# AUDITED ANNUAL FINANCIAL STATEMENTS 2016


CLICKS GROUP
LIMITED

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# AUDITED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 August 2016

These are the audited annual financial statements of the group and the company for the year ended 31 August 2016. They have been prepared under the supervision of the chief financial officer, M Fleming CA (SA).

# DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation and fair presentation of the annual financial statements and group annual financial statements of Clicks Group Limited, comprising the statements of financial position at 31 August 2016, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa and including the audit and risk committee report on page 3. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the company and the group to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead. The financial statements have accordingly been prepared on this basis.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

## APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The consolidated and separate annual financial statements of Clicks Group Limited, as identified in the first paragraph, were approved by the board of directors on 10 November 2016 and signed by:

**DM Nurek**
Independent non-executive chairman

**DA Kneale**
Chief executive officer

Cape Town
10 November 2016

# CERTIFICATE BY THE COMPANY SECRETARY

I certify that Clicks Group Limited has filed all Clicks Group returns and notices as required by a public company in terms of section 88(2)e of the Companies Act No. 71 of 2008, as amended, and that such returns and notices are, to the best of my knowledge and belief, true, correct and up to date.

**M Welz**
Company secretary

Cape Town
10 November 2016

# DIRECTORS' REPORT

The directors have pleasure in presenting their report for the year ended 31 August 2016.

## NATURE OF BUSINESS

The company is an investment holding company listed in the Food and Drug Retailers sector of the JSE Limited. Its subsidiaries include the country's leading provider of health and beauty merchandise through a network of 689 stores in southern Africa. The company's subsidiaries cover the pharmaceutical supply chain from wholesale and distribution to retail pharmacy, as well as beauty and cosmetic products. The company operates primarily in southern Africa.

## GROUP FINANCIAL RESULTS

The results of operations for the year are set out in the consolidated statement of comprehensive income on page 7. The profit attributable to ordinary shareholders for the year is R1 094 million (2015: R955 million).

## SHARE CAPITAL

During the year under review the company continued with its share buy-back programme:

| | |
|---|---|
| 6 253 425 | shares held by subsidiaries of the company as treasury shares at 31 August 2015 |
| 3 360 470 | shares bought back in terms of general repurchases between 1 September 2015 and 31 August 2016 by a subsidiary of the company |
| 9 613 895 | shares held by subsidiaries of the company as treasury shares at 31 August 2016 |

## DIVIDENDS TO SHAREHOLDERS

### Interim

The directors approved an interim ordinary dividend of 76 cents per ordinary share (2015: 65.5 cents per ordinary share) from distributable reserves. The dividend was paid on 4 July 2016 to shareholders registered on 1 July 2016.

### Final

The directors have approved a final ordinary dividend of 196.0 cents per ordinary share (2015: 169.5 cents per ordinary share) and a dividend of 27.2 cents per "A" share (2015: 23.5 cents) for participants in the employee share ownership programme. The source of such dividends will be from distributable reserves. The dividend will be payable on 30 January 2017 to shareholders registered on 27 January 2017.

## EVENTS AFTER THE FINANCIAL YEAR-END

No significant events, other than the declaration of the final dividend, as set out above, took place between the end of the financial year under review and the date of this report.

## DIRECTORS AND SECRETARY

The names of the directors in office at the date of this report are:

### Independent non-executive directors

David Nurek (Chairman)
Fatima Abrahams
John Bester
Fatima Jakoet
Dr Nkaki Matlala
Martin Rosen

### Executive directors

David Kneale (Chief executive officer)
Michael Fleming (Chief financial officer)
Bertina Engelbrecht

The company secretary's details are set out on page 71.

## RETIREMENT AND RE-ELECTION OF DIRECTORS

In accordance with the company's memorandum of incorporation ("MOI") Nkaki Matlala and Martin Rosen retire by rotation at the forthcoming annual general meeting. Nkaki Matlala has decided not to stand for re-election to the board at the 2017 AGM. Martin Rosen, being eligible, offers himself for re-election at the 2017 AGM.

## DIRECTORS' INTEREST IN SHARES

David Nurek sold 40 000 shares in October 2015, with the requisite approval.

David Nurek sold 60 000 shares in June 2016, with the requisite approval.

David Kneale sold 75 000 shares in July 2016, with the requisite approval.

Michael Fleming sold 15 000 shares in July 2016, with the requisite approval.

In terms of the cash-settled long-term employee incentive scheme which requires all participants at the end of the three-year incentive performance period to purchase shares on the open market to the equivalent of 25% of the after-tax cash settlement value, the executive directors of the company made the following purchases on 1 December 2015 at an average price of R95.90 per share: David Kneale purchased 14 453 shares, Michael Fleming purchased 6 225 shares, Bertina Engelbrecht purchased 3 991 shares. On 2 December 2015 at an average price of R95.87 per share: David Kneale purchased 11 093 shares, Michael Fleming purchased 4 779 shares, Bertina Engelbrecht purchased 3 063 shares.

## INCENTIVE SCHEMES

Information relating to the incentive schemes is set out on pages 45 to 48.

## SPECIAL RESOLUTIONS

Special resolutions passed at the annual general meeting held on 27 January 2016:

Special Resolution No. 1: General authority to repurchase shares

Special Resolution No. 2: Approval of directors' fees

Special Resolution No. 3: General approval to provide financial assistance

## SUBSIDIARY COMPANIES

The names of the company's main subsidiaries and financial information relating thereto appear on page 67.

# AUDIT AND RISK COMMITTEE REPORT

The Clicks Group audit and risk committee is a formal statutory committee in terms of the Companies Act and sub-committee of the board. The committee functions within documented terms of reference and complies with relevant legislation, regulation and governance codes. This report of the audit and risk committee is presented to shareholders in compliance with the requirements of the Companies Act and the King Code of Governance Principles ("King III").

## ROLE OF THE COMMITTEE

The audit and risk committee ("the committee") has an independent role with accountability to both the board and to shareholders. The committee's responsibilities include the statutory duties prescribed by the Companies Act, activities recommended by King III as well as additional responsibilities assigned by the board.

The responsibilities of the committee are as follows:

### Integrated reporting

- Review the annual financial statements, interim report, preliminary results announcement and summarised integrated information and ensure compliance with International Financial Reporting Standards
- Consider the frequency of interim reports and whether interim results should be assured
- Review and approve the appropriateness of accounting policies, disclosure policies and the effectiveness of internal financial controls
- Perform an oversight role on the group's integrated reporting and consider factors and risks that could impact on the integrity of the integrated report
- Review sustainability disclosure in the integrated report and ensure it does not conflict with financial information
- Consider external assurance of material sustainability issues
- Recommend the integrated report for approval by the board

### Combined assurance

- Ensure the combined assurance model addresses all significant risks facing the group
- Monitor the relationship between external and internal assurance providers and the group

### Finance function

- Consider the expertise and experience of the chief financial officer
- Consider the expertise, experience and resources of the group's finance function

### Internal audit

- Oversee the functioning of the internal audit department and approve the appointment and performance assessment of the group head of internal audit
- Approve the annual internal audit plan
- Ensure the internal audit function is subject to independent quality review as appropriate

### Risk management

- Ensure the group has an effective policy and plan for risk management
- Oversee the development and annual review of the risk management policy and plan
- Monitor implementation of the risk management policy and plan
- Make recommendations to the board on levels of risk tolerance and risk appetite
- Ensure risk management is integrated into business operations
- Ensure risk management assessments are conducted on a continuous basis
- Ensure frameworks and methodologies are implemented to increase the possibility of anticipating unpredictable risks
- Ensure that management considers and implements appropriate risk responses
- Express the committee's opinion in the effectiveness of the system and process of risk management
- Ensure risk management reporting in the integrated report is comprehensive and relevant

### External audit

- Nominate the external auditor for appointment by shareholders
- Approve the terms of engagement and remuneration of the auditor
- Ensure the appointment of the auditor complies with relevant legislation
- Monitor and report on the independence of the external auditor
- Define a policy for non-audit services which the auditor may provide and approve non-audit service contracts
- Review the quality and effectiveness of the external audit process
- Ensure a process is in place for the committee to be informed of any reportable irregularities identified by the external auditor

# AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

## COMPOSITION OF THE COMMITTEE

The committee comprised three independent non-executive directors during the period. These directors include suitably skilled directors having recent and relevant financial experience. The committee is elected by shareholders at the annual general meeting.

The following directors served on the committee during the period under review:

| Independent non-executive director | Qualifications |
|---|---|
| John Bester (Chairman) | B Com (Hons), CA (SA), CMS (Oxon) |
| Fatima Jakoet | B Sc, CTA, CA (SA), Higher certificate in financial markets |
| Nkaki Matlala | B Sc, M Sc, M D, M Med (Surgery), FCS |

Biographical details of the committee members appear on pages 44 and 45 of the integrated report, with supplementary information contained in annexure 2 to the Notice of Annual General Meeting on the group's website.

Fees paid to the committee members for 2016 and the proposed fees for 2017 are disclosed in the "rewarding value creation" section on page 63 of the integrated report.

Nkaki Matlala will not be standing for re-election to the committee following his decision to retire as a non-executive director from the board of the Clicks Group. Independent non-executive director David Nurek has made himself available for election to the committee and has agreed to serve until another non-executive director has been appointed by the board. This director will then be proposed to shareholders to serve on the committee at which time Mr Nurek will stand down from the committee.

The executive directors, group head of internal audit and senior management attend meetings at the invitation of the committee, together with the external auditor.

The committee also meets separately with the external and internal auditors, without members of executive management being present.

The effectiveness of the committee is assessed as part of the annual board and committee self-evaluation process.

## INTERNAL AUDIT

The internal audit function provides information to assist in the establishment and maintenance of an effective system of internal control to manage the risks associated with the business. The role of internal audit is contained in the internal audit charter. The charter is reviewed annually and is aligned with the recommendations of King III.

Internal audit facilitates the combined assurance process and is responsible for the following:

- evaluating governance processes, including ethics;
- assessing the effectiveness of the risk methodology and internal financial controls; and
- evaluating business processes and associated controls in accordance with the annual audit plan and combined assurance model.

The internal audit function is established by the board and its responsibilities are determined by the committee. Administratively the group head of internal audit reports to the chief financial officer who, in turn, reports to the chief executive officer. The group head of internal audit has direct and unrestricted access to the chairman of the committee. The group head of internal audit is appointed and removed by the committee, which also determines and recommends remuneration for the position. The chairman of the committee meets with the group head of internal audit on a monthly basis.

## INTERNAL CONTROL

Systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against misstatement or loss.

While the board of directors is responsible for the internal control systems and for reviewing their effectiveness, responsibility for their actual implementation and maintenance rests with executive management. The systems of internal control are based on established organisational structures, together with written policies and procedures, and provide for suitably qualified employees, segregation of duties, clearly defined lines of authority and accountability. They also include cost and budgeting controls, and comprehensive management reporting.

## INTERNAL FINANCIAL CONTROLS

The committee has considered the results of the formal documented review of the company's system of internal financial controls and risk management, including the design, implementation and effectiveness of the internal financial controls, conducted by the internal audit function during the 2016 year. The committee has also assessed information and explanations given by management and discussions with the external auditor on the results of the audit. Through this process no material matter has come to the attention of the audit and risk committee or the board that has caused the directors to believe that the company's system of internal controls and risk management is not effective and that the internal financial controls do not form a sound basis for the preparation of reliable financial statements.

## EXTERNAL AUDIT

The committee appraised the independence, expertise and objectivity of EY as the external auditor, as well as approving the terms of engagement and the fees paid to EY.

The external auditor has unrestricted access to the group's records and management. The auditor furnishes a written report to the committee on significant findings arising from the annual audit and is able to raise matters of concern directly with the chairman of the committee.

The group has received confirmation from the external auditor that the partners and staff responsible for the audit comply with all legal and professional requirements with regard to rotation and independence.

The committee is satisfied that the external auditor is independent of the company.

## POLICY ON NON-AUDIT SERVICES

Non-audit services provided by the external auditor may not exceed 25% of the total auditor's remuneration. These services should exclude any work which may be subject to external audit and which could compromise the auditor's independence. All non-audit services undertaken during the year were approved by the committee.

The total spend for the year under review exceeded the 25% as stipulated in the policy. The excess expenditure was approved by the committee in the light of anticipated future savings arising from the work performed.

During the year EY received fees of R1 370 534 (2015: R850 094) for non-audit services, equating to 29.0% (2015: 21.8%) of the total audit remuneration. These services related mainly to targeted savings initiatives and the assurance of the systems related to distribution services provided by UPD to third parties.

EY satisfied the committee that appropriate safeguards have been adopted to maintain the independence of the external auditor when providing non-audit services.

## ACTIVITIES OF THE COMMITTEE

The committee met four times during the financial year and attendance at the meetings is detailed in the corporate governance report of the integrated annual report. Members of the committee, the external auditor and the group head of internal audit may request a non-scheduled meeting if they consider this necessary. The chairman of the committee will determine if such a meeting should be convened.

Minutes of the meetings of the committee, except those recording private meetings with the external and internal auditors, are circulated to all directors and supplemented by an update from the committee chairman at each board meeting. Matters requiring action or improvement are identified and appropriate recommendations made to the board.

The chairman of the committee attends all statutory shareholder meetings to answer any questions on the committee's activities.

The committee performed the following activities relating to the audit function during the year under review, with certain of these duties being required in terms of the Companies Act:

- recommended to the board and shareholders the appointment of the external auditors, approved their terms of engagement and remuneration, and monitored their independence, objectivity and effectiveness;
- determined the nature and extent of any non-audit services which the external auditor may provide to the group and preapproved any proposed contracts with the external auditors;
- reviewed the group's internal financial control and financial risk management systems;
- monitored and reviewed the effectiveness of the group's internal audit functions;
- reviewed and recommended to the board for approval the integrated annual report and annual financial statements; and
- evaluated the effectiveness of the committee.

