the system of internal financial controls is included in the statement of directors' responsibility on page 94 of the report.

Risk management and compliance

The committee:

- reviewed the integrity of the risk control systems and ensured that the risk policies and strategies of the company are effectively managed;
- made recommendations to the board concerning the levels of tolerance and risk appetite;
- monitored bi-annual risk assessments;
- ensured that management considered and implemented appropriate risk responses;
- reviewed the regulatory risk universe of the company and the ongoing implementation of the compliance policy to assess the extent to which the company is managing its compliance risk;
- reviewed legal matters that could have a material impact on the group;
- reviewed the adequacy of the group's insurance cover; and
- reviewed developments in corporate governance and best practice and considered their impact and implications across the group with particular reference to the principles of King III.

The group's strategic objectives and risks are detailed on pages [illegible] to [illegible].

Expertise and experience of the financial director and finance function

The committee considered the appropriateness of the expertise and experience of the financial director and finance function in accordance with the JSE Limited Listings Requirements and governance best practice. The ARCC concluded that the finance function is adequately resourced with technically competent individuals and is effective. The committee confirms that it is satisfied that David Rivkind possesses the appropriate expertise and experience to discharge his responsibilities as financial director.

Financial statements

The committee has reviewed the accounting policies and financial statements of the company and the group and is satisfied that they are appropriate and comply with International Financial Reporting Standards and the requirements of the Act.

The committee recommended the approval of the adoption of the annual financial statements to the board.

The ARCC is satisfied that it complied with its legal, regulatory and other responsibilities as per its terms of reference.

On behalf of the Audit, Risk and Compliance Committee,

JS Mthimunye
Chairman

Sandton
16 August 2013

Directors' report

The directors have pleasure in presenting the group and company annual financial statements of Blue Label Telecoms Limited (Blue Label Telecoms or the company) and its subsidiary, associate and joint venture companies (the group) for the year ended 31 May 2013.

Principal activities and strategy

Blue Label Telecoms' core business is the virtual distribution of secure electronic tokens of value and transactional services across its global footprint of touch points. The group's stated strategy is to extend its global footprint of touch points, both organically and acquisitively, to meet the significant demand for the delivery of multiple prepaid products and services through a single distributor, across various delivery mechanisms and via numerous merchants or vendors.

Financial results

The group recorded a net profit after tax from continuing operations attributable to equity holders for the year ended 31 May 2013 of R425 million (2012: R444 million). The comparative year results included a once-off income receipt of R79.4 million. On exclusion of this receipt the net profit after tax from continued operations attributable to equity holders for that year would have equated to R375 million. Full details of the financial position and results of the company, the group and its segments are set out in the annual financial statements and group annual financial statements. The group and company annual financial statements for the year ended 31 May 2013 were approved by the board and signed on its behalf on 18 August 2013.

Going concern

The financial statements have been prepared on the going concern basis, since the directors have every reason to believe that the Blue Label Telecoms company and the group have adequate resources in place to continue in operation for the foreseeable future.

Disposals

On 1 August 2013 Blue Label Data Solutions Proprietary Limited sold its 26% shareholding in the issued share capital of Betterquote Proprietary Limited to Bettersure Proprietary Limited.

On 11 September 2012 Blue Label Telecoms Limited disposed of 100% of Content Connect Africa Proprietary Limited to Metastar Trading Proprietary Limited for R2 million. For further details on the disposal during the year, refer to note 27 to the group annual financial statements.

On 1 January 2013 The Prepaid Company Proprietary Limited sold 100% of the issued share capital of Multiserv Proprietary Limited to Guinea Fowl Mews 8 Proprietary Limited for a purchase consideration of R10.3 million. For further details on the disposal during the year, refer to note 27 of the group annual financial statements.

On 1 May 2013 The Prepaid Company Proprietary Limited sold its 51% in the issued share capital of Bela Phone Company Proprietary Limited to Universal Phone Company Proprietary Limited for a purchase consideration of R51.

Acquisitions

On 13 July 2012 Blue Label Telecoms Limited acquired the remaining 25% of The Post Paid Company Proprietary Limited for a purchase consideration of R25, bringing its holding to 100%. Refer to note 28.2 of the group annual financial statements for further details.

On 1 September 2012 Blue Label Telecoms Limited acquired a further 5% of Blue Label Mexico S.A. de C.V. for a purchase consideration of R21.1 million, bringing its holding to 45%. Refer to note 6 of the group annual financial statements for further details.

On 1 September 2012 Blue Label Telecoms Limited acquired 51% of Blue Label Engage Proprietary Limited for a purchase consideration of R2.4 million plus an amount arrived at by multiplying the amount by which the headline earnings of Blue Label Engage Proprietary Limited in its 2013 financial year exceeds R600 000 by four capped at a further R2.6 million. Refer to note 28.1 of the group annual financial statements.

On 1 September 2012 Blue Label Telecoms acquired 51% of the issued share capital of Panacea Mobile Proprietary Limited for a purchase consideration of R7.5 million plus an additional amount of R1.5 million if the net profit after tax for Panacea Mobile Proprietary Limited's 2013 financial year is no less than R4.2 million. To the extent that the net profit after tax for the 2013 financial year is less, the R1.5 million will be pro-rated accordingly. An additional amount of up to R1.5 million (payable over 10 equal periods, capped at R150 000 per period), based on the achievement of certain criteria in respect of a customer contract being achieved by Panacea Mobile Proprietary Limited. Refer to note 28.1 of the group annual financial statements.

On 1 January 2013 The Prepaid Company Proprietary Limited acquired the right to receive all revenue accruing to a postpaid cellular base from 1 January 2013 onwards for a purchase consideration of R108 million. Refer to note 5 of the group annual financial statements.

On 15 January 2013 The Prepaid Company Proprietary Limited acquired the right to receive all revenue accruing to a prepaid cellular base from 1 December 2012 for a purchase consideration of R40 million. Refer to note 5 of the group annual financial statements.

On 15 March 2013 The Prepaid Company Proprietary Limited acquired the right to receive all revenue accruing to a prepaid cellular base from 1 February 2013 onwards for a purchase consideration of R35 million. Refer to note 5 of the group annual financial statements.

On 20 March 2013 The Prepaid Company Proprietary Limited acquired the right to receive all revenue accruing to a prepaid cellular base from 1 January 2013 onwards for a purchase consideration of R81 million. Refer to note 5 of the group annual financial statements.

On 28 January 2013 Blue Label Telecoms Limited acquired 24.01% of the issued share capital of Africa Prepaid Services Nigeria Limited from Citadella Holdings Corp for a purchase consideration of R14 million.

On 5 April 2013 Blue Label Telecoms acquired 60% of the shares in the ticketing company Ticketpros Proprietary Limited for a purchase consideration of R10 million. Refer to note 28.1 of the group annual financial statements.

Share capital

Full details of the authorised, issued and unissued capital of the company at 31 May 2013 are contained in note 15 of the group annual financial statements. There were no shares issued during the financial year ended 31 May 2013 (2012: nil).

The directors of the company have unrestricted authority until the following annual general meeting to allot and issue, as they in their discretion deem fit, the unissued ordinary shares of the company as at 31 May 2012, subject to the provisions of the memorandum of incorporation of the company, the Companies Act and the Listings Requirements.

Subsequent events

Subsequent to year end a dividend was declared.

On 1 June 2013 Blue Label Telecoms acquired the remaining 49% of the issued share capital of Panacea Mobile Proprietary Limited and the remaining 40% of the issued share capital of Ticketpros Proprietary Limited for a purchase consideration of R11.5 million and R4.7 million respectively.

In June 2013, the group secured a distribution agreement with a leading reseller at a purchase price of R84 million. This is expected to further enhance the group's prominence in the distribution of prepaid services.

Dividend

On 18 August 2013, the board approved a dividend of 25 cents per ordinary share. The dividend in respect of ordinary shares for the year ended 31 May 2013 of R168 627 261 has not been recognised in the financial statements as it was declared after this date. The salient dates are as follows:

Last date to trade cum dividend	Friday, 6 September 2013
Shares commence trading ex dividend	Monday, 9 September 2013
Record date	Friday, 13 September 2013
Payment of dividend	Monday, 16 September 2013

Share certificates may be dematerialised or rematerialised between Monday, 9 September 2013 and Friday, 13 September 2013, both days inclusive.

Before declaring the final dividend the board applied the solvency and liquidity test on the company and reasonably concluded that the company will satisfy the solvency and liquidity test immediately after payment of the final divided. The final dividend will be paid 28 days after the directors have performed the solvency and liquidity testing.

Dividends tax is provided for at 15% of the amount of any dividend paid by Blue Label Telecoms, subject to certain exemptions. The Dividends Tax is a tax borne by the beneficial owner of the dividend and will be withheld by either the issuer of the dividend or by regulated intermediaries.

Directorate

The following were directors of the company for the year under review:

Name	Office	Appointment date	Date and nature of change
Larry M Nestadt	Independent non-executive director	5 October 2007	—
Brett M Levy	Joint chief executive officer	1 February 2007	—
Mark S Levy	Joint chief executive officer	1 February 2007	—
Kevin M Ellerine	Non-executive director	8 December 2009	—
Gary D Harlow	Independent non-executive director	5 October 2007	—
Neil N Lazarus SC	Non-executive director	5 October 2007	—
Joe S Mthimunye	Independent non-executive director	5 October 2007	—
Mark V Pamensky	Chief operating officer	5 October 2007	—
David B Rivkind	Financial director	5 October 2007	—
Jeremiah S Vilakazi	Independent non-executive director	19 October 2011	—

Prescribed officer

DA Suntup is a prescribed officer of the company.

Directors' and prescribed officer's interests

The individual interests declared by directors and officers in the company's share capital as at 31 May 2013, held directly or indirectly were as follows:

	Nature of interest			
	Direct beneficial		Indirect beneficial	
Director/officer	**2013**	2012	**2013**	2012
BM Levy	**74 644 607**	74 340 553	**8 272 778**	8 272 778
MS Levy	**67 237 199**	66 933 145	**8 272 777**	8 272 777
KM Ellerine	**—**	—	**296 297**	296 297
JS Mthimunye	**30 000**	20 000	**—**	—
MV Pamensky	**—**	—	**5 565 738**	5 565 738
LM Nestadt	**—**	—	**8 204 674**	8 204 674
GD Harlow	**—**	—	**2 400 000**	2 000 000
NN Lazarus	**4 803 424**	4 803 424	**—**	—
DB Rivkind	**—**	—	**3 700 000**	3 700 000
DA Suntup	**—**	—	**3 700 000**	3 700 000
JS Vilakazi	**—**	—	**—**	—

The aggregate interest of the current directors and officers in the capital of the company was as follows:

	Number of shares	
	2013	2012
Beneficial	**187 127 494**	186 089 386

The beneficial interest held by directors and officers of the company constitutes 28.28% (2012: 28.13%) of the issued share capital of the company.

Details of directors' and prescribed officer emoluments and equity compensation benefits are set out in note 31 of the group annual financial statements and details of the forfeitable share plan are set out in note 33.

Resolutions

On 29 November 2012 the company passed and filed with the Companies and Intellectual Property Commission the following special resolutions:
- Approving the remuneration of non-executive directors.
- Granting a general authority to repurchase the company's shares.
- Renewal of the authority that unissued shares be placed under the control of the director.
- Approval for the company to grant financial assistance in terms of sections 44 and 45 of the Companies Act.
- Adoption of a new memorandum of incorporation.

Special resolutions passed by subsidiary companies comprised of approval to grant financial assistance in terms of section 44 and 45 of the Companies Act and the adoption of a new memorandum of incorporation.

Except for the aforementioned, no other special resolutions, the nature of which might be significant to shareholders in their appreciation of the state of affairs fo the group, were passed by the company or its subsidiaries during the period covered at the date of signing these group and company annual financial statements.

Company secretary

Ms E Viljoen resigned as company secretary with effect from 30 April 2013. Ms J van Eden was appointed company secretary with effect from 1 June 2013.

The board is satisfied that Ms van Eden has the requisite knowledge and experience to carry out the duties of a company secretary of a public company in accordance with section 88 of the Act and is not disqualified to act as such. She is not a director of the board and maintains an arms-length relationship with the board.

The business and postal address of the company secretary appear on the company's website.

American depository receipt facility

A sponsored American depository receipt facility has been established. The facility is sponsored by the Bank of New York and details of the administrators are reflected on the company's website.

Auditors

PricewaterhouseCoopers Inc. will continue in office in accordance with section 90(6) of the Companies Act.

Larry Nestadt
Chairman

Independent auditor's report to the shareholders of Blue Label Telecoms Limited

We have audited the group financial statements and separate financial statements of Blue Label Telecoms Limited set out on pages 106 to 247, which comprise the statements of financial position as at 31 May 2013, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Blue Label Telecoms Limited as at 31 May 2013, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 31 May 2013, we have read the directors' report, the Audit, Risk and Compliance Committee's report and the declaration by the company secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: EJ Gerryts
Registered Auditor

Johannesburg
19 August 2013

Group statement of financial position

As at 31 May 2013

	Note	2013 R'000	2012 R'000
Assets			
Non-current assets		**1 340 410**	993 076
Property, plant and equipment	4	**88 125**	112 188
Intangible assets	5	**488 383**	292 200
Goodwill	5	**217 635**	213 498
Investments in associates and joint ventures	6	**524 162**	357 471
Loans receivable	7	**1 000**	1 435
Starter pack assets	8	**2 573**	4 501
Deferred taxation assets	9	**18 532**	11 783
Current assets		**4 380 137**	3 942 456
Financial assets at fair value through profit and loss	10	**—**	—
Starter pack assets	8	**1 115**	3 191
Inventories	11	**1 858 511**	539 221
Loans receivable	7	**36 431**	30 049
Trade and other receivables	12	**1 539 365**	1 387 650
Current tax assets		**3 433**	7 103
Cash and cash equivalents	13	**941 282**	1 975 242
Total assets		**5 720 547**	4 935 532

Group statement of financial position continued

As at 31 May 2013

	Note	2013 R'000	2012 R'000
Equity and liabilities			
Capital and reserves		**3 242 853**	2 914 386
Share capital	15	*	*
Share premium		**4 012 359**	4 012 359
Treasury shares		**(72 468)**	(71 043)
Restructuring reserve		**(1 843 912)**	(1 843 912)
Foreign currency translation reserve		**102 989**	15 389
Non-distributable reserve		**10 150**	10 150
Transaction with non-controlling interest reserve		**(931 125)**	(909 572)
Equity compensation benefit reserve		**38 204**	37 623
Share-based payment reserve		**1 292**	1 292
Retained earnings		**1 941 082**	1 671 378
		3 258 571	2 923 664
Non-controlling interest		**(15 718)**	(9 278)
Non-current liabilities		**11 942**	50 624
Deferred taxation	9	**11 942**	21 598
Trade and other payables	17	**—**	29 026
Current liabilities		**2 465 752**	1 970 522
Trade and other payables	17	**2 393 222**	1 931 204
Provision	18	**19 029**	6 260
Current tax liabilities		**39 504**	21 041
Non-interest-bearing borrowings	16	**12 017**	12 017
Current portion of interest-bearing borrowings	16	**1 980**	—
Total equity and liabilities		**5 720 547**	4 935 532

** Less than R1 000.*

Group statement of comprehensive income

For the year ended 31 May 2013

	Note	2013 R'000	2012 R'000
Continuing operations			
Revenue	19	**18 984 210**	18 715 390
Other income		**16 137**	97 412
Changes in inventories of finished goods		**(17 712 965)**	(17 507 468)
Employee compensation and benefit expense	20	**(332 901)**	(327 830)
Depreciation, amortisation and impairment charges		**(67 951)**	(91 557)
Other expenses		**(240 859)**	(227 022)
Operating profit	21	**645 671**	658 925
Finance costs	22	**(167 096)**	(181 081)
Finance income	22	**173 260**	170 995
Share of losses from associates and joint ventures	6	**(47 326)**	(19 835)
Net profit before taxation		**604 509**	629 004
Taxation	23	**(196 404)**	(194 075)
Net profit for the year from continuing operations		**408 105**	434 929
Discontinued operations			
Net loss for the year from discontinued operations	14	**—**	(15 455)
Net profit for the year		**408 105**	419 474
Other comprehensive income:			
Exchange profit on translation of equity loans*		**—**	5 395
Exchange profit on translation of foreign operations*		**87 888**	36 058
Other comprehensive profit for the year, net of tax		**87 888**	41 453
Total comprehensive income for the year		**495 993**	460 927

** These components of other comprehensive income do not attract any tax.*

Group statement of comprehensive income continued

For the year ended 31 May 2013

	Note	2013 R'000	2012 R'000
Net profit for the year attributable to:			
Equity holders of the parent		**424 841**	438 104
Non-controlling interest		**(16 736)**	(18 630)
Net profit for the year from continuing operations attributable to:			
Equity holders of the parent		**424 841**	443 597
Non-controlling interest		**(16 736)**	(8 668)
Net loss for the year from discontinued operations attributable to:			
Equity holders of the parent		**—**	(5 493)
Non-controlling interest		**—**	(9 962)
Total comprehensive income for the year attributable to:			
Equity holders of the parent		**512 441**	477 244
Non-controlling interest		**(16 448)**	(16 317)
Earnings per share for profit attributable to:			
Equity holders (cents)			
– Basic	24	**64.22**	61.87
– From continuing operations		**64.22**	62.65
– From discontinued operations		**—**	(0.78)
– Diluted	24	**63.19**	60.97
– From continuing operations		**63.19**	61.74
– From discontinued operations		**—**	(0.78)

Group statement of changes in equity

For the year ended 31 May 2013

	Note	Share capital R'000	Share premium R'000	Treasury shares R'000	Retained earnings R'000
Balance as at 31 May 2011		*	4 404 737	(56 506)	1 340 318
Net profit for the year		—	—	—	438 104
Comprehensive profit		—	—	—	—
Total comprehensive income		—	—	—	438 104
Treasury shares purchased	15	—	—	(16 095)	—
Shares acquired	15	—	(392 378)	—	—
Equity compensation benefit scheme shares vested		—	—	1 558	—
Equity compensation benefit movement		—	—	—	—
Share of equity movement in associates		—	—	—	—
Dividends		—	—	—	(107 044)
Transaction with non-controlling interest reserve movement		—	—	—	—
Non-controlling interest disposed of during the year	27	—	—	—	—
Balance as at 31 May 2012		*	4 012 359	(71 043)	1 671 378
Net profit for the year		**—**	**—**	**—**	**424 841**
Comprehensive profit		**—**	**—**	**—**	**—**
Total comprehensive income		**—**	**—**	**—**	**424 841**
Treasury shares purchased	15	**—**	**—**	**(17 223)**	**—**
Equity compensation benefit scheme shares vested		**—**	**—**	**15 798**	**—**
Equity compensation benefit movement		**—**	**—**	**—**	**—**
Share of equity movement in associates		**—**	**—**	**—**	**—**
Dividends		**—**	**—**	**—**	**(155 137)**
Transaction with non-controlling interest reserve movement	28.2	**—**	**—**	**—**	**—**
Non-controlling interest acquired during the year	28.1	**—**	**—**	**—**	**—**
Balance as at 31 May 2013		*****	**4 012 359**	**(72 468)**	**1 941 082**

* *Less than R1 000.*

[1] *The restructuring reserve arose as a result of the restatement of group comparatives, as required in terms of the principles of predecessor accounting. This reserve represents the difference between the fair value of the entities under the group's control and their respective net asset values, as at the assumed restructure date of 1 June 2006.*

[2] *The non-distributable reserve arose as a result of BLT's share of share premium issued by associate companies pre-2010.*

[3] *The transaction with non-controlling interest reserve relates to the excess payments over the carrying amounts arising on transactions with non-controlling shareholders as these are treated as equity participants. (Refer to note 28.2.)*

[4] *This relates to the group's movement in equity compensation benefit (refer to note 33) as well as the group's share of the movement in equity compensation benefit of associate companies. (Refer to note 6.)*

[5] *The share-based payment reserve relates to a BEE transaction concluded by Cigicell Proprietary Limited, a subsidiary of Blue Label Telecoms. In September 2009 Ventury Proprietary Limited sold 26% of its stake in Cigicell Proprietary Limited to Sangrilor Proprietary Limited. The group has not recognised this disposal and accounts for Cigicell Proprietary Limited as a wholly owned subsidiary until the purchase consideration has been settled by Sangrilor Proprietary Limited. The purchase consideration will be settled through the declaration of dividends by Cigicell Proprietary Limited. There are no specified dates for this.*

Group statement of changes in equity continued

For the year ended 31 May 2013

Restructuring reserve[1] R'000	Foreign currency translation reserve R'000	Non-distributable reserve[2] R'000	Transaction with non-controlling interest reserve[3] R'000	Employee compensation benefit reserve[4] R'000	Share-based payment reserve[5] R'000	Total ordinary shareholders' equity R'000	Non-controlling interest R'000	Total equity R'000
(1 843 912)	(23 751)	10 150	(909 006)	17 807	1 292	2 941 129	14 234	2 955 363
—	—	—	—	—	—	438 104	(18 630)	419 474
—	39 140	—	—	—	—	39 140	2 313	41 453
—	39 140	—	—	—	—	477 244	(16 317)	460 927
—	—	—	—	—	—	(16 095)	—	(16 095)
—	—	—	—	—	—	(392 378)	—	(392 378)
—	—	—	—	(1 517)	—	41	(41)	—
—	—	—	—	21 929	—	21 929	197	22 126
—	—	—	—	(596)	—	(596)	—	(596)
—	—	—	—	—	—	(107 044)	(2 945)	(109 989)
—	—	—	(566)	—	—	(566)	—	(566)
—	—	—	—	—	—	—	(4 406)	(4 406)
(1 843 912)	15 389	10 150	(909 572)	37 623	1 292	2 923 664	(9 278)	2 914 386
—	—	—	—	—	—	424 841	(16 736)	408 105
—	87 600	—	—	—	—	87 600	288	87 888
—	87 600	—	—	—	—	512 441	(16 448)	495 993
—	—	—	—		—	(17 223)	—	(17 223)
—	—	—	—	(15 559)	—	239	(239)	—
—	—	—	—	16 063	—	16 063	117	16 180
—	—	—	—	77	—	77	—	77
—	—	—	—	—	—	(155 137)	(3 515)	(158 652)
—	—	—	(21 553)	—	—	(21 553)	7 553	(14 000)
—	—	—	—	—	—	—	6 092	6 092
(1 843 912)	102 989	10 150	(931 125)	38 204	1 292	3 258 571	(15 718)	3 242 853

Group statement of cash flows

For the year ended 31 May 2013

	Note	2013 R'000	2012 R'000
Cash flows from operating activities			
Cash received from customers		**18 832 495**	18 249 024
Cash paid to suppliers and employees		**(19 089 879)**	(17 592 595)
Cash (utilised)/generated by operations	25	**(257 384)**	656 429
Interest received	22	**35 806**	59 730
Interest paid	22	**(23 709)**	(3 307)
Taxation paid	26	**(194 507)**	(184 743)
Net cash flows from operating activities		**(439 794)**	528 109
Cash flows from investing activities			
Acquisition of intangible assets		**(272 141)**	(134 955)
Proceeds on disposal of intangible assets		**70**	—
Disposal of subsidiaries net of cash disposed	27	**255**	2 501
Acquisition of subsidiaries net of cash acquired	28.1	**(2 770)**	(13 262)
Acquisition of joint venture	6	**(110 345)**	—
Loans advanced to associates and joint ventures		**(593)**	(104 517)
Loans repaid by associates and joint ventures		**—**	1 228
Loans granted		**(6 433)**	(6 246)
Loans receivable repaid		**137**	2 442
Dividends received from associates and joint ventures		**750**	453
Proceeds on disposal of property, plant and equipment		**4 198**	4 895
Acquisition of property, plant and equipment		**(19 464)**	(29 530)
Net cash flows from investing activities		**(406 336)**	(276 991)
Cash flows from financing activities			
Interest-bearing borrowings repaid		**—**	(4 022)
Interest-bearing borrowings raised		**1 809**	2 500
Acquisition of non-controlling interest	28.2	**(14 000)**	—
Acquisition of shares		**—**	(392 378)
Acquisition of treasury shares		**(17 223)**	(16 095)
Dividends paid to non-controlling interest		**(3 515)**	(2 945)
Dividends paid		**(155 137)**	(107 044)
Net cash flows from financing activities		**(188 066)**	(519 984)
Decrease in cash and cash equivalents		**(1 034 196)**	(268 866)
Cash and cash equivalents at the beginning of the year		**1 975 242**	2 226 170
Translation difference		**236**	17 938
Cash and cash equivalents at the end of the year	13	**941 282**	1 975 242

Notes to the group annual financial statements

For the year ended 31 May 2013

Blue Label Telecoms Limited (the company) and its subsidiaries, joint ventures and associates (together referred to as the group) are involved in the procurement, selling and distribution of prepaid products for, inter alia, fixed and mobile networks and all business ancillary thereto.

