

2.1 Business combinations

The group accounts for business combinations using the acquisition method. The consideration transferred for the acquisition of a business is the fair value of assets transferred, the liabilities incurred and the equity issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent arrangement. If the contingent arrangement is classified as equity, then it is not remeasured and settlement is accounted for in equity. Subsequent changes in the fair value of other contingent arrangements are recognised in profit or loss. Acquisition-related costs, apart from costs directly related to the raising of debt and/or equity, are accounted for in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at acquisition date. The group recognises any non-controlling interest, at the non-controlling interest's proportionate share of the subsidiary's net assets on an acquisition-by-acquisition basis. When a business combination is achieved in stages, the group's previously held equity interest in an entity is remeasured to its acquisition date fair value and the resulting gain or loss recognised in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the entity and the acquisition date fair value of any previous equity interest in the business over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss as a bargain purchase gain.

The company carries its investments in subsidiaries at cost less accumulated impairment losses.

2.2 Foreign operations

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into South African rand at rates of exchange ruling at the reporting date. Income, expenditure and cash flow items are translated into South African rand at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in equity as a foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the statement of profit or loss.

Acquisitions and disposals of foreign operations are accounted for at the exchange rate ruling on the date of the transaction.

Transactions in foreign currencies are translated at the rates of exchange ruling at the transaction date. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the reporting date. Translation differences are generally recognised in the statement of profit or loss.

Non-monetary assets and liabilities are measured based on historical cost in a foreign currency are translated at an exchange rate at the date of the transaction.

3. ACCOUNTING ESTIMATES, JUDGEMENTS AND FAIR VALUES

The board of directors has considered the group's accounting policies, key sources of uncertainty and areas where accounting judgements were required in applying the Group's accounting policies. A number of the group's accounting policies and disclosures require the determination of fair values, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Accounting judgements and determination of fair values in applying the group's accounting policies

Judgements made in the application of IFRS that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Property, plant and equipment

The estimation of the useful lives is based on historic performance as well as expectation about future use and, therefore, requires a degree of judgement to be applied. The depreciation rates represent management's best estimate of the useful lives of the assets. All properties are accounted for as own use assets and are thus held at cost less accumulated depreciation. Market indicators reflect that these properties could realise more than their carrying values if disposed of.

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market values of other assets are based on the quoted market prices for similar items.

Goodwill and intangible assets

The group has assessed the carrying value of goodwill and intangible assets to determine whether any of the amounts have been impaired. The carrying values were assessed using a combination of discounted cash flow or price earnings methods and the actual results and forecasts for future years.

The fair value of intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Notes to the consolidated financial statements

for the year ended June 30

3. ACCOUNTING ESTIMATES, JUDGEMENTS AND FAIR VALUES *(continued)*

Accounting judgements and determination of fair values in applying the group's accounting policies *(continued)*

Deferred taxation

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

Inventories

Impairment allowances are raised against inventory when it is considered that the amount realisable from such inventory's sale is considered to be less than its carrying amount. The impairment allowances are made with reference to an inventory age analysis as well as expiry dates.

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the efforts required to complete and sell the inventory.

Trade receivables

Management identifies possible impairment of trade receivables on an ongoing basis. An impairment allowance in respect of doubtful debts is raised against the receivable when their collectability is considered to be doubtful. Management believe that the impairment adjustment is conservative and there are no significant receivables that are doubtful and have not been impaired or provided for. In determining whether a particular receivable could be doubtful, the age, customer current financial status and disputes with the customer are taken into consideration.

Puttable non-controlling interest liabilities

The group has entered into put arrangements where non-controlling interests are entitled to sell certain of their holdings in subsidiaries to the group at future contracted dates. The puttable non-controlling interest liability is calculated as the present value of the expected redemption value, discounted from the expected redemption date to the reporting date. The main assumptions used in the calculation of the liability is the expected redemption value at the expected redemption date and the discount rate used to discount the expected redemption value to the reporting date.

The discount rate is derived from an applicable government bond yield curve, in the country in which the subsidiary operates, and is applied over the number of years between the reporting date and the redemption date, plus an appropriate credit spread.

Forward exchange contracts

The fair value of forward exchange contracts are based on their market prices.

Borrowings

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements. The carrying value of the bank overdrafts is the fair value.

Share-based payments

Share appreciation right

The fair value of the share appreciation right awards are measured using a binomial method. Measurement inputs include share price at measurement date, exercise price of the instrument, expected volatility (based on the historic volatility), option life, distribution yield and the risk-free interest rate (based on national South African government bonds).

Conditional share plan

The fair value of the conditional share plan awards are measured using a monte carlo method, as it best captures the path dependent nature and specific features of these awards. The path dependency of the share award arises from the interaction between dividends and the performance hurdle in the valuation model, as well as the dependency of the valuation on the level of achievement of the vesting conditions at the performance period end dates. The evolution of Bidcorp's and the peer group members' total shareholder return prices are modelled using the market-accepted log-normal share price process taking into account input parameters which are based on historical share price data.