Refer to the corporate governance report on the group's website for an overview of the risk management process and function.

## EVALUATION OF CHIEF FINANCIAL OFFICER AND FINANCE FUNCTION

The committee is satisfied that the expertise and experience of the chief financial officer is appropriate to meet the responsibilities of the position. This is based on the qualifications, levels of experience, continuing professional education and the board's assessment of the financial knowledge of the chief financial officer.

The committee is also satisfied as to the appropriateness, expertise and adequacy of resources of the finance function and the experience of senior members of management responsible for the finance function.

## APPROVAL OF THE AUDIT AND RISK COMMITTEE REPORT

The committee confirms that it has functioned in accordance with its terms of reference for the 2016 financial year and that its report to shareholders has been approved by the board.

**John Bester**
Chairman: Audit and risk committee

10 November 2016

# INDEPENDENT AUDITOR'S REPORT

to the shareholders of Clicks Group Limited

We have audited the consolidated and separate financial statements of Clicks Group Limited set out on pages 7 to 67, which comprise the statements of financial position as at 31 August 2016, 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 CONSOLIDATED 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 consolidated and separate financial statements that are free from material misstatement, 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 Clicks Group Limited as at 31 August 2016, and its consolidated and separate financial performance and 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 August 2016, we have read the directors' report, the audit and risk committee's report and the company secretary's certificate 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.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc. has been the auditor of Clicks Group Limited for four years.

**Ernst & Young Inc.**
Director: Malcolm Rapson
Chartered Accountant (SA)
Registered Auditor
Director

10 November 2016

35 Lower Long Street
Cape Town
8001

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 August

| | Notes | 2016 R'000 | 2015 R'000 |
|---|---|---|---|
| **Revenue** | 1 | **25 530 967** | 23 285 096 |
| Turnover | 1 | **24 170 879** | 22 070 092 |
| Cost of merchandise sold | | **(19 156 612)** | (17 545 318) |
| **Gross profit** | | **5 014 267** | 4 524 774 |
| Other income | 1 | **1 353 833** | 1 210 082 |
| **Total income** | | **6 368 100** | 5 734 856 |
| Expenses | | **(4 796 464)** | (4 338 817) |
| Depreciation and amortisation | 2 | **(252 662)** | (237 670) |
| Occupancy costs | 3 | **(682 827)** | (619 023) |
| Employment costs | 4 | **(2 550 731)** | (2 255 417) |
| Other costs | 5 | **(1 310 244)** | (1 226 707) |
| **Operating profit** | | **1 571 636** | 1 396 039 |
| Loss on disposal of property, plant and equipment | | **(6 388)** | (9 446) |
| **Profit before financing costs** | | **1 565 248** | 1 386 593 |
| Net financing costs | 6 | **(52 851)** | (57 309) |
| Financial income | 1, 6 | **6 255** | 4 922 |
| Financial expense | 6 | **(59 106)** | (62 231) |
| **Profit before earnings from associate** | | **1 512 397** | 1 329 284 |
| Share of profit of an associate | 13 | **2 254** | – |
| **Profit before taxation** | | **1 514 651** | 1 329 284 |
| Income tax expense | 7 | **(420 779)** | (374 709) |
| **Profit for the year** | | **1 093 872** | 954 575 |
| **Other comprehensive (loss)/income:** | | | |
| Items that will not be subsequently reclassified to profit or loss | | **–** | 765 |
| Remeasurement of post-employment benefit obligations | 23 | **–** | 1 063 |
| Deferred tax on remeasurement | 7 | **–** | (298) |
| Items that may be subsequently reclassified to profit or loss | | | |
| Exchange differences on translation of foreign subsidiaries | 22 | **(526)** | 4 777 |
| Cash flow hedges | | **(6 580)** | 33 238 |
| Change in fair value of effective portion | 21 | **(9 139)** | 46 164 |
| Deferred tax on movement of effective portion | 7 | **2 559** | (12 926) |
| **Other comprehensive (loss)/income for the year, net of tax** | | **(7 106)** | 38 780 |
| **Total comprehensive income for the year** | | **1 086 766** | 993 355 |
| **Profit attributable to:** | | | |
| Equity holders of the parent | | **1 093 872** | 954 575 |
| Non-controlling interest | | **–** | – |
| | | **1 093 872** | 954 575 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the parent | | **1 086 766** | 993 355 |
| Non-controlling interest | | **–** | – |
| | | **1 086 766** | 993 355 |
| Earnings per share (cents) | | | |
| Basic | 8 | **460.5** | 396.7 |
| Diluted | 8 | **436.7** | 381.5 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 August

| | Notes | 2016 R'000 | 2015 R'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | **2 507 207** | 2 009 163 |
| Property, plant and equipment | 9 | **1 345 024** | 1 221 658 |
| Intangible assets | 10 | **434 083** | 395 625 |
| Goodwill | 11 | **103 510** | 103 510 |
| Deferred tax assets | 12 | **347 400** | 177 037 |
| Investment in an associate | 13 | **20 282** | – |
| Loans receivable | 14 | **9 521** | 13 003 |
| Financial assets at fair value through profit or loss | 15 | **16 145** | 16 668 |
| Derivative financial assets | 16 | **231 242** | 81 662 |
| **Current assets** | | **5 869 689** | 5 546 775 |
| Inventories | 17 | **3 478 717** | 3 249 914 |
| Trade and other receivables | 18 | **2 012 696** | 1 871 616 |
| Loans receivable | 14 | **8 476** | – |
| Cash and cash equivalents | | **369 800** | 400 738 |
| Derivative financial assets | 16 | **–** | 24 507 |
| **Total assets** | | **8 376 896** | 7 555 938 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | **2 452 241** | 2 012 807 |
| Share capital | 19 | **2 754** | 2 754 |
| Share premium | 19 | **3 497** | 3 497 |
| Treasury shares | 19 | **(704 298)** | (414 127) |
| Share option reserve | 20 | **483 188** | 254 592 |
| Cash flow hedge reserve | 21 | **28 616** | 35 196 |
| Foreign currency translation reserve | 22 | **5 805** | 6 331 |
| Distributable reserve | | **2 632 679** | 2 124 564 |
| **Non-current liabilities** | | **405 541** | 308 503 |
| Employee benefits | 23 | **215 132** | 128 035 |
| Operating lease liability | 24 | **190 409** | 180 468 |
| **Current liabilities** | | **5 519 114** | 5 234 628 |
| Trade and other payables | 25 | **5 148 411** | 4 898 114 |
| Employee benefits | 23 | **241 986** | 214 943 |
| Provisions | 26 | **6 939** | 5 745 |
| Income tax payable | | **92 476** | 115 826 |
| Derivative financial liabilities | 16 | **26 971** | – |
| Financial liability at fair value through profit or loss | 27 | **2 331** | – |
| **Total equity and liabilities** | | **8 376 896** | 7 555 938 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August

| | Number of shares (Note 19) '000 | Share capital (Note 19) R'000 | Share premium (Note 19) R'000 | Share option reserve (Note 20) R'000 |
|---|---|---|---|---|
| **Balance at 1 September 2014** | 242 260 | 2 754 | 3 497 | 135 091 |
| **Transactions with owners, recorded directly in equity** | | | | |
| Dividends paid to shareholders | – | – | – | – |
| Share-based payment reserve movement | – | – | – | 119 501 |
| Net cost of own shares purchased | (2 376) | – | – | – |
| **Total transactions with owners** | (2 376) | – | – | 119 501 |
| **Total comprehensive income for the year** | – | – | – | – |
| Profit for the year | – | – | – | – |
| Remeasurement of post-employment benefit obligations | – | – | – | – |
| Cash flow hedge reserve | – | – | – | – |
| Exchange differences on translation of foreign subsidiaries | – | – | – | – |
| **Balance at 31 August 2015** | 239 884 | 2 754 | 3 497 | 254 592 |
| **Transactions with owners, recorded directly in equity** | | | | |
| Dividends paid to shareholders | **–** | **–** | **–** | **–** |
| Share-based payment reserve movement | **–** | **–** | **–** | **228 596** |
| Net cost of own shares purchased | **(3 360)** | **–** | **–** | **–** |
| **Total transactions with owners** | **(3 360)** | **–** | **–** | **228 596** |
| **Total comprehensive income for the year** | **–** | **–** | **–** | **–** |
| Profit for the year | **–** | **–** | **–** | **–** |
| Cash flow hedge reserve | **–** | **–** | **–** | **–** |
| Exchange differences on translation of foreign subsidiaries | **–** | **–** | **–** | **–** |
| **Balance at 31 August 2016** | **236 524** | **2 754** | **3 497** | **483 188** |

| | Treasury shares (Note 19) R'000 | Cash flow hedge reserve (Note 21) R'000 | Foreign currency translation reserve (Note 22) R'000 | Distributable reserve R'000 | Total equity R'000 |
|---|---|---|---|---|---|
| | (237 863) | 1 958 | 1 554 | 1 659 982 | 1 566 973 |
| | – | – | – | (490 758) | (490 758) |
| | – | – | – | – | 119 501 |
| | (176 264) | – | – | – | (176 264) |
| | (176 264) | – | – | (490 758) | (547 521) |
| | – | 33 238 | 4 777 | 955 340 | 993 355 |
| | – | – | – | 954 575 | 954 575 |
| | – | – | – | 765 | 765 |
| | – | 33 238 | – | – | 33 238 |
| | – | – | 4 777 | – | 4 777 |
| | (414 127) | 35 196 | 6 331 | 2 124 564 | 2 012 807 |
| | **–** | **–** | **–** | **(585 757)** | **(585 757)** |
| | **–** | **–** | **–** | **–** | **228 596** |
| | **(290 171)** | **–** | **–** | **–** | **(290 171)** |
| | **(290 171)** | **–** | **–** | **(585 757)** | **(647 332)** |
| | **–** | **(6 580)** | **(526)** | **1 093 872** | **1 086 766** |
| | **–** | **–** | **–** | **1 093 872** | **1 093 872** |
| | **–** | **(6 580)** | **–** | **–** | **(6 580)** |
| | **–** | **–** | **(526)** | **–** | **(526)** |
| | **(704 298)** | **28 616** | **5 805** | **2 632 679** | **2 452 241** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 August

The statement of cash flows has been prepared by applying the indirect method.

| | Notes | 2016 R'000 | 2015 R'000 |
|---|---|---|---|
| **Cash effects from operating activities** | | | |
| Profit before working capital changes | | **1 846 993** | 1 699 743 |
| Working capital changes | | **(19 467)** | (15 451) |
| Cash generated by operations | | **1 827 526** | 1 684 292 |
| Interest received | | **6 255** | 4 922 |
| Interest paid | | **(45 086)** | (43 947) |
| Taxation paid | | **(443 793)** | (355 520) |
| Cash inflow from operating activities before dividends paid | | **1 344 902** | 1 289 747 |
| Dividends paid to shareholders | 28 | **(585 757)** | (490 758) |
| **Net cash effects from operating activities** | | **759 145** | 798 989 |
| **Cash effects from investing activities** | | | |
| Investment in property, plant and equipment and intangible assets to maintain operations | | **(129 040)** | (125 360) |
| Investment in property, plant and equipment and intangible assets to expand operations | | **(303 919)** | (244 187) |
| Proceeds from disposal of property, plant and equipment | | **603** | 1 394 |
| Acquisition of non-controlling interest | | **–** | (765) |
| Acquisition of unlisted investment in associate | 13 | **(17 415)** | – |
| Increase in loans receivable | | **(4 994)** | (463) |
| **Net cash effects from investing activities** | | **(454 765)** | (369 381) |
| **Cash effects from financing activities** | | | |
| Purchase of treasury shares | | **(290 171)** | (176 264) |
| Acquisition of derivative financial asset | | **(45 147)** | (48 237) |
| **Net cash effects from financing activities** | | **(335 318)** | (224 501) |
| Net (decrease)/increase in cash and cash equivalents | | **(30 938)** | 205 107 |
| Cash and cash equivalents at the beginning of the year | | **400 738** | 195 631 |
| **Cash and cash equivalents at the end of the year** | | **369 800** | 400 738 |

# NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 August

| | 2016 R'000 | 2015 R'000 |
|---|---|---|
| **Cash flow information** | | |
| **Profit before working capital changes** | | |
| Profit before taxation | **1 514 651** | 1 329 284 |
| Adjustment for: | **279 491** | 313 150 |
| Depreciation and amortisation | **264 144** | 248 054 |
| Movement in operating lease liability | **9 941** | 12 121 |
| Release of cash flow hedge to profit or loss | **(65 422)** | (14 508) |
| Loss on disposal of property, plant and equipment | **6 388** | 9 446 |
| Equity-settled share option costs | **64 533** | 52 084 |
| Decrease in financial assets at fair value through proft or loss | **523** | 5 953 |
| Undistributed profits of an associate | **(616)** | – |
| Net financing cost | **52 851** | 57 309 |
| | **1 846 993** | 1 699 743 |
| **Working capital changes** | | |
| Increase in inventories | **(228 803)** | (635 718) |
| Increase in trade and other receivables | **(145 248)** | (260 953) |
| Increase in trade and other payables | **251 161** | 861 136 |
| Increase in employee benefits | **102 229** | 24 221 |
| Increase/(decrease) in provisions | **1 194** | (4 137) |
| | **(19 467)** | (15 451) |
| **Taxation paid** | | |
| Income tax payable at the beginning of the year | **(111 749)** | (93 269) |
| Normal tax charged to profit or loss | **(424 520)** | (374 000) |
| Income tax payable at the end of the year | **92 476** | 111 749 |
| | **(443 793)** | (355 520) |
| **Cash and cash equivalents at the end of the year** | | |
| Current accounts | **276 900** | 201 438 |
| Short-term deposits | **92 900** | 199 300 |
| | **369 800** | 400 738 |