The annual financial statements comprise the consolidated financial statements of the group and the stand-alone financial statements of the company and were authorised by the board of directors, as indicated on page 94.

1. Significant accounting policies

Statement of compliance

The principal accounting policies applied in the preparation of these group annual financial statements are set out below in the related notes and are consistent with those adopted in the prior year, unless otherwise specified.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council and the South African Companies Act No. 71 of 2008.

The term IFRS includes International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). The standards referred to are set by the International Accounting Standards Board (IASB).

Basis of preparation

The annual financial statements and group financial statements are prepared under the historical cost convention, except for certain financial and equity instruments which have been measured at fair value. Amounts are rounded to the nearest thousand with the exception of earnings per share, ordinary share capital and equity compensation benefit. The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

Going concern

The group and company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group and company should be able to operate within its current funding levels.

1. Significant accounting policies (continued)

Going concern (continued)

After making enquiries, the directors have a reasonable expectation that the group and company have adequate resources to continue in operational existence for the foreseeable future. The group and company therefore continue to adopt the going-concern basis in preparing the financial statements.

Standards, interpretations and amendments effective in 2013

The following standards, interpretations and amendments are effective for the first time for the year ended 31 May 2013 and have not had an impact on the group's financial statements:

- Amendment to IAS 12 – *Income taxes – deferred tax.*

Standards, amendments and interpretations not yet effective

The group has evaluated the effect of all new standards, amendments and interpretations that have been issued but which are not yet effective. Based on the evaluation, management does not expect these standards, amendments and interpretations to have a significant impact on the group's results and disclosures. The expected implications of applicable standards, amendments and interpretations are dealt with below.

Amendment to IAS 1 – Presentation of items of other comprehensive income (OCI)

This amendment requires entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled, such as revaluation gains on property, plant and equipment, will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

The amendment is effective for annual periods beginning on or after 1 July 2012. The group will evaluate the amended presentation and update disclosure accordingly from the effective date.

Amendment to IFRS 1 – First-time adoption on government loans

This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008.

This amendment is effective on 1 January 2013 and is not applicable to the group.

Amendment to IFRS 7 – Financial Instruments: Disclosures – Asset and Liability offsetting

The IASB has published an amendment to IFRS 7 – *Financial Instruments: Disclosures*, reflecting the joint requirements with the FASB to enhance current offsetting disclosures.

These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.

This statement is effective for periods beginning on or after 1 January 2013. The group is currently considering the impact on the consolidated financial statements, however does not believe the amendment will have a significant impact.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

1. Significant accounting policies (continued)

Standards, amendments and interpretations not yet effective (continued)

Amendment to IAS 19 – Employee benefits

This amendment makes significant changes to the recognition and measurement of the defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The amendment could significantly change a number of performance indicators and might also significantly increase the volume of disclosures.

Amendment is effective for periods beginning on or after 1 January 2013. The group does not believe the statement will have a significant impact on the group as the group currently has no defined benefit pension plans and termination benefits. The group will evaluate and update disclosures for all employee benefits accordingly from the effective date.

IFRS 9 – Financial Instruments (2009)

This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value.

This statement is effective on 1 January 2015. The group is currently considering the impact on the classification of financial assets, however do not believe the statement will have a significant impact, given the nature of the financial assets held by the group.

IFRS 9 – Financial Instruments (2010)

The IASB has updated IFRS 9 – *Financial instruments*, to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, Financial instruments: Recognition and measurement, without change, except for financial liabilities that are designated at fair value through profit or loss.

This statement is effective on 1 January 2015. The group is currently considering the impact on the derecognition of financial liabilities, however do not believe the statement will have a significant impact, given the nature of the financial liabilities held by the group.

Amendments to IFRS 9 – Financial Instruments (2011)

The IASB has published an amendment to IFRS 9 – *Financial Instruments*, that delays the effective date to annual periods beginning on or after 1 January 2015. The original effective date was for annual periods beginning on or after from 1 January 2013. This amendment is a result of the board extending its timeline for completing the remaining phases of its project to replace IAS 39 (for example, impairment and hedge accounting) beyond June 2011, as well as the delay in the insurance project. The amendment confirms the importance of allowing entities to apply the requirements of all the phases of the project to replace IAS 39 at the same time. The requirement to restate comparatives and the disclosures required on transition have also been modified.

This amendment has delayed the implementation of the standard from 1 January 2013 to 1 January 2015. The impact on the group is stated above.

1. Significant accounting policies (continued)

Standards, amendments and interpretations not yet effective (continued)

IFRS 10 – Consolidated financial statements

This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates as its subsidiaries.

This statement is effective on 1 January 2013. The group is currently considering the impact on the consolidated financial statements, however does not believe the statement will have a significant impact.

IFRS 11 – Joint arrangements

This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportionate consolidation of joint ventures is no longer allowed.

This statement is effective on 1 January 2013. The group does not believe the statement will have a significant impact as the proportionate consolidation method of accounting for joint ventures is not applied by the group. The group is currently considering the impact on its contractual arrangements.

IFRS 12 – Disclosures of interests in other entities

This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles.

This statement is effective on 1 January 2013. The group is currently considering the impact on the consolidated financial statements, however does not believe the statement will have a significant impact as it merely provides for additional disclosures.

IFRS 13 – Fair value measurement

This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP.

This statement is effective on 1 January 2013. The group is currently considering the impact on the consolidated financial statements, however does not believe the statement will have a significant impact due to the nature of assets and liabilities carried at fair value.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

1. Significant accounting policies (continued)

Standards, amendments and interpretations not yet effective (continued)

Amendments to IAS 27 (revised 2011) – Separate financial statements

This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

This statement is effective on 1 January 2013. The group is currently considering the impact, however does not believe the statement will have a significant impact.

Amendments to IAS 28 (revised 2011) – Associates and joint ventures

This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

This statement is effective on 1 January 2013. This statement will have no impact on the consolidated financial statements as joint ventures and associates are currently equity accounted.

Amendments to IAS 32 – Financial Instruments: Presentation

The IASB has issued amendments to the application guidance in IAS 32 – *Financial Instruments: Presentation*, that clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. However, the clarified offsetting requirements for amounts presented in the statement of financial position continue to be different from US GAAP.

This statement is effective on 1 January 2014. The group is currently considering the impact on the consolidated financial statements, however does not believe the statement will have a significant impact.

Amendment to the transition requirements in IFRS 10, IFRS 11, and IFRS 12

The amendment clarifies that the date of initial application is the first day of the annual period in which IFRS 10 is adopted – for example, 1 January 2013 for a calendar-year entity that adopts IFRS 10 in 2013. Entities adopting IFRS 10 should assess control at the date of initial application; the treatment of comparative figures depends on this assessment.

The amendment also requires certain comparative disclosures under IFRS 12 upon transition.

This statement is effective on 1 January 2013. The group is currently considering the impact on the consolidated financial statements, however does not believe the statement will have a significant impact.

Amendments to IFRS 10, IFRS 12 and IAS 27 for investment entities

The amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an "investment entity" definition and which display particular characteristics.

Changes have also been made in IFRS 12 to introduce disclosures that an investment entity needs to make.

This statement is effective for periods beginning on or after 1 January 2014. The group is currently considering the impact on the consolidated financial statements, however does not believe the statement will have a significant impact.

1. Significant accounting policies (continued)

Standards, amendments and interpretations not yet effective (continued)

IFRIC 20 – Stripping costs in the production phase of a surface mine

In surface mining operations, entities may find it necessary to remove mine waste materials (overburden) to gain access to mineral ore deposits. This waste removal activity is known as "stripping". The interpretation clarifies there can be two benefits accruing to an entity from stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. The interpretation considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.

This statement is not applicable to the group.

Annual Improvements Project

The IASB decided to initiate an annual improvements project in 2007 as a method of making necessary, but non-urgent, amendments to IFRS that will not be included as part of another major project. The IASB's objective was to ease the burden for all concerned.

Improvements to IFRS was issued by the IASB as part the "annual improvements process" resulting in the following amendments to standards issued, but not effective for 31 May 2013 year ends:

- Amendments to IFRS 1 – *First-time adoption of IFRS – Permit the repeated application of IFRS 1, borrowing costs on certain qualifying assets;*
- Amendment to IAS 1 – *Presentation of financial statements – Clarification of the requirements for comparative information;*
- Amendment to IAS 16 – *Property, plant and equipment – Classification of servicing equipment;*
- Amendment to IAS 32 – *Financial instruments: Presentation – Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12: Income Taxes;* and
- Amendment to IAS 34 – *Interim financial reporting – Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8: Operating Segments.*

Management is currently considering the effect of the changes.

Basis of consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) in which the group has an interest of more than one-half of the voting rights or otherwise has power to govern the financial and operating policies.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the group and are no longer consolidated from the date that control ceases. The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

1. Significant accounting policies (continued)

Basis of consolidation (continued)

Subsidiaries (continued)

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless costs cannot be recovered. Non-controlling interest in the consolidated equity and results of the group are shown separately in the consolidated statement of financial position and statement of comprehensive income respectively.

Non-controlling interest is stated at the non-controlling interest's proportion of the fair values of the identifiable assets and liabilities recognised. Non-controlling interests are treated as equity participants. Acquisitions of non-controlling interests or disposals by the group of its non-controlling interests in subsidiary companies where control is maintained subsequent to the disposal are accounted for as equity transactions with non-controlling interests.

Consequently, the difference between the purchase price and the book value of a non-controlling interest purchased is recorded in equity. All profits and losses arising as a result of the disposal of interests in subsidiaries to non-controlling interests, where control is maintained subsequent to the disposal, are also recorded in equity.

Where the losses attributable to the non-controlling interests in a consolidated subsidiary exceed their interest in that subsidiary, the total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

When necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the group.

1. Significant accounting policies (continued)

Basis of consolidation (continued)

Subsidiaries (continued)

The company financial statements account for investment in subsidiaries at cost less any accumulated impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. Loans made to subsidiaries which have no set terms are intended to provide the subsidiary with a long-term source of additional capital and are accounted for as an addition to the parent's investment in that subsidiary. As a result, the loan is considered to be an interest in the subsidiary.

Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for under the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The group's share of post-acquisition movements in equity compensation benefit reserves is recognised in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payment on behalf of the associate. Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associate. Unrealised losses are also eliminated to the extent of the group's interest in the associate unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

The company financial statements account for investment in associates at cost less any accumulated impairment.

Dilution gains and losses arising in investments in associates are recognised in the statement of comprehensive income.

A listing of the group's principal subsidiaries and associates is set out in note 34 to the financial statements. The financial effects of the acquisition and disposal of the subsidiaries and associates are disclosed separately in the notes to the financial statements.

Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial operating decisions relating to the activity require the unanimous consent of the parties sharing control (venturers).

Notes to the group annual financial statements continued

For the year ended 31 May 2013

1. Significant accounting policies (continued)

Basis of consolidation (continued)

Joint ventures

The group's interest in joint ventures is accounted for under the equity method of accounting whereby an interest in jointly controlled entities is initially recorded at cost and adjusted thereafter for post-acquisition changes in the group's share of net assets of the joint venture. The statement of comprehensive income reflects the group's share of the results of operations of the joint venture.

The company financial statements account for investment in joint ventures at cost less any accumulated impairment.

Loans granted to associates and joint ventures are regarded as part of the investment.

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in rand, which is the group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
Assets and liabilities are translated at the closing rate as at statement of financial position date;

- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the closing rate.

1. Significant accounting policies (continued)

Financial instruments

Financial instruments carried on the statement of financial position include:

Financial assets

- Financial assets at fair value through profit or loss.
- Loans receivable.
- Available-for-sales.
- Trade and other receivables.
- Cash and cash equivalents.

Financial liabilities

- Borrowings.
- Trade and other payables.
- Bank overdraft.

The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item.

Regular way purchases and sales of financial assets that require delivery are recognised on trade date, being the date on which the group commits to purchase or sell the asset.

The group recognises a financial asset or a financial liability on its statement of financial position when, and only when, the group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Financial liabilities (or a part of a financial liability) are removed from its statement of financial position when, and only when, they are extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets

The group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held-for-trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held-for-trading or are expected to be realised within 12 months of the statement of financial position date.

Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the statement of comprehensive income. These assets are subsequently measured at fair value. All related realised and unrealised gains and losses arising from changes in fair value are recognised in the statement of comprehensive income.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

1. Significant accounting policies (continued)

Financial assets (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category does not include those loans and receivables that the group intends to sell in the short term or that it has designated as at fair value through profit or loss or available-for-sale. These assets are included in current assets, except for maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets.

Financial assets classified as loans and receivables are initially recognised at fair value plus transaction costs. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest rate method, less any provision for impairment.

Loans and receivables comprise loans receivable and trade and other receivables (excluding prepayments and VAT).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date.

Financial assets classified as available-for-sale are initially recognised at fair value plus transaction costs. Subsequent to initial recognition, available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from the change in fair value are recognised directly in other comprehensive income until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the statement of comprehensive income. Interest and dividend income received on available-for-sale financial assets are recognised in the statement of comprehensive income.

Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

(a) Loans and receivables

The group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A provision for impairment is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Objective evidence that receivables are impaired includes observable data that comes to the attention of the group about the following events:

- Significant financial difficulty of the debtor;
- A breach of contract, such as default or delinquency in payments; and
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

1. Significant accounting policies (continued)

Impairment of financial assets (continued)

(a) Loans and receivables (continued)

The amount of the provision is the difference between the carrying amount and the recoverable amount of the assets being the present value of expected cash flows discounted at the original effective interest rate. The amount of the provision is recognised as a charge in the statement of comprehensive income.

When a receivable is uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income.

(b) Available-for-sale financial assets

The group assesses whether there is objective evidence that a financial asset carried at fair value is impaired at each reporting date. If any objective evidence of impairment exists for available-for-sale financial assets (for example, a significant or prolonged decline in the fair value of a security below its cost), the cumulative loss, measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss, is removed from other comprehensive income and recognised in the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

Financial liabilities and equity

Financial liability and equity instruments issued by the group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Refer to accounting policies on borrowings and trade and other payables for financial liabilities (which exclude employee-related liabilities and VAT), and share capital for equity instruments issued by the group.

Fair value estimation

The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option pricing valuation techniques whose variables include only data from observable markets. Subsequent to initial recognition, the fair values of quoted financial assets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques.

These include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

1. Significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is initially recorded at historical cost, being the purchase cost plus any cost to prepare the assets for their intended use. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Property, plant and equipment is subsequently carried at historical cost less accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment are depreciated on the straight-line basis over each asset's estimated useful life.

Depreciation is calculated on the straight-line basis to write off the cost of the assets to their residual values over their estimated useful lives as follows:

Motor vehicles	20% – 25%
Furniture and fittings	16.67% – 25%
Office equipment	25%
Computer equipment	25% – 33.33%
Terminals and vending machines	16.67%
Media equipment	33.33%
Plant and machinery	20%
Buildings	8.33%

Major leasehold improvements are amortised over the shorter of their respective lease periods and estimated useful life.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. No such qualifying assets exist at year end.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at year end.

Gains and losses on disposal of property, plant and equipment are determined as the difference between the carrying amount and the fair value of the sale proceeds, and are included in operating profit.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software has a finite useful life and is subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the computer software over its estimated useful life (three to 10 years).

1. Significant accounting policies (continued)

Intangible assets (continued)

(a) Computer software (continued)

Costs associated with the maintenance of existing computer software programmes are expensed as incurred.

(b) Trademarks

Trademarks are shown at historical cost. Trademarks have a finite useful life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives (10 years).

Trademarks are initially shown at fair value as determined in accordance with IFRS 3 – *Business Combinations*, and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses.

(c) Franchise fees

Franchise fees are shown at historical cost. Franchise fees have a finite useful life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of franchise fees over their estimated useful lives (20 years).

Franchise fees are initially shown at fair value as determined in accordance with IFRS 3 – *Business Combinations*, and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses.

(d) Databases, customer listings, distribution agreements and customer relationships

Databases, customer listings, distribution agreements and customer relationships acquired through business combinations are initially shown at fair value as determined in accordance with IFRS 3 – *Business Combinations*, and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the value of these assets over their estimated useful lives (three to 10 years).

(e) Research and development

Costs incurred on development projects are recognised as intangible assets when the following criteria are fulfilled:

- It is technically feasible to complete the intangible asset and that it will be available for use or sale;
- Management intends to complete the intangible asset and use or sell it;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Research expenditure is recognised as an expense as incurred. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

1. Significant accounting policies (continued)

Intangible assets (continued)

(e) Research and development (continued)

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is available for use (ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management) on a straight-line basis over its useful life (five to 10 years). Direct costs include the product development employee costs and an appropriate portion of relevant overheads. Costs associated with the maintenance of existing products are expensed as incurred.

(f) Purchased starter pack bases and post paid bases

Purchased starter pack bases represent the right to earn future revenue from starter packs already distributed and are initially recognised at the cost to the group. Starter pack bases have a finite life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives (seven years).

Purchased post paid bases represent the right to earn revenue from the cellular network in respect of contracts forming part of the acquired base. Post paid bases have a finite life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives (10 years).

(g) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is attributable to synergies that the group expects to derive from the transaction. If the cost of acquisition is less than the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income. Goodwill on the acquisition of subsidiaries is included in "goodwill" in the statement of financial position. Goodwill on acquisitions of associates and joint ventures is included in "investments in associates and joint ventures".

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment is recognised.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Impairment of non-financial assets

The group evaluates the carrying value of assets with finite useful lives when events and circumstances indicate that the carrying value may not be recoverable and when there are indicators of impairment. Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Intangible assets not yet available for use are tested annually for impairment.

1. Significant accounting policies (continued)

Impairment of non-financial assets (continued)

An impairment loss is recognised in the statement of comprehensive income when the carrying amount of an asset exceeds its recoverable amount. An asset's recoverable amount is the higher of the fair value less cost to sell (the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable willing parties), or its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss recognised for an asset, other than goodwill, in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised and the recoverable amount exceeds the new carrying amount. The reversal of the impairment is limited to the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years. The reversal of such an impairment loss is recognised in the statement of comprehensive income in the same line item as the original impairment charge.

(a) Finance leases

Lease agreements that transfer substantially all the risks and rewards of ownership are classified as finance leases at inception of the lease. The asset is capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments at inception of the lease, with an equivalent amount being stated as a finance lease liability. Finance lease liabilities are classified as non-current or current liabilities, as appropriate. Each lease payment is allocated between the liability and finance charges using the effective interest rate. Finance costs are charged to the statement of comprehensive income over the lease period.

The capitalised asset is depreciated over the shorter of the useful life of the asset or the lease term to its residual value.

(b) Operating leases

Leases in which a significant portion of the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments under operating leases, net of incentives, are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Starter pack assets

A starter pack is a tool which enables the connection of a mobile device to a mobile network operator, also known as a SIM (subscriber identity module) card.

The starter pack asset represents starter packs which have been distributed but not yet activated. On activation of the starter pack, the group has a right to receive cash. Starter packs are stated at cost less provision for impairment and are determined by means of the weighted average cost basis. Provision for impairments are made for starter packs distributed not expected to be activated.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

1. Significant accounting policies (continued)

Inventories

Inventories are stated at the lower of cost or estimated net realisable value. Cost comprises direct materials and, where applicable, overheads that have been incurred in bringing the inventories to their present location and condition, excluding borrowing costs. The cost of the inventory is determined by means of the weighted average cost basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses. Provisions are made for obsolete, unusable and unsaleable inventory and for latent damage first revealed when inventory items are taken into use or offered for sale.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in the normal operating cycle of the business, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

Assets and liabilities of disposal group held-for-sale

Disposal groups are classified as assets and liabilities held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is highly probable. They are stated at the lower of carrying amount and fair value less cost to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

Share capital

Ordinary shares are classified as equity and the shares are fully paid up.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Share issue costs incurred directly in connection with a business combination are shown as a deduction from equity.

Shares acquired by Blue Label Telecoms for its own employees' equity compensation benefit scheme as well as the shares procured by the subsidiaries in terms of this scheme are accounted for as treasury shares in the group statement of financial position.

1. Significant accounting policies (continued)

Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating expenses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The increase in the provision due to the passage of time is recognised as an interest expense.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, when the relevant contracts are entered into. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after year end.

Normal taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at year end in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Uncertain tax positions are considered by the group at the level of the individual uncertainty or group of related uncertainties.

Deferred taxation

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by year end and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

1. Significant accounting policies (continued)

Deferred taxation (continued)

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Secondary tax on companies (STC)

Until 31 March 2012, South African companies were subject to a dual corporate tax system, one part of the tax being levied on the taxable income and the other, an STC, on distributed income. STC is not a withholding tax on shareholders but a tax on companies. With effect from 1 April 2012, dividends tax replaces STC. Dividends Tax is provided for at 15% of the amount of any dividend paid, subject to certain exemptions. The dividend tax is a tax borne by the beneficial owner of the dividend and will be withheld by either the issuer of the dividend or by regulated intermediaries.

The STC tax consequence of dividends is recognised when a liability to pay the dividend is recognised. The STC liability is reduced by dividends received during the dividend cycle, and where dividends received exceed dividends declared within a cycle, there is no liability to pay STC. The potential tax benefit related to excess dividends received is carried forward to the next dividend cycle. Deferred tax assets are recognised on unutilised STC credits to the extent that it is probable that the group will declare future dividends to utilise such STC credits.

Where dividends declared exceed the dividends received during a cycle, STC is payable at the current STC rate. STC is a charge against income, and is recognised in the taxation charge in the statement of comprehensive income in the same period as the related dividend is accrued as a liability.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within the normal operating cycle of the business. If not, they are presented as non-current liabilities.

Trade payables are measured initially at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of indirect taxes, estimated returns, rebates and discounts and after eliminated sales within the group.

Revenue from the sale of goods and the rendering of services is recognised when it is probable that the economic benefits associated with a transaction will flow to the group and the amount of revenue, and associated costs incurred or to be incurred, can be measured reliably.

1. Significant accounting policies (continued)

Revenue recognition (continued)

The main categories of revenue and the bases of recognition are as follows:

(a) Sale of starter packs

Revenue is recognised when the significant risks and rewards of ownership are transferred to the customer, and when the entity no longer retains continuing managerial involvement to the degree usually associated with ownership.

Activation bonuses received from the networks are recognised when the SIM card is activated on the relevant cellular phone network. Ongoing revenue and other incentives are recognised once certain criteria have been met. The point of activation is determined by the relevant cellular phone networks. For this category of revenue the group acts as a principal.

(b) Sales of prepaid airtime

Sales of prepaid airtime are recognised when the group sells the airtime to the customer. Sales are recorded based on the price specified in the sales contracts, net of discounts at the time of sale. The group accounts for the sale of prepaid airtime based on the substance of the arrangement. Where the group acts in its capacity as principal for the sale of airtime (for instance where the group bears inventory risk), revenue is recognised as the fair value of the consideration receivable net of discounts and taxes. Revenue is recognised at the point at which risks and rewards are transferred to the customer and the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the prepaid airtime.

Where the group is acting in its capacity as an agent in the sale of prepaid airtime (for instance where the group does not bear any inventory risk), the amount of revenue recorded is the fair value of commission received or receivable.

(c) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. These services include location-based services, SMS transaction services, media, call centre and data transaction revenue and technology revenue. For this category of revenue the group acts as a principal.

(d) Electricity commission

Commissions on the sale of prepaid electricity are recognised when the group sells electricity to the customer on behalf of the utility suppliers. Commissions are recorded based on agreed rates per the contracts. For this category of revenue the group acts as an agent.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

1. Significant accounting policies (continued)

Employee benefits

(a) Equity compensation benefit

The group operates an equity-settled forfeitable share incentive plan, under which the entity receives services from employees as consideration for equity instruments of the group. The fair value of the services received in exchange for the grant of forfeitable shares is recognised as an expense. The total amount to be expensed is determined by the fair value of the forfeitable shares granted. The total amount expensed is recognised over the vesting period, which is the period over which all of the vesting conditions are to be satisfied. At each reporting date, the entity recognises the impact of any shares that have been forfeited prior to the end of the vesting period, if any, in the statement of comprehensive income with a corresponding adjustment to equity.

The subsidiaries procure the shares in order to settle the award, but these are accounted for as a purchase of shares in the holding company, and only once the shares vest as the performance conditions are met would the share be derecognised. When shares are derecognised, the investment in shares in Blue Label Telecoms Limited will be credited and equity will be debited as a contribution to the shareholder.

(b) Bonus plans

The group recognises a liability and an expense for bonuses. A liability is recognised where the group is contractually obliged or where there is a past practice that has created a constructive obligation.

