3. Investment in subsidiaries

2017	Issued share capital	Percentage holding	Investment cost	Loans to subsidiaries	Total
Investments in subsidiaries	**Number of shares**	**%**	**R'000**	**R'000**	**R'000**
Directly held					
Merafe Chrome	**200**	**100**	**200**	**1 532 928**	**1 533 128**
Indirectly held					
Merafe Ferrochrome	**400**	**100**	**400**	**-**	**-**
2016					
Investments in subsidiaries					
Directly held					
Merafe Chrome	200	100	200*	1 357 278*	1 357 478
Indirectly held					
Merafe Ferrochrome	400	100	400	-	-

**The investment amount was reclassified from investments to loans receivable from subsidiaries to more accurately reflect the nature of this amount.*

The above loans are unsecured, interest free, have no fixed terms of repayment and are long-term in nature. The wholly owned subsidiaries are incorporated in the Republic of South Africa. The assumptions used in the valuation of this loan are as follows:

- Method of valuation: Effective interest rate method
- Term: 55 years (based on the reserves and resources of the Merafe Resources Limited group)
- Interest rate: Current cost of debt interest rate for the group which takes into consideration the risk profile of the group

Interest in the profits of subsidiaries for the year ended 31 December 2017 amounted to R749m (2016: R471m).

Structured entities

The following entities are consolidated and considered to be subsidiaries of the Merafe Resources Limited group:

- Horizon Nature Conservation Trust (deregistered during 2016)
- Merafe Kroondal Rehabilitation Trust
- Merafe Resources Limited Share Incentive Scheme Trust

3. Investment in subsidiaries *(continued)*

Structured entities

Refer to the related parties note 22 for further details on investments in subsidiaries and structured entities. There has been no significant changes in the nature and risks associated with these structured entities.

There are no contractual arrangements that require the company to provide financial support to any of the above entities nor are there any events or circumstances that could expose the company to a loss.

	Group		Company	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
4. Inventories				
Consumables stores	**77 390**	81 354	-	-
Raw materials	**613 728**	443 772	-	-
Work in progress	**43 239**	1 149	-	-
Finished goods	**763 441**	579 162	-	-
	1 497 798	1 105 437	-	-

The cost of inventories recognised as an expense and included in cost of sales amounted to R3.1bn (2016: R3.5bn). No inventories were encumbered during the year. No inventory was written down at 31 December 2017.

	Group		Company	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
5. Trade and other receivables				
Trade receivables[1]	**781 766**	1 335 041	**-**	-
Pre-payments	**12 240**	5 676	**38**	-
Embedded derivative recognised on sales contracts[2]	**(35 175)**	116 675	**-**	-
GOSA receivable[3]	**29 947**	34 955	**-**	-
Other receivables[4]	**94 471**	94 933	**852**	1 769
	883 249	1 587 280	**890**	1 769

[1]Trade receivables discounting (working capital loan) was previously disclosed as part of trade and other receivables and has now been reclassified to current liabilities in order to reflect the nature of the facility accurately.

[2] Level 2 hierarchy per IFRS 13. The embedded derivative is included in trade and other receivables at fair value. The fair value of the embedded derivative is based on the latest available ferrochrome prices and closing foreign exchange rate.

[3] Related party balance.

[4] This total consists mainly of VAT receivable.