# SEGMENTAL ANALYSIS

for the year ended 31 August

| R'000 | | Retail (Note 35) 2016 | 2015 |
|---|---|---|---|
| **Statement of financial position** | | | |
| Property, plant and equipment | | **1 119 803** | 1 003 172 |
| Intangible assets | | **416 026** | 382 898 |
| Goodwill | | **6 529** | 6 529 |
| Inventories | | **2 338 453** | 2 024 044 |
| Trade and other receivables | | **330 818** | 294 695 |
| Cash and cash equivalents | | **328 730** | 382 860 |
| Other assets | | **1 084 710** | 736 894 |
| **Total assets** | | **5 625 069** | 4 831 092 |
| Employee benefits – non-current | | **198 623** | 121 323 |
| Operating lease liability | | **190 409** | 180 468 |
| Trade and other payables | | **2 225 538** | 2 122 118 |
| Employee benefits – current | | **218 891** | 195 297 |
| Other liabilities | | **1 581 116** | 1 236 702 |
| **Total liabilities** | | **4 414 577** | 3 855 908 |
| **Net assets** | | **1 210 492** | 975 184 |
| **Statement of comprehensive income** | | | |
| Turnover | | **16 640 227** | 14 757 724 |
| Gross profit | | **4 845 305** | 4 360 383 |
| Other income | | **758 770** | 657 192 |
| Total income | | **5 604 075** | 5 017 575 |
| Expenses | | **(4 298 388)** | (3 866 891) |
| **Operating profit** | | **1 305 687** | 1 150 684 |
| **Ratios** | | | |
| Increase in turnover | (%) | **12.8** | 10.4 |
| Selling price inflation | (%) | **4.3** | 4.0 |
| Comparable stores turnover growth | (%) | **9.8** | 7.5 |
| Gross profit margin | (%) | **29.1** | 29.5 |
| Total income margin | (%) | **33.7** | 34.0 |
| Operating expenses as a percentage of turnover | (%) | **25.8** | 26.2 |
| Increase in operating expenses | (%) | **11.2** | 10.1 |
| Increase in operating profit | (%) | **13.5** | 15.1 |
| Operating profit margin | (%) | **7.8** | 7.8 |
| Inventory days | | **72** | 71 |
| Trade debtor days | | **6** | 6 |
| Trade creditor days | | **42** | 47 |
| Number of stores | | **689** | 657 |
| as at 31 August 2015/2014 | | **657** | 632 |
| opened | | **41** | 41 |
| closed | | **(9)** | (16) |
| Number of pharmacies | | **400** | 361 |
| as at 31 August 2015/2014 | | **361** | 339 |
| new/converted | | **40** | 25 |
| closed | | **(1)** | (3) |
| Total leased area | ($m^2$) | **349 866** | 342 846 |
| Weighted retail trading area | ($m^2$) | **277 874** | 265 547 |
| Weighted annual sales per $m^2$ | (R) | **59 677** | 55 416 |
| Number of permanent full-time and part-time flexible employees | | **13 508** | 12 231 |

The intragroup turnover elimination for the year comprises R3 467.9 million (2015: R3 060.8 million) of sales from Distribution to Retail and R56.4 million (2015: R42.1 million) of sales from Retail to Distribution.

Non-South African turnover represents less than 4% (2015: less than 3%) of group turnover.

Depreciation and amortisation for the Retail segment totalled R223.4 million (2015: R210.5 million) and for the Distribution segment R29.3 million (2015: R27.2 million).

| Distribution (Note 35) | | Intragroup elimination | | Total operations | |
|---|---|---|---|---|---|
| **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| **225 221** | 218 486 | **–** | – | **1 345 024** | 1 221 658 |
| **18 057** | 12 727 | **–** | – | **434 083** | 395 625 |
| **96 981** | 96 981 | **–** | – | **103 510** | 103 510 |
| **1 180 637** | 1 256 186 | **(40 373)** | (30 316) | **3 478 717** | 3 249 914 |
| **2 163 393** | 1 979 377 | **(481 515)** | (402 456) | **2 012 696** | 1 871 616 |
| **41 070** | 17 878 | **–** | – | **369 800** | 400 738 |
| **1 452 403** | 1 116 484 | **(1 904 047)** | (1 540 501) | **633 066** | 312 877 |
| **5 177 762** | 4 698 119 | **(2 425 935)** | (1 973 273) | **8 376 896** | 7 555 938 |
| **16 509** | 6 712 | **–** | – | **215 132** | 128 035 |
| **–** | – | **–** | – | **190 409** | 180 468 |
| **3 409 163** | 3 184 796 | **(486 290)** | (408 800) | **5 148 411** | 4 898 114 |
| **23 095** | 19 646 | **–** | – | **241 986** | 214 943 |
| **451 830** | 423 983 | **(1 904 229)** | (1 539 114) | **128 717** | 121 571 |
| **3 900 597** | 3 635 137 | **(2 390 519)** | (1 947 914) | **5 924 655** | 5 543 131 |
| **1 277 165** | 1 062 982 | **(35 416)** | (25 359) | **2 452 241** | 2 012 807 |
| **11 054 959** | 10 415 301 | **(3 524 307)** | (3 102 933) | **24 170 879** | 22 070 092 |
| **179 019** | 177 613 | **(10 057)** | (13 222) | **5 014 267** | 4 524 774 |
| **688 113** | 631 307 | **(93 050)** | (78 417) | **1 353 833** | 1 210 082 |
| **867 132** | 808 920 | **(103 107)** | (91 639) | **6 368 100** | 5 734 856 |
| **(591 127)** | (550 342) | **93 051** | 78 416 | **(4 796 464)** | (4 338 817) |
| **276 005** | 258 578 | **(10 056)** | (13 223) | **1 571 636** | 1 396 039 |
| **6.1** | 21.6 | **13.6** | 11.5 | **9.5** | 15.3 |
| **5.4** | 4.2 | **–** | – | **4.9** | 4.0 |
| **–** | – | **–** | – | **9.8** | 7.5 |
| **1.6** | 1.7 | **–** | – | **20.7** | 20.5 |
| **7.8** | 7.8 | **–** | – | **26.3** | 26.0 |
| **5.3** | 5.3 | **–** | – | **19.8** | 19.7 |
| **7.4** | 8.4 | **–** | – | **10.5** | 9.7 |
| **6.7** | 17.0 | **–** | – | **12.6** | 14.6 |
| **2.5** | 2.5 | **–** | – | **6.5** | 6.3 |
| **40** | 45 | **–** | – | **66** | 68 |
| **58** | 55 | **–** | – | **43** | 42 |
| **92** | 94 | **–** | – | **70** | 76 |
| **–** | – | **–** | – | **689** | 657 |
| **–** | – | **–** | – | **657** | 632 |
| **–** | – | **–** | – | **41** | 41 |
| **–** | – | **–** | – | **(9)** | (16) |
| **–** | – | **–** | – | **400** | 361 |
| **–** | – | **–** | – | **361** | 339 |
| **–** | – | **–** | – | **40** | 25 |
| **–** | – | **–** | – | **(1)** | (3) |
| **–** | – | **–** | – | **349 866** | 342 846 |
| **–** | – | **–** | – | **277 874** | 265 547 |
| **–** | – | **–** | – | **59 677** | 55 416 |
| **585** | 574 | **–** | – | **14 093** | 12 805 |

# ACCOUNTING POLICIES

Clicks Group Limited is a company domiciled in South Africa. The consolidated financial statements as at and for the year ended 31 August 2016 comprise the company, its subsidiaries and associate (collectively referred to as "the group").

## BASIS OF PREPARATION

The consolidated financial statements for the group and for the company are prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB"), the South African Institute of Chartered Accountants' Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the South African Companies Act, No. 71 of 2008 as amended and the JSE Listings Requirements.

The financial statements are presented in South African Rands ("Rands"), rounded to the nearest thousand. They are prepared on the basis that the group and the company are going concerns, using the historical cost basis of measurement, except for certain financial instruments which have been measured at fair value.

The accounting policies set out below have been applied consistently in all material respects to all periods presented in these consolidated financial statements, with the addition this year of the accounting policy for investment in associates on acquisition of an associate.

There were no new or revised IFRS standards with effective dates applicable to the group's current financial year-end.

The preparation of financial statements in accordance with IFRS requires management to make estimates, judgements and assumptions that affect the accounting policies and the reported amounts of assets, liabilities, income and expenses. Such estimates and 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. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and the underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised.

## SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below and disclosed in the relevant notes to the financial statements.

### Allowance for net realisable value of inventories

The group evaluates its inventory to ensure that it is carried at the lower of cost or net realisable value. Provision is made against slow moving, obsolete and damaged inventories. Damaged inventories are identified and written down through the inventory counting procedures conducted within each business. Allowance for slow moving and obsolete inventories is assessed by each business as part of their ongoing financial reporting. Obsolescence is assessed based on comparison of the level of inventory holding to the projected likely future sales less selling costs using factors existing at the reporting date. Refer to note 17 for further detail.

### Rebates received from vendors

The group enters into agreements with many of its vendors providing for inventory purchase rebates based upon achievement of specified volumes of purchases, with many of these agreements applying to the calendar year. For certain agreements, the rebates increase as a proportion of purchases as higher quantities or values of purchases are made relative to the prior period. The group accrues the receipt of vendor rebates as part of its cost of sales for products sold, taking into consideration the cumulative purchases of inventory to date. Rebates are accrued monthly, with an extensive reassessment of the rebates earned being performed at the reporting date. Consequently the rebates actually received may vary from that accrued in the financial statements.

### Impairment of financial assets

At the reporting date the group assesses whether objective evidence exists that a financial asset or group of financial assets is impaired.

**Trade receivables:** An allowance for impairment loss is made against accounts that in the judgement of management may be impaired. The impairment is assessed monthly, with a detailed formal review of balances and security being conducted at the reporting date. Determining the recoverability of an account involves estimates and judgement as to the likely financial condition of the customer and their ability to make payment. Refer to note 18 for further detail.

### Impairment of non-financial assets

Goodwill and intangible assets with an indefinite useful life are tested for impairment at least annually. Intangible assets with a finite useful life and property, plant and equipment are considered for impairment when an indication of possible impairment exists. An asset is impaired when its carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their

# ACCOUNTING POLICIES (CONTINUED)

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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified an appropriate valuation model is used. Details of the assumptions used in the intangible assets' impairment test are detailed in note 10.

**Goodwill:** Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable pre-tax discount rate that is reflective of the cash-generating unit's risk profile, in order to calculate the value in use. Details of the assumptions used in the impairment test are detailed in note 11.

**Assessment of useful lives and residual values of property, plant and equipment:** Assessments of estimated useful lives and residual values are performed annually after considering factors such as technological innovation, maintenance programmes, relevant market information and management consideration. In assessing residual values the group considers the remaining life of the asset, its projected disposal value and future market conditions.

## Income taxes

The group is subject to income tax in numerous jurisdictions. Significant judgement is required in determining the provision for tax as there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognises liabilities for anticipated tax issues based on estimates of the taxes that are likely to become due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the group to realise the net deferred tax assets recorded at the end of the reporting period could be impacted. Refer to notes 7 and 12 for further detail.

## Provision for employee benefits

Post-retirement defined benefits are provided for certain existing and former employees. Actuarial valuations are performed to assess the financial position of the relevant funds and are based on assumptions which include mortality rates, healthcare inflation, the expected long-term rate of return on investments, the discount rate and current market conditions. Refer to note 23 for further detail, including a sensitivity analysis.

## Measurement of share-based payments

The cumulative expense recognised in terms of the group's share-based payment schemes reflects the extent, in the opinion of management, to which the vesting period has expired and the number of rights to equity instruments granted that will ultimately vest. At the end of each reporting date the unvested rights are adjusted by the number forfeited during the period to reflect the actual number of instruments outstanding. Management is of the opinion that this represents the most accurate estimate of the number of instruments that will ultimately vest. The fair value attached to share options granted is valued using the Monte Carlo option pricing model. The key assumptions used in the calculation include estimates of the group's expected share price volatility, dividend yield, risk-free interest rate and forfeiture rate.

## Clicks ClubCard customer loyalty scheme

The fair value of the credits awarded recognised as deferred income includes an expected redemption rate based on historical experience which is subject to uncertainty.

## Consolidation of the group's share trusts

The group operates a combined share incentive scheme and broad-based black economic empowerment scheme through the Employee Share Ownership Trust. The trust is funded by loan accounts from group companies and dividends received from Clicks Group Limited. In the judgement of management, the group controls the trust in accordance with IFRS 10.

## Insurance cell captive

The group has determined that it does not have control over its insurance cell captive as the assets and liabilities are considered to belong to the insurer and not the investee. The cell captive has therefore not been consolidated and as the group is exposed to financial risk rather than insurance risk, the group has accounted for its investment as a financial asset at fair value through profit or loss in accordance with IAS 39.

## Charitable trusts

The charitable trusts founded by the group are not consolidated in terms of IFRS 10. In the judgement of management, the group is not exposed to variable returns from these trusts and any non-financial benefit is considered to be insignificant.