(c) Leave pay accrual

The group recognises a liability and an expense for leave. The accrued liability is determined by valuing all future leave expected to be taken and payments expected to be made in respect of benefits.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest rate method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which they are approved by the shareholders.

Core net profit

Core net profit is a non-IFRS measure used by the group in evaluating the group's performance. This supplements the IFRS measures. Core net profit is calculated by adjusting net profit for the year with the amortisation of intangible assets that arise as a consequence of the purchase price allocations completed in terms of IFRS 3 – *Business Combinations*.

Reconciliation of core net profit to relevant IFRS measures are presented in note 24 (core HEPS) and note 32 (segmental summary).

2. Critical accounting estimates and assumptions

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 discussed below.

(a) Assessment of goodwill for impairment

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Refer to note 5 for details on these estimates.

(b) Equity compensation benefit

In determining the number of forfeitable shares that will vest due to performance conditions being met, management assesses the attrition rates of staff based on the grades of staff that have been granted awards as well as the historic staff turnover.

(c) Income taxes

As with any enterprise, the group faces uncertainties in the markets in which it operates and over which it has little or no control. The group is subject to income tax in numerous jurisdictions and judgement is required in determining the provision for tax.

There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised to the extent that it is probable that taxable income will be available in the future against which these can be utilised. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, interest rates, inflation and competitive forces.

Changes in the estimates of the consideration could result in the recognition of material adjustments in future periods.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

2. Critical accounting estimates and assumptions (continued)

(d) Valuation of intangible assets acquired as part of a business combination

The fair values of all of the identifiable intangible assets acquired as part of a business combination are determined using recognised valuation techniques. Such techniques often rely on forecasts of future cash flows and the use of appropriate discount rates that reflect the risk factors associated with the cash flows.

These valuations are based on information at the time of the acquisition and the expectations and assumptions that have been deemed reasonable by the group's management. The risk exists that the underlying assumptions or events associated with such assets will not occur as projected. For these reasons, among others, the actual cash flows may vary from forecasts of future cash flows.

(e) Assessment of principal versus agent

Details of whether BLT acts as a principal or an agent in certain of its transactions is set out in the Revenue Recognition note. This assessment requires an analysis of whether BLT carries inventory risk and the customer's credit risk, whether BLT has the latitude to establish pricing and whether BLT has the primary responsibility for providing the goods or services to the customer.

(f) Purchased starter pack bases and post paid starter pack bases

The relative size of the group's purchased starter pack bases and post paid starter pack bases makes the judgements surrounding the estimated useful lives and residual values critical to the group's financial position and performance. Useful lives are reviewed on an annual basis with the effects of any changes in estimate accounted for on a prospective basis. The residual values of these assets are assumed to be zero. The current useful life of these bases is estimated to be seven to ten years, based on management's estimates and taking into account historical experience as well as future events which may impact the useful lives.

3. Financial risks

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.

Credit risk

Credit risk arises because a counterparty may fail to meet its obligations to the group. The group is exposed to credit risk on financial assets mainly in respect of trade receivables, loan receivables and cash and cash equivalents.

Trade receivables consist primarily of invoiced amounts from normal trading activities. The group has a diversified customer base and policies are in place to ensure sales are made to customers with an appropriate credit history and payment history. Individual credit limits are set for each customer and the utilisation of these credit limits is monitored regularly. Customers cannot exceed their set credit limit, without specific senior management approval. Such approval is assessed and granted on a case-by-case basis. Management regularly reviews the debtors age analysis and follows up on long-outstanding debtors. Where necessary, a provision for impairment is made. A portion of the group's customer base is made up of major retailers, with the balance of the customer base being widely dispersed.

The risk of starter pack receivables is assessed as low due to the fact that annuity income can be utilised in the settlement of the receivable balances.

Loans are only granted to holders with an appropriate credit history, taking into account the holder's financial position and past experience.

The group places cash and cash equivalents with major banking groups and quality institutions that have high credit ratings.

The group has significant concentrations of credit risk with Investec Bank Limited in line with its treasury function.

The group's maximum credit risk exposure is the carrying amount of all financial assets on the statement of financial position and sureties provided with the maximum amount the group could have to pay if the sureties are called on, amounting to R3.1 million (2012: R2.9 million).

Notes to the group annual financial statements continued

For the year ended 31 May 2013

3. Financial risks (continued)

Credit risk (continued)

The group considers its maximum exposure per class, without taking into account any collateral and financial guarantees, to be as follows:

	2013 R'000	2012 R'000
Loans receivable		
Group 1	10 971	—
Group 2	26 460	31 484
	37 431	31 484
Trade receivables		
Group 1	15 670	123 500
Group 2	1 407 614	1 224 050
Group 3	14 974	19 960
Total unimpaired trade receivables	1 438 258	1 367 510

Refer to note 12 for a breakdown of the provision raised for these trade receivables.

The effect of discounting of the trade receivables is not taken into account in the table above.

The rating groups for counterparties are categorised as follows:
Group 1 – New customers/related parties (less than six months).
Group 2 – Existing customers/related parties (more than six months) with no defaults in the past.
Group 3 – Existing customers/related parties (more than six months) with some defaults in the past. All defaults were fully recovered or are in the process of being recovered.

	2013 R'000	2012 R'000
3. Financial risks (continued)		
Cash at bank and short-term bank deposits		
Credit rating based on latest Fitch local currency long-term issuer default ratings		
AAA	**6**	198
A+	**434**	—
A-	**55 642**	39 000
BBB+	**—**	438 869
BBB	**221 357**	1 495 141
BBB-	**663 464**	—
B	**15**	—
Other	**298**	1 585
	941 216	1 974 793

Notes to the group annual financial statements continued

For the year ended 31 May 2013

3. Financial risks (continued)

Liquidity risk

Liquidity risk arises when a company encounters difficulties in meeting commitments associated with liabilities and other payment obligations. The group's objective is to maintain prudent liquidity risk management by maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the group aims to maintain flexibility in funding by keeping committed credit lines available.

Cash flow forecasting is performed in the operating entities of the group to ensure sufficient cash to meet operational needs while maintaining sufficient headroom to ensure that borrowing limits (where applicable) are not breached.

Surplus cash held by the operating entities over and above the balance required for working capital management is transferred to the group treasury. Group treasury invests surplus cash in interest-bearing accounts, identifying instruments with sufficient liquidity to provide adequate headroom as determined by the above mentioned forecasts.

The group has a short-term loan facility with Investec Bank Limited of R900 million. At year end, the facility was unutilised.

In the prior year, the group had the following short-term facilities with Investec Bank Limited: A R850 million facility which could be utilised as a guarantee or loan facility as well as a R350 million facility which could be utilised as a guarantee facility. These facilities had been utilised as guarantees. In addition, the group had a R300 million facility which could be utilised as a loan facility.

These facilities bear certain debt covenants. The group has not been placed in breach in respect of these covenants. The group has pledged certain securities in respect of these facilities. (Refer to notes 11, 12 and 13.)

The company and a subsidiary company issued a cross surety in respect of an overdraft facility in the amount of R19.8 million in favour of FNB, a division of FirstRand Bank Limited. This facility was unutilised as at 31 May 2013. In addition, the company and four of its subsidiaries had issued a cross surety in the amount of R1.7 million.

In the prior year the company and a subsidiary company issued a cross surety in respect of a guarantee and overdraft facility in the amount of R39.8 million in favour of FNB, a division of FirstRand Bank Limited. This facility was unutilised as at 31 May 2012. In addition, the company and four of its subsidiaries had issued a cross surety in the amount of R1.7 million.

3. Financial risks (continued)

The table below analyses the group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Maturity of financial liabilities

	Less than one month or on demand R'000	Payable in: More than one month but not exceeding one year R'000	More than one year but not exceeding two years R'000	More than two years but not exceeding five years R'000	More than five years R'000
2013					
Non-interest-bearing borrowings	**12 017**	—	—	—	—
Interest-bearing borrowings	**1 980**	—	—	—	—
Trade and other payables*	**907 800**	**1 452 762**	**22 301**	**570**	—
Total	**921 797**	**1 452 762**	**22 301**	**570**	—
2012					
Non-interest-bearing borrowings	12 017	—	—	—	—
Trade and other payables*	1 247 957	604 113	29 026	—	—
Total	1 259 974	604 113	29 026	—	—

* *Trade and other payables exclude non-financial instruments, being VAT and certain amounts included within accruals and sundry creditors.*

Notes to the group annual financial statements continued

For the year ended 31 May 2013

3. Financial risks (continued)

Market risk

Market risk is the risk that changes in market prices (interest rate and currency risk) will affect the group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The group is exposed to risks from movements in foreign exchange rates and interest rates that affect its assets, liabilities and anticipated future transactions. The group is not exposed to significant levels of price risk.

Fair value measurement hierarchy:

- Level 1: fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); or
- Level 3: fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

All financial assets at fair value through profit and loss are level 3 financial assets.

Cash flow and fair value interest rate risk

The group's cash flow interest rate risk arises from loans receivable, cash and cash equivalents and borrowings carrying interest at variable rates. The group is not exposed to fair value interest rate risk as the group does not have any fixed interest-bearing instruments carried at fair value.

The group's exposure to interest rate risk is reflected under the respective cash and cash equivalents and borrowings notes (notes 13 and 16). As part of the process of managing the group's exposure to interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates.

3. Financial risks (continued)

Foreign currency risk

The group is exposed to foreign currency risk from transactions and translation. Transaction exposure arises because affiliated companies undertake transactions in currencies other than their functional currency.

The group manages its exposure to foreign currency risk by ensuring that the net foreign currency exposure remains within acceptable levels. Hedging instruments may be used in certain instances to reduce risks arising from foreign currency fluctuations.

The group did not enter into any forward exchange contracts during the period under review.

IFRS 7 – Sensitivity analysis

The group has used a sensitivity analysis technique that measures the estimated change to the statement of comprehensive income of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates or a 10% strengthening or weakening of the rand against all other currencies, from the rates applicable at 31 May 2013, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

Interest rate risk

The interest rate sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect the interest income or expense of variable interest financial instruments;
- Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at fair value; and
- Under these assumptions, a 1% increase or decrease in market interest rates at 31 May 2013 would increase or decrease profit before tax by R9.6 million (2012: R19.8 million).

3. Financial risks (continued)

Foreign currency risk

Financial instruments by currency

	ZAR R'000	USD R'000	NgN R'000	GBP R'000	Total R'000
2013					
Financial assets					
Cash and cash equivalents	940 827	434	21	—	941 282
Trade and other receivables*	1 444 543	195	—	—	1 444 738
Loans receivable	37 431	—	—	—	37 431
	2 422 801	629	21	—	2 423 451
Financial liabilities					
Non-interest-bearing borrowings	12 017	—	—	—	12 017
Interest-bearing borrowings	1 980	—	—	—	1 980
Trade and other payables*	2 382 721	143	344	225	2 383 433
	2 396 718	143	344	225	2 397 430
Net financial position	26 083	486	(323)	(225)	26 021

3. Financial risks (continued)

Foreign currency risk (continued)

Financial instruments by currency (continued)

	ZAR R'000	USD R'000	NgN R'000	GBP R'000	Total R'000
2012					
Financial assets					
Cash and cash equivalents	1 973 384	773	1 085	—	1 975 242
Trade and other receivables*	1 374 954	118	1 755	—	1 376 827
Loans receivable	31 484	—	—	—	31 484
	3 379 822	891	2 840	—	3 383 553
Financial liabilities					
Non-interest-bearing borrowings	12 017	—	—	—	12 017
Trade and other payables*	1 880 335	27	692	43	1 881 097
	1 892 352	27	692	43	1 893 114
Net financial position	1 487 470	864	2 148	(43)	1 490 439

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

Notes to the group annual financial statements continued

For the year ended 31 May 2013

3. Financial risks (continued)

Foreign currency risk (continued)

With a 10% strengthening or weakening in the rand against all other currencies, profit before tax would have decreased or increased by R6 200. In the prior year, with a 10% strengthening or weakening in the rand against all other currencies, profit before tax would have increased or decreased by R0.3 million.

Capital risk

The group's objectives when managing capital are to safeguard the group's 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.

In order to maintain or adjust this capital structure, the company may issue new shares, adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt.

The group defines capital as capital and reserves and non-current borrowings. The group is not subject to externally imposed capital requirements.

There were no changes to the group's approach to capital management during the year.

Fair value measurement

For all short-term financial assets and liabilities, the carrying amount is regarded as an approximation of the fair value.

4. Property, plant and equipment

	Computer equipment R'000	Furniture and fittings R'000	Motor vehicles R'000
Year ended 31 May 2013			
Opening carrying amount	**11 184**	**4 588**	**7 154**
Additions	**10 748**	**367**	**4 617**
Disposals	**(338)**	**(385)**	**(2 033)**
Depreciation charge	**(7 822)**	**(1 413)**	**(2 229)**
Impairment charges*	**—**	**—**	**—**
Closing carrying amount	**13 772**	**3 157**	**7 509**
At 31 May 2013			
Cost	**43 498**	**9 327**	**12 192**
Accumulated depreciation	**(29 574)**	**(5 577)**	**(4 683)**
Accumulated impairments	**(152)**	**(593)**	**—**
Carrying amount	**13 772**	**3 157**	**7 509**
Year ended 31 May 2012			
Opening carrying amount	11 316	5 796	8 415
Additions	7 385	860	3 283
Disposals	(182)	(8)	(1 783)
Depreciation charge	(7 335)	(1 573)	(2 761)
Impairment charges*	—	(487)	—
Closing carrying amount	11 184	4 588	7 154
At 31 May 2012			
Cost	35 331	10 329	14 404
Accumulated depreciation	(23 995)	(5 148)	(7 250)
Accumulated impairments	(152)	(593)	—
Carrying amount	11 184	4 588	7 154

* *The impairment in the current and prior years mainly relate to the scrapping of terminals and vending machines. These terminals were scrapped due to technological redundancy, non-locatable devices and uneconomical for repair. These were scrapped at net book value. These impairments solely relate to the South African distribution segment.*

There are no property, plant and equipment assets that are encumbered.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

	Office equipment R'000	Leasehold improve-ments R'000	Terminals and vending machines R'000	Media equipment R'000	Plant and machinery R'000	Buildings R'000	Total R'000
	2 453	**31 052**	**53 767**	**114**	**44**	**1 832**	**112 188**
	245	**652**	**3 382**	**—**	**31**	**—**	**20 042**
	(103)	**(45)**	**(852)**	**—**	**(30)**	**—**	**(3 786)**
	(1 393)	**(7 615)**	**(16 436)**	**—**	**(3)**	**—**	**(36 911)**
	—	**(438)**	**(2 970)**	**—**	**—**	**—**	**(3 408)**
	1 202	**23 606**	**36 891**	**114**	**42**	**1 832**	**88 125**
	6 476	**46 989**	**90 110**	**114**	**53**	**1 832**	**210 591**
	(4 854)	**(22 945)**	**(48 632)**	**—**	**(11)**	**—**	**(116 276)**
	(420)	**(438)**	**(4 587)**	**—**	**—**	**—**	**(6 190)**
	1 202	**23 606**	**36 891**	**114**	**42**	**1 832**	**88 125**
	3 331	38 677	68 150	1 673	557	1 832	139 747
	248	483	17 491	114	36	—	29 900
	(4)	(559)	(802)	(1 410)	(336)	—	(5 084)
	(1 122)	(7 549)	(18 772)	(263)	(213)	—	(39 588)
	—	—	(12 300)	—	—	—	(12 787)
	2 453	31 052	53 767	114	44	1 832	112 188
	7 052	49 790	110 086	114	143	1 832	229 081
	(4 179)	(18 738)	(54 702)	—	(99)	—	(114 111)
	(420)	—	(1 617)	—	—	—	(2 782)
	2 453	31 052	53 767	114	44	1 832	112 188

	Goodwill R'000	Trademarks R'000	Customer listing R'000
5. Intangible assets			
Year ended 31 May 2013			
Opening carrying amount	**213 498**	**2 730**	**1 967**
Additions	**14 729**	**8**	**330**
Disposals	**(10 592)**	**(76)**	**—**
Amortisation charge	**—**	**(687)**	**(815)**
Closing carrying amount	**217 635**	**1 975**	**1 482**
At 31 May 2013			
Cost	**248 501**	**6 835**	**33 147**
Accumulated amortisation	**(4 746)**	**(4 860)**	**(31 665)**
Accumulated impairments	**(26 120)**	**—**	**—**
Carrying amount	**217 635**	**1 975**	**1 482**
Year ended 31 May 2012			
Opening carrying amount	214 834	3 385	2 800
Additions	5 847	83	—
Disposals	(2 499)	(25)	—
Amortisation charge	—	(713)	(833)
Impairment charges	(4 684)	—	—
Closing carrying amount	213 498	2 730	1 967
At 31 May 2012			
Cost	239 618	6 918	32 817
Accumulated amortisation	—	(4 188)	(30 850)
Accumulated impairments	(26 120)	—	—
Carrying amount	213 498	2 730	1 967

* *Included in the amortisation charge is an amount of R51 million (2012: R32 million) in respect of the purchased starter pack bases and post paid bases, which is charged to the changes in inventories of finished goods line in the statement of comprehensive income.*

** *This represents independently distributed starter pack bases and post paid bases purchased during the current and prior year. The remaining amortisation periods range between 43 months and 115 months.*

The carrying amount of goodwill and intangible assets have been reduced to their recoverable amounts through recognition of an impairment loss when required.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

Distribution agreement R'000	Computer software R'000	Internally generated software R'000	Franchise fees R'000	Customer relationships R'000	Purchased starter pack bases and post paid bases** R'000	Total R'000
4 310	**30 764**	**21 837**	**6 897**	**5 810**	**217 885**	**505 698**
—	**6 266**	**7 346**	**—**	**4 825**	**263 997**	**297 501**
(2 841)	**(172)**	**(70)**	**(4 500)**	**—**	**—**	**(18 251)**
(746)	**(11 308)**	**(7 444)**	**(786)**	**(5 846)**	**(51 298)***	**(78 930)**
723	**25 550**	**21 669**	**1 611**	**4 789**	**430 584**	**706 018**
11 806	**72 010**	**57 636**	**3 118**	**131 348**	**526 169**	**1 090 570**
(9 205)	**(46 050)**	**(21 400)**	**(1 507)**	**(125 944)**	**(95 585)**	**(340 962)**
(1 878)	**(410)**	**(14 567)**	**—**	**(615)**	**—**	**(43 590)**
723	**25 550**	**21 669**	**1 611**	**4 789**	**430 584**	**706 018**
5 670	30 165	25 030	2 132	19 813	129 684	433 513
—	11 754	2 606	5 400	—	120 593	146 283
—	—	—	—	—	—	(2 524)
(1 360)	(11 155)	(5 595)	(635)	(14 003)	(32 392)*	(66 686)
—	—	(204)	—	—	—	(4 888)
4 310	30 764	21 837	6 897	5 810	217 885	505 698
16 716	75 107	52 874	8 518	126 673	262 172	821 413
(10 528)	(43 933)	(16 470)	(1 621)	(120 248)	(44 287)	(272 125)
(1 878)	(410)	(14 567)	—	(615)	—	(43 590)
4 310	30 764	21 837	6 897	5 810	217 885	505 698

5. Intangible assets (continued)

The cash-generating units to which goodwill is allocated are presented below:

	2013 R'000	2012 R'000
Blue Label Distribution Proprietary Limited	**36 364**	36 364
Blue Label Engage Proprietary Limited[3]	**2 742**	—
Cellfind Proprietary Limited	**21 406**	21 406
Content Connect Africa Proprietary Limited[1]	**—**	4 745
Crown Cellular	**62 113**	62 113
Multiserv Proprietary Limited[2]	**—**	5 847
Panacea Mobile Proprietary Limited[3]	**6 883**	—
TicketPros Proprietary Limited[3]	**5 104**	—
Datacel Group	**83 023**	83 023
	217 635	213 498

[1] *In the prior year, a portion of the goodwill arising on the acquisition of Content Connect Africa Proprietary Limited was impaired due to the fair value less cost to sell being less than the carrying value. Content Connect Africa Proprietary Limited was disposed of in the current year (refer to note 27).*

[2] *Multiserv Proprietary Limited was acquired in the prior year (refer to note 28.1) and disposed of in the current year (refer to note 27).*

[3] *Blue Label Engage Proprietary Limited, Panacea Mobile Proprietary Limited and TicketPros Proprietary Limited were acquired in the current year (refer to note 28.1).*

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The recoverable amount, which is the higher of fair value less cost to sell and value in use of CGUs, has been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the board of directors for the forthcoming year and forecasts for up to five years which are based on assumptions of the business, industry and economic growth. Cash flows beyond this period are extrapolated using terminal growth rates, which do not exceed the expected long-term economic growth rate.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

5. Intangible assets (continued)

The key assumptions used for the value-in-use calculations are as follows:

	2013 Growth rate %	2013 Discount rate %	2012 Growth rate %	2012 Discount rate %
Blue Label Distribution Proprietary Limited	4.20	14.79	4.20	15.97
Blue Label Engage Proprietary Limited	4.00	17.99	—	—
Cellfind Proprietary Limited	4.00	17.49	4.00	18.46
Crown Cellular	4.50	16.29	4.50	18.46
Multiserv Proprietary Limited	—	—	4.50	20.45
Panacea Mobile Proprietary Limited	4.00	17.49	—	—
TicketPros Proprietary Limited	4.20	14.79	—	—
Datacel Group	2.50	21.73	2.50	21.73

The discount rates used are pre-tax and reflect specific risks relating to the relevant companies. The growth rate is used to extrapolate cash flows beyond the budget period.

If one or more of the inputs were changed to a reasonable possible alternative assumption, there would be no further significant impairments that would have to be recognised.

The recoverable amount of Content Connect Africa Proprietary Limited was based on fair value less cost to sell. The fair value is based on indicative sales values for the respective businesses. Content Connect Africa Proprietary Limited was disposed of in the current year and SharedPhone International Proprietary Limited was disposed of in the prior year.

The valuation of the goodwill balances did not result in goodwill impairment charges for the year (2012: R4.7 million).

Refer to note 32 for details of impairments per segment.

	2013 R'000	2012 R'000
6. Investments in associates and joint ventures		
Cost and share of reserves at the beginning of the year	**224 551**	218 027
Acquisition of joint venture	**138 174**	—
Share of losses from associates and joint ventures	**(47 326)**	(19 835)
Share of results after tax	**(43 150)**	(16 387)
Amortisation of intangible assets	**(5 800)**	(4 788)
Deferred tax on intangible assets amortisation	**1 624**	1 340
Foreign currency translation reserve	**79 722**	30 433
Equity compensation benefit	**77**	(596)
Dividends received	**(750)**	(453)
Disposal of joint ventures	**2 273**	(3 025)
Cost and share of reserves at the end of the year	**396 721**	224 551
Loans at the beginning of the year	**132 920**	21 970
Loans granted to associates and joint ventures	**94 161**	104 517
Loans repaid by associates and joint ventures	**—**	(1 228)
Disposal of joint ventures	**(1 110)**	—
Loans impaired	**(2 039)**	—
Loan granted to joint venture capitalised	**(112 822)**	—
Unrealised foreign exchange profit on loans to associates and joint ventures	**16 331**	7 661
Loans at the end of the year	**127 441**	132 920
Closing net book value	**524 162**	357 471

Investments in associates and joint ventures include goodwill to the value of R257 million (2012: R205 million).

There was no impairment of investment in associates and joint ventures. The average terminal growth rates applied were between 1% and 4.5% (2012: 1.5% and 4.5%). The weighted average cost of capital used to discount these cash flows ranged between 17.8% and 18.03% (2012: 17.96% and 18.28%). The discount rates used are pre-tax and reflect specific risks relating to the relevant companies.

If one or more of the inputs were changed to a reasonable possible alternative assumption, there would be no further significant impairments that would have to be recognised.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

6. Investments in and loans to associates and joint ventures (continued)

Loans to associates and joint ventures

	Interest rate	2013 R'000	2012 R'000
Oxigen Services India (Private) Limited	Libor + 1.5%	**18 643**	18 643
Blue Label Mexico S.A. de C.V.	4.50%	**—**	27 829
2DFine Holdings Mauritius*	9.50%	**108 798**	83 890
Bela Phone Company Proprietary Limited	—	**—**	2 260
E-mail Marketing Solutions Proprietary Limited	—	**—**	46
Betterquote Proprietary Limited	—	**—**	252
	—	**127 441**	132 920

** Refer to note 30 for details on the surety relating to this loan.*

The loans are neither past due nor impaired with a low risk of default.

Loans to associates and joint ventures have no fixed terms of repayment.

