Notes to the consolidated financial statements

for the year ended June 30

15. GOODWILL *(continued)*

Goodwill acquired through business combinations is allocated for impairment testing purposes to CGUs which reflect how it is monitored for internal management purposes, namely the various segments of the group. The carrying amount of goodwill was subject to an annual impairment test using either the fair value less costs to sell method or the discounted cash flow basis. The recoverable amount was determined by using the higher of the fair value less costs to sell and the discounted cash flow for each CGU.

Fair value less costs to sell method

The calculations used projected annualised earnings based on actual operating results. A price earnings multiple was applied to obtain the recoverable amount for each business unit. The earnings yields are considered to be consistent with similar companies within the industry and geographic segments. An average price earnings multiple of 12,7 (2015: 12,8) was used in the valuation of Foodservice Europe, 12,9 (2015: 12,8) for Foodservice United Kingdom, 13,0 (2015: 13,0) for Foodservice Australasia, and 14,1 (2015: 11,6) for Foodservice Emerging Markets.

Discounted cash flow method

The table below illustrates the weighted average cost of capital (WACC), cash flow growth, and terminal growth rates that were used in the discounted cash flow valuations for each of the CGUs.

	WACC rate		Cash flow growth rate		Terminal growth rate	
	2016	2015	**2016**	2015	**2016**	2015
Foodservice Australasia	**10%**	10%	**3 – 5%**	3 – 5%	**2%**	2%
Foodservice United Kingdom	**10%**	10%	**3 – 5%**	3 – 5%	**2%**	2%
Foodservice Europe	**5% – 10%**	4% – 10%	**0 – 10%**	0 – 10%	**2 – 3%**	2 – 3%
Foodservice Emerging Markets	**7% – 10%**	10%	**5 – 10%**	1 – 7%	**2 – 5%**	2 – 5%

The valuations resulted in significant surpluses over carrying values of the CGUs and thus the directors believe that a reasonably possible change in these multiples would not result in an impairment of the carrying value of goodwill. The valuation method is consistent with that used in the prior years and is considered a level 3 type valuation in accordance with IFRS 13 *Fair Value Measurement*.

No impairment was identified for the current financial year (2015: nil).

	2016 R'000	2015 R'000
16. DEFERRED TAXATION		
Deferred taxation assets	**491 766**	338 932
Deferred taxation liabilities	**(524 243)**	(254 971)
Net deferred taxation liability	**(32 477)**	83 961
Movement in net deferred taxation assets and liabilities		
Balance at beginning of year	**83 961**	181 979
Per consolidated statement of profit or loss	**(48 953)**	32 061
Items recognised directly in equity and other comprehensive income	**39 838**	6 741
On acquisition of businesses	**5 695**	(100 482)
On disposal of businesses	**(1 514)**	–
Transfer as a result of unbundling	**(163 926)**	–
Exchange rate adjustments	**52 422**	(36 338)
Balance at end of year	**(32 477)**	83 961

	Assets R'000	Liabilities R'000	Net R'000
16. DEFERRED TAXATION *(continued)*			
Temporary differences			
2016			
Differential between carrying values and taxation values of property, plant and equipment	**(52 102)**	**(269 344)**	**(321 446)**
Differential between carrying values and taxation values of intangible assets	**26 188**	**(138 140)**	**(111 952)**
Estimated taxation losses	**104 049**	**11 388**	**115 437**
Staff-related allowances and liabilities	**222 633**	**(200 821)**	**21 812**
Operating lease liabilities	**3 987**	**31**	**4 018**
Inventories	**13 650**	**273**	**13 923**
Investments	**–**	**(36 077)**	**(36 077)**
Trade and other receivables	**55 178**	**14 573**	**69 751**
Trade, other payables and provisions	**118 183**	**93 874**	**212 057**
	491 766	**(524 243)**	**(32 477)**
2015			
Differential between carrying values and taxation values of property, plant and equipment	(43 506)	(166 582)	(210 088)
Differential between carrying values and taxation values of intangible assets	17 606	(134 242)	(116 636)
Estimated taxation losses	45 580	2 169	47 749
Staff-related allowances and liabilities	170 203	10 713	180 916
Operating lease liabilities	422	37	459
Inventories	10 311	–	10 311
Trade and other receivables	35 757	6 098	41 855
Trade, other payables and provisions	102 559	26 836	129 395
	338 932	(254 971)	83 961

Deferred taxation has been provided at rates ranging between 5% and 36% (2015: 12% and 35%). The variance in rates arises as a result of the differing taxation rates present in the various countries in which the group operates.