### Measurement of financial instruments

The fair value of financial instruments that are not traded in an active market and are material to the group, is determined by using valuation techniques, which may include the use of external independent valuators, to value these unquoted financial instruments.

## BASIS OF CONSOLIDATION

The group financial statements include the financial statements of the company and subsidiaries that it controls. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The group considers all relevant facts and circumstances in assessing whether it has the power over an investee and reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control. The financial results of subsidiaries are included in the consolidated financial statements from the date that control was obtained and, where applicable, up to the date that control ceased.

All intragroup transactions and balances, including any unrealised gains and losses arising from intragroup transactions, are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies.

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

Non-controlling interests in subsidiaries are identified separately from the group's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

## FAIR VALUE MEASUREMENT

The group measures financial instruments, such as derivatives and certain investments at fair value, at each reporting date. The fair values of financial instruments measured at amortised cost are disclosed should it be determined that the carrying value of these instruments does not reasonably approximate their fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the group determines whether transfers have occurred between the levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures the group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

# ACCOUNTING POLICIES (CONTINUED)

## BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value at acquisition date and the amount of any non-controlling interest in the acquiree. For each business combination the group elects whether the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the group acquires a business it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages the fair value at the acquisition date of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which are deemed to be an asset or liability will be recognised in accordance with IAS 39 – Financial Instruments: Recognition and Measurement at fair value, with changes in fair value recognised in profit or loss. If the contingent consideration is classified as equity it is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the consideration transferred over the group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. After initial recognition goodwill is measured at cost less any accumulated impairment losses.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

## TRANSACTIONS AND NON-CONTROLLING INTERESTS

Non-controlling interests continue to be recognised as they retain present access to the economic benefits underlying ownership interests. Dividends paid to non-controlling interests are recognised in equity as transactions with equity holders.

Changes in the group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company. When the group loses control of a subsidiary the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of (i.e. reclassified to profit or loss or transferred directly to distributable reserve).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

## INVESTMENT IN ASSOCIATES

An associate is an entity in which the group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. The group's interests in associates are accounted for using the equity method. On initial recognition the investment in associate is recognised at cost and subsequently the carrying amount is increased or decreased to recognise the group's share of the net assets of the associate after date of acquisition. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The group's share of the associate's profit or loss is recognised in profit or loss, outside of operating profit and represents profit or loss after tax of the associate. Where there has been a change recognised directly in other comprehensive income or equity of the associate the group recognises its share of any changes and discloses this, where applicable, in the group statement of other comprehensive income or group statement of changes in equity. Distributions received from the associate reduce the carrying amount of the investment.

Unrealised gains and losses resulting from transactions between the group and the associate are eliminated to the extent of the group's interest in the associate.

After application of the equity method the group determines whether it is necessary to recognise any additional impairment loss with respect to its net investment in the associate. The group determines at each reporting date whether there is objective evidence that the investment in the associate is impaired. If there is such evidence the group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and then recognises the loss in profit or loss.

Where the group's interest in an associate is reduced but the equity method continues to be applied, the group reclassifies to profit or loss the proportion of the gain or loss previously recognised in other comprehensive income relative to that reduction in ownership interest. The use of the equity method should cease from the date that significant influence is lost.

The company carries its investments in associates at cost less accumulated impairment in its separate financial statements.

## FOREIGN CURRENCY

### Functional and presentation currency

All items in the financial statements of the group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ("the functional currency"). The group's consolidated financial statements are presented in Rands, which is the company's functional and the group's presentation currency.

### Foreign currency transactions and balances

Transactions in foreign currencies are translated to the respective functional currencies of group entities at rates of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to functional currency at the rates of exchange ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign exchange differences arising on translation are recognised in profit or loss.

### Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to South African Rands at exchange rates at the reporting date. The income and expenses of foreign operations are translated to South African Rands at the average exchange rates for the period.

Gains and losses on translation are recognised in other comprehensive income and presented within equity in the foreign currency translation reserve ("FCTR").

When a foreign operation is disposed of, in part or in full, the related amount in the FCTR is transferred to profit or loss.

## FINANCIAL INSTRUMENTS

### Initial recognition and measurement

The group recognises a financial asset or financial liability when it becomes a party to the contractual provisions of the instrument. It initially measures the financial instrument at fair value, plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial instruments are classified at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the group's documented risk management or investment strategy. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial instruments at fair value through profit or loss are measured at fair value and changes therein are recognised in profit or loss.

### Trade and other receivables and loans receivable

Trade and other receivables and loans receivable are categorised as loans and receivables. These financial assets originate by the group providing goods, services or money directly to a debtor and, subsequent to initial recognition, are measured at amortised cost using the effective interest method less any accumulated impairment losses.

### Financial assets at fair value through profit or loss

The net investment in the insurance cell captive is designated as a financial asset at fair value through profit and loss. This is classified at fair value with any fair value gains and losses recognised in other costs.

# ACCOUNTING POLICIES (CONTINUED)

## Cash and cash equivalents

Cash and cash equivalents are categorised as loans and receivables and, subsequent to initial recognition, are measured at amortised cost.

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held on call with banks, and investments in money market instruments, net of bank overdrafts, all of which are available for use by the group unless otherwise stated.

Outstanding payments are included in trade and other payables.

## Interest-bearing borrowings

Interest-bearing borrowings are financial liabilities with fixed or determinable payments. Subsequent to initial recognition these financial instruments are measured at amortised cost, with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

## Trade and other payables

Subsequent to initial recognition trade and other payables are measured at amortised cost.

## Financial liability at fair value through profit and loss

The contingent consideration arising from the investment in the associate is measured at fair value through profit and loss with any fair value gains and losses recognised in other costs.

## Derivative financial instruments and hedging activities

The group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investing activities, as well as market risk arising on cash-settled share-based compensation schemes and employee benefits. In accordance with its treasury policy, the group does not hold or issue derivative financial instruments for trading purposes. Subsequent to initial recognition derivatives are measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. Where a derivative financial instrument is used to hedge the variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in a firm commitment, the hedge is classified as a cash flow hedge.

Hedge relationships are formally documented and designated at inception. The documentation includes identification of the hedged item and the hedging instrument and details the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in off-setting changes in fair values or cash flows attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued.

### Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income. The ineffective portion is recognised in profit or loss.

When the forecast transaction results in the recognition of a financial asset or financial liability the cumulative gain or loss is reclassified from other comprehensive income in the same period in which the hedged forecast cash flows/hedged item affect profit or loss. Otherwise the cumulative gain or loss is removed from other comprehensive income and recognised in profit or loss at the same time as the hedged transaction.

When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of property, plant and equipment.

Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; if the hedging instrument expires or is sold, terminated or exercised; if the forecast transaction is no longer expected to occur; or if hedge designation is revoked. On the discontinuance of hedge accounting (except where a forecast transaction is no longer expected to occur), the cumulative unrealised gain or loss recognised in other comprehensive income is recognised in profit or loss when the forecast transaction occurs and affects profit or loss. Where a forecast transaction is no longer expected to occur the cumulative unrealised gain or loss is recognised immediately in profit or loss.

### Derivatives not qualifying for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Such derivatives are classified as at fair value through profit or loss and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

## Derecognition

### Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership or control of the financial asset are transferred.

Where the group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### Offset

Financial assets and financial liabilities are off-set and the net amount reported in the statement of financial position when the group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## PROPERTY, PLANT AND EQUIPMENT

### Recognition and measurement

Items of property, plant and equipment, including owner-occupied buildings, are stated at historical cost less accumulated depreciation and accumulated impairment losses. Land is stated at cost less impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Installation and other costs, which comprise materials and direct labour costs necessarily incurred in order to acquire property, plant and equipment, are also included in cost.

When parts of property, plant and equipment have different useful lives they are accounted for as separate items (major components) of property, plant and equipment.

Borrowing costs are capitalised in line with the accounting policy outlined under financial expenses.

Gains or losses on the disposal of property, plant and equipment, comprising the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss.

### Subsequent costs

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that future economic benefits embodied within the item will flow to the group and its cost can be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

### Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each part of the asset in order to reduce the cost of the asset to its residual value. Residual value is the amount that an entity could receive for the asset at the reporting date if the asset were already of the age and the condition that it will be in when the entity expects to dispose of it. Residual value does not include expected future inflation. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| Buildings | 50 years |
| Computer equipment | 3 to 7 years |
| Equipment | 3 to 10 years |
| Furniture and fittings | 5 to 10 years |
| Motor vehicles | 5 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

## LEASES

Leases of assets under which substantially all of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Minimum lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. The resulting difference arising from the straight-line basis and contractual cash flows is recognised as an operating lease obligation or asset. Contingent rentals, such as those relating to turnover, are expensed in the year in which they arise.

## INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Intangible assets (other than goodwill) are initially recognised at cost if acquired externally, or at fair value if acquired as part of a business combination. Expenditure on internally generated development activity is capitalised if the product or process is technically and commercially feasible, the group has sufficient resources to complete development, the group has intention to complete and use or sell it, it is probable that future economic benefits relating to the asset will flow to the group and the cost can be measured reliably. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the associated intangible asset. Other research and development

# ACCOUNTING POLICIES (CONTINUED)

expenditure is recognised in profit or loss as an expense when incurred.

No value is attached to internally developed and maintained trademarks or brand names. Expenditure incurred to maintain trademarks and brand names is recognised in profit or loss as incurred.

Intangible assets which have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment. Intangible assets that are assessed as having a finite useful life are amortised over their useful lives on a straight-line basis from the date they become available for use and are tested for impairment if indications exist that they may be impaired. Intangible assets with indefinite useful lives are not amortised and are tested annually for impairment.

The estimated useful lives of intangible assets with finite lives for the current and comparative periods are as follows:

| | |
|---|---|
| Capitalised software development | 5 to 10 years |
| Purchased computer software | 3 to 5 years |
| Contractual rights | 5 years |
| Clicks trademark | Indefinite useful life |
| Other trademarks | 10 years |

Amortisation methods, residual values and remaining useful lives of intangible assets with finite useful lives are reassessed annually.

## INVENTORIES

Merchandise for resale is valued on the weighted average cost basis and is stated at the lower of cost and net realisable value. The cost of inventories comprises all costs of purchase, conversion and other costs incurred in bringing the inventories to their present location and condition, and is stated net of purchase incentives. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to complete and sell the product. The cost of merchandise sold includes normal shrinkage, wastage and inventory losses. Obsolete, redundant and slow moving inventories are identified on a regular basis and are written down to their net realisable value. The carrying amount of inventory is recognised as an expense in the period in which the related revenue is recognised.

## IMPAIRMENT OF ASSETS

### Non-financial assets

The carrying amounts of the group's non-financial assets other than inventories (see accounting policy note for inventories) and deferred tax assets (see accounting policy note for deferred tax), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

Whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount, an impairment loss is recognised in profit or loss.

As goodwill is not capable of generating cash flows independently of other assets, in assessing the recoverable amount of goodwill, it is allocated to cash-generating units on a reasonable and consistent basis. Where appropriate, corporate assets are also allocated to cash-generating units on a reasonable and consistent basis. The recoverable amount of the cash-generating unit (including an allocation of goodwill and corporate assets) is assessed with reference to the future cash flows of the cash-generating unit. Where an impairment is identified for a cash-generating unit, the impairment is applied first to the goodwill allocated to the cash-generating unit and then to other assets on a pro rata basis comprising the cash-generating unit provided that each identifiable asset is not reduced to below its recoverable amount.

### Recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and its value in use. Recoverable amounts are estimated for individual assets or, if an asset does not generate largely independent cash flows, for a cash-generating unit. A cash-generating unit is the smallest collection of assets capable of generating cash flows independent of other assets or other cash-generating units.

The fair value less costs of disposal is the amount obtainable from the sale of an asset or cash-generating unit in an orderly transaction between market participants at the measurement date. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset or cash-generating unit and from its disposal at the end of its useful life. The estimated future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### Reversal of impairment losses

Impairment losses recognised in prior years are assessed at each reporting date for any indicators that the losses have decreased or no longer exist. Reversal of impairment losses recognised in prior years are recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased, either as a result of an event occurring after the impairment loss was recognised or if there has been a change in the estimates used to calculate the recoverable amount.

An impairment loss is reversed only to the extent that the carrying amount of the affected asset is not increased to an amount higher than the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior years. The reversal is recorded as income in profit or loss.

An impairment loss in respect of goodwill is never reversed.

### Financial assets

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 financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the statement of comprehensive income. Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

## SHARE CAPITAL

### Share capital

Ordinary share capital represents the par value of ordinary shares issued.

### Share premium

Share premium represents the excess consideration received by the company over the par value of ordinary shares issued, and is classified as equity.

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from share premium, net of any tax effect.

### Treasury shares

Ordinary shares in Clicks Group Limited which have been acquired by the group in terms of an approved share repurchase programme, held by the Share Incentive Trust or held by the Clicks Group Employee Share Ownership Trust, are classified as treasury shares. The cost of these shares is deducted from equity and the number of shares is deducted from the weighted average number of shares. Dividends received on treasury shares are eliminated on consolidation.

When treasury shares are sold or reissued the amount received is recognised as an increase in equity and the resulting surplus or deficit over the cost of these shares on the transaction is transferred to or from distributable reserves.

Upon settlement (take-up) of the share options by employees the difference between the proceeds received from the employees and the cost price of shares is accounted for directly in equity.

### Capitalisation share awards and cash distributions

The full value of capitalisation share awards and cash distributions are recorded as a liability and as a deduction from equity in the statement of changes in equity when declared. Upon allotment of shares in terms of a capitalisation award the election amounts are transferred to the share capital account and share premium account.

Capital distributions received on treasury shares are recorded as a reduction in the cost of the treasury shares.