Shares in associates and joint ventures acquired during the year

	Joint venture	Date acquired	Effective percentage
Blue Label Mexico S.A. de C.V.		1 September 2012	5

On 1 September 2012 Blue Label Telecoms acquired a further 5% in Blue Label Mexico S.A. de C.V. (BLM) for a purchase consideration of R21.1 million. A further capital contribution of R89.2 million was advanced to BLM during the year. The loan balance at 31 May 2012 amounting to R27.8 million was capitalised during the year.

In June 2011, Blue Label Telecoms acting through its wholly owned subsidiary, Gold Label Investments, acquired a 50% interest in 2DFine Holdings Mauritius. The investment is classified as a joint venture as unanimous approval of the shareholders is required for decisions. 2DFine Holdings Mauritius holds 37.22% of Oxigen Services India. In terms of IFRS, an entity does not aggregate its interests held through associates and joint ventures when assessing for control as BLT through this relationship cannot direct the financial and operating policies of Oxigen Services India. Therefore, even though BLT has an effective interest of 55.83% in Oxigen Services India, the group neither controls nor jointly controls Oxigen Services India.

Shares in associates and joint ventures disposed during the year

	Joint venture	Date disposed	Effective percentage
E-mail Marketing Solutions Proprietary Limited	Joint venture	31 October 2012	41
Betterquote Proprietary Limited	Joint venture	31 August 2012	21
Bela Phone Company Proprietary Limited	Joint venture	1 May 2013	51

6. Investments in and loans to associates and joint ventures (continued)

Associates

The group's interest in its principal associates, which are unlisted, is as follows:

Name	Country of incorporation	Assets R'000
2013		
Smart Voucher Limited trading as Ukash	United Kingdom	**647 550**
Oxigen Services India (Private) Limited	India	**194 734**
Dual Data Proprietary Limited	South Africa	**3**
2012		
Smart Voucher Limited trading as Ukash	United Kingdom	430 979
Oxigen Services India (Private) Limited	India	152 191
Dual Data Proprietary Limited	South Africa	8

** Less than R1 000.*

There are no contingent liabilities relating to the group's interest in associates. For details on related party transactions, refer to note 30.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

Liabilities R'000	Revenues R'000	Profit/(loss) R'000	Effective percentage interest held	Net book value R'000
471 111	**357 247**	**51 408**	**17.25**	**65 652**
135 757	**3 044 819**	**1 270**	**55.83**	**79 992**
—	**—**	**(4)**	**50**	**4**
326 694	241 623	39 659	17.25	49 773
102 370	2 575 239	4 859	55.83	77 598
—	—	12	50	6

6. Investments in and loans to associates and joint ventures (continued)

Set out below is the summarised financial information of joint ventures:

Name	Country of incorporation	Non-current assets R'000	Current assets R'000
2013			
Blue Label Mexico S.A. de C.V.	Mexico	**218 686**	**130 600**
2DFine Holdings Mauritius	Mauritius	**96 570**	**1**
Datacision Proprietary Limited	South Africa	**122**	**6 374**
2012			
Blue Label Mexico S.A. de C.V.	Mexico	76 097	52 993
2DFine Holdings Mauritius	Mauritius	82 106	1
Bela Phone Company Proprietary Limited	South Africa	30	2 342
E-mail Marketing Solutions Proprietary Limited	South Africa	—	—
Betterquote Proprietary Limited	South Africa	*	*
Datacision Proprietary Limited	South Africa	124	5 651

** Less than R1 000.*

Blue Label Telecoms Limited has guaranteed 45% of the amount owed by BLM to Radiomovil Dipsa S.A. de C.V. (trading as Telcel). At year end there is no balance due to them by BLM.

There are no other contingent liabilities relating to the group's interest in joint ventures. For details on related party transactions, refer to note 30.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

Non-current liabilities R'000	Current liabilities R'000	Revenues R'000	Profit/ (loss) R'000	Effective percentage interest held	Net book value R'000
—	**73 551**	**1 742 863**	**(113 155)**	**45**	**274 672**
—	**110 093**	**—**	**(9 274)**	**50**	**102 029**
—	**2 875**	**20 753**	**2 603**	**50**	**1 813**
—	79 988	859 592	(59 155)	40	146 344
84 367	275	—	(2 305)	50	82 617
—	6 181	1 511	(1 000)	51	318
—	135	148	(135)	41	(25)
—	2	*	(2)	21	(421)
—	3 262	10 430	1 659	50	1 261

	2013 R'000	2012 R'000
7. Loans receivable		
Interest-free loans	**21 285**	23 148
Interest-bearing loans receivable	**16 146**	8 336
	37 431	31 484
Less: Amounts included in current portion of loans receivable	**(36 431)**	(30 049)
	1 000	1 435

Non-interest-bearing loans are unsecured and have no fixed terms of repayment. Interest-bearing loans bear interest at an average of between prime and prime plus 2% and are unsecured. Interest-bearing loans amounting to R7.9 million have no repayment terms; the remaining balance is repayable over an average of one year.

The loans receivable are neither past due nor impaired with a low risk of default. Of this amount, R20 million (2012: R23 million) relates to loans receivable from related parties, which are interest free (refer to note 30).

	2013 R'000	2012 R'000
8. Starter pack assets		
Balance at the beginning of the year	**7 692**	37 138
Additions	**8 388**	5 078
Impairments*	**(4 007)**	(3 534)
Disposals*	**(8 385)**	(30 990)
At the end of the year	**3 688**	7 692
Less: Current portion	**(1 115)**	(3 191)
	2 573	4 501

* *These impairments and disposals are charged to the statement of comprehensive income and are included in changes in inventories of finished goods. The impairments represent the value of starter packs that management considers the probability of activation to be low. The disposals represent starter packs that have activated during the year.*

Notes to the group annual financial statements continued

For the year ended 31 May 2013

9. Deferred taxation

	Capital allow-ances R'000	Fair value gains R'000	Pro-visions R'000	Tax losses R'000	Pre-pay-ments R'000	Other R'000	Total R'000
At 31 May 2011	1 799	20 776	(5 951)	(18 263)	2 534	3 254	4 149
Charge/(credited) to statement of comprehensive income	(697)	(6 898)	1 416	7 874	173	1 810	3 678
Acquisition of subsidiary	—	1 512	—	—	—	—	1 512
Disposal of subsidiary	81	—	26	553	(181)	(3)	476
At 31 May 2012	**1 183**	**15 390**	**(4 509)**	**(9 836)**	**2 526**	**5 061**	**9 815**
Charge/(credited) to statement of comprehensive income	**(1 697)**	**(3 556)**	**(12 975)**	**(1 466)**	**(369)**	**1 392**	**(18 671)**
Acquisition of subsidiaries	**—**	**2 734**	**—**	**—**	**—**	**—**	**2 734**
Disposal of subsidiaries	**429**	**(1 260)**	**418**	**355**	**(355)**	**(55)**	**(468)**
At 31 May 2013	**(85)**	**13 308**	**(17 066)**	**(10 947)**	**1 802**	**6 398**	**(6 590)**

	2013 R'000	2012 R'000
9. Deferred taxation (continued)		
Deferred tax asset comprises:		
Capital allowances	**(876)**	(1 372)
Provisions	**(17 066)**	(4 578)
Tax losses	**(10 947)**	(9 836)
Other	**(2 351)**	(1 546)
Total deferred tax asset	**(31 240)**	(17 332)
Deferred tax liability comprises:		
Capital allowances	**791**	2 555
Fair value gains	**13 308**	15 390
Provisions	**—**	69
Prepayments	**1 802**	2 526
Other	**8 749**	6 607
Total deferred tax liability	**24 650**	27 147
Net deferred tax (asset)/liability	**(6 590)**	9 815
The analysis of deferred tax assets and deferred tax liabilities is as follows:		
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	**(6 159)**	(5 200)
Deferred tax assets to be recovered within 12 months	**(12 373)**	(6 583)
Net deferred tax asset	**(18 532)**	(11 783)
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	**10 542**	43
Deferred tax liabilities to be recovered within 12 months	**1 400**	21 555
Net deferred tax liability	**11 942**	21 598
Net deferred tax (asset)/liability	**(6 590)**	9 815

Where deferred tax assets have been recognised in respect of entities which have incurred losses in the current or prior years, a formal process of assessment of the future profitability of the entity has been performed based on detailed budgets and cash flow forecasts. As a result, management believes that the current tax losses will be utilised within one to five years.

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The group did not recognise deferred income tax assets of R33.2 million (2012: R23.1 million) in respect of losses amounting to R118.5 million (2012: R82.6 million) that can be carried forward against future taxable income.

There is no withholding tax that would be payable on any dividends received from the group's associates and joint ventures and therefore no deferred tax has been raised in this regard.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

		2013 R'000	2012 R'000
10.	**Financial assets at fair value through profit or loss**		
	Balance at the beginning of the year	**—**	10
	Movements in financial assets at fair value through profit or loss	**—**	(10)
	At the end of the year	**—**	—
	Changes in the fair value of these assets are recorded in other expenses.		
	This financial asset was disposed of in the prior year.		
11.	**Inventories**		
	Finished goods – airtime and related products	**1 858 511**	539 221
		1 858 511	539 221

Inventory impairments of R1.5 million (2012: R9.7 million) have been charged to the statement of comprehensive income and are included in other expenses.

Inventories with a cost of R17.7 billion (2012: R17.5 billion) were sold during the year and have been charged to the statement of comprehensive income and are included in changes of inventories of finished goods.

A general notarial bond is held by Investec Bank Limited over airtime up to R900 million (2012: R750 million).

	2013 R'000	2012 R'000
12. Trade and other receivables		
Trade receivables	**1 427 759**	1 367 827
Less: Provision for impairment	**(7 639)**	(12 025)
	1 420 120	1 355 802
Sundry debtors and prepayments	**23 806**	20 970
VAT	**81 003**	3 332
Receivables from related parties (refer to note 30)	**14 436**	7 546
	1 539 365	1 387 650

The carrying value of trade and other receivables approximates their fair value.

The group's exposure to credit and currency risk relating to trade and other receivables is disclosed in note 3.

The ageing of trade receivables at the reporting date is as follows:

	Gross R'000	Impairment R'000	Net R'000
31 May 2013			
Fully performing	**1 381 922**	**—**	**1 381 922**
Past due by one to 30 days	**27 992**	**543**	**27 449**
Past due by 31 to 60 days	**7 969**	**281**	**7 688**
Past due by 61 to 90 days	**5 551**	**749**	**4 802**
Past due by more than 90 days	**22 463**	**6 066**	**16 397**
	1 445 897	**7 639**	**1 438 258**
31 May 2012			
Fully performing	1 306 219	585	1 305 634
Past due by one to 30 days	35 128	579	34 549
Past due by 31 to 60 days	3 782	395	3 387
Past due by 61 to 90 days	2 213	429	1 784
Past due by more than 90 days	32 193	10 037	22 156
	1 379 535	12 025	1 367 510

Receivables in respect of starter packs are included in fully performing debtors above.

Trade debtors are fair valued at a discount rate of 8% per annum (2012: 8% per annum) based on average debtors' days outstanding. The effect of discounting of the trade receivables balance of R3.702 million (2012: R4.162 million) is not taken into account in the above table.

The trade receivables that are neither past due nor impaired relate to a number of independent customers for whom there is no recent history of default.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

		2013 R'000	2012 R'000
12.	**Trade and other receivables (continued)**		
	Provision for impairment of receivables		
	Balance at the beginning of the year	**12 025**	14 064
	Allowances made during the year	**3 796**	3 318
	Disposal of subsidiaries	**(2 335)**	—
	Amounts utilised and reversal of unutilised amounts	**(5 847)**	(5 357)
	At 31 May	**7 639**	12 025

Impairment of receivables is determined after assessing the nature of the customer, their geographic location and specific circumstances.

The group believes that the above provision for impairment of receivables sufficiently covers the risk of default.

There is a cession of trade receivables of R1.352 billion (2012: R1.317 billion) in favour of Investec Bank Limited as security for facilities referred to in note 3.

		2013 R'000	2012 R'000
13.	**Cash and cash equivalents**		
	Cash at bank	**941 216**	1 974 793
	Cash on hand	**66**	449
		941 282	1 975 242

Guarantees to the value of R0.66 billion (2012: R1.06 billion) are issued by Investec Bank Limited in favour of suppliers, on behalf of the group.

14. Assets and liabilities of disposal group classified as held-for-sale and discontinued operation

Plan to dispose of Africa Prepaid Services Nigeria Limited

In the 2011 financial year, the board of directors committed to disposing of the majority of assets and liabilities of Africa Prepaid Services Nigeria Limited to a third party in Nigeria. The sale was concluded on 15 June 2011. The group has recognised the assets and liabilities of this disposal group at fair value less cost to sell. Fair value has been determined based on prices set as per the sales agreement.

Analysis of profit for the year from discontinued operation

The results of the discontinued operation of Africa Prepaid Services Nigeria, which were included in the consolidated statement of comprehensive income in the prior year, are set out below.

The discontinued operation was contained in the international segment.

	Note	**2013 R'000**	2012 R'000
Profit for the year from discontinued operation			
Revenue		—	6 690
Changes in inventories of finished goods		—	(6 535)
Employee compensation and benefit expense		—	(1 576)
Other expenses		—	(13 676)
Operating loss	21	—	(15 097)
Finance income		—	4
Net loss before taxation from discontinued operation		—	(15 093)
Taxation		—	(362)
Net loss for the year from discontinued operation		—	(15 455)
Other comprehensive (loss)/income from discontinued operation:			
Foreign currency translation reserve recycled to profit or loss		—	—
Other comprehensive profit for the year, net of tax		—	—
Total comprehensive loss for the year		—	(15 455)
Cash flows from discontinued operation			
Operating cash flows		—	(8 850)
Investing cash flows		—	—
Total cash flows		—	(8 850)

Notes to the group annual financial statements continued

For the year ended 31 May 2013

	2013 Number of shares	2012 Number of shares	2013 R'000	2012 R'000
15. Share capital				
Authorised				
Total authorised share capital of ordinary shares (par value of R0.000001 each)	**1 000 000 000**	1 000 000 000	**1**	1
Issued				
Balance at the beginning of the year	**661 501 917**	756 269 004	*****	*
Shares acquired during the year	**(2 567 171)**	(95 078 724)	*****	*
Shares vested during the year	**2 700 512**	311 637	*****	*
Balance at the end of the year	**661 635 258**	661 501 917	*****	*

** Less than R1 000.*

The total number of shares in issue, including shares held as treasury shares as at 31 May 2013, is 674 509 042 (2012: 674 509 042).

The company acquired 2 567 171 (2012: 3 226 872) shares on the JSE in order to grant forfeitable shares to employees and directors.

The amount paid to acquire these shares was R17 222 717 (2012: R16 095 018). An amount of R17 222 717 (2012: R16 095 018) has been deducted from shareholders' equity.

These shares are held as "treasury shares".

See note 33 for details on the forfeitable shares.

In the prior year, the company acquired 91 851 852 shares from Microsoft Corporation representing 11.99% of the Blue Label ordinary shares in issue prior to the specific repurchase. The amount paid for these shares, including transaction costs, was R392 377 518. These shares were cancelled in the prior year.

The directors of the company have unrestricted authority until the following annual general meeting to allot and issue, other than for cash, as they in their discretion deem fit, the unissued ordinary shares of the company as at 31 May 2012, subject to the provisions of the memorandum of incorporation of the company, the Companies Act and the Listings Requirements of the JSE.

	2013 R'000	2012 R'000
16. Borrowings		
Interest-bearing borrowings	**1 980**	—
Non-interest-bearing borrowings	**12 017**	12 017
	13 997	12 017
Less: Amounts included in current portion of borrowings	**(13 997)**	(12 017)
	—	—

The group did not default on any loans or breach any terms of the underlying agreements during the period. The carrying value of interest-bearing borrowings approximates their fair value. Borrowings are unsecured and have no fixed terms of repayment. Interest-bearing borrowings bear interest at prime + 2%.

	2013 R'000	2012 R'000
17. Trade and other payables		
Trade payables	**2 221 412**	1 771 367
Accruals	**144 980**	114 810
Sundry creditors	**20 850**	3 318
VAT	**5 455**	67 519
Payables to related parties (refer to note 30)	**525**	3 216
	2 393 222	1 960 230
Less: Amounts included in current portion of trade and other payables	**(2 393 222)**	(1 931 204)
	—	29 026

Trade creditors are fair valued at a discount rate of 8% per annum (2012: 8% per annum) based on average creditors' days outstanding.

	2013 R'000	2012 R'000
18. Provision		
Opening balance	**6 260**	8 676
Additions	**535 279**	379 684
Used during the year	**(522 510)**	(382 100)
	19 029	6 260

The provision raised represents the value of electricity vouchers sold and unredeemed as at year end, payable by the group to the municipalities on redemption by the end customer.

Redemption is dependent on activation by customers. This is expected to occur within the first quarter of the following financial year.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

		2013 R'000	2012 R'000
19.	**Revenue**		
	Continuing operations		
	Prepaid airtime	**17 836 001**	17 679 209
	Starter packs	**601 110**	507 501
	Services	**282 312**	285 610
	Electricity commission	**113 434**	84 505
	Other revenue	**151 353**	158 565
		18 984 210	18 715 390
	Discontinued operation		
	Prepaid airtime	**—**	6 690
		—	6 690
20.	**Employee compensation and benefit expense**		
	Continuing operation		
	Salaries and wages	**257 447**	250 062
	Bonuses	**58 455**	53 874
	Equity compensation	**16 180**	22 126
	Other	**819**	1 768
		332 901	327 830
	Average number of employees for the year was 1 157 (2012: 1 340)		
	Discontinued operation		
	Salaries and wages	**—**	1 576
		—	1 576
	Average number of employees in the prior year was 1.		

21. Operating profit

	2013 R'000	2012 R'000
The following items have been charged/(credited) in arriving at operating profit:		
Continuing operations		
Advertising and promotional expenses	11 079	3 526
Amortisation of intangible assets	78 930	66 686
Audit fees – services as auditors	11 816	11 524
Audit fees – other	942	1 349
Bank charges	5 344	13 935
Communication costs	6 290	8 065
Confidential once-off other income*[1]	—	(79 400)
Consulting fees	17 533	12 298
Courier and postage	3 311	3 739
Depreciation	36 911	39 588
Foreign exchange profit*	(8 101)	(8 741)
Impairment of loans	8 400	268
Impairment of trade receivables	8 381	20 830
Impairment of trade receivables – provision	(4 386)	(2 039)
Impairment of intangible assets	—	204
Impairment of property, plant and equipment	3 408	12 787
Impairment of goodwill	—	4 684
Impairment of inventory	1 453	9 686
Insurance	6 491	7 576
IT infrastructure costs and computer-related costs	19 480	17 978
Legal fees	34 693	20 329
Local travel	6 459	6 259
(Profit)/loss on disposal of subsidiaries	(120)	3 014
(Profit)/loss on disposal of joint ventures	(2 273)	3 025
Management fees paid	2 208	455
Management fees received*	(923)	(962)
Motor vehicle expenses	8 886	9 235
Operating lease rentals – equipment	3 568	3 600
Operating lease rentals – premises	29 948	30 627
Overseas travel	2 891	2 404
Printing and stationery	1 758	2 141
Profit on disposal of investments*	—	(615)
Profit on disposal of property, plant and equipment*	(789)	(90)
Repairs and maintenance	10 897	7 266

** Included in other income on the group statement of comprehensive income.*
[1] The source and circumstances of this receipt are prohibited by a confidentiality agreement.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

	2013 R'000	2012 R'000
21. Operating profit (continued)		
Discontinued operation		
Audit fees – services as auditors	—	839
Bank charges	—	821
Communication costs	—	58
Computer-related (recoveries)/costs	—	(126)
Consulting fees	—	1 130
Courier and postage	—	25
Foreign exchange loss	—	5 431
Insurance recovered	—	(40)
Local travel	—	60
Motor vehicle expenses	—	120
Operating lease rentals – premises	—	794
Overseas travel	—	582
Printing and stationery	—	30
Rent and security	—	193
Repairs and maintenance	—	15

	2013 R'000	2012 R'000
22. Finance (income)/costs		
Interest paid		
Continuing operations		
– Bank	**77**	2 487
– Loans	**23 196**	573
– Other	**494**	247
– Discounting of payables	**143 329**	177 774
	167 096	181 081
Interest received		
Continuing operations		
– Bank	**(34 361)**	(57 172)
– Loans	**(1 469)**	(2 202)
– Other	**(9 659)**	(352)
– Discounting of receivables	**(127 771)**	(111 269)
	(173 260)	(170 995)
Discontinued operation		
– Bank	**—**	(4)
	—	(4)
Net finance (income)/cost – Continuing operations	**(6 164)**	10 086
Net finance income – Discontinued operation	**—**	(4)

Notes to the group annual financial statements continued

For the year ended 31 May 2013

	2013 R'000	2012 R'000
23. Taxation		
Current tax	**215 075**	178 917
Current year	**214 899**	175 969
Prior year adjustment	**176**	2 948
Deferred tax	**(18 671)**	3 678
Current year	**(18 663)**	2 640
Prior year adjustment	**(8)**	1 038
STC	**—**	11 480
	196 404	194 075
Profit before tax	**604 509**	629 004
Tax at 28%	**169 263**	176 121
Income not subject to tax	**(4 524)**	(538)
Expenses not deductible for tax purposes	**7 473**	6 766
Capital gains	**55**	(11 050)
STC	**—**	11 480
Utilisation of previously unrecognised tax losses	**(1 199)**	(5 101)
Tax effect of assessed losses not recognised	**11 841**	6 965
Share of losses from associates	**13 251**	5 554
Prior year adjustment	**168**	3 986
Effect of different tax dispensations	**76**	(108)
Tax charge	**196 404**	194 075

	2013	2012
24. Earnings per share		
a) Basic		
Basic earnings per share are calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.		
Profit from continuing operations attributable to equity holders of the company (R'000)	**424 841**	443 597
Loss from discontinued operations attributable to equity holders of the company (R000)	**—**	(5 493)
Profit attributable to equity holders of the company (R'000)	**424 841**	438 104
Weighted average number of ordinary shares in issue (thousands)	**661 578**	708 060
Basic earnings per share (cents per share)		
From continuing operations (cents per share)	**64.22**	62.65
From discontinued operations (cents per share)	**—**	(0.78)
	64.22	61.87

Notes to the group annual financial statements continued

For the year ended 31 May 2013

24. Earnings per share (continued)

b) Headline

Headline earnings are calculated applying the principles contained in SAICA circular 3/2012.

The weighted average number of ordinary shares used, is the same as that used for the basic earnings per share.

	2013			
	Profit before tax and non-controlling interest R'000	Tax R'000	Non-controlling interest R'000	Headline earnings R'000
Profit attributable to equity holders of the company	604 509	(196 404)	16 736	424 841
Profit on disposal of property, plant and equipment	(789)	221	6	(562)
Profit on disposal of subsidiaries	(120)	—	—	(120)
Profit on disposal of joint ventures	(2 273)	—	166	(2 107)
Impairment of property, plant and equipment	3 408	(954)	—	2 454
Headline earnings				424 506
Weighted average number of ordinary shares in issue (thousands)				661 578
Headline earnings per share (cents per share)				64.17

24. Earnings per share (continued)

b) Headline (continued)

	2012			
	Profit before tax and non-controlling interest R'000	Tax R'000	Non-controlling interest R'000	Headline earnings R'000
Profit attributable to equity holders of the company	613 911	(194 437)	18 630	438 104
Profit on disposal of property, plant and equipment	(90)	25	—	(65)
Loss on disposal of subsidiary	3 014	—	—	3 014
Loss on disposal of associate	3 025	—	—	3 025
Impairment of property, plant and equipment	12 787	(3 580)	—	9 207
Impairment of intangible asset	204	(57)	—	147
Impairment of goodwill	4 684	—	—	4 684
Profit on disposal of investment	(615)	115	139	(361)
Headline earnings				457 755
Weighted average number of ordinary shares in issue (thousands)				708 060
Headline earnings per share (cents per share)				64.65

Notes to the group annual financial statements continued

For the year ended 31 May 2013

24. Earnings per share (continued)

c) Diluted – basic and headline

Diluted earnings per share are calculated by adjusting the number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The only dilutive potential ordinary shares of the company are the forfeitable shares granted. For this calculation an adjustment is made for the number of shares that would be issued on vesting under the forfeitable share plan.

There are no potential dilutive instruments relating to the discontinued operations.