## EMPLOYEE BENEFITS

### Short-term employee benefits

The cost of all short-term employee benefits is recognised as an expense during the period in which the employee renders the related service.

# ACCOUNTING POLICIES (CONTINUED)

Accruals for employee entitlements to wages, salaries, bonuses and annual leave represent the amount which the group has a present obligation to pay as a result of employees' services provided up to the reporting date. The accruals have been calculated at undiscounted amounts based on current wage and salary rates.

### Other long-term employee benefits

Liabilities for long-term employee benefits, other than pension plans, which are not expected to be settled within twelve months, are discounted to present value using the market yields at the reporting date on government bonds with maturity dates that most closely match the terms of maturity of the group's related liabilities.

### Defined contribution retirement funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

The group operates a retirement scheme comprising a number of defined contribution funds in South Africa, the assets of which are held in separate trustee-administered funds. The retirement schemes are funded by payments from employees and the relevant group entity. Obligations for contributions to these funds are recognised as an expense in profit or loss as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

### Post-retirement medical aid benefits – defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The group's obligation to provide post-retirement medical aid benefits to certain employees is calculated by estimating the amount of future benefit that qualifying employees have earned in return for their service in the current and prior periods. This benefit is discounted to determine its present value using a discount rate based on the market yields at the reporting date on government bonds with maturity dates that most closely match the terms of maturity of the group's obligation. The calculation is performed by a qualified actuary using the projected unit credit method.

Past service costs are recognised in profit or loss at the earlier of the date of the plan amendment or curtailment, and the date that the group recognises restructuring-related costs.

The group recognises actuarial gains or losses from defined benefit plans immediately in other comprehensive income.

### Equity-settled share-based compensation benefits

The group grants share options to certain employees under an employee share plan. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted as part of the Clicks Group employee share option plan is measured using the Monte Carlo option pricing model, taking into account the terms and conditions under which the options were granted. The amount recognised as an expense with a corresponding increase in equity is adjusted at each reporting date to reflect the actual number of share options that vest or are expected to vest. Where an option is cancelled (other than by forfeiture when vesting conditions are not satisfied), it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the option is recognised immediately.

### Group share scheme recharge arrangements

A recharge arrangement exists whereby the cost of acquiring shares, issued in accordance with certain share schemes granted by the parent company, is funded by way of contributions from subsidiary companies in respect of participants who are their employees. The recharge arrangement is accounted for separately from the underlying equity-settled share-based payment upon initial recognition, as follows:

- The subsidiary recognises a recharge liability and a corresponding adjustment against equity for the capital contribution recognised in respect of the share-based payment.
- The parent recognises a recharge asset and a corresponding adjustment to the carrying amount of the investment in the subsidiary.

The recharge arrangement is eliminated on consolidation.

Subsequent to initial recognition the recharge arrangement is remeasured at fair value at each subsequent reporting date until settlement date to the extent vested. The amount of the recharge in excess of the capital contribution recognised in respect of a share-based payment (in the subsidiary's financial statements) or the cost of investment in the subsidiary (in the parent's financial statements) is recognised as a return of capital. In the parent's financial statements the recharge is recognised as a reduction in the cost of the investment in the subsidiary and the excess of the recharge reduces the cost of the investment in the subsidiary until it has a balance of zero. Any further decreases in the cost of investment in subsidiary will be recognised by the parent as dividend income in profit or loss. In the subsidiary's financial statements the excess is treated as a distribution/dividend to its parent.

### Cash-settled share-based compensation benefits

The group grants cash-settled appreciation rights to management in terms of a long-term incentive scheme. The value of these appreciation rights are linked to the total shareholder return (capital gain plus dividends) over the vesting period. The cost of cash-settled transactions is measured initially at fair value at the grant date, further details of which are given in note 23.1. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense (see note 4).

### Cash-settled earnings-based compensation benefits

The group grants cash-settled appreciation rights to management in terms of a long-term incentive scheme. The value of these appreciation rights are linked to the performance of diluted headline EPS. The liability which is not expected to be settled within twelve months is discounted to present value using market yields, at the reporting date, on government bonds with maturity dates that most closely match the terms of maturity of the group's related liabilities. Any difference between projected performance and actual performance is recognised through an actuarial gain or loss based on the projected unit credit method which is recognised immediately in profit or loss.

## PROVISIONS

A provision is recognised when the group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is determined by discounting the anticipated future cash flows expected to be required to settle the obligation at a pre-tax rate that reflects the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and net cost of continuing with the contract. Before a provision is established, the group recognises any impairment loss on the asset associated with that contract.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

## GUARANTEES

A financial guarantee is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

The group performs liability adequacy tests on financial guarantee contract liabilities to ensure that the carrying amount of the liability is sufficient in view of estimated future cash flows. When performing the liability adequacy test, the group discounts all expected contractual cash flows and compares this amount to the carrying value of the liability. Where a shortfall is identified an additional provision is made.

## REVENUE

### Turnover

Turnover comprises net sales to customers. Turnover is measured at the fair value of the consideration received or receivable net of returns, trade discounts, discounts on ClubCard and volume rebates, and is stated exclusive of value-added and general sales tax. Revenue from sales is recognised when the significant risks and rewards of ownership are transferred to the buyer, there is no continuing managerial involvement, costs can be measured reliably and receipt of the future economic benefits is probable.

### Revenue recognition – ClubCard

The group operates a loyalty scheme through Clicks ClubCard. The card allows customers to accumulate ClubCard points that entitle them, subject to certain criteria, to vouchers that may be used in-store. The fair value which includes the expected redemption rate, attributed to the credits awarded is deferred as a liability and recognised as revenue on redemption of the vouchers by customers.

### Financial income

Financial income comprises interest income and dividend income. Interest income is recognised in profit or loss on a time proportion basis, taking account of the principal outstanding and the effective interest rate over the period to maturity when it is probable that such income will accrue to the group.

Dividend income is recognised when the right to receive payment is established.

# ACCOUNTING POLICIES (CONTINUED)

### Distribution and logistics fee income

Revenue in respect of services rendered is recognised in profit or loss as the services are rendered.

### Other recovery income

Other recovery income is recognised in profit or loss when the group becomes entitled to the income or when it is virtually certain that the conditions required to be fulfilled before payment is received will be fulfilled.

### Rental income

Income from operating leases in respect of property is recognised in profit or loss on a straight-line basis over the lease term.

## FINANCIAL EXPENSES

Financial expenses comprise interest payable on borrowings calculated using the effective interest method and unwinding of the discount on provisions and long-term employee benefits.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

## INCOME TAXES

Income tax expense on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity in which case the tax is recognised in other comprehensive income or in equity, respectively.

Current tax is the expected tax payable on the taxable profit for the current year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised for all temporary differences between the tax value of an asset or liability and the carrying amount for financial reporting purposes, except for the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will probably not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are off-set if there is a legally enforceable right to off-set current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are recognised for all deductible temporary differences and tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## DIVIDENDS WITHHOLDING TAX

Dividends withholding tax replaced STC effective 1 April 2012. It is a tax levied on the beneficial owner of the shares instead of the group. The tax is withheld by the group and paid over to the South African Revenue Service ("SARS") on the beneficiaries' behalf. The resultant tax expense and liability has been transferred to the shareholder and is no longer accounted for as part of the tax charge for the group. Amounts not yet paid over to SARS are included in trade and other payables and the measurement of the dividend amount is not impacted by the withholding tax.

## SEGMENT REPORTING

The group has adopted the "management approach" to reporting segment information, basing this on the group's internal management reporting data used internally by the chief operating decision-maker ("CODM").

An operating segment is defined as a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity) whose operating results are regularly reviewed by the entity's CODM to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

## EARNINGS PER SHARE

The group presents basic and diluted earnings per share ("EPS") for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the dilutive effects of all share options granted to employees.

## RECENT ACCOUNTING DEVELOPMENTS

### Standards, amendments and interpretations issued but not yet effective and under review as to their effect on the group

The International Accounting Standards Board ("IASB") and IFRIC issued the following standards, amendments and interpretations, with an effective date after the date of these financial statements, which management believe could impact the group in future periods. The group has elected not to early adopt any of these standards.

| Standard | Standard's name and effective date | Description |
|---|---|---|
| IFRS 9 | Financial Instruments<br>1 January 2018 | IFRS 9, as issued, reflects the final phase of the IASB's work on the replacement of IAS 39. It applies to the following:<br>• classification and measurement of financial assets and financial liabilities as defined in IAS 39;<br>• a new general hedge accounting model;<br>• a new expected loss impairment model and introducing limited amendments to the classification and measurement requirements for financial assets.<br>The impact on the financial statements for the group is currently not yet determinable. |
| IFRS 15 | Revenue from Contracts with Customers<br>1 January 2018 | IFRS 15 specifies how and when to recognise revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers.<br>The impact on the financial statements for the group is currently not yet determinable. |
| IFRS 16 | Leases<br>1 January 2019 | IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance with the standard's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.<br>The group is in the process of assessing the overall impact the new standard will have on the financial statements. |
| IAS 1 | Disclosure Initiative (Amendments)<br>1 January 2016 | The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports.<br>This amendment will impact the disclosure in the group's financial statements. |
| IAS 7 | Disclosure Initiative (Amendments)<br>1 January 2017 | The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash flow changes.<br>This amendment will impact the disclosure in the group's financial statements. |
| IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)<br>1 January 2017 | The amendment aims at clarifying the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.<br>The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount.<br>The impact on the financial statements for the group is not considered to be material. |

# ACCOUNTING POLICIES (CONTINUED)

The following standards, amendments and interpretations have been issued but are not yet effective and have been assessed for applicability to the group. Management has concluded that they are not applicable to the business of the group and are not expected to have a significant impact on future financial statements.

IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments): effective period has been postponed indefinitely by the IASB pending the outcome of its research project on the equity method of accounting

IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception (Amendments): effective for periods on or after 1 January 2016

IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations (Amendments): effective for periods on or after 1 January 2016

IFRS 14 Regulatory Deferral Accounts: effective for periods on or after 1 January 2016

IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments): effective for periods on or after 1 January 2016

IAS 16 and IAS 41 – Agriculture Bearer Plants (Amendments): effective for periods on or after 1 January 2016

IAS 27 – Equity Method in Separate Financial Statements (Amendments): effective for periods on or after 1 January 2016

IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations: Changes in methods of disposal: effective for periods on or after 1 January 2016

IFRS 7 – Financial Instruments: Disclosures – Servicing contracts: effective for periods on or after 1 January 2016

IFRS 7 – Financial Instruments: Disclosures – Applicability of the offsetting disclosures to condensed interim financial statements: effective for periods on or after 1 January 2016

IAS 19 – Employee Benefits: Discount rates regional market issue: effective for periods on or after 1 January 2016

IAS 34 – Interim Financial Reporting: Disclosure of information “elsewhere in the interim report”

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 August

| | | Group | |
|---|---|---|---|
| | | 2016 R'000 | 2015 R'000 |
| **1** | **Revenue** | | |
| | Turnover | **24 170 879** | 22 070 092 |
| | Finance income | **6 255** | 4 922 |
| | Other income | **1 353 833** | 1 210 082 |
| | Distribution and logistics fees | **651 730** | 597 435 |
| | Rental income | **399** | 573 |
| | Advertising income, cost recoveries and other | **701 704** | 612 074 |
| | | **25 530 967** | 23 285 096 |
| **2** | **Depreciation and amortisation** | | |
| | Depreciation of property, plant and equipment (see note 9) | **237 824** | 218 543 |
| | Amortisation of intangible assets (see note 10) | **26 320** | 29 511 |
| | **Total depreciation and amortisation** | **264 144** | 248 054 |
| | Depreciation included in cost of merchandise sold and inventories | **(11 482)** | (10 384) |
| | **Depreciation and amortisation included in expenses** | **252 662** | 237 670 |
| **3** | **Occupancy costs** | | |
| | Operating leases | **654 097** | 597 386 |
| | Turnover rental expense | **17 595** | 13 653 |
| | Movement in operating lease liability (see note 24) | **9 941** | 12 121 |
| | Movement in provision for onerous contracts (see note 26) | **1 194** | (4 137) |
| | | **682 827** | 619 023 |
| **4** | **Employment costs** | | |
| | Directors' emoluments (excluding incentives, see note 4.1) | **19 790** | 19 796 |
| | Non-executive fees | **2 926** | 2 684 |
| | Executive | **16 864** | 17 112 |
| | Salary | **14 780** | 14 860 |
| | Other benefits | **2 084** | 2 252 |
| | Equity-settled share option costs (see note 20) | **64 533** | 52 084 |
| | Long-term incentive scheme – TSR (see note 23) | **96 119** | 22 851 |
| | Release of gain on cash flow hedge to profit or loss (see note 21) | **(65 422)** | (14 508) |
| | Long-term incentive scheme – HEPS (see note 23) | **52 063** | 28 218 |
| | Staff salaries and wages | **2 203 402** | 1 981 883 |
| | Contributions to defined contribution plans | **123 874** | 106 660 |
| | Leave pay costs (see note 23) | **17 107** | 13 423 |
| | Bonuses (see note 23) | **137 245** | 124 738 |
| | Increase in liability for defined benefit plans (see note 23) | **1 473** | 1 474 |
| | **Total employment costs** | **2 650 184** | 2 336 619 |
| | Employment costs included in cost of merchandise sold and inventories | **(99 453)** | (81 202) |
| | **Employment costs included in expenses** | **2 550 731** | 2 255 417 |

For further detail of directors' emoluments refer to "rewarding value creation" on pages 61 to 63 of the Integrated Report or note 4.1.