	2013	2012
Basic earnings (R'000)	**424 841**	438 104
Issued number of ordinary shares (thousands)	**661 578**	708 060
Adjusted for forfeitable shares (thousands)	**10 727**	10 518
Weighted average number of ordinary shares for dilutive earnings (thousands)	**672 305**	718 578
Dilutive basic earnings per share (cents per share)	**63,19**	60,97
Headline earnings (R'000)	**424 506**	457 755
Weighted average number of ordinary shares for dilutive headline earnings (thousands)	**672 305**	718 578
Dilutive headline earnings per share (cents)	**63.14**	63.70

d) Core

Core earnings per share is calculated after adding back the amortisation of intangible assets as a consequence of the purchase price allocations completed in terms of

IFRS 3(R) – *Business Combinations*

Reconciliation between net profit for the period and core net profit for the period:

	2013	2012
Net profit for the period (R'000)	**424 841**	438 104
Amortisation on intangibles raised through business combinations net of tax and non-controlling interest (R'000)	**12 675**	17 693
Core net profit for the period (R'000)	**437 516**	455 797
Weighted average number of ordinary shares in issue (thousands)	**661 578**	708 060
Core earnings per share (cents per share)	**66.13**	64.37

	2013	2012
25. Cash generated by operations		
Reconciliation of operating profit to cash generated by operating activities:		
Operating profit including discontinued operation	**645 671**	643 828
Adjustments for:		
Depreciation of property, plant and equipment	**36 911**	39 588
Amortisation of intangible assets	**78 930**	66 686
Impairment of property, plant and equipment	**3 408**	12 787
Impairment of intangible assets	**—**	204
Impairment of goodwill	**—**	4 684
Discounting of receivables recognised in revenue	**127 771**	111 269
Discounting of payables recognised in changes in inventories of finished goods	**(143 329)**	(177 774)
Impairment of loans	**8 400**	—
Profit on disposal of property, plant and equipment	**(789)**	(90)
Net (profit)/loss on disposal of subsidiaries	**(120)**	3 014
Net (profit)/loss on disposal of joint ventures	**(2 273)**	3 025
Equity compensation benefit scheme expense	**16 180**	22 126
Transaction with non-controlling interest reserve movement	**—**	(566)
Net unrealised forex profit	**(8 037)**	(9 001)
Changes in working capital (excluding the effects of acquisitions and disposals):		
(Increase)/decrease in inventories	**(1 319 938)**	472 922
Increase in trade and other receivables	**(155 979)**	(474 927)
Increase/(decrease) in trade and other payables	**448 236**	(97 573)
Decrease in loans receivable	**3 570**	6 781
Decrease in starter pack assets	**4 004**	29 446
	(257 384)	656 429
26. Taxation paid		
Balance outstanding at the beginning of the year	**13 938**	7 996
Taxation charge	**215 075**	190 759
Disposal of subsidiaries	**(45)**	69
Acquisition of subsidiaries	**1 437**	(143)
Translation differences	**173**	—
Net payable outstanding at the end of the year	**(36 071)**	(13 938)
	194 507	184 743

Notes to the group annual financial statements continued

For the year ended 31 May 2013

27. Disposal of subsidiaries

31 May 2013

	Content Connect Africa Proprietary Limited R'000	Multiserv Proprietary Limited R'000	Total R'000
Date disposed	1 September, 2012	1 January, 2013	
% disposed	100	100	
The carrying/fair value of the net assets disposed of:			
Cash and cash equivalents	486	3 744	4 230
Property, plant and equipment	117	216	333
Intangible assets	2 970	4 618	7 588
Inventories	—	1 643	1 643
Receivables	6 503	1 112	7 615
Loans receivable	—	1 839	1 839
Deferred tax	—	(468)	(468)
Borrowings	(3 130)	(6 068)	(9 198)
Current tax liablities	(45)	—	(45)
Payables	(7 620)	(4 291)	(11 911)
Carrying/fair value of subsidiary disposed of	(719)	2 345	1 626
Goodwill	4 746	5 846	10 592
Carrying/fair value of net assets disposed of	4 027	8 191	12 218
(Loss)/profit on disposal of subsidiary	(2 027)	2 147	120
Total proceeds on disposal	2 000	10 338	12 338
Less: Proceeds to be settled	—	(7 853)	(7 853)
Total proceeds on disposal received in cash	2 000	2 485	4 485
Less: Cash and cash equivalents in subsidiary	(486)	(3 744)	(4 230)
Cash inflow on disposal	1 514	(1 259)	255

On 1 September 2012, Blue Label Telecoms Limited sold its 100% shareholding in Content Connect Africa Proprietary Limited to management for an amount of R2 million. The loss on disposal of R2 million has been recognised in the statement of comprehensive income.

On 1 January 2013, Blue Label Telecoms Limited sold its 100% shareholding in Multiserv Proprietary Limited for an amount of R10.3 million. The profit on disposal of R2.1 million has been recognised in the statement of comprehensive income.

27. Disposal of subsidiaries (continued)

31 May 2012

	SharedPhone International Proprietary Limited R'000	Total R'000
Date disposed	31 January, 2012	
% disposed	50.1	
The carrying/fair value of the net assets disposed of:		
Cash and cash equivalents	1 406	1 406
Property, plant and equipment	278	278
Intangible assets	25	25
Inventories	9 422	9 422
Receivables	3 978	3 978
Deferred tax	476	476
Borrowings	(5 958)	(5 958)
Current tax assets	69	69
Payables	(868)	(868)
Carrying/fair value of subsidiary disposed of:	8 828	8 828
Non-controlling interests	(4 406)	(4 406)
Goodwill	2 499	2 499
Carrying/fair value of net assets disposed of:	6 921	6 921
Loss on disposal of subsidiary	(3 014)	(3 014)
Total proceeds on disposal	3 907	3 907
Less: Cash and cash equivalents in subsidiary	(1 406)	(1 406)
Cash inflow on disposal	2 501	2 501

On 31 January 2012, Blue Label Telecoms Limited sold its 50.1% shareholding in SharedPhone International Proprietary Limited to the minority shareholder for an amount of R3.9 million. The loss on disposal of R3 million has been recognised in the statement of comprehensive income.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

28. Business combinations

28.1 Acquisition of subsidiary

	Blue Label Engage Proprietary Limited R'000	Panacea Mobile Proprietary Limited R'000	TicketPros Proprietary Limited R'000
	Facilitator of loyalty programmes	SMS aggregator	Ticketing solution
Date acquired	1 September 2012	1 September 2012	5 April 2013
% acquired	50.1	51	60
At 31 May 2013			
Assets	6 727	21 634	9 748
Liabilities	8 922	15 158	4 641
Revenue since acquisition	7 443	25 456	2 858
Profit/(loss) after tax since acquisition	(2 180)	4 476	187

Had the acquisitions of subsidiaries taken place at the beginning of the financial year they would have contributed R51.1 million to revenue and R4.1 million to net profit after tax. The actual contribution to revenue and net profit after tax for the year was R35.8 million and R2.5 million, respectively.

The fair value of the net assets approximated the assets acquired on acquisition date.

28. Business combinations (continued)

28.1 Acquisition of subsidiary (continued)

	Blue Label Engage Proprietary Limited R'000	Panacea Mobile Proprietary Limited R'000	TicketPros Proprietary Limited R'000	Total R'000
Cash and cash equivalents	14	2 963	14 153	17 130
Property, plant and equipment	13	113	452	578
Intangible assets*	—	5 263	5 368	10 631
Inventories	—	—	994	994
Receivables	110	2 145	1 210	3 465
Current tax liabilities	—	(1 015)	(422)	(1 437)
Borrowings	(114)	—	—	(114)
Deferred tax*	—	(1 474)	(1 260)	(2 734)
Payables	(39)	(2 206)	(12 336)	(14 581)
Fair value of subsidiaries acquired	(16)	5 789	8 159	13 932
Non-controlling interests	8	(2 837)	(3 263)	(6 092)
Fair value of net assets acquired	(8)	2 952	4 896	7 840
Goodwill	2 743	6 882	5 104	14 729
Total purchase consideration	2 735	9 834	10 000	22 569
Deferred purchase consideration	(335)	(2 334)	—	(2 669)
Settled in cash	2 400	7 500	10 000	19 900
Less cash and cash equivalents in subsidiary	(14)	(2 963)	(14 153)	(17 130)
Cash flow on acquisition	2 386	4 537	(4 153)	2 770

* *Included in additions in note 5 is R5.3 million of software and R4.5 million of customer relationships which relate to the purchase price allocations performed for Panacea Mobile Proprietary Limited and TicketPros Proprietary Limited respectively in terms of IFRS 3(R): Business Combinations. Deferred tax to the value of R1.5 million and R1.3 million respectively was raised on recognition of this intangible asset.*

Notes to the group annual financial statements continued

For the year ended 31 May 2013

28. Business combinations (continued)

28.1 Acquisition of subsidiary (continued)

TicketPros Proprietary Limited was acquired with the objective of acquiring a platform in order for Blue Label Telecoms group companies to expand their product offering to existing TicketPros customers.

In most business acquisitions, there is a part of the cost that is not capable of being attributed in accounting terms to identifiable assets and liabilities acquired and is therefore recognised as goodwill. In the case of the acquisition of TicketPros Proprietary Limited, this goodwill is underpinned by a number of elements, which individually cannot be quantified. Most significant among these is management's experience and the relationships held by management.

Blue Label Engage Proprietary Limited was purchased with the objective of entering into the loyalty and customer engagement markets which meets the group's objective of providing a holistic customer engagement strategy for potential customers and expands the group's revenue streams.

In most business acquisitions, there is a part of the cost that is not capable of being attributed in accounting terms to identifiable assets and liabilities acquired and is therefore recognised as goodwill. In the case of the acquisition of Blue Label Engage Proprietary Limited, this goodwill is underpinned by a number of elements, which individually cannot be quantified. Most significant among these is management's experience and the relationships held by management.

The contingent consideration arrangement requires BLT to pay in cash the former owners of Blue Label Engage Proprietary Limited an additional amount arrived at by multiplying the amount by which the headline earnings of Blue Label Engage Proprietary Limited in its 2013 financial year exceeds R600 000 by four, capped at a maximum of an additional R2.6 million.

The potential undiscounted amount of all future payments that the group could be required to make under this arrangement is between zero and R2.6 million.

The fair value of the contingenet consideration arrangement R0.3 million was estimated by applying the income approach. The fair value estimates are based on a discount rate of 18.46% and assumed probability-adjusted profit in Blue Label Engage Proprietary Limited of R0.4 million.

Panacea Mobile Proprietary Limited was purchased with the objective of utilising their software system to grow and expand the group's operations and revenues within the messaging market in South Africa and Africa. A large portion of the purchase price in this transaction was allocated to the internally generated software system which had not been capitalised separately within the company.

In most business acquisitions, there is a part of the cost that is not capable of being attributed in accounting terms to identifiable assets and liabilities acquired and is therefore recognised as goodwill. In the case of the acquisition of Panacea Mobile Proprietary Limited, this goodwill is underpinned by a number of elements, which individually cannot be quantified. Most significant among these is the synergy with other Blue Label Telecoms group companies.

28. Business combinations (continued)

28.1 Acquisition of subsidiary (continued)

The contingent consideration arrangement requires BLT to pay in cash the former owners of Panacea Mobile Proprietary Limited an additional amount of up to R1.5 million (pro-rated) if the profit after tax for Panacea Mobile Proprietary Limited's 2013 financial year is no less than R4.2 million. An additional amount of up to R1.5 million (payable over 10 equal periods, capped at R150 000 per period), based on the achievement of certain criteria in respect of a customer contract being achieved by Panacea Mobile Proprietary Limited is also payable.

The potential undiscounted amount of all future payments that the group could be required to make under this arrangement is between R1.5 million and R3 million.

The fair value of the contingent consideration arrangement of R2.3 million was estimated by applying the income approach. The fair value estimates are based on a discount rate of 18.46% and assumed probability-adjusted profit in Panacea Mobile Proprietary Limited of R4.2 million and R5.7 million respectively.

	Multiserv Proprietary Limited R'000
	Franchisor of retail outlets
Date acquired	1 January 2012
% acquired	100
At 31 May 2012	
Assets	7 697
Liabilities	7 725
Revenue since acquisition	3 467
Profit after tax since acquisition	774

Had this acquisition of subsidiary taken place at the beginning of the financial year they would have contributed R9 million to revenue and R0.3 million to net profit after tax. The actual contribution to revenue and net profit after tax for the year was R3.5 million and R0.8 million.

The fair value of the net assets approximated the assets acquired on 1 January 2012.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

28. Business combinations (continued)

28.1 Acquisition of subsidiary (continued)

	Multiserv Proprietary Limited R'000
Cash and cash equivalents	897
Property, plant and equipment	370
Intangible assets*	5 481
Loan receivable	2 091
Inventories	1 552
Receivables	1 212
Current tax assets	143
Borrowings	(5 210)
Deferred tax*	(1 512)
Bank overdraft	(158)
Payables	(1 780)
Fair value of net assets acquired	3 086
Goodwill	5 847
Total purchase consideration	8 933
Loans acquired	5 068
Less cash and cash equivalents in subsidiary	(739)
Cash flow on acquisition	13 262

* *Included in additions in note 5 is R5.4 million of franchise fees which relates to the purchase price allocation performed in terms of IFRS 3(R): Business Combinations. Deferred tax to the value of R1.5 million was raised on recognition of this intangible asset.*

Multiserv Proprietary Limited was purchased with the objective of utilising their 165 stores located nationally as a platform for the group's strategy of marketing its products and services on a retail basis. In most business acquisitions, there is a part of the cost that is not capable of being attributed in accounting terms to identifiable assets and liabilities acquired and is therefore recognised as goodwill. In the case of the acquisition of Multiserv Proprietary Limited, this goodwill is underpinned by a number of elements, which individually cannot be quantified. Most significant amongst these is their 165 pre-existing stores located nationally.

28. Business combinations

28.2 Acquisition of non-controlling interest's shareholding

	Africa Prepaid Services Nigeria Limited R'000	The Postpaid Company Proprietary Limited R'000
Initial acquisition		
% acquired	51	75
Further acquisition		
Date acquired	28 January 2013	1 October 2012
% acquired	24.01	25
At 31 May 2013		
Assets	21	33 676
Liabilities	41 858	33 566
Revenue	—	10 508
(Loss)/profit after tax since further acquisition	(12 317)	650

Notes to the group annual financial statements continued

For the year ended 31 May 2013

28. Business combinations (continued)

28.2 Acquisition of non-controlling interest's shareholding (continued)

The fair value of the net assets approximated the assets acquired on acquisition date.

	Africa Prepaid Services Nigeria Limited R'000	The Postpaid Company Proprietary Limited R'000	Total R'000
Non-controlling interests	(7 158)	(395)	(7 553)
Fair value of net assets acquired	(7 158)	(395)	(7 553)
Amounts transferred to transaction with non-controlling interest reserve	21 158	395	21 553
Total purchase consideration	14 000	*	14 000
Settled in cash	14 000	*	14 000
Cash flow on acquisition	14 000	*	14 000

** Less than R1 000.*

On 28 January 2013 Blue Label Telecoms Limited acquired 24.01% of the issued share capital of Africa Prepaid Services Nigeria Limited from Citadella Holdings Corp for a purchase consideration of R14 million.

29. Commitments

Future operating lease commitments

The group leases various offices under non-cancellable operating lease agreements. The lease terms are between one and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rates.

The group also leases various equipment under cancellable operating lease agreements.

The group is required to give six months' notice for the termination of the majority of these agreements.

The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 21.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2013 R'000	2012 R'000
Premises		
Payable within one year	**27 288**	25 905
Payable in two to five years	**70 012**	84 387
Payable in greater than five years	**4 489**	8 288
Equipment		
Payable within one year	**1 424**	3 011
Payable in two to five years	**376**	2 481
Payable in greater than five years	**—**	—
	103 589	124 072

Notes to the group annual financial statements continued

For the year ended 31 May 2013

30. Related party transactions

For details of subsidiaries, associates and joint ventures, refer to note 34. For details of the company's directors, refer to the directors' report. ZOK Cellular Proprietary Limited, BSC Technologies Proprietary Limited, Black Ginger 59 Proprietary Limited, Dataforce Trading 240 Proprietary Limited, Moneyline 311 Proprietary Limited, PLL Investments Proprietary Limited, AloeCap Proprietary Limited, Stylco Proprietary Limited, Wildekrans Wine Estate Proprietary Limited, WBS Holdings Proprietary Limited, iBurst Proprietary Limited and Ellerine Bros. Proprietary Limited are related parties due to directors' shareholdings and the companies having certain common directorships.

For details of the shareholdings in the company, refer to the directors' report.

For details on directors' emoluments refer to note 31.

The following transactions were carried out with related parties and all relate to continued operations:

	2013 R'000	2012 R'000
Sales to related parties		
BSC Technologies Proprietary Limited	**613**	1 112
Bela Phone Company Proprietary Limited	**59**	82
Blue Label Mexico S.A. de C.V.	**5 255**	2 161
iBurst Proprietary Limited	**815**	—
Smart Voucher Limited trading as Ukash	**32**	514
Stylco Proprietary Limited	**11 094**	—
ZOK Cellular Proprietary Limited	**4 090**	5 214
Purchases from related parties		
AloeCap Proprietary Limited	**—**	1 238
Bela Phone Company Proprietary Limited	**245**	496
Black Ginger 59 Proprietary Limited	**3 072**	6 780
Brett Levy	**—**	525
BSC Technologies Proprietary Limited	**8 833**	1 339
Demtrade 11 Proprietary Limited	**—**	13
PLL Investments Proprietary Limited	**11**	—
Smart Voucher Limited trading as Ukash	**1 034**	16 205
Stylco Proprietary Limited	**3 692**	102
Wildekrans Wine Estate Proprietary Limited	**16**	6
ZOK Cellular Proprietary Limited	**52 398**	68 466

30. Related party transactions (continued)

	2013 R'000	2012 R'000
Interest received from related parties		
2DFine Holdings Mauritius	**8 575**	1 213
Blue Label Mexico S.A. de C.V.	**576**	431
Demtrade 11 Proprietary Limited	**—**	12
Management fees received from related parties		
Bela Phone Company Proprietary Limited	**—**	100
Blue Label Mexico S.A. de C.V.	**520**	458
Datacision Proprietary Limited	**—**	404
Management fees paid to related parties		
BSC Technologies Proprietary Limited	**122**	—
Rent paid to related parties		
Ellerine Bros. Proprietary Limited	**5 631**	5 096
Dataforce Trading 240 Proprietary Limited	**2 560**	1 383
Moneyline 311 Proprietary Limited	**5 631**	5 096
PLL Investments Proprietary Limited	**2 143**	2 472
Dividends received from related parties		
Demtrade 11 Proprietary Limited	**—**	453
Loans to related parties		
2DFine Holdings Mauritius* (refer to note 6)	**108 798**	83 890
Bela Phone Company Proprietary Limited (refer to note 6)	**—**	2 260
Blue Label Mexico S.A. de C.V. (refer to note 6)	**—**	27 829
Oxigen Services India Private Limited (refer to note 6)	**18 643**	18 643
ZOK Cellular Proprietary Limited (refer to note 7)	**19 582**	23 148

* *B Levy and M Levy have signed personal sureties for the loan owing by 2DFine Holdings Mauritius to Gold Label Investments Proprietary Limited. Their liability is limited to the difference between the sum of 50% of the loan owing and the value of 18.61% of the shares in Oxigen Services India (Private) Limited on the 30th day after which the loan becomes due and payable or extended date as may be agreed in writing by Gold Label Investments Proprietary Limited.*

Notes to the group annual financial statements continued

For the year ended 31 May 2013

30. Related party transactions (continued)

	2013 R'000	2012 R'000
Amounts due from related parties included in trade receivables		
Bela Phone Company Proprietary Limited	—	331
Black Ginger 59 Proprietary Limited	2 184	749
Blue Label Mexico S.A. de C.V.	9 423	2 745
BSC Technologies Proprietary Limited	20	112
Datacision Proprietary Limited	—	2 212
iBurst Proprietary Limited	1 820	1 397
PLL Investments Proprietary Limited	27	—
Stylco Proprietary Limited	960	—
ZOK Cellular Proprietary Limited	2	—
	14 436	7 546
Amounts due to related parties included in trade payables		
Bela Phone Company Proprietary Limited	—	1 460
Black Ginger 59 Proprietary Limited	117	1 070
BSC Technologies Proprietary Limited	22	28
Smart Voucher Limited trading as Ukash	386	658
	525	3 216

31. Directors' and prescribed officer emoluments

For the year ended 31 May 2013	Blue Label Services as directors of Blue Label Telecoms Limited R'000	Salary and allowances R'000	Bonuses and performance-related payments R'000	Other benefits R'000	Subtotal R'000
Executive directors					
Levy, BM	—	6 303	7 695	109	14 107
Levy, MS	—	6 312	7 695	100	14 107
Pamensky, MV	—	5 335	3 784	71	9 190
Rivkind, DB	—	2 753	1 957	42	4 752
	—	20 703	21 131	322	42 156
Non-executive directors					
Nestadt, LM	795	—	—	—	795
Ellerine, K	194	—	—	—	194
Harlow, G	473	—	—	—	473
Lazarus, NN	421	—	—	—	421
Mthimunye, J	385	—	—	—	385
Vilakazi, JS	231	—	—	—	231
	2 499	—	—	—	2 499
Prescribed officer					
Suntup, DA	—	2 694	1 957	101	4 752
	—	2 694	1 957	101	4 752
	2 499	23 397	23 088	423	49 407

Notes to the group annual financial statements continued

For the year ended 31 May 2013

Services as directors of subsidiaries of Blue Label Telecoms Limited R'000	Salary and allowances from subsidiaries R'000	Bonuses and performance-related payments from subsidiaries R'000	Retirement and related benefits from subsidiaries R'000	Corporate finance and legal fees for services rendered to Blue Label Telecoms group R'000	Total R'000	Fair value of forfeitable shares R'000
—	—	—	—	—	14 107	9 353
—	—	—	—	—	14 107	9 353
—	—	—	—	—	9 190	7 885
—	—	—	—	—	4 752	4 078
—	—	—	—	—	42 156	30 670
—	—	—	—	—	795	—
—	—	—	—	—	194	—
113	—	—	—	—	586	—
—	—	—	—	9 785	10 205	—
—	—	—	—	—	385	—
—	—	—	—	—	231	—
113	—	—	—	9 785	12 396	—
—	—	—	—	—	4 752	4 078
—	—	—	—	—	4 752	4 078
113	—	—	—	9 785	59 304	34 748

31. Directors' and prescribed officer emoluments (continued)

For the year ended 31 May 2012	Blue Label Services as directors of Blue Label Telecoms Limited R'000	Salary and allowances R'000	Bonuses and performance-related payments R'000	Other benefits R'000	Subtotal R'000
Executive directors					
Levy, BM	—	5 951	7 259	99	13 309
Levy, MS	—	5 958	7 259	92	13 309
Pamensky, MV	—	5 062	3 570	38	8 670
Rivkind, DB	—	2 599	1 846	38	4 483
	—	19 570	19 934	267	39 771
Non-executive directors					
Nestadt, LM	767	—	—	—	767
Ellerine, K	240	—	—	—	240
Harlow, G	567	—	—	—	567
Lazarus, NN	498	—	—	—	498
Mthimunye, J	298	—	—	—	298
Nyati, M	34	—	—	—	34
Tyalimpi, LM	160	—	—	—	160
Vilakazi, JS	69	—	—	—	69
	2 633	—	—	—	2 633
Prescribed officer					
Suntup, DA	—	2 546	1 846	91	4 483
	—	2 546	1 846	91	4 483
	2 633	22 116	21 780	358	46 887

The fair value of forfeitable shares per director has been included.

No director has a notice period of more than one year.