Included in total employment costs are the following aggregate amounts (including directors' emoluments) relating to transactions with key management personnel:

| | 2016 R'000 | 2015 R'000 |
|---|---|---|
| | **86 130** | 75 090 |
| Short-term employee benefits | **25 174** | 24 181 |
| Post-employment benefits | **2 936** | 3 083 |
| Other benefits | **2** | 2 |
| Short-term incentive scheme | **12 833** | 12 410 |
| Long-term incentive scheme | **43 630** | 33 274 |
| Termination benefits | **1 465** | 2 050 |
| Share-based payments | **90** | 90 |
| Non-executive directors' fees | **2 926** | 2 684 |
| | **89 056** | 77 774 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 August

## 4 Employment costs (continued)

### 4.1 Directors' remuneration

**Executive directors' remuneration**

| Director (R'000) | Salary | Pension fund | Other benefits | Total annual guaranteed package | RONA short-term incentive | Performance based long-term incentive** | Total variable pay | Total |
|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | |
| Bertina Engelbrecht | 2 833 | 472 | – | **3 305** | 1 368 | 5 155 | **6 523** | **9 828** |
| Michael Fleming | 4 140 | 587 | 57 | **4 784** | 1 981 | 7 826 | **9 807** | **14 591** |
| David Kneale | 7 807 | 966 | 2 | **8 775** | 5 449 | 20 876 | **26 325** | **35 100** |
| **Total** | 14 780 | 2 025 | 59 | **16 864** | 8 798 | 33 857 | **42 655** | **59 519** |
| **2015** | | | | | | | | |
| Bertina Engelbrecht | 2 579 | 371 | – | 2 950 | 1 239 | 4 041 | 5 280 | 8 230 |
| Michael Fleming | 3 819 | 594 | 57 | 4 470 | 1 877 | 6 304 | 8 181 | 12 651 |
| David Kneale | 7 037 | 1 011 | 2 | 8 050 | 5 072 | 16 668 | 21 740 | 29 790 |
| Keith Warburton* | 1 425 | 190 | 27 | 1 642 | n/a | n/a | n/a | 1 642 |
| **Total** | 14 860 | 2 166 | 86 | 17 112 | 8 188 | 27 013 | 35 201 | 52 313 |

* Resigned as an executive director on 28 January 2015, with remuneration disclosed until this date.
** Payments relating to the performance for the year ended 31 August are paid in November. The expense is provided for over the three-year vesting period in the relevant financial year.

The total number of ordinary shares in issue is 246 137 763 (2015: 246 137 763). The percentage of issued share capital held by directors is 0.20% (2015: 0.26%).

Details of all dealings in Clicks Group shares by directors during the financial year are contained in the directors' report on page 2.

**Non-executive directors' remuneration**

| Director | 2016 Directors' fees (R'000) | 2015 Directors' fees (R'000) |
|---|---|---|
| David Nurek | **950** | 878 |
| Fatima Abrahams*** | **409** | 368 |
| John Bester | **521** | 476 |
| Fatima Jakoet | **359** | 326 |
| Nkaki Matlala | **417** | 376 |
| Martin Rosen | **270** | 260 |
| Total | **2 926** | 2 684 |
| **Total directors' remuneration** | | |
| Executive directors | **59 519** | 52 313 |
| Non-executive directors | **2 926** | 2 684 |
| **Total directors' remuneration** | **62 445** | 54 997 |

*** The fees paid to Professor Abrahams include an amount of R21 740 (2015: R19 800) for performing the role of chairperson of The Clicks Group Employee Share Ownership Trust.

| | | Group | |
|---|---|---|---|
| | | 2016 R'000 | 2015 R'000 |
| **5** | **Other costs** | | |
| | Other operating costs include: | | |
| | Fees paid for outside services | | |
| | Technical services | **19 035** | 31 955 |
| | Loss in financial assets at fair value through profit or loss | **523** | 5 953 |
| | Foreign exchange losses/(gains) – realised | **1 461** | (1 289) |
| | Impairment allowances – trade receivables (see note 18) | **(86)** | 12 089 |
| | Water and electricity | **155 634** | 135 944 |
| | Retail | **145 010** | 128 498 |
| | Distribution | **10 624** | 7 446 |
| **6** | **Net financing costs** | | |
| | Recognised in profit or loss: | | |
| | Interest income on bank deposits | **5 763** | 4 459 |
| | Other interest income | **492** | 463 |
| | Financial income | **6 255** | 4 922 |
| | Interest expense on financial liabilities measured at amortised cost | **59 106** | 62 231 |
| | Cash interest expense | **45 086** | 43 947 |
| | Other interest expense | **14 020** | 18 284 |
| | Financial expense | **59 106** | 62 231 |
| | Net financing cost | **(52 851)** | (57 309) |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 August

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 R'000** | 2015 R'000 | **2016 R'000** | 2015 R'000 |
| **7 Income tax expense** | | | | |
| South African normal tax | | | | |
| Current tax | | | | |
| Current year | **461 218** | 385 172 | **22** | 176 |
| Prior-year capital gains tax | **1 114** | – | **1 114** | – |
| Prior-year overprovision | **(50 081)** | (19 790) | **–** | – |
| Deferred tax | | | | |
| Current year | **(43 710)** | (20 098) | **–** | – |
| Capital gains tax | **8 011** | – | **–** | – |
| Prior-year underprovision | **34 159** | 23 020 | **–** | – |
| Foreign tax | | | | |
| Current tax | | | | |
| Current year | **7 713** | 4 963 | **–** | – |
| Prior-year overprovision | **–** | (22) | **–** | – |
| Withholding tax | **4 556** | 3 677 | **–** | – |
| Deferred tax | | | | |
| Current year | **(2 329)** | (2 213) | **–** | – |
| Prior-year underprovision | **128** | – | **–** | – |
| **Taxation per income statement** | **420 779** | 374 709 | **1 136** | 176 |
| Deferred tax – current year | **(166 622)** | (54 193) | **–** | – |
| Cash flow hedge recognised in other comprehensive income | **(2 559)** | 12 926 | **–** | – |
| Equity-settled transaction recognised in equity (see note 20) | **(164 063)** | (67 417) | **–** | – |
| Remeasurement of post-employment benefit obligations | **–** | 298 | **–** | – |
| **Total income tax charge** | **254 157** | 320 516 | **1 136** | 176 |
| *Reconciliation of rate of tax* | **%** | % | **%** | % |
| Standard rate – South Africa | **28.00** | 28.00 | **28.00** | 28.00 |
| Adjusted for: | | | | |
| Capital gains tax | **0.60** | – | **0.18** | – |
| Disallowable expenditure | **0.58** | 0.43 | **0.04** | 0.04 |
| Exempt income and allowances | **(0.58)** | (0.84) | **(28.04)** | (28.00) |
| Foreign tax rate variations | **(0.08)** | 0.08 | **–** | – |
| Foreign withholding tax | **0.30** | 0.28 | **–** | – |
| Prior-year net (over)/underprovision | **(1.04)** | 0.24 | **–** | – |
| **Effective tax rate** | **27.78** | 28.19 | **0.18** | 0.04 |

One of the subsidiaries of the group has an estimated tax loss of R18.9 million (2015: R3.2 million) available for set-off against future taxable income of that subsidiary. A deferred tax asset of R4.4 million (2015: R1.0 million) has been recognised in respect of the total estimated tax losses (see note 12).

| | Group 2016 R'000 | 2015 R'000 |
|---|---|---|
| **8 Earnings per share** | | |
| The calculation of basic and headline earnings per share at 31 August 2016 was based on profit for the year attributable to ordinary shareholders of Clicks Group Limited of R1 093.9 million (2015: R954.6 million) and headline earnings of R1 098.5 million (2015: R960.5 million) divided by the weighted average number of ordinary shares as follows: | | |
| *Reconciliation of headline earnings* | | |
| Profit attributable to equity holders of the parent | **1 093 872** | 954 575 |
| Adjusted for: | | |
| | **4 599** | 5 880 |
| Loss on disposal of property, plant and equipment | **6 388** | 9 446 |
| Insurance recovery income on property, plant and equipment | **–** | (1 279) |
| Tax | **(1 789)** | (2 287) |
| **Headline earnings** | **1 098 471** | 960 455 |

| | 2016 cents | 2015 cents |
|---|---|---|
| Earnings per share | **460.5** | 396.7 |
| Headline earnings per share | **462.4** | 399.2 |
| Diluted earnings per share | **436.7** | 381.5 |
| Diluted headline earnings per share | **438.5** | 383.9 |

| | 2016 '000 | 2015 '000 |
|---|---|---|
| *Reconciliation of shares in issue to weighted average number of shares in issue* | | |
| Total number of shares in issue at the beginning of the year | **246 138** | 246 138 |
| Treasury shares held for the full year and/or cancelled | **(6 254)** | (3 878) |
| Treasury shares purchased during the year weighted for the period held | **(2 319)** | (1 657) |
| **Weighted average number of shares in issue for the year** | **237 565** | 240 603 |
| *Reconciliation of weighted average number of shares to weighted average diluted number of shares in issue* | | |
| Weighted average number of shares in issue for the year (net of treasury shares) | **237 565** | 240 603 |
| Dilutive effect of share options (net of treasury shares) | **12 936** | 9 601 |
| **Weighted average diluted number of shares in issue for the year** | **250 501** | 250 204 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 August

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2014 | |
| | Cost R'000 | Accumulated depreciation and impairment losses R'000 | Cost R'000 | Accumulated depreciation and impairment losses R'000 | Cost R'000 | Accumulated depreciation and impairment losses R'000 |
| **9 Property, plant and equipment** | | | | | | |
| Land | **25 809** | **–** | 25 809 | – | 25 809 | – |
| Buildings | **398 102** | **48 402** | 372 891 | 46 815 | 368 168 | 43 720 |
| Computer equipment | **439 496** | **295 039** | 367 010 | 252 768 | 324 245 | 222 167 |
| Equipment | **269 975** | **166 331** | 250 151 | 145 615 | 228 724 | 132 542 |
| Furniture and fittings | **1 564 466** | **859 538** | 1 360 727 | 725 890 | 1 184 438 | 614 548 |
| Motor vehicles | **50 213** | **33 727** | 46 296 | 30 138 | 44 064 | 27 464 |
| | **2 748 061** | **1 403 037** | 2 422 884 | 1 201 226 | 2 175 448 | 1 040 441 |

All group property is owner-occupied.

The carrying amount of the group's property, plant and equipment is reconciled as follows:

| | Land R'000 | Buildings R'000 | Computer equipment R'000 | Equipment R'000 | Furniture and fittings R'000 | Motor vehicles R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| **Carrying amount at 1 September 2014** | 25 809 | 324 448 | 102 078 | 96 182 | 569 890 | 16 600 | 1 135 007 |
| Additions | – | 4 748 | 56 100 | 30 261 | 220 185 | 4 740 | 316 034 |
| Disposals | – | (24) | (144) | (761) | (9 463) | (448) | (10 840) |
| Depreciation | – | (3 096) | (43 792) | (21 146) | (145 775) | (4 734) | (218 543) |
| **Carrying amount at 31 August 2015** | **25 809** | **326 076** | **114 242** | **104 536** | **634 837** | **16 158** | **1 221 658** |
| Additions | **–** | **25 220** | **76 954** | **23 719** | **237 117** | **5 171** | **368 181** |
| Disposals | **–** | **–** | **(60)** | **(244)** | **(6 324)** | **(363)** | **(6 991)** |
| Depreciation | **–** | **(1 596)** | **(46 679)** | **(24 367)** | **(160 702)** | **(4 480)** | **(237 824)** |
| **Carrying amount at 31 August 2016** | **25 809** | **349 700** | **144 457** | **103 644** | **704 928** | **16 486** | **1 345 024** |

| | Group 2016 Cost R'000 | 2016 Accumulated amortisation and impairment losses R'000 | 2015 Cost R'000 | 2015 Accumulated amortisation and impairment losses R'000 | 2014 Cost R'000 | 2014 Accumulated amortisation and impairment losses R'000 |
|---|---|---|---|---|---|---|
| **10 Intangible assets** | | | | | | |
| Clicks trademark (see note 10.1) | **272 000** | **–** | 272 000 | – | 272 000 | – |
| Link trademark | **6 000** | **6 000** | 6 000 | 6 000 | 6 000 | 6 000 |
| Other trademarks | **1 116** | **469** | 1 116 | 357 | 1 116 | 246 |
| Capitalised and purchased computer software development | **332 749** | **171 313** | 268 499 | 145 633 | 219 350 | 122 601 |
| Contractual rights (see note 10.2) | **17 020** | **17 020** | 17 020 | 17 020 | 17 020 | 15 016 |
| | **628 885** | **194 802** | 564 635 | 169 010 | 515 486 | 143 863 |

The carrying amount of the group's intangible assets is reconciled as follows:

| | Clicks trademark R'000 | Other trademarks R'000 | Capitalised software development R'000 | Contractual rights R'000 | Total R'000 |
|---|---|---|---|---|---|
| **Carrying amount at 1 September 2014** | 272 000 | 870 | 96 749 | 2 004 | 371 623 |
| Additions | – | – | 53 513 | – | 53 513 |
| Amortisation | – | (111) | (27 396) | (2 004) | (29 511) |
| **Carrying amount at 31 August 2015** | 272 000 | 759 | 122 866 | – | 395 625 |
| Additions | **–** | **–** | **64 778** | **–** | **64 778** |
| Amortisation | **–** | **(112)** | **(26 208)** | **–** | **(26 320)** |
| **Carrying amount at 31 August 2016** | **272 000** | **647** | **161 436** | **–** | **434 083** |

**Assessment of impairment of intangible assets**

10.1 The Clicks trademark is part of the Clicks cash-generating unit and is considered to have an indefinite useful life. There is no apparent legal or other restriction to the use of the trademark or risk of technical or other obsolescence. Given the strategic importance of the trademark to the future sustainability of the group, the group's intention is to continue to use the trademark indefinitely. The directors consider that there is no foreseeable limit to the period over which this asset is expected to generate cash inflows for the group and, on this basis, the directors have concluded that the indefinite useful life assumption is appropriate.

In accordance with the group's accounting policy, an impairment test was performed on the carrying values of intangible assets with indefinite useful lives at year-end. The recoverable amount was determined based on the value in use.

Budgeted operating cash flows for the related business units were projected and discounted at the group's weighted average pre-tax cost of capital. The impairment calculations performed indicated that the trademarks were not impaired.

The following key assumptions were made in determining the value in use:

(i) A forecast horizon of three years was used. The forecast horizon comprises the three-year plan drafted in the last quarter of the 2016 financial year, whereafter a perpetuity growth rate of 6.5% (2015: 3.7%) is used.

(ii) The values assigned to the three-year plan revenue and cost growth assumptions reflect current trends, anticipated market developments and management's experience.

(iii) The key assumptions for the recoverable amount are the long-term growth rate and the discount rate.

The long-term growth rate used is purely for the impairment testing of intangible assets under IAS 36 – Impairment of Assets and does not reflect long-term planning assumptions used by the group for investment proposals or for any other assessments.

(iv) A discount rate of 13.5% (2015: 12.5%) per annum, being the group's pre-tax weighted average cost of capital, was used. The group's pre-tax weighted average cost of capital is deemed appropriate as, together with the Distribution business, both businesses largely operate within South Africa and are subject to similar market risks.

Management believes that any reasonable possible change in any of these assumptions would not cause the carrying amount to exceed their recoverable amount.

10.2 The group acquired the pharmacy business of Amalgamated Pharmacy Group Proprietary Limited in 2010.

As part of the acquisition the group acquired the contractual rights to certain medical aid contracts. These contractual rights have been amortised over five years.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 August

| | | Group | |
|---|---|---|---|
| | | **2016 R'000** | 2015 R'000 |
| **11** | **Goodwill** | | |
| | Goodwill | **103 510** | 103 510 |
| | Goodwill comprises: | | |
| | United Pharmaceutical Distributors Proprietary Limited ("UPD") (see note 11.1) | **96 277** | 96 277 |
| | Kala Hari Medical Distributors Proprietary Limited ("Kala Hari") (see note 11.2) | **704** | 704 |
| | Amalgamated Pharmacy Group Proprietary Limited ("Amalgamated Pharmacy Group") (see note 11.3) | **6 529** | 6 529 |

**Assessment of impairment of goodwill**

11.1 Budgeted operating cash flows for the UPD business unit were projected and discounted at the group's weighted average pre-tax cost of capital. The impairment calculations performed indicated that the goodwill was not impaired.

The following key assumptions were made in determining the value in use of the UPD cash-generating unit:

(i) A forecast horizon of three years was used. The forecast horizon comprises the three-year plan drafted in the last quarter of the 2016 financial year, whereafter a perpetuity growth rate of 6.5% (2015: 3.7%) is used.

(ii) The values assigned to the three-year plan revenue and cost growth assumptions reflect current trends, anticipated market developments and management's experience.

(iii) The key assumptions for the recoverable amount are the long-term growth rate and the discount rate.

The long-term growth rate used is purely for the impairment testing of goodwill under IAS 36 – Impairment of Assets and does not reflect long-term planning assumptions used by the group for investment proposals or for any other assessments.

(iv) A discount rate of 13.5% (2015: 12.5%) per annum, being the group's pre-tax weighted average cost of capital, was used. The group's pre-tax weighted average cost of capital is deemed appropriate as, together with the Clicks business, both businesses largely operate within South Africa and are subject to similar market risks.

Management believes that any reasonable possible change in any of these assumptions would not cause the carrying amount to exceed their recoverable amount.

11.2 The same assumptions were applied to Kala Hari as this company is in the same business as UPD and accordingly none of the assumptions would change significantly. The fact that Kala Hari operates out of Botswana was considered, but this is also not expected to change the assumptions. The goodwill relating to Kala Hari has been attributed to the UPD business as a cash-generating unit.

11.3 Due to the synergies that arose on acquisition, the goodwill relating to the purchase of the pharmacy business from Amalgamated Pharmacy Group has been attributed to the Clicks business as a cash-generating unit, which represents the lowest level within the group at which the goodwill is monitored for internal management purposes.

Applying IAS 36, goodwill relating to the above acquisition has been tested for impairment at the same level as the Clicks business unit.

Budgeted operating cash flows for the related business units were projected and discounted at the group's weighted average pre-tax cost of capital. The impairment calculations performed indicated that goodwill was not impaired.

The following key assumptions were made in determining the value in use:

(i) A forecast horizon of three years was used. The forecast horizon comprises the three-year plan drafted in the last quarter of the 2016 financial year, whereafter a perpetuity growth rate of 6.5% (2015: 3.7%) is used.

(ii) The values assigned to the three-year plan revenue and cost growth assumptions reflect current trends, anticipated market developments and management's experience.

## 11. Goodwill (continued)

**Assessment of impairment of goodwill (continued)**

(iii) The key assumptions for the recoverable amount are the long-term growth rate and the discount rate.

The long-term growth rate used is purely for the impairment testing of goodwill under IAS 36 – Impairment of Assets and does not reflect long-term planning assumptions used by the group for investment proposals or for any other assessments.

(iv) A discount rate of 13.5% (2015: 12.5%) per annum, being the group's pre-tax weighted average cost of capital, was used. The group's pre-tax weighted average cost of capital is deemed appropriate as, together with the Clicks business, both businesses largely operate within South Africa and are subject to similar market risks.

Management believes that any reasonable possible change in any of these assumptions would not cause the carrying amount to exceed their recoverable amount.

The tests performed on all cash-generating units did not indicate any impairment as at year-end.

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 R'000 | 2015 R'000 | 2016 R'000 | 2015 R'000 |
| **12 Deferred tax assets/(liabilities)** | | | | |
| Deferred tax assets | **347 400** | 177 037 | **–** | – |
| | **347 400** | 177 037 | **–** | – |
| Balance at the beginning of the year | **177 037** | 123 553 | **–** | – |
| Current deferred tax credit/(debit) to profit or loss (see note 7) | **3 741** | (709) | **–** | – |
| Current deferred tax credit to other comprehensive income or equity (see note 7) | **166 622** | 54 193 | **–** | – |
| **Balance at the end of the year** | **347 400** | 177 037 | **–** | – |
| Arising as a result of: | | | | |
| Capital gains tax | **(48 110)** | (40 099) | **–** | – |
| Derivative financial assets and liabilities | **(67 009)** | (22 044) | **–** | – |
| Employee obligations | **457 544** | 248 501 | **–** | – |
| Income and expense accrual | **113 903** | 82 216 | **–** | – |
| Inventory | **28 080** | 32 467 | **–** | – |
| Onerous leases | **1 943** | 488 | **–** | – |
| Operating lease liability | **53 478** | 50 668 | **–** | – |
| Prepayments | **(18 585)** | (17 277) | **–** | – |
| Property, plant and equipment | **(94 777)** | (75 466) | **–** | – |
| Tax losses | **4 369** | 1 019 | **–** | – |
| Trademarks | **(76 172)** | (76 172) | **–** | – |
| Other | **(7 264)** | (7 264) | **–** | – |
| **Balance at the end of the year** | **347 400** | 177 037 | **–** | – |

The capital gains deferred tax liability arises on the revaluation of a forward purchase of shares by the company in a subsidiary company.

Derivative financial assets and liabilities includes an asset of R3.0 million (2015: R12.9 million liability) recognised in other comprehensive income (see note 21). Employee obligations includes an asset of R266.1 million (2015: R102.1 million) recognised in equity (see note 20).

In respect of the deferred tax asset recognised by one (2015: one) subsidiary company, the directors consider that sufficient future taxable income will be generated by that subsidiary company to utilise the deferred tax assets recognised.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 August

## 13 Investment in an associate

The group acquired a strategic 25% interest in Sorbet Brands Proprietary Limited ("Sorbet Brands") on 1 September 2015. R15 million was paid on signing of the contract with two contingent payments of R2.5 million each, payable on 31 August 2016 and 31 August 2017 respectively on achievement of turnover targets.

Refer to note 27 detailing this contingent consideration. Sorbet Brands holds all the trademark rights of the Sorbet brand in southern Africa.

The group's interest in Sorbet Brands is accounted for using the equity method in the consolidated financial statements.

The following amounts represent the assets and liabilities, income and expenses of the associate:

| | Group | |
|---|---|---|
| | 2016 R'000 | 2015 R'000 |
| **Assets** | | |
| Non-current assets | 80 000 | – |
| Current assets | 5 656 | – |
| **Liabilities** | | |
| Current liabilities | 3 123 | – |
| **Equity** | 82 533 | – |
| **Group's carrying amount of the investment** | 20 282 | – |
| **Summarised Statement of comprehensive income** | | |
| Income | 12 755 | – |
| Expenses | (236) | – |
| **Profit before taxation** | 12 519 | – |
| Income tax expense | (3 505) | – |
| **Profit for the year** | 9 014 | – |
| **Total comprehensive income for the year** | 9 014 | – |
| Group's proportionate share of profit for the year | 2 254 | – |
| Dividends received from associate | 1 638 | – |

| | Group 2016 R'000 | Group 2015 R'000 |
|---|---|---|
| **14 Loans receivable** | | |
| New Clicks Foundation Trust (see note 14.1) | **5 021** | 5 021 |
| Triton Pharmacare Capital Investments Proprietary Limited ("Triton") (see note 14.2) | **–** | 7 982 |
| Sign and Seal Trading 205 Proprietary Limited ("Style Studio") (see note 14.3) | **4 500** | – |
| **Non-current loans receivable** | **9 521** | 13 003 |
| Triton (see note 14.2) | **8 476** | – |
| **Current loans receivable** | **8 476** | – |
| **Total loans receivable** | **17 997** | 13 003 |

14.1 The loan to New Clicks Foundation Trust is unsecured, interest free and no fixed date for repayment has been determined.

14.2 The loan to Triton consists of a long-term loan of R8.5 million repayable on 31 August 2017.

The long-term loan is interest free and is carried at amortised cost discounted at a market-related rate of 6.0% over five years.

A second mortgage bond over property purchased by Triton and a special notarial bond over movable assets serve as security for the loan.

14.3 The loan to Style Studio is unsecured, interest free and repayable within 10 business days of demand.

| | Group 2016 R'000 | Group 2015 R'000 |
|---|---|---|
| **15 Financial assets at fair value through profit or loss** | | |
| Investment in Guardrisk Insurance Company Limited (Cell number 171) | **16 145** | 16 668 |
| Total financial assets at fair value through profit or loss | **16 145** | 16 668 |

This is the net investment in the group's insurance cell captive which is not deemed to be in the group's control in accordance with IFRS 10 – Consolidated Financial Statements.

| | Group 2016 Assets R'000 | Group 2016 Liabilities R'000 | Group 2015 Assets R'000 | Group 2015 Liabilities R'000 |
|---|---|---|---|---|
| **16 Derivative financial instruments** | | | | |
| Equity derivative hedge – non-current | **231 242** | **–** | 81 662 | – |
| Forward exchange contracts – current | **–** | **(26 971)** | 24 507 | – |

All derivatives noted above are classified as held for trading and measured at fair value through profit or loss.

**Equity derivative hedge**
European call options have been purchased to hedge the cash-settled share-based payment obligation relating to tranches 9 and 10 of the total shareholder return long-term incentive scheme (refer to note 23.1). The expiration date of these hedging instruments and the vesting dates of the hedged items coincide with settlement on 5 September 2017 and 5 September 2018 respectively for the hedges.

Refer to note 21 detailing the equity derivative hedges' impact on profit or loss and other comprehensive income.

The fair value of these equity derivative hedges are calculated using a Monte Carlo option pricing model with reference to the closing share price, 250-day historical volatility, the 12-month trailing dividend yield and the risk-free rate.

**Forward exchange contracts**
For currency derivatives, fair values are calculated using standard market calculation conventions with reference to the relevant closing market spot rates, forward foreign exchange and interest rates. The notional principal amounts of the outstanding forward foreign exchange contracts at 31 August 2016 was R493.1 million (2015: R252.5 million). Refer to note 21 detailing the foreign exchange hedging impact on profit or loss and other comprehensive income.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 August

| | Group 2016 R'000 | Group 2015 R'000 |
|---|---|---|
| **17 Inventories** | | |
| Inventories comprise: | | |
| Goods for resale | **3 375 540** | 3 085 896 |
| Goods in transit | **103 177** | 164 018 |
| | **3 478 717** | 3 249 914 |
| Inventories stated at net realisable value | **62 781** | 55 554 |

The value of inventories stated at net realisable value is determined based on management's best estimate of the likely selling price at which the inventories in question could be sold in the ordinary course of business less the directly attributable selling costs.

| | Group 2016 R'000 | Group 2015 R'000 |
|---|---|---|
| **18 Trade and other receivables** | | |
| Trade and other receivables comprise: | | |
| Trade receivables | **1 643 043** | 1 489 854 |
| Less: impairment of trade receivables | **(24 081)** | (28 678) |
| Trade receivables – net | **1 618 962** | 1 461 176 |
| Prepayments | **91 755** | 76 580 |
| Income accruals | **160 278** | 106 197 |
| Income tax receivable | **–** | 4 077 |
| Logistics fees receivable | **118 725** | 134 177 |
| Other (refer to note 18.1) | **22 976** | 89 409 |
| | **2 012 696** | 1 871 616 |

The carrying amount of trade and other receivables approximates their fair value. Trade and other receivables are predominantly non-interest bearing. Refer to note 30.4 for the credit risk management of trade and other receivables.