No director's service contract includes predetermined compensation as a result of termination that would exceed one year's salary and benefits.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

Services as directors of subsidiaries of Blue Label Telecoms Limited R'000	Salary and allowances from subsidiaries R'000	Bonuses and performance-related payments from subsidiaries R'000	Retirement and related benefits from subsidiaries R'000	Corporate finance and legal fees for services rendered to Blue Label Telecoms group R'000	Total R'000	Fair value of forfeitable shares R'000
—	—	—	—	—	13 309	7 635
—	—	—	—	—	13 309	7 635
—	—	—	—	—	8 670	6 201
—	—	—	—	—	4 483	3 329
—	—	—	—	—	39 771	24 800
—	—	—	—	—	767	—
—	—	—	—	—	240	—
50	—	—	—	651	1 268	—
—	—	—	—	5 144	5 642	—
—	—	—	—	—	298	—
—	—	—	—	—	34	—
—	—	—	—	—	160	—
—	—	—	—	—	69	—
50	—	—	—	5 795	8 478	—
—	—	—	—	—	4 483	3 329
—	—	—	—	—	4 483	3 329
50	—	—	—	5 795	52 732	28 129

31. Directors' and prescribed officer emoluments (continued)

Forfeitable share scheme per director and prescribed officer

For the year ended 31 May 2013

	Issue date	Issue price
Levy, BM	27 November 2009	5.85
Levy, BM	1 September 2010	4.70
Levy, BM	1 October 2011	4.50
Levy, BM	3 September 2012	6.71
Levy, MS	27 November 2009	5.85
Levy, MS	1 September 2010	4.70
Levy, MS	1 October 2011	4.50
Levy, MS	3 September 2012	6.71
Pamensky, MV	27 November 2009	5.85
Pamensky, MV	1 September 2010	4.70
Pamensky, MV	1 October 2011	4.50
Pamensky, MV	3 September 2012	6.71
Rivkind, DB	27 November 2009	5.85
Rivkind, DB	1 September 2010	4.70
Rivkind, DB	1 October 2011	4.50
Rivkind, DB	3 September 2012	6.71
Suntup, DA	27 November 2009	5.85
Suntup, DA	1 September 2010	4.70
Suntup, DA	1 October 2011	4.50
Suntup, DA	3 September 2012	6.71

Notes to the group annual financial statements continued

For the year ended 31 May 2013

Vesting date	Awards outstanding as at the beginning of the year	Number of shares awarded	Awards forfeited during the year	Awards vested during the year	Balance as at the end of the year
1 September 2012	343 060	—	(39 006)	(304 054)	—
31 August 2013	450 486	—	—	—	450 486
31 August 2014	470 507	—	—	—	470 507
31 August 2015	—	334 474	—	—	334 474
	1 264 053	334 474	(39 006)	(304 054)	1 255 467
1 September 2012	343 060	—	(39 006)	(304 054)	—
31 August 2013	450 486	—	—	—	450 486
31 August 2014	470 507	—	—	—	470 507
31 August 2015	—	334 474	—	—	334 474
	1 264 053	334 474	(39 006)	(304 054)	1 255 467
1 September 2012	250 148	—	(28 442)	(221 706)	—
31 August 2013	379 787	—	—	—	379 787
31 August 2014	396 667	—	—	—	396 667
31 August 2015	—	281 982	—	—	281 982
	1 026 602	281 982	(28 442)	(221 706)	1 058 436
1 September 2012	149 572	—	(17 007)	(132 565)	—
31 August 2013	196 409	—	—	—	196 409
31 August 2014	205 139	—	—	—	205 139
31 August 2015	—	145 829	—	—	145 829
	551 120	145 829	(17 007)	(132 565)	547 377
1 September 2012	149 572	—	(17 007)	(132 565)	—
31 August 2013	196 409	—	—	—	196 409
31 August 2014	205 139	—	—	—	205 139
31 August 2015	—	145 829	—	—	145 829
	551 120	145 829	(17 007)	(132 565)	547 377

31. Directors' and prescribed officer emoluments (continued)

Forfeitable share scheme per director and prescribed officer (continued)

For the year ended 31 May 2012	Issue date	Issue price
Levy, BM	27 November 2009	5.85
Levy, BM	1 September 2010	4.70
Levy, BM	1 October 2011	4.50
Levy, MS	27 November 2009	5.85
Levy, MS	1 September 2010	4.70
Levy, MS	1 October 2011	4.50
Pamensky, MV	27 November 2009	5.85
Pamensky, MV	1 September 2010	4.70
Pamensky, MV	1 October 2011	4.50
Rivkind, DB	27 November 2009	5.85
Rivkind, DB	1 September 2010	4.70
Rivkind, DB	1 October 2011	4.50
Suntup, DA	27 November 2009	5.85
Suntup, DA	1 September 2010	4.70
Suntup, DA	1 October 2011	4.50

Notes to the group annual financial statements continued

For the year ended 31 May 2013

Vesting date	Awards outstanding as at the beginning of the year	Number of shares awarded	Awards forfeited during the year	Awards vested during the year	Balance as at the end of the year
1 September 2012	343 060	—	—	—	343 060
31 August 2013	450 486	—	—	—	450 486
31 August 2014	—	470 507	—	—	470 507
	793 546	470 507	—	—	1 264 053
1 September 2012	343 060	—	—	—	343 060
31 August 2013	450 486	—	—	—	450 486
31 August 2014	—	470 507	—	—	470 507
	793 546	470 507	—	—	1 264 053
1 September 2012	250 148	—	—	—	250 148
31 August 2013	379 787	—	—	—	379 787
31 August 2014	—	396 667	—	—	396 667
	629 935	396 667	—	—	1 026 602
1 September 2012	149 572	—	—	—	149 572
31 August 2013	196 409	—	—	—	196 409
31 August 2014	—	205 139	—	—	205 139
	345 981	205 139	—	—	551 120
1 September 2012	149 572	—	—	—	149 572
31 August 2013	196 409	—	—	—	196 409
31 August 2014	—	205 139	—	—	205 139
	345 981	205 139	—	—	551 120

32. Segmental summary

The group's segment reporting follows the organisational structure as reflected in its internal management reporting systems, which are the basis for assessing the financial performance of the business segments and for allocating resources to these segments. Management's assessment of the group's organisational structure takes the geographical location of the segments into account. All reporting segments located outside South Africa are included in the international distribution segment. Operations included in all other segments are located within South Africa.

Operating segments are reported internally to the chief operating decision-maker in a manner consistent with the financial statements. In addition, the chief operating decision-maker uses core net profit as a non-IFRS measure in evaluating the group's performance on a segmental level. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors, who are responsible for making strategic decisions on behalf of the Blue Label Telecoms group.

Historically, the technology segment was reported on separately. As the bulk of its function and services are interdependent in the distribution of airtime, electricity and starter packs, it is more prudent to house its expenditure in the South African distribution segment. Accordingly, the technology segment has been included in the South African distribution segment and the comparative segmental results have been restated in accordance with IFRS 8 – *Operating Segments*.

Transactions between reportable segments are conducted on the same terms as other transactions of a similar nature.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

32. Segmental summary (continued)

At 31 May 2013, the group is managed on the basis of five main business segments:

- South African distribution, which includes the distribution of physical and virtual prepaid airtime and electricity of the South African mobile/fixed-line network operators and utility suppliers, and the distribution of starter packs in South Africa.
- International distribution, which includes international distribution of physical and virtual prepaid airtime in India and Africa, and the distribution of starter packs in Africa.
- Mobile, which includes the provision of a complete mobile transactional ecosystem and services-provisioning platform delivering mobile-centric products and services through any mobile channel, including location-based and WASP services, and music and digital content provision.
- Solutions, which includes marketing of cellular and financial products and services through outbound telemarketing and other channels, provides inbound customer care and technical support, and markets data and analytics services.
- Corporate, which performs the head office administration function.

The segmental information in respect of the group's discontinued operations has been excluded from the segmental summary below. The discontinued operations were contained in the international segment.

32. Segmental summary (continued)

The segment results for the year ended 31 May are as follows:

	Total		South African distribution	
	2013 R'000	2012 R'000	**2013 R'000**	2012 R'000
Total segment revenue	**24 720 865**	30 173 943	**24 363 215**	29 883 770
Inter-segment revenue	**(5 736 655)**	(11 458 553)	**(5 651 135)**	(11 444 082)
Revenue	**18 984 210**	18 715 390	**18 712 080**	18 439 688
Segment result				
Operating profit/(loss) before depreciation, amortisation and impairment charges	**713 622**	750 482	**796 439**	737 488
Depreciation and amortisation	**(56 143)**	(78 348)	**(48 450)**	(52 679)
Impairment of property, plant and equipment	**(3 408)**	(12 737)	**(3 408)**	(12 737)
Impairment of intangible assets	**—**	(204)	**—**	(204)
Impairment of loans	**(8 400)**	(268)	**(1 150)**	—
Finance costs	**(167 096)**	(181 081)	**(166 592)**	(180 293)
Finance income	**173 260**	170 995	**162 459**	168 255
Share of (losses)/profits from associates and joint ventures	**(47 326)**	(19 835)	**543**	(510)
Taxation	**(196 404)**	(194 075)	**(175 675)**	(152 057)
Net profit/(loss) for the year	**408 105**	434 929	**564 166**	507 263
Reconciliation of net profit for the year to core net profit for the year				
Net profit/(loss) for the year	**408 105**	434 929	**564 166**	507 263
Amortisation of intangibles raised through business combinations net of tax	**13 293**	17 946	**8 281**	9 348
Core net profit/(loss) for the year	**421 398**	452 875	**572 447**	516 611
Core net profit/(loss) for the year attributable to:				
Equity holders of parent	**437 516**	461 289	**570 766**	513 130
Non-controlling interest	**(16 118)**	(8 414)	**1 681**	3 481
Non-cash items				
Net profit/(loss) on sale of subsidiaries	**120**	(3 014)	**2 147**	—
Net profit/(loss) on disposal of associates	**2 273**	(3 025)	**1 400**	—
Discounting of receivables	**127 773**	111 269	**127 773**	111 245
Discounting of payables	**(143 329)**	(177 774)	**(143 329)**	(177 774)

Notes to the group annual financial statements continued

For the year ended 31 May 2013

International distribution		Mobile		Solutions		Corporate	
2013 R'000	2012 R'000	**2013 R'000**	2012 R'000	**2013 R'000**	2012 R'000	**2013 R'000**	2012 R'000
—	17 429	**220 393**	96 084	**137 257**	176 660	**—**	—
—	—	**(68 973)**	(8 840)	**(16 547)**	(5 631)	**—**	—
—	17 429	**151 420**	87 244	**120 710**	171 029	**—**	—
(31 000)	(15 901)	**37 055**	97 359	**24 703**	38 927	**(113 575)**	(107 391)
—	(240)	**(3 275)**	(13 442)	**(3 336)**	(5 272)	**(1 082)**	(6 715)
—	—	**—**	—	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—
—	—	**—**	—	**(889)**	(268)	**(6 361)**	—
(30)	(642)	**(69)**	(90)	**(5)**	(20)	**(400)**	(36)
8 593	1 420	**541**	24	**482**	490	**1 185**	806
(49 036)	(19 182)	**—**	—	**1 167**	(143)	**—**	—
(5 997)	(5 859)	**(9 157)**	(14 581)	**(5 266)**	(8 730)	**(309)**	(12 848)
(77 470)	(40 404)	**25 095**	69 270	**16 856**	24 984	**(120 542)**	(126 184)
(77 470)	(40 404)	**25 095**	69 270	**16 856**	24 984	**(120 542)**	(126 184)
4 176	3 841	**798**	4 692	**38**	65	**—**	—
(73 294)	(36 563)	**25 893**	73 962	**16 894**	25 049	**(120 542)**	(126 184)
(50 685)	(20 943)	**24 787**	73 962	**13 190**	21 324	**(120 542)**	(126 184)
(22 609)	(15 620)	**1 106**	—	**3 704**	3 725	**—**	—
—	—	**(2 027)**	—	**—**	—	**—**	(3 014)
—	—	**—**	—	**873**	—	**—**	(3 025)
—	—	**—**	—	**—**	24	**—**	—
—	—	**—**	—	**—**	—	**—**	—

32. Segmental summary (continued)

	Total		South African distribution	
	2013 R'000	2012 R'000	**2013 R'000**	2012 R'000
The segment assets and liabilities at 31 May are as follows:				
Assets excluding investments in associates and joint ventures	**5 196 385**	4 578 061	**4 950 040**	4 363 743
Investment in associates and joint ventures	**524 162**	357 471	**—**	318
Total assets	**5 720 547**	4 935 532	**4 950 040**	4 364 061
Additions to non-current assets				
Property, plant and equipment	**20 042**	29 900	**15 862**	24 156
Intangible assets and goodwill	**297 501**	146 283	**294 331**	143 386
Investment in associates	**138 174**	—	**—**	—
Investment in joint ventures	**—**	—	**—**	—
Total liabilities	**(2 477 694)**	(2 021 146)	**(2 331 195)**	(1 908 886)

The company is domiciled in the Republic of South Africa. The result of its revenue from external customers in South Africa is R18.984 billion (2012: R18.698 billion), and the total of revenue from external customers from other countries is nil (2012: R17.4 million).

The total of non-current assets other than financial instruments and deferred tax assets located in South Africa is R841 million (2012: R647 million), and the total of these non-current assets located in other countries is R481 million (2012: R333 million).

The South African distribution segment includes revenue earned from a single external customer totalling R3.577 billion (2012: R1.810 billion).

Notes to the group annual financial statements continued

For the year ended 31 May 2013

International distribution		Mobile		Solutions		Corporate	
2013 R'000	2012 R'000	**2013 R'000**	2012 R'000	**2013 R'000**	2012 R'000	**2013 R'000**	2012 R'000
(40 633)	(18 836)	**94 581**	62 278	**144 172**	136 758	**48 225**	34 118
522 345	356 330	**—**	—	**1 817**	1 239	**—**	(416)
481 712	337 494	**94 581**	62 278	**145 989**	137 997	**48 225**	33 702
—	—	**2 530**	1 009	**781**	4 121	**869**	614
—	—	**2 500**	2 299	**661**	349	**9**	249
138 174	—	**—**	—	**—**	—	**—**	—
—	—	**—**	—	**—**	—	**—**	—
(22 238)	(17 436)	**(39 036)**	(16 187)	**(32 086)**	(33 011)	**(53 139)**	(45 626)

33. Equity compensation benefit

Forfeitable shares

During the year, 3 496 103 (2012: 4 828 644) forfeitable shares were granted to executive directors and qualifying employees (participant). The participant will forfeit the forfeitable shares if he/she ceases to be an employee of an employer company before the vesting date or if the specified performance conditions have not been met, unless otherwise specified by the rules or determined by the board. In the event that the participant is not in the employ of the group, or the performance conditions are not met, then the shares allocated to the participant will be forfeited and will either be sold on the open market by the escrow agent and the proceeds will be returned to the participating employer, or may be retained by the group for future awards.

Dividends declared in respect of these forfeitable shares are held in escrow until such time as the performance conditions are met and the shares have vested. Shares forfeited during the vesting period will forfeit any dividends pertaining to such shares. A dividend of 23 cents (2012: 14 cents) per ordinary share was declared on 20 August 2012 (2012: 23 August 2011).

The performance conditions for the second award grant of forfeitable shares vesting on 1 September 2012 are as follows:

- 25% of the shares constituting the allocation are awarded for retention purposes and shall vest if the employee is still employed in the group at the vesting date (1 September 2012).
- 25% of the shares constituting the allocation will vest on the achievement by individual employees of their individual key performance indicators.
- 50% of shares constituting the allocation will vest if the group's core HEPS is equal to or exceeds the core HEPS per ordinary share at the beginning of the performance period (1 June 2009), by the percentage change in the CPI over the performance period, plus 15%. There is no linear vesting to this portion of the allocation.

The second award has now vested.

The performance condition for the third award grant of forfeitable shares vesting on 31 August 2013 are as follows:

- 25% of the shares constituting the allocation are awarded for retention purposes and shall vest if the employee is still employed in the group at the vesting date (31 August 2013).
- 25% of the shares constituting the allocation will vest on the achievement by individual employees of their individual key performance indicators.
- 50% of shares constituting the allocation will vest if the group's core HEPS is equal to or exceeds the core HEPS per ordinary share at the beginning of the performance period 1 June 2010, by the percentage change in the CPI over the performance period, plus 15%. There is no linear vesting to this portion of the allocation.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

33. Equity compensation benefit (continued)

The performance condition for the retention award grant vesting in three equal tranches on 30 September 2010, 30 April 2011 and 30 April 2012 are as follows:

- 100% of the shares constituting the allocation are awarded for retention purposes and shall vest if the employee is still employed in the group at the vesting dates.

The performance condition for the fourth award grant of forfeitable shares vesting on 31 August 2014 are as follows:

- 25% of the shares constituting the allocation are awarded for retention purposes and shall vest if the employee is still employed in the group at the vesting date (31 August 2014).
- 25% of the shares constituting the allocation will vest on the achievement by individual employees of their individual key performance indicators.
- 50% of shares constituting the allocation will vest if the group's core HEPS are equal to or exceeds the core HEPS per ordinary share at the beginning of the performance period 1 June 2011, by the percentage change in the CPI over the performance period, plus 15%. There is no linear vesting to this portion of the allocation.

The performance condition for the fifth award grant vesting at 31 August 2015 of forfeitable shares are as follows:

- 40% of the awards are allocated towards retention. In order to receive this portion of the allocation the employee is required to be employed within the group at the vesting date (31 August 2015).
- 60% of the awards are allocated on the basis of 50% for growth in core headline earnings per share and 10% for shareholder returns.

The 50% for growth in core headline earnings will be based on the following achievements:

– If growth is 5% above CPI over three years, then 20% of the 50% will vest.

– If growth is 10% above CPI over three years, then an additional 50% (i.e. a total of 70%) of the 50% will vest.

– If growth is 25% above CPI over three years, then a further 30% (i.e. a total of 100%) of the 50% will vest.

The 10% for shareholder return will be based on a 10% compounded growth in the share price over the three-year vesting period measured with reference to the weighted average price per share during the month of the commencement of the allocation and the weighted average share price for the month during which the vesting takes place, plus dividends over the three-year period of no less than three times dividend cover on a grossed-up basis.

33. Equity compensation benefit (continued)

Movements in the number of forfeitable shares outstanding during the year are as follows:

	Grant date	Vesting date	Number of shares	Fair value of grant R'000
At 31 May 2011			8 677 979	44 910
Second award			3 540 559	20 648
Third award			4 750 020	22 325
Retention award			387 400	1 937
Granted during the year			4 828 644	21 729
Fourth award	1 October 2011	31 August 2014	4 828 644	21 729
Shares forfeited during the year			(1 067 904)	(5 503)
Second award			(456 755)	(2 608)
Third award			(535 386)	(2 516)
Retention award			(75 763)	(379)
Shares vested during the year			(311 637)	(1 558)
Retention award		30 April 2012	(311 637)	(1 558)

Notes to the group annual financial statements continued

For the year ended 31 May 2013

33. Equity compensation benefit (continued)

	Grant date	Vesting date	Number of shares	Fair value of grant R'000
At 31 May 2012			12 127 082	59 578
Second award			3 083 804	18 040
Third award			4 214 634	19 809
Fourth award			4 828 644	21 729
Granted during the year			3 496 103	23 459
Fifth award	3 September 2012	31 August 2015	3 496 103	23 459
Shares forfeited during the year			(1 285 962)	(6 382)
Second award			(383 291)	(2 242)
Third award			(389 810)	(1 832)
Fourth award			(512 861)	(2 308)
Shares vested during the year			(2 700 513)	(15 798)
Second award		1 September 2012	(2 700 513)	(15 798)
At 31 May 2013			11 636 710	60 857
Third award			3 824 824	17 977
Fourth award			4 315 783	19 421
Fifth award			3 496 103	23 459

Refer to note 20 for the expense recognised in the statement of comprehensive income relating to the equity compensation benefits.

The fair value of the shares is based on the value paid for the shares on the open market at grant date.

The total number of forfeitable shares issued to executive directors during the period is 1 096 759 (2012: 1 542 820).

The share-based payment expense in relation to these executive directors is R6.3 million (2012: R7.3 million).

Refer to the note 31 for details per director.

34. Interest in subsidiairies, associates and joint ventures

	Country	Number of issued ordinary shares	Percentage held
2013			
Subsidiaries			
Directly held:			
Subsidiaries of Blue Label Telecoms Limited			
Activi Deployment Services Proprietary Limited	RSA	100	100
Activi Technology Services Proprietary Limited	RSA	300	100
Africa Prepaid Services Proprietary Limited	RSA	150	72
Africa Prepaid Services Nigeria Limited	Nigeria	10 000 000	24,01
Airtime Xpress Proprietary Limited	RSA	200	100
Blue Label Distribution Proprietary Limited	RSA	100	100
Blue Label Engage Proprietary Limited	RSA	1 000	50,1
Blue Label One Proprietary Limited	RSA	300	100
Blue Label Investments Proprietary Limited	RSA	1 200 000	100
BLT USA Incorporated	USA	100	100
Budding Trade 1170 Proprietary Limited	RSA	100	100
Celebia Holdings Limited	Cyprus	100	100
Cellfind Proprietary Limited	RSA	1 000	100
Datacel Direct Proprietary Limited	RSA	100	100
Kwikpay SA Proprietary Limited	RSA	100	100
Matragon Proprietary Limited	RSA	100	100
Panacea Mobile Proprietary Limited	RSA	100	51
The Prepaid Company Proprietary Limited	RSA	10 000	100
The Post Paid Company Proprietary Limited	RSA	200	100
TicketPros Proprietary Limited	RSA	250	60
Transaction Junction Proprietary Limited	RSA	120	60
Uninex Proprietary Limited	RSA	100	100
Ventury Group Proprietary Limited	RSA	2 000	100
Virtual Voucher Proprietary Limited	RSA	200	100

Notes to the group annual financial statements continued

For the year ended 31 May 2013

	Country	Number of issued ordinary shares	Percentage held
34. Interest in subsidiairies, associates and joint ventures (continued)			
2013 (continued)			
Subsidiaries (continued)			
Indirectly held:			
Subsidiary of Blue Label Investments Proprietary Limited			
Gold Label Investments Proprietary Limited	RSA	1 000	100
Subsidiary of The Prepaid Company Proprietary Limited			
Little River Trading 181 Proprietary Limited trading as Crown Cellular	RSA	100	100
Subsidiary of Ventury Group Proprietary Limited			
Cigicell Proprietary Limited (refer to note 4 included in group statement of changes in equity)	RSA	100	100
Subsidiary of Africa Prepaid Services Proprietary Limited			
Africa Prepaid Services Nigeria Limited	Nigeria	10 000 000	51
Subsidiaries of Datacel Direct Proprietary Limited			
Blue Label Call Centre Proprietary Limited	RSA	300	100
CNS Call Centre Proprietary Limited	RSA	1 000	100
Velociti Proprietary Limited	RSA	1 000	100
Blue Label Data Solutions Proprietary Limited	RSA	100	81
Subsidiary of 2DFine Holdings Mauritius			
2DFine Investments Mauritius	Mauritius	1	100

	Country	Number of issued ordinary shares	Percentage held
34. Interest in subsidiairies, associates and joint ventures (continued)			
2013 (continued)			
Associates			
Indirectly held:			
Associates of Gold Label Investments Proprietary Limited			
Smart Voucher Limited trading as Ukash	**United Kingdom**	**57 375 861**	**17.25***
Oxigen Services India (Private) Limited	**India**	**14 244 294**	**37.22**
Associates of Datacel Direct Proprietary Limited			
Dual Data Proprietary Limited	**RSA**	**100**	**50***
Joint ventures			
Joint venture of Blue Label Telecoms Limited			
Blue Label Mexico S.A. de C.V.	**Mexico**	**4 500**	**45****
Joint venture of Datacel Direct Proprietary Limited			
Datacision Proprietary Limited	**RSA**	**100**	**50****
Joint venture of Gold Label Investments Proprietary Limited			
2DFine Holdings Mauritius	**Mauritius**	**2**	**50****
Joint venture of 2DFine Investments Mauritius			
Oxigen Services India (Private) Limited	**India**	**14 244 294**	**37.22****

* *Significant influence is demonstrated by the company as a result of representation on the board of directors.*

** *Joint control is demonstrated by the composition of and decision-making powers afforded to the board of directors.*

Notes to the group annual financial statements continued

For the year ended 31 May 2013

34. Interest in subsidiairies, associates and joint ventures (continued)

2012

Subsidiaries

Directly held:

	Country	Number of issued ordinary shares	Percentage held
Subsidiaries of Blue Label Telecoms Limited			
Activi Deployment Services Proprietary Limited	RSA	100	100
Activi Technology Services Proprietary Limited	RSA	300	100
Africa Prepaid Services Proprietary Limited	RSA	150	72
Airtime Xpress Proprietary Limited	RSA	200	100
Blue Label Distribution Proprietary Limited	RSA	100	100
Blue Label One Proprietary Limited	RSA	300	100
Blue Label Investments Proprietary Limited	RSA	1 200 000	100
BLT USA Incorporated	USA	100	100
Budding Trade 1170 Proprietary Limited	RSA	100	100
Celebia Holdings Limited	Cyprus	100	100
Cellfind Proprietary Limited	RSA	1 000	100
Content Connect Africa Proprietary Limited	RSA	100	100
Datacel Direct Proprietary Limited	RSA	100	100
Kwikpay SA Proprietary Limited	RSA	100	100
Matragon Proprietary Limited	RSA	100	100
The Prepaid Company Proprietary Limited	RSA	10 000	100
The Post Paid Company Proprietary Limited	RSA	200	75
Transaction Junction Proprietary Limited	RSA	120	60
Uninex Proprietary Limited	RSA	100	100
Ventury Group Proprietary Limited	RSA	2 000	100
Virtual Voucher Proprietary Limited	RSA	200	100

34. Interest in subsidiairies, associates and joint ventures (continued)

	Country	Number of issued ordinary shares	Percentage held
2012 (continued)			
Subsidiaries (continued)			
Indirectly held:			
Subsidiary of Blue Label Investments Proprietary Limited			
Gold Label Investments Proprietary Limited	RSA	1 000	100
Subsidiaries of The Prepaid Company Proprietary Limited			
Little River Trading 181 Proprietary Limited trading as Crown Cellular	RSA	100	100
Multiserv Proprietary Limited	RSA	1 000	100
Subsidiary of Ventury Group Proprietary Limited			
Cigicell Proprietary Limited (refer to note 4 included in group statement of changes in equity)	RSA	100	100
Subsidiary of Africa Prepaid Services Proprietary Limited			
Africa Prepaid Services Nigeria Limited	Nigeria	10 000 000	51
Subsidiaries of Datacel Direct Proprietary Limited			
Blue Label Call Centre Proprietary Limited	RSA	300	100
CNS Call Centre Proprietary Limited	RSA	1 000	100
Velociti Proprietary Limited	RSA	1 000	100
Blue Label Data Solutions Proprietary Limited	RSA	100	81
Subsidiary of 2DFine Holdings Mauritius			
2DFine Investments Mauritius	Mauritius	1	100

Notes to the group annual financial statements continued

For the year ended 31 May 2013

34. Interest in subsidiairies, associates and joint ventures (continued)

	Country	Number of issued ordinary shares	Percentage held
2012 (continued)			
Associates			
Indirectly held:			
Associates of Gold Label Investments Proprietary Limited			
Smart Voucher Limited trading as Ukash	United Kingdom	57 375 861	17.25*
Oxigen Services India (Private) Limited	India	14 244 294	37.22
Associate of Datacel Direct Proprietary Limited			
Dual Data Proprietary Limited	RSA	100	50*
Joint ventures			
Joint venture of Blue Label Telecoms Limited			
Blue Label Mexico S.A. de C.V.	Mexico	2 200	40**
Joint venture of The Prepaid Company Proprietary Limited			
Bela Phone Company Proprietary Limited	RSA	100	51**
Joint venture of Datacel Direct Proprietary Limited			
Datacision Proprietary Limited	RSA	100	50**
Joint ventures of Blue Label Data Solutions Proprietary Limited			
E-mail Marketing Solutions Proprietary Limited	RSA	100	40.5**
Betterquote Proprietary Limited	RSA	104	21.06**
Joint venture of Gold Label Investments Proprietary Limited			
2DFine Holdings Mauritius	Mauritius	2	50**
Joint venture of 2DFine Investments Mauritius			
Oxigen Services India (Private) Limited	India	14 244 294	37.22**

* *Significant influence is demonstrated by the company as a result of representation on the board of directors.*

** *Joint control is demonstrated by the composition of and decision-making powers afforded to the board of directors.*

35. Subsequent events

A final dividend of R168.6 million (25 cents per ordinary share) was declared for the year ended 31 May 2013, payable on Monday, 16 September 2013 to shareholders recorded in the register at the close of business on Friday, 6 September 2013.

On 1 June 2013 Blue Label Telecoms acquired the remaining 49% of the issued share capital of Panacea Mobile Proprietary Limited and the remaining 40% of the issued share capital of Ticketpros Proprietary Limited for a purchase consideration of R11.5 million and R4.7 million respectively.

In June 2013, the group secured a distribution agreement with a leading reseller at a purchase price of R84 million. This will further enhance the group's prominence in the distribution of prepaid services.

36. Litigation update

In December 2008 Africa Prepaid Services Proprietary Limited (APS), a subsidiary of Blue Label concluded a super dealer agreement with Multi-Links Telecommunications Limited (MLT), a wholly owned subsidiary of Telkom, at the time, in terms of which APS was appointed for a period of 10 years to market and distribute a range of products and services for MLT in Nigeria (the agreement).

In 2009 APS ceded and assigned all its rights and obligations in terms of the agreement to Africa Prepaid Services Nigeria Limited (APSN), a subsidiary of APS and Blue Label.

On 26 November 2010 APSN cancelled the agreement on the basis of MLT's wrongful repudiation of the agreement.

In June 2011 APSN launched arbitration proceedings in South Africa against MLT (the arbitration proceedings). APSN claims payment of USD457 million against MLT and MLT has counterclaimed for payment of the sum of USD123 million.

Telkom sold its shareholding in MLT to Hip Oils Topco Limited on 3 October 2011. In terms of an indemnity contained in the sale and purchase agreement, Telkom is liable for all amounts in excess of USD10 million in respect of APSN's claim against MLT.

The arbitration was due to commence in November 2012 but was postponed and is due to reconvene in February 2014.

Telkom and MLT have instituted an action in the High Court against Blue Label, APS, APSN and certain individuals, including a former senior executive of Telkom in the High Court for payment of an aggregate amount of USD724 million (the action).

The claim in the action is based, inter alia, on an alleged breach of the duty of care and alleged misrepresentations made by Blue Label together with alleged breaches of fiduciary duties on the part of the former senior Telkom executive, at the time the agreement was concluded, in respect of which it is alleged Blue Label was a party to.

Notes to the group annual financial statements continued

For the year ended 31 May 2013

36. Litigation update (continued)

On 16 May 2013 Telkom and MLT obtained an order without notice to APSN in terms of which APSN's claim against MLT in the arbitration proceedings together with a costs order in APSN's favour were purportedly attached in order to give the High Court jurisdiction over APSN in the action (the ex parte order).

Telkom and MLT have conceded that there was no basis for the attachment and have abandoned the ex parte order. APSN is seeking a punitive order for costs against Telkom and MLT, which was set down for a hearing commencing on 19 August 2013. The High Court will simultaneously determine an application which has been launched by MLT to stop the arbitration proceedings, which is being opposed by APSN.

At the time of going to print the outcome of these proceedings is yet to be pronounced upon by the court. A further announcement will be made when the court delivers its judgment.

Company statement of financial position

As at 31 May 2013

	Note	2013 R'000	2012 R'000
Assets			
Non-current assets		**3 234 767**	3 105 121
Property, plant and equipment	3	**23 601**	30 351
Intangible assets	4	**452**	668
Deferred taxation asset	5	**5 698**	—
Investment in subsidiaries	6.1	**3 040 190**	3 019 621
Investment in joint ventures	6.2	**164 826**	54 481
Current assets		**46 719**	289 430
Loan receivable	7	**—**	6 299
Loans to subsidiaries	6.1	**38 421**	280 598
Trade and other receivables	8	**7 190**	1 333
Cash and cash equivalents	9	**1 110**	1 200
Total assets		**3 281 488**	3 394 551
Equity and liabilities			
Capital and reserves		**3 077 661**	3 297 458
Share capital	10	*****	*
Share premium		**4 012 359**	4 012 359
Treasury shares		**(39 403)**	(38 077)
		3 972 956	3 974 282
Equity compensation benefit reserve		**15 815**	14 884
Share-based payment reserve		**295**	295
Accumulated loss		**(911 405)**	(692 003)
Non-current liabilities		**—**	2 208
Deferred taxation liability	5	**—**	2 208
Current liabilities		**203 827**	94 885
Trade and other payables	12	**44 843**	42 137
Loans from subsidiaries	13	**150 858**	51 638
Current tax liabilities		**8 126**	1 110
Total equity and liabilities		**3 281 488**	3 394 551

** Less than R1 000.*

Company statement of comprehensive income

For the year ended 31 May 2013

	Note	2013 R'000	2012 R'000
Other income		**107 950**	111 133
Employee compensation and benefit expense	14	**(80 173)**	(76 277)
Depreciation, amortisation and impairment charges		**(21 443)**	(19 716)
Other expenses		**(73 424)**	(31 745)
Operating loss	15	**(67 090)**	(16 605)
Finance costs	16	**(400)**	(36)
Finance income	16	**3 630**	2 968
Net loss before taxation		**(63 860)**	(13 673)
Taxation	17	**(405)**	(8 046)
Net loss for the year		**(64 265)**	(21 719)
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive loss for the year		**(64 265)**	(21 719)

Company statement of changes in equity

For the year ended 31 May 2013

	Share capital R'000	Share premium R'000
Balance as at 31 May 2011	*	4 404 737
Net loss for the year	—	—
Comprehensive income	—	—
Total comprehensive loss	—	—
Shares purchased during the year	—	—
Shares acquired	—	(392 378)
Shares awarded to group companies as part of equity-based compensation scheme	—	—
Shares forfeited by group companies as part of equity-based compensation scheme	—	—
Equity-based compensation scheme shares vested	—	—
Equity-based compensation movements	—	—
Dividends paid	—	—
Balance as at 31 May 2012	*	4 012 359
Net loss for the year	—	—
Comprehensive income	—	—
Total comprehensive loss	—	—
Shares purchased during the year	—	—
Shares awarded to group companies as part of equity-based compensation scheme	—	—
Shares forfeited by group companies as part of equity-based compensation scheme	—	—
Equity-based compensation scheme shares vested	—	—
Equity-based compensation movements	—	—
Dividends paid	—	—
Balance as at 31 May 2013	*****	**4 012 359**

** Less than R1 000.*

Company statement of changes in equity continued

For the year ended 31 May 2013

	Treasury shares R'000	Equity-based compensation reserve R'000	Share-based payment reserve R'000	Accumulated loss R'000	Total equity R'000
	(29 682)	4 999	295	(563 240)	3 817 109
	—	—	—	(21 719)	(21 719)
	—	—	—	—	—
	—	—	—	(21 719)	(21 719)
	(16 095)	—	—	—	(16 095)
	—	—	—	—	(392 378)
	12 278	—	—	—	12 278
	(5 035)	—	—	—	(5 035)
	457	(457)	—	—	—
	—	10 342	—	—	10 342
	—	—	—	(107 044)	(107 044)
	(38 077)	14 884	295	(692 003)	3 297 458
	—	**—**	**—**	**(64 265)**	**(64 265)**
	—	**—**	**—**	**—**	**—**
	—	**—**	**—**	**(64 265)**	**(64 265)**
	(17 223)	**—**	**—**	**—**	**(17 223)**
	13 719	**—**	**—**	**—**	**13 719**
	(5 029)	**—**	**—**	**—**	**(5 029)**
	7 207	**(7 207)**	**—**	**—**	**—**
	—	**8 138**	**—**	**—**	**8 138**
	—	**—**	**—**	**(155 137)**	**(155 137)**
	(39 403)	**15 815**	**295**	**(911 405)**	**3 077 661**

Company statement of cash flows

For the year ended 31 May 2013

	Note	2013 R'000	2012 R'000
Cash flows from operating activities	18	**8 526**	48 913
Finance income	16	**3 630**	2 968
Finance costs	16	**(400)**	(36)
Taxation paid	19	**(1 295)**	(10 950)
Dividends received		**—**	4 798
Net cash flows from operating activities		**10 461**	45 693
Cash flows from investing activities			
Acquisition of property, plant and equipment	3	**(868)**	(614)
Proceeds on sale of property, plant and equipment		**474**	—
Acquisition of intangible assets	4	**(9)**	(249)
Loans repaid by subsidiaries		**248 492**	522 039
Loans advanced to subsidiaries		**(38 586)**	(28 298)
Acquisition of subsidiaries		**(36 569)**	—
Proceeds on sale of subsidiary		**—**	3 907
Acquisition of joint venture		**(110 345)**	—
Loans granted to associate and joint venture		**—**	(27 572)
Net cash flows from investing activities		**62 589**	469 213
Cash flows from financing activities			
Borrowings raised from subsidiaries	13	**99 220**	—
Dividends paid		**(155 137)**	(107 044)
Acquisition of shares		**—**	(392 378)
Treasury shares acquired		**(17 223)**	(16 095)
Net cash flows from financing activities		**(73 140)**	(515 517)
Decrease in cash and cash equivalents		**(90)**	(611)
Cash and cash equivalents at the beginning of the period		**1 200**	1 811
Cash and cash equivalents at the end of the period	9	**1 110**	1 200

Notes to the company annual financial statements

For the year ended 31 May 2013

1. Accounting policies

The accounting policies applied to the company annual financial statements are consistent with the group accounting policies as detailed on pages 113 to 133.

2. Financial risks

In the course of its business, the company is exposed to a number of financial risks: credit risk, liquidity risk and market risk (including foreign currency and other price risk). This note presents the company's objectives, policies and processes for managing its financial risk and capital.

Credit risk

Credit risk arises because a counterparty may fail to meet its obligations to the company. The company is exposed to credit risks on financial instruments such as receivables, loans receivable and cash.

Trade and other receivables consist primarily of invoiced amounts owing from related parties. The recoverability of these amounts are regularly monitored with reference to the counterparties' financial performance. Where necessary, a provision for impairment is made.

The company places cash and cash equivalents with major banking companies and quality institutions that have high credit ratings.

Loans are only granted to holders with an appropriate credit history, taking into account the holder's financial position and past experience.

The company's maximum credit risk exposure is the carrying amount of all financial assets on the statement of financial position and sureties provided with the maximum amount the company could have to pay if the sureties are called on amounting to R900 million (2012: R852 million).

	2013 R'000	2012 R'000
2. Financial risks (continued)		
Loans receivable		
Group 1	—	—
Group 2	38 421	286 897
Group 3	—	—
	38 421	286 897
Trade receivables		
Counterparties without external credit rating		
Group 1	—	—
Group 2	6 443	364
Group 3	—	—
Total unimpaired trade receivables	6 443	364

The rating groups for counterparties without external credit ratings are categorised as follows:

Group 1 – New customers/related parties (less than six months).

Group 2 – Existing customers/related parties (more than six months) with no defaults in the past.

Group 3 – Existing customers/related parties (more than six months) with some defaults in the past. All defaults were fully recovered.

Cash at bank and short-term bank deposits

Credit rating based on latest Fitch local currency long-term issuer default ratings.

	2013 R'000	2012 R'000
BBB+	—	417
BBB	305	783
BBB-	805	—
	1 110	1 200

Notes to the company annual financial statements continued

For the year ended 31 May 2013

2. Financial risks (continued)

Liquidity risk

Liquidity risk arises when a company encounters difficulties to meet commitments associated with liabilities and other payment obligations. The company's objective is to maintain prudent liquidity risk management by maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Company finance monitors rolling forecasts of the company's liquidity requirements to ensure it has sufficient cash to meet operational needs. Due to the dynamic nature of the underlying businesses, the company aims to maintain flexibility in funding by keeping committed credit lines available.

Management is satisfied as to the liquidity of the company since the majority of the current liabilities relate to the loans from subsidiaries. These subsidiaries are 100% held by the company and therefore the company has control of their assets including cash resources.

The company and a subsidiary company have issued a cross surety in respect of a guarantee and overdraft facility in the amount of R19.8 million in favour of FNB, a division of FirstRand Bank Limited. This facility was unutilised as at 31 May 2013. In addition, the company and four of its subsidiaries have issued a cross surety in the amount of R1.7 million.

Maturity of financial liabilities

			Payable in:		
	Less than one month or on demand R'000	More than one month but not exceeding one year R'000	More than one year but not exceeding two years R'000	More than two years but not exceeding five years R'000	More than five years R'000
2013					
Loans from subsidiaries	**150 858**	**—**	**—**	**—**	**—**
Trade and other payables*	**1 642**	**7 596**	**—**	**—**	**—**
Total	**152 500**	**7 596**	**—**	**—**	**—**
2012					
Loans from subsidiaries	51 638	—	—	—	—
Trade and other payables*	445	5 614	—	—	—
Total	52 083	5 614	—	—	—

* *Trade and other payables exclude non-financial instruments being VAT and certain amounts within accruals and sundry creditors.*

2. Financial risks (continued)

Market risk
The company is exposed to risks from movements in foreign exchange rates and interest rates that affect its assets, liabilities and anticipated future transactions.

Cash flow and fair value interest rate risk
The company's cash flow interest rate risk arises from loans receivable and cash and cash equivalents. The company is not exposed to fair value interest rate risk as the company does not have any fixed interest-bearing instruments carried at fair value nor any interest-bearing borrowings.

As part of the process of managing the company's exposure to interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates.

Foreign currency risk
The company is exposed to foreign currency risk from transactions. Transaction exposure arises due to the company granting loans to affiliated companies in foreign currencies.

The company manages its exposure to foreign currency risk by ensuring that the net foreign currency exposure remains within acceptable levels. Hedging instruments are used in certain instances to reduce risks arising from foreign currency fluctuations. The company did not enter into any forward exchange contracts during the period under review.

IFRS 7 – Sensitivity analysis
The company has used a sensitivity analysis technique that measures the estimated change to the income statement of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates or a 10% strengthening or weakening of the rand.

Interest rate risks
The interest rate sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect the interest income or expense of variable interest financial instruments; and
- Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at fair value.

Under these assumptions, a 1% increase or decrease in market interest rates at 31 May 2013 would increase or decrease profit before tax by R11 092 (2012: R12 002).

Notes to the company annual financial statements continued

For the year ended 31 May 2013

2. Financial risks (continued)

Foreign currency risk

Financial instruments by currency

	2013 ZAR R'000	2013 Total R'000	2012 ZAR R'000	2012 Total R'000
Financial assets				
Cash	**1 110**	**1 110**	1 200	1 200
Trade and other receivables*	**6 445**	**6 445**	364	364
Loans to subsidiaries	**38 419**	**38 419**	280 598	280 598
Loans receivable	**2**	**2**	6 299	6 299
	45 976	**45 976**	288 461	288 461
Financial liabilities				
Non-interest-bearing borrowings	**150 858**	**150 858**	51 638	51 638
Trade and other payables*	**9 238**	**9 238**	6 059	6 059
	160 096	**160 096**	57 697	57 697
Net financial position	**(114 120)**	**(114 120)**	230 764	230 764

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

With a 10% strengthening or weakening in the rand against all other currencies, profit before tax would not be affected.

Capital risk

The company's objectives when managing capital are to safeguard the company's 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.

In order to maintain or adjust this capital structure, the company may issue new shares, adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt.

The company defines capital as capital and reserves and non-current borrowings.

The company is not subject to externally imposed capital requirements. There were no changes to the company's approach to capital management during the year.

Fair value measurement

For all short-term financial assets and liabilities, the carrying amount is regarded as an approximation of the fair value. The fair value of all non-current loans receivable and borrowings are calculated using a discounted cash flow model based on prevailing market interest rates where applicable.

	Computer equipment R'000	Furniture and fittings R'000	Motor vehicles R'000	Office equip-ment R'000	Leasehold improve-ments R'000	Total R'000
3. Property, plant and equipment						
Year ended 31 May 2013						
Opening carrying amount	**127**	**965**	**761**	**1 386**	**27 112**	**30 351**
Additions	**34**	**8**	**782**	**10**	**34**	**868**
Disposals	**—**	**—**	**(401)**	**—**	**—**	**(401)**
Depreciation charge	**(92)**	**(308)**	**(235)**	**(857)**	**(5 725)**	**(7 217)**
Closing carrying amount	**69**	**665**	**907**	**539**	**21 421**	**23 601**
At 31 May 2013						
Cost	**810**	**2 030**	**1 327**	**2 313**	**39 007**	**45 487**
Accumulated depreciation	**(741)**	**(1 365)**	**(420)**	**(1 774)**	**(17 586)**	**(21 886)**
Carrying amount	**69**	**665**	**907**	**539**	**21 421**	**23 601**
Year ended 31 May 2012						
Opening carrying amount	203	1 270	424	1 574	32 783	36 254
Additions	41	—	525	10	38	614
Depreciation charge	(117)	(305)	(188)	(198)	(5 709)	(6 517)
Closing carrying amount	127	965	761	1 386	27 112	30 351
At 31 May 2012						
Cost	776	2 022	1 070	2 303	38 973	45 144
Accumulated depreciation	(649)	(1 057)	(309)	(917)	(11 861)	(14 793)
Carrying amount	127	965	761	1 386	27 112	30 351

Notes to the company annual financial statements continued

For the year ended 31 May 2013

	Computer software R'000	Other R'000	Total R'000
4. Intangible assets			
Year ended 31 May 2013			
Opening carrying amount	**213**	**455**	**668**
Additions	**9**	**—**	**9**
Amortisation charge	**(85)**	**(140)**	**(225)**
Closing carrying amount	**137**	**315**	**452**
At 31 May 2013			
Cost	**2 554**	**700**	**3 254**
Accumulated depreciation	**(2 417)**	**(385)**	**(2 802)**
Carrying amount	**137**	**315**	**452**
Year ended 31 May 2012			
Opening carrying amount	23	595	618
Additions	249	—	249
Amortisation charge	(59)	(140)	(199)
Closing carrying amount	213	455	668
At 31 May 2012			
Cost	2 545	700	3 245
Accumulated depreciation	(2 332)	(245)	(2 577)
Carrying amount	213	455	668

		2013 R'000	2012 R'000
5.	**Deferred taxation**		
	At the beginning of the year	**2 208**	2 427
	(Charged)/credited to the statement of comprehensive income:		
	– Provisions	**(7 677)**	5
	– Capital allowances	**(49)**	(49)
	– Equity compensation benefit	**70**	291
	– Other	**(250)**	(466)
	At the end of the year	**(5 698)**	2 208
	Deferred taxation comprises:		
	– Provisions	**(7 791)**	(114)
	– Capital allowances	**185**	234
	– Equity compensation benefit	**3 354**	3 284
	– Other	**(1 446)**	(1 196)
		(5 698)	2 208
	The analysis of deferred tax assets and deferred tax liabilities is as follows:		
	Deferred tax assets		
	Deferred tax assets to be recovered after more than 12 months	**251**	—
	Deferred tax assets to be recovered within 12 months	**(5 949)**	—
		(5 698)	—
	Deferred tax liabilities		
	Deferred tax liabilities to be recovered after more than 12 months	**—**	401
	Deferred tax liabilities to be recovered within 12 months	**—**	1 807
		—	2 208
	Net deferred tax (asset)/liability	**(5 698)**	2 208

Where deferred tax assets have been recognised, a formal process of assessment of the future profitability of the company has been performed based on detailed budgets and cash flow forecasts. As a result, management believes that the current tax losses will be utilised within one to five years.

Notes to the company annual financial statements continued

For the year ended 31 May 2013

	2013 R'000	2012 R'000
6. Investments in group companies and related loans		
6.1 Investments in subsidiaries and related loans		
Shares at cost less amounts written off	**3 040 190**	3 019 621
Loans owing by subsidiaries less amounts written off	**38 421**	280 598
	3 078 611	3 300 219

Details are reflected below:

	Shares at cost R'000	Loans owing by subsidiaries R'000	Provision for impairment R'000
2013			
Activi Technology Services Proprietary Limited	*	—	—
Activi Deployment Services Proprietary Limited	5 060	—	—
Africa Prepaid Services Proprietary Limited[1]	61 520	57 904	(119 424)
Africa Prepaid Services Nigeria Limited[1]	14 000	5 113	(19 113)
Blue Label Distribution Proprietary Limited**	194 000	—	—
Blue Label Engage Proprietary Limited	2 735	—	—
Blue Label Investments Proprietary Limited	108 416	—	—
Blue Label One Proprietary Limited	40 000	—	—
BLT USA Inc	50 540	—	—
Budding Trade Proprietary Limited**	6 000	—	—
Celebia Holdings Limited	*	—	—
Cellfind SA Proprietary Limited	290 000	—	(141 841)
Cigicell Proprietary Limited	295	—	—
Datacel Direct Proprietary Limited	150 000	—	(16 073)
Gold Label Investments Proprietary Limited	29 400	187 055	(175 075)
Kwikpay SA Proprietary Limited**	22 500	—	—
Matragon Proprietary Limited**	*	—	—
Panacea Mobile Proprietary Limited	9 834	—	—
The Post Paid Company Proprietary Limited**	*	—	—
The Prepaid Company Proprietary Limited**	2 150 214	—	—
TicketPros Proprietary Limited	10 000	—	—
Transaction Junction Proprietary Limited	4 200	—	
Uninex Proprietary Limited	*	976	—
Velociti Proprietary Limited	7 185	—	—
Ventury Group Proprietary Limited**	98 406	—	—
Virtual Voucher Proprietary Limited**	44 784	—	—
	3 299 089	251 048	(471 526)

6. Investments in group companies and related loans (continued)

6.1 Investments in subsidiaries and related loans (continued)

	Shares at cost R'000	Loans owing by subsidiaries R'000	Provision for impairment R'000
2012			
Activi Technology Services Proprietary Limited	*	—	—
Activi Deployment Services Proprietary Limited	5 060	—	—
Africa Prepaid Services Proprietary Limited[1]	61 520	26 773	(83 574)
Blue Label Distribution Proprietary Limited**	194 000	—	—
Blue Label Investments Proprietary Limited	108 416	—	—
Blue Label One Proprietary Limited	40 000	—	—
BLT USA Inc[2]	50 540	—	—
Budding Trade Proprietary Limited**	6 000	—	—
Celebia Holdings Limited	*	—	—
Cellfind SA Proprietary Limited	290 000	—	(141 841)
Cigicell Proprietary Limited	295	—	—
Content Connect Africa Proprietary Limited	27 000	—	(25 000)
Datacel Direct Proprietary Limited[1]	150 000	—	(16 073)
Gold Label Investments Proprietary Limited	29 400	184 714	(175 075)
Kwikpay SA Proprietary Limited	22 500	—	—
Matragon Proprietary Limited**	*	—	—
The Post Paid Company Proprietary Limited**	*	—	—
The Prepaid Company Proprietary Limited**	2 150 214	236 794	—
Transaction Junction Proprietary Limited	4 200	—	
Uninex Proprietary Limited	*	976	—
Velociti Proprietary Limited	7 185	3 005	—
Ventury Group Proprietary Limited**	98 406	—	—
Virtual Voucher Proprietary Limited**	44 784	—	—
	3 289 520	452 262	(441 563)

* *Less than R1 000.*

** *These investments have been pledged as security to Investec Bank Limited in terms of the facility. For details on percentage held, country of incorporation and issued shares, refer to note 34 in the group notes. Refer to notes 15 and 21 for details on impairments.*

[1] *These loans bear interest at prime plus 2% and have no fixed terms of repayment. All other loans are interest-free.*

[2] *In the prior year the loan to BLT USA Inc. was capitalised.*

In the current year TicketPros Proprietary Limited, Blue Label Engage Proprietary Limited, Panacea Mobile Proprietary Limited and Africa Prepaid Services Nigeria Limited were acquired. Refer to note 28 in the group notes for details of these acquisitions.

In the prior year Activi Technology Services Proprietary Limited sold its 100% investment in Activi Deployment Services Proprietary Limited and its 60% investment in Transaction Junction Proprietary Limited to Blue Label Telecoms Limited on loan account. In the prior year, Matragon Proprietary Limited distributed its 100% investment in Blue Label Distribution Proprietary Limited to Blue Label Telecoms Limited.

Notes to the company annual financial statements continued

For the year ended 31 May 2013

6. Investments in group companies and related loans (continued)

6.2 Investments in joint ventures and related loans

	2013 R'000	2012 R'000
Shares as at the beginning of the year	**26 652**	27 128
Acquisition of joint venture	**138 174**	—
Disposal – Demtrade 11 Proprietary Limited	**—**	(476)
Shares as at the end of the year	**164 826**	26 652
Loans at the beginning of the year	**27 829**	1 485
Loans repaid by joint ventures	**—**	(1 228)
Loan granted to joint venture capitalised	**(112 822)**	—
Loans granted to joint venture	**84 993**	27 572
Loans at the end of the year	**—**	27 829
Closing net book value	**164 826**	54 481

		Date acquired	Country of incorpo-ration	Percentage interest held
Blue Label Mexico S.A. de C.V.	Joint venture	23 Feb 2011	Mexico	40
Blue Label Mexico S.A. de C.V.*	Joint venture	1 Sep 2012	Mexico	5

	Assets R'000	Liabilities R'000	Revenues R'000	Loss R'000
2013				
Blue Label Mexico S.A. de C.V.	**349 286**	**73 551**	**1 742 863**	**(113 155)**
2012				
Blue Label Mexico S.A. de C.V.	129 090	79 988	859 592	(59 155)

** On 1 September 2012 Blue Label Telecoms increased its shareholding in Blue Label Mexico S.A. de C.V. (BLM) by 5% for a consideration of R21.1 million. A further capital contribution of R89.2 million was paid to BLM during the year. The loan balance at 31 May 2012 of R27.8 million was capitalised during the year.*

		2013 R'000	2012 R'000
7.	**Loan receivable**		
	Interest-bearing loan	—	6 299
		—	6 299
	Interest-bearing loans bear interest at prime +2% and have no fixed terms of repayment.		
8.	**Trade and other receivables**		
	Trade receivables	—	7
	Sundry debtors and prepayments	765	969
	Amounts due from related parties (refer to note 21)	6 425	357
		7 190	1 333

The ageing of trade receivables, including amounts due from related parties, at the reporting date is as follows:

	Gross R'000	Impairment R'000	Net R'000
31 May 2013			
Fully performing	6 425	—	6 425
Past due by one to 30 days	—	—	—
Past due by 31 to 60 days	—	—	—
Past due by 61 to 90 days	—	—	—
Past due by more than 90 days	—	—	—
	6 425	—	6 425
31 May 2012			
Fully performing	336	—	336
Past due by one to 30 days	—	—	—
Past due by 31 to 60 days	—	—	—
Past due by 61 to 90 days	—	—	—
Past due by more than 90 days	28	—	28
	364	—	364

Based on the financial performance of the relevant debtors, management does not consider there to be any indications of potential default in respect of the fully performing book.

Notes to the company annual financial statements continued

For the year ended 31 May 2013

	2013 R'000	2012 R'000
9. Cash and cash equivalents		
Cash at bank	**1 110**	1 200
Favourable balances	**1 110**	1 200

In the prior year guarantees to the value of R600 000 were held by Investec Bank Limited in favour of a subsidiary.

	2013 Number of shares	2012 Number of shares	2013 R'000	2012 R'000
10. Share capital				
Authorised				
Total authorised share capital of ordinary shares (par value of R0.000001 each)	**1 000 000 000**	1 000 000 000	**1**	1
Issued				
Balance at the beginning of the year	**661 501 917**	756 269 004	*****	*
Shares acquired during the period	**(2 567 171)**	(95 078 724)	*****	*
Shares vested during the year – Blue Label Telecoms	**1 232 031**	91 507		
Shares vested during the year – Blue Label Telecoms subsidiaries	**1 468 481**	220 130		
Balance at the end of the year	**661 635 258**	661 501 917	*****	*

** Less than R1 000.*

All issued shares are fully paid up.

10. Share capital (continued)

The total number of shares in issue, including shares held as treasury shares as at 31 May 2013, is 674 509 042 (2012: 674 509 042).

The company acquired 2 567 171 (2012: 3 226 872) shares on the JSE in order to grant forfeitable shares to employees and directors.

The amount paid to acquire these shares was R17 222 717 (2012: R16 095 018). An amount of R17 222 717 (2012: R16 095 018) has been deducted from shareholders' equity.

These shares are held as "treasury shares". See note 11 for details on the forfeitable shares.

In the prior year, the company acquired 91 851 852 shares from Microsoft Corporation representing 11.99% of the Blue Label ordinary shares in issue prior to the specific repurchase. The amount paid for these shares, including transaction costs, was R392 377 518. These shares have been cancelled.

The directors of the company have unrestricted authority until the following annual general meeting to allot and issue, other than for cash, as they in their discretion deem fit, the unissued ordinary shares of the company as at 31 May 2012, subject to the provisions of the memorandum of incorporation of the company, the Companies Act and the Listings Requirements of the JSE.

11. Equity compensation benefit

Forfeitable shares

During the year, 1 551 702 (2012: 2 100 259) forfeitable shares were granted to executive directors and qualifying employees ("participant"). The participant will forfeit the forfeitable shares if he/she ceases to be an employee of an employer company before the vesting date or if the specified performance conditions have not been met, unless otherwise specified by the rules or determined by the board. In the event that the participant is not in the employ of the group, or the performance conditions are not met, then the shares allocated to the participant will be forfeited and will either be sold on the open market by the escrow agent and the proceeds will be returned to the participating employer, or may be retained by the group for future awards.

Dividends declared in respect of these forfeitable shares are held in escrow until such time as the performance conditions are met and the shares have vested. Shares forfeited during the vesting period will forfeit any dividends pertaining to such shares. A dividend of 23 cents (2012: 14 cents) per ordinary share was declared on 20 August 2012 (2012: 23 August 2011).

Notes to the company annual financial statements continued

For the year ended 31 May 2013

11. Equity compensation benefit (continued)

Forfeitable shares (continued)

The performance conditions for the second award grant of forfeitable shares vesting on 1 September 2012 are as follows:

- 25% of the shares constituting the allocation are awarded for retention purposes and shall vest if the employee is still employed in the group at the vesting date (1 September 2012);
- 25% of the shares constituting the allocation will vest on the achievement by individual employees of their individual key performance indicators; and
- 50% of shares constituting the allocation will vest if the group's core HEPS is equal to or exceeds the core HEPS per ordinary share at the beginning of the performance period (1 June 2009), by the percentage change in the CPI over the performance period, plus 15%. There is no linear vesting to this portion of the allocation.

The second award has now vested.

The performance condition for the third award grant of forfeitable shares vesting on 31 August 2013 are as follows:

- 25% of the shares constituting the allocation are awarded for retention purposes and shall vest if the employee is still employed in the group at the vesting date (31 August 2013);
- 25% of the shares constituting the allocation will vest on the achievement by individual employees of their individual key performance indicators; and
- 50% of shares constituting the allocation will vest if the group's core HEPS is equal to or exceeds the core HEPS per ordinary share at the beginning of the performance period 1 June 2010, by the percentage change in the CPI over the performance period, plus 15%. There is no linear vesting to this portion of the allocation.

The performance condition for the retention award grant vesting in three equal tranches on 30 September 2010, 30 April 2011 and 30 April 2012 are as follows:

- 100% of the shares constituting the allocation are awarded for retention purposes and shall vest if the employee is still employed in the group at the vesting dates.

The performance condition for the fourth award grant of forfeitable shares vesting on 31 August 2014 are as follows:

- 25% of the shares constituting the allocation are awarded for retention purposes and shall vest if the employee is still employed in the group at the vesting date (31 August 2014);
- 25% of the shares constituting the allocation will vest on the achievement by individual employees of their individual key performance indicators; and
- 50% of shares constituting the allocation will vest if the group's core HEPS is equal to or exceeds the core HEPS per ordinary share at the beginning of the performance period 1 June 2011, by the percentage change in the CPI over the performance period, plus 15%. There is no linear vesting to this portion of the allocation.

11. Equity compensation benefit (continued)

Forfeitable shares (continued)

The performance condition for the fifth award grant vesting at 31 August 2015 of forfeitable shares are as follows:

- 40% of the awards are allocated towards retention. In order to receive this portion of the allocation the employee is required to be employed within the group at the vesting date (31 August 2015); and
- 60% of the awards are allocated on the basis of 50% for Growth in Core Headline earnings per share and 10% for shareholder returns.

The 50% for growth in core headline earnings will be based on the following achievements:

- If growth is 5% above CPI over three years, then 20% of the 50% will vest;
- If growth is 10% above CPI over three years, then an additional 50% (i.e. a total of 70%) of the 50% will vest; and
- If growth is 25% above CPI over three years, then a further 30% (i.e. a total of 100%) of the 50% will vest.

The 10% for shareholder return will be based on a 10% compounded growth in the share price over the three-year vesting period measured with reference to the weighted average price per share during the month of the commencement of the allocation and the weighted average share price for the month during which the vesting takes place, plus dividends over the three-year period of no less than three times dividend cover on a grossed up basis.

Movements in the number of forfeitable shares outstanding during the year are as follows:

	Grant date	Vesting date	Number of shares	Fair value of grant R'000
At 31 May 2011			3 501 571	18 150
Second award			1 443 809	8 446
Third award			1 947 535	9 153
Retention award			110 227	551
Granted during the year			2 100 259	9 451
Fourth award	1 October 2011	31 August 2014	2 100 259	9 451
Shares forfeited during the year			(99 032)	(532)
Second award			(52 800)	(309)
Third award			(27 512)	(129)
Retention award			(18 720)	(94)
Shares vested during the year			(91 507)	(457)
Retention award		30 April 2011	(91 507)	(457)

Notes to the company annual financial statements continued

For the year ended 31 May 2013

11. Equity compensation benefit (continued)

Forfeitable shares (continued)

	Grant date	Vesting date	Number of shares	Fair value of grant R'000
At 31 May 2012			5 411 291	26 612
Second award			1 391 009	8 137
Third award			1 920 023	9 024
Fourth award			2 100 259	9 451
Granted during the year			1 451 573	9 740
Fifth award	3 September 2012	31 August 2015	1 451 573	9 740
Shares forfeited during the year			(251 503)	(1 353)
Second award			(158 978)	(930)
Third award			(31 856)	(150)
Fourth award			(60 669)	(273)
Shares vested during the year			(1 232 031)	(7 207)
Second award		1 September 2012	(1 232 031)	(7 207)
At 31 May 2013			**5 379 330**	**27 792**
Third award			**1 888 167**	**8 874**
Fourth award			**2 039 590**	**9 178**
Fifth award			**1 451 573**	**9 740**

Refer to note 14 for the expense recognised in the statement of comprehensive income relating to the equity compensation benefits.

The fair value of the shares is based on the value paid for the shares on the open market at grant date.

The total number of forfeitable shares issued to executive directors during the period is 1 096 759 (2012: 1 542 820).

The share-based payment expense in relation to these directors is R6.3 million (2012: R7.3 million).

Refer to note 31 of the group annual financial statements for details per director.

Notes to the company annual financial statements continued

For the year ended 31 May 2013

		2013 R'000	2012 R'000
12.	**Trade and other payables**		
	Trade payables	**232**	520
	Accruals	**33 754**	37 008
	Sundry creditors	**9 718**	780
	VAT	**1 116**	3 720
	Amounts due to related parties (refer to note 21)	**23**	109
		44 843	42 137
13.	**Loans from subsidiaries**		
	Blue Label Investments Proprietary Limited	**3 638**	3 638
	Datacel Proprietary Limited	**8 493**	—
	The Prepaid Company Proprietary Limited	**90 727**	—
	Ventury Group Proprietary Limited	**48 000**	48 000
		150 858	51 638
	Loans are unsecured, interest-free and are repayable on demand.		
14.	**Employee compensation and benefit expense**		
	Salaries and wages	**41 461**	39 260
	Bonuses	**27 770**	25 461
	Equity compensation benefit	**8 138**	10 342
	Other	**2 804**	1 214
		80 173	76 277

The average number of employees for the year is 36 (2012: 37).

Notes to the company annual financial statements continued

For the year ended 31 May 2013

	2013 R'000	2012 R'000
15. Operating loss		
The following items have been charged/(credited), in arriving at operating loss:		
Management fees received**	**(107 380)**	(104 763)
Dividends received	**—**	(4 798)
Consulting fees	**3 968**	6 031
Foreign exchange (profit)/loss	**(95)**	73
Impairment of loans and investments*	**61 323**	13 000
Profit on disposal of property, plant and equipment	**(73)**	—
Insurance	**1 118**	1 118
Legal fees	**530**	215
Operating lease rentals – premises	**(484)**	2 027
Rental paid	**11 871**	14 223
Rental recovery	**(12 355)**	(12 196)
Overseas travel	**1 578**	1 158
Repairs and maintenance	**6**	—
Audit fees – services as auditors	**4 205**	4 086
Audit fees – other	**474**	—

* *An impairment loss of R54.7 million (2012: R13 million) was recognised in the current year relating to the impairment of related party investments and loans in line with our stated accounting policies (refer to note 21). An impairment loss of R6.3 million (2012: nil) was recognised in the current year relating to the impairment of a loan.*

** *Included in other income.*

In the current year a weighted average cost of capital of 14.79% to 21.73% and a growth rate of 1.5% to 4.5% was used in determining the recoverable value where the valuation was based on future cash flows. The prior year impairment has been determined using the indicative sales value in order to determine the recoverable amount.

		2013 R'000	2012 R'000
16.	**Finance (income)/costs**		
	Interest paid		
	– Bank	**3**	36
	– Other	**397**	—
		400	36
	Interest received		
	– Bank	**(48)**	(67)
	– Loans	**(3 582)**	(2 892)
	– Other	**—**	(9)
		(3 630)	(2 968)
	Net finance income	**(3 230)**	(2 932)
17.	**Taxation**		
	Current tax	**8 311**	(2 398)
	Current year	**7 938**	1 311
	Prior year	**373**	(3 709)
	Deferred tax	**(7 906)**	(219)
	Current year	**(7 906)**	(88)
	Prior year	**—**	(131)
	STC	**—**	10 663
		405	8 046
	Tax rate reconciliation		
	Net loss before tax	**(63 860)**	(13 673)
	Tax at 28%	**(17 882)**	(3 828)
	Adjusted for:		
	– Income not taxable	**—**	(1 343)
	– Expenditure not deductible	**17 914**	6 394
	– Prior year adjustment	**373**	(3 840)
	– STC	**—**	10 663
		405	8 046

Notes to the company annual financial statements continued

For the year ended 31 May 2013

	2013 R'000	2012 R'000
18. Cash flows from operating activities		
Reconciliation of operating loss to cash flows from operating activities		
Operating loss	**(67 090)**	(16 605)
Adjustments for:		
Dividends received	**—**	(4 797)
Depreciation of property, plant and equipment	**7 217**	6 517
Amortisation on intangible assets	**225**	199
Impairment of loans and investments	**61 323**	13 000
Profit on disposal of property, plant and equipment	**(73)**	—
Loss on disposal of subsidiaries	**2 000**	4 164
Loss on disposal of joint venture	**—**	476
Loss on restructuring (refer to note 6.1)	**—**	533
Equity compensation benefit expense	**8 138**	10 342
Unrealised foreign exchange differences	**—**	(1 132)
Changes in working capital		
(Increase)/decrease in trade and other receivables	**(5 858)**	3 211
Increase in trade and other payables	**2 706**	28 689
(Increase)/decrease in loans receivable	**(62)**	4 316
	8 526	48 913
19. Taxation paid		
Balance outstanding at the beginning of the year	**1 110**	3 795
Taxation charge	**8 311**	8 265
Balance outstanding at the end of the year	**(8 126)**	(1 110)
	1 295	10 950
20. Commitments		
Future operating lease charges for:		
Premises		
Payable within one year	**12 444**	11 261
Payable in two to five years	**41 216**	53 660
	53 660	64 921

	2013 R'000	2012 R'000
21. Related party transactions		
Related party relationships		
For details of subsidiaries and joint ventures, refer to note 34 in the group notes.		
For details of the company's directors, refer to the directors' report.		
ZOK Cellular Proprietary Limited, Black Ginger 59 Proprietary Limited, Unihold Group Limited, Ellerine Bros. Proprietary Limited, Stylco Proprietary Limited and Moneyline 311 Proprietary Limited are related parties due to directors' shareholdings and the companies having common directorships.		
For details of the shareholdings in the company, refer to the directors' report.		
Directors' emoluments (refer to note 31 of the group annual financial statements and remuneration report).		
The following transactions were carried out with related parties:		
Purchases from related parties		
Black Ginger 59 Proprietary Limited	—	1 946
Brett Levy	—	525
BSC Technologies Proprietary Limited	7	—
Demtrade 11 Proprietary Limited	—	(4)
Stylco Proprietary Limited	18	40
The Prepaid Company Proprietary Limited	3	5
Wildekrans Wine Estate Proprietary Limited	13	3

Notes to the company annual financial statements continued

For the year ended 31 May 2013

	2013 R'000	2012 R'000
21. Related party transactions (continued)		
Cost recoveries from related parties		
Cellfind SA Proprietary Limited	—	6
Interest received from related parties		
Africa Prepaid Services Proprietary Limited	2 445	1 009
Datacel Direct Proprietary Limited	—	957
SharedPhone International Proprietary Limited	—	148
The Postpaid Company Proprietary Limited	—	48
Blue Label Mexico S.A. de C.V.	576	431
Management fees received from related parties		
Activi Deployment Services Proprietary Limited	88	80
Blue Label Distribution Proprietary Limited	3 039	3 063
Blue Label Mexico S.A. de C.V.	520	458
Blue Label One Proprietary Limited	1 320	1 200
Cellfind SA Proprietary Limited	3 162	2 875
Cigicell Proprietary Limited	2 723	2 476
Datacel Direct Proprietary Limited	439	399
SharedPhone International Proprietary Limited	—	532
The Prepaid Company Proprietary Limited	96 000	93 600
Transaction Junction Proprietary Limited	88	80
Rent paid to related parties		
Ellerine Bros. Proprietary Limited	5 631	5 096
Moneyline 311 Proprietary Limited	5 631	5 096

	2013 R'000	2012 R'000
21. Related party transactions (continued)		
Rent received from related parties		
Africa Prepaid Services Proprietary Limited	—	133
Blue Label Data Solutions Proprietary Limited	—	167
Blue Label One Proprietary Limited	—	588
Blue Label Distribution Proprietary Limited	—	2 438
The Prepaid Company Proprietary Limited	—	3 099
Zok Cellular Proprietary Limited	—	95
Impairment of related party investments		
Africa Prepaid Services Nigeria Limited	14 000	—
Content Connect Africa Proprietary Limited	—	13 000
Impairment of related party loans		
Africa Prepaid Services Proprietary Limited	35 849	—
Africa Prepaid Services Nigeria Limited	5 113	—
Dividends received from related parties		
Datacel Direct Proprietary Limited	—	3 747
Demtrade 11 Proprietary Limited	—	453
Matragon Proprietary Limited	—	1
Matrix Investments No 4 Proprietary Limited	—	596
Loans to related parties		
Africa Prepaid Services Proprietary Limited	—	4 719
Gold Label Investments Proprietary Limited	37 446	35 104
The Prepaid Company Proprietary Limited	—	236 794
Uninex Proprietary Limited	976	976
Velociti Proprietary Limited	—	3 005

Notes to the company annual financial statements continued

For the year ended 31 May 2013

	2013 R'000	2012 R'000
21. Related party transactions (continued)		
Loans from related parties		
Blue Label Investments Proprietary Limited	**3 638**	3 638
Datacel Direct Proprietary Limited	**8 493**	—
The Prepaid Company Proprietary Limited	**90 727**	—
Ventury Group Proprietary Limited	**48 000**	48 000
Amounts due from related parties		
Black Ginger 59 Proprietary Limited	**4 683**	21
Blue Label Distribution Proprietary Limited	**8**	—
Blue Label Mexico S.A. de C.V.	**1 759**	336
Smart Voucher Limited trading as Ukash	**(25)**	—
	6 425	357
Amounts due to related parties		
Blue Label Distribution Proprietary Limited	**8**	109
Cigicell Proprietary Limited	**15**	—
	23	109

22. Shareholder analysis

	Number of shareholdings	%	Number of shares	%
Shareholder spread				
1 — 1 000 shares	675	25.82	340 052	0.05
1 001 — 10 000 shares	1 204	46.06	4 845 195	0.72
10 001 — 100 000 shares	465	17.79	14 668 764	2.17
100 001 — 1 000 000 shares	179	6.85	58 379 023	8.66
1 000 001 shares and over	91	3.48	596 276 008	88.40
Totals	2 614	100.00	674 509 042	100.00
Distribution of shareholders				
Banks	41	1.57	86 953 292	12.89
Close corporations	37	1.42	1 360 070	0.20
Empowerment	1	0.04	6 863	0.00
Endowment funds	20	0.77	1 528 431	0.23
Individuals	1 912	73.14	176 014 571	26.10
Insurance companies	25	0.96	9 895 932	1.47
Investment companies	18	0.69	19 457 110	2.88
Medical schemes	2	0.08	377 750	0.06
Mutual funds	94	3.60	144 499 339	21.42
Nominees and trusts	262	10.02	38 907 289	5.76
Other corporations	19	0.73	168 943	0.03
Private companies	66	2.52	109 478 857	16.23
Public companies	5	0.19	2 414 723	0.36
Retirement funds	110	4.21	70 572 088	10.46
Treasury stock	2	0.08	12 873 784	1.91
Totals	2 614	100.00	674 509 042	100.00

Notes to the company annual financial statements continued

For the year ended 31 May 2013

22. Shareholder analysis (continued)

	Number of shareholdings	%	Number of shares	%
Public/non-public shareholders				
Non-public shareholders	16	0.61	284 164 569	42.13
Directors and associates	14	0.54	182 927 494	27.12
Strategic holdings (more than 10%)	1	0.04	100 000 000	14.83
Treasury stock	2	0.08	12 873 784	1.91
Public shareholders	2 597	99.35	378 707 764	56.14
Totals	2 614	100.00	674 509 042	100.00
Beneficial shareholders holding 2% or more				
Allan Gray's clients			114 662 405	17.00
Shotput Investments Proprietary Limited			100 000 000	14.83
Levy, BM			82 917 385	12.29
Levy, MS			75 509 976	11.19
RECM's clients			34 117 769	5.06
Fidelity Investments			32 092 071	4.76
Investec Investments (UK)			18 780 153	2.78
Nedbank Group			17 981 502	2.67
Wellington Management Company			14 709 595	2.18
Government Employees Pension Fund			13 488 848	2.00
Totals			470 141 935	69.70