The movement in the doubtful debt provision in respect of trade receivables during the year was as follows:

| | Group 2016 R'000 | Group 2015 R'000 |
|---|---|---|
| Balance at 1 September | **28 678** | 28 113 |
| Impairment provision (reversed)/raised | **(86)** | 12 089 |
| Impairment loss utilised | **(4 511)** | (11 524) |
| Balance at 31 August | **24 081** | 28 678 |

18.1 Other receivables consist of staff loans and sundry customer receivables.

| | Group and Company 2016 R'000 | 2015 R'000 |
|---|---|---|
| **19 Share capital and share premium** | | |
| **Authorised – group and company** | | |
| 600 million (2015: 600 million) ordinary shares of one cent each | **6 000** | 6 000 |
| 50 million (2015: 50 million) "A" ordinary shares of one cent each | **500** | 500 |
| **Issued ordinary shares – group and company** | | |
| 246.138 million (2015: 246.138 million) ordinary shares of one cent each and 29.153 million (2015: 29.153 million) "A" ordinary shares of one cent each | **2 754** | 2 754 |
| Share premium – group | **3 497** | 3 497 |
| Share premium – company | **14 089** | 14 089 |

The company and the group have different values for share premium due to preliminary expenses of R2.1 million being written off against the share premium of a subsidiary company on the acquisition of certain businesses in 1996. The balance of the difference is due to the difference in value between the cancellation of shares at a holding company level at market value while on consolidation the cancellation is carried out at cost.

| | Ordinary shares '000 | "A" ordinary shares '000 | Group and Company Total 2016 '000 | Total 2015 '000 |
|---|---|---|---|---|
| *Reconciliation of total number of shares in issue to net number of shares in issue* | | | | |
| Total number of shares in issue at the end of the year | 246 138 | 29 153 | **275 291** | 275 291 |
| Treasury shares held at the end of the year | (9 614) | (29 153) | **(38 767)** | (35 407) |
| **Net number of shares in issue at the end of the year** | 236 524 | – | **236 524** | 239 884 |

| | R'000 | R'000 |
|---|---|---|
| Of the shares in issue, the group holds the following treasury shares: | | |
| Shares held by a subsidiary – 9.444 million (2015: 6.084 million) ordinary shares of one cent each – cost | **702 556** | 412 385 |
| Shares held by the New Clicks Holdings Share Trust – 0.170 million (2015: 0.170 million) ordinary shares of one cent each – cost | **1 450** | 1 450 |
| Shares held by the Clicks Group Employee Share Ownership Trust – 29.153 million (2015: 29.153 million) "A" ordinary shares of one cent each – cost | **292** | 292 |
| | **704 298** | 414 127 |

No ordinary shares were cancelled during the current financial year (2015: nil).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

In respect of the company's shares held by entities within the group, all voting rights are suspended until those shares are reissued.

The unlisted "A" ordinary shares have the same rights and rank *pari passu* with the ordinary shares in all respects except for distribution rights.

The holders of "A" ordinary shares are entitled to an annual distribution equal to 10% of the cumulative distribution declared in relation to an ordinary share in a financial year.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 August

## 20 Share option reserve

**Equity-settled share-based payment**

***Options issued in terms of the Employee Share Ownership Programme ("ESOP")***

In October 2010, Clicks Group Limited announced an employee share ownership programme.

In terms of the Clicks Group Employee Ownership Trust deed, the group issued unlisted "A" ordinary shares ("A" shares), equating to 10% of the issued share capital of the group, net of treasury shares, on 2 February 2011.

Upon vesting, options are converted into Clicks Group ordinary shares, 50% in February 2018 and 50% in February 2019, after the repayment of the notional debt.

| | Group | |
|---|---|---|
| | Number of shares 2016 | Number of shares 2015 |
| "A" shares issued in terms of the ESOP | **29 153 295** | 29 153 295 |

**Details of share option allocations**

| Grant date | Option price | Balance at the beginning of the year | Granted during the year | Delivered during the year | Forfeited during the year | Balance at the end of the year |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| February 2011 | **R41.54** | **14 040 004** | **–** | **–** | **(1 008 456)** | **13 031 548** |
| February 2012 | **R41.11** | **2 350 520** | **–** | **–** | **(164 045)** | **2 186 475** |
| February 2013 | **R60.00** | **4 108 925** | **–** | **–** | **(372 842)** | **3 736 083** |
| February 2014 | **R56.78** | **2 934 104** | **–** | **–** | **(408 052)** | **2 526 052** |
| February 2015 | **R90.32** | **2 822 693** | **–** | **–** | **(485 262)** | **2 337 431** |
| February 2016 | **R86.75** | **–** | **385 383** | **–** | **–** | **385 383** |
| Unallocated share options | | | | | | **4 950 323** |
| | | | | | | **29 153 295** |
| **2015** | | | | | | |
| February 2011 | R41.54 | 15 160 100 | – | – | (1 120 096) | 14 040 004 |
| February 2012 | R41.11 | 2 843 205 | – | – | (492 685) | 2 350 520 |
| February 2013 | R60.00 | 4 778 134 | – | – | (669 209) | 4 108 925 |
| February 2014 | R56.78 | 4 298 777 | – | – | (1 364 673) | 2 934 104 |
| February 2015 | R90.32 | – | 3 119 681 | – | (296 988) | 2 822 693 |
| Unallocated share options | | | | | | 2 897 049 |
| | | | | | | 29 153 295 |

## 20 Share option reserve (continued)

*Fair value of share-based payments in respect of options*

Options granted have been valued using the Monte Carlo option pricing model by an independent, external valuator. The fair value of the options determined at the grant date is amortised over the vesting period to the extent that the options are ultimately exercised or are expected to be exercised.

The assumptions used in estimating the fair values at grant date are listed below:

| | Share price at grant date | Risk-free rate (%) | Expected dividend yield (%) | Expected volatility (%) | Expected forfeiture rate (%) |
|---|---|---|---|---|---|
| February 2011 – seven-year vesting period | R41.54 | 8.45 | 3.89 | 24.56 | 15.33 |
| February 2011 – eight-year vesting period | R41.54 | 8.60 | 4.11 | 24.56 | 15.33 |
| February 2012 – six-year vesting period | R41.11 | 7.38 | 2.80 | 27.00 | 14.20 |
| February 2012 – seven-year vesting period | R41.11 | 7.38 | 2.80 | 27.00 | 14.20 |
| February 2013 – five-year vesting period | R60.00 | 7.17 | 2.70 | 24.00 | 14.20 |
| February 2013 – six-year vesting period | R60.00 | 7.17 | 2.70 | 24.00 | 14.20 |
| February 2014 – four-year vesting period | R56.78 | 8.55 | 2.50 | 23.00 | 11.00 |
| February 2014 – five-year vesting period | R56.78 | 8.55 | 2.50 | 23.00 | 11.00 |
| February 2015 – three-year vesting period | R90.32 | 6.46 | 2.40 | 23.00 | 11.00 |
| February 2015 – four-year vesting period | R90.32 | 6.46 | 2.40 | 23.00 | 11.00 |
| February 2016 – two-year vesting period | R86.75 | 7.85 | 2.00 | 25.00 | 10.00 |
| February 2016 – three-year vesting period | R86.75 | 7.85 | 2.00 | 25.00 | 10.00 |

The risk-free rate is derived from the Swap BD curve published by the Bond Exchange of South Africa.

The dividend yield is the historical two-year average dividend yield as of the grant date, which has been converted to a continuously compounded dividend yield.

The expected volatility is the historic annualised standard deviation of the continuously compounded rates of return on the share, based on the most recent period as of the grant date that is commensurate with the expected term of the share option.

The expected exercise rate is based on the historic trend of option forfeitures and excludes options already exercised. The options already exercised are reflected in the share option reserve in addition to the value of options that are expected to be exercised based on the expected exercise rate.

The share option reserve recognises the cost at the fair value of the options on the date issued to employees, accrued over the vesting period.

| | Group | |
|---|---|---|
| | 2016 R'000 | 2015 R'000 |
| **Share option reserve** | | |
| Balance at the beginning of the year | **254 592** | 135 091 |
| | **228 596** | 119 501 |
| Equity-settled share-based payment expense | **64 533** | 52 084 |
| Deferred tax recorded directly in equity arising on consolidation | **164 063** | 67 417 |
| **Balance at the end of the year** | **483 188** | 254 592 |
| | **217 050** | 152 517 |
| Equity-settled share-based payment expense in opening retained earnings | **152 517** | 100 433 |
| Equity-settled share-based payment expense | **64 533** | 52 084 |
| Deferred tax recorded directly in equity arising on consolidation | **266 138** | 102 075 |
| **Estimate of options not yet vested but expected to vest** | **483 188** | 254 592 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 August

| | Group 2016 R'000 | Group 2015 R'000 |
|---|---|---|
| **21 Cash flow hedge reserve** | | |
| The cash flow hedge reserve represents the effective portion of fair value gains or losses in respect of cash flow hedges. | | |
| Reconciliation of cash flow hedging reserve | | |
| Balance at the beginning of the year | **35 196** | 1 958 |
| Movement in cash flow hedge | **(9 139)** | 46 164 |
| Movement in cash flow hedge relating to forward exchange contracts | **(49 196)** | 27 247 |
| Movement in cash flow hedge relating to equity derivative hedges | **40 057** | 18 917 |
| Deferred tax recognised in other comprehensive income | **2 559** | (12 926) |
| **Balance at the end of the year** | **28 616** | 35 196 |

The cash flow hedge reserve represents the cumulative portion of gains or losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is reclassified to profit or loss only when the hedged transaction affects profit or loss. During the year there was a mark-to-market gain of R119.3 million (2015: R105.2 million) and R128.4 million was recycled to profit or loss (2015: R59.1 million). R63 million (2015: R44.6 million) of the recycled gains are included in cost of merchandise sold and R65.4 million (2015: R14.5 million) are included under employment costs. R49.2 million loss (2015: R27.2 million gain) will be recycled to profit or loss in 2017 relating to forward exchange contracts and R40.1 million gain (2015: R18.9 million gain) will be recycled to profit or loss as and when the related employment costs affect profit or loss relating to the equity derivative hedge.

Refer to note 16 – Derivative financial instruments for further information.

| | Group 2016 R'000 | Group 2015 R'000 |
|---|---|---|
| **22 Foreign currency translation reserve** | | |
| Unrealised gain on the translation of assets and liabilities of subsidiaries whose financial statements are denominated in foreign currencies | **5 805** | 6 331 |
| | **5 805** | 6 331 |
| Reconciliation of foreign currency translation reserve | | |
| Balance at the beginning of the year | **6 331** | 1 554 |
| Exchange differences on translation of foreign subsidiaries | **(526)** | 4 777 |
| **Balance at end of the year** | **5 805** | 6 331 |

| | Group 2016 R'000 | Group 2015 R'000 |
|---|---|---|
| **23 Employee benefits** | | |
| Long-term incentive schemes | **156 488** | 74 132 |
| Post-retirement medical obligations | **58 644** | 53 903 |
| **Total long-term employee benefits** | **215 132** | 128 035 |
| *Accounted for as follows:* | | |
| Long-term employee benefits recognised in terms of IFRS 2 – Share-based Payments (see note 23.1) | **116 947** | 22 851 |
| Long-term employee benefits recognised in terms of IAS 19 – Employee Benefits | **98 185** | 105 184 |
| **Total long-term employee benefits** | **215 132** | 128 035 |

**Long-term employee benefits recognised in terms of IFRS 2 – Share-based Payments**

| **Long-term cash-settled share-based payment liability** | Long-term incentive scheme – TSR (note 23.1) R'000 |
|---|---|
| **Balance at 1 September 2014** | – |
| Expense from cash-settled share-based payment | 22 851 |
| **Balance at 31 August 2015** | **22 851** |
| Expense from cash-settled share-based payment | **96 119** |
| Early settlement | **(2 023)** |
| **Balance at 31 August 2016** | **116 947** |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 August

## 23 Employee benefits (continued)

### 23.1 Long-term incentive scheme – total shareholder return ("TSR")

During 2016 the group issued 1.1 million (2015: 1.4 million) cash-settled appreciation rights to management. The value of these appreciation rights are linked to the TSR (capital gain plus dividends) over a three-year vesting period. These appreciation rights are classified as cash-settled share-based payment benefits and the liability has been valued using the Monte Carlo option pricing model by an independent, external valuator.

The contractual life of the September 2014 options outstanding at year-end was one year.

The contractual life of the September 2015 options outstanding at year-end was two years.

**Details of share option allocations – 2016**

| | Option price | Balance at the beginning of the year | Granted during the year | Delivered during the year | Forfeited during the year | Balance at the end of the year |
|---|---|---|---|---|---|---|
| September 2014 options | **R120.56** | **1 300 507** | **–** | **–** | **(74 993)** | **1 225 514** |
| September 2015 options | **R77.07** | **–** | **1 090 359** | **–** | **(77 969)** | **1 012 390** |

The assumptions used in estimating the fair value at year-end is listed below:

| | Share price at grant date | Risk-free rate (%) | Expected dividend yield (%) | Expected volatility (%) | Expected forfeiture rate (%) |
|---|---|---|---|---|---|
| September 2014 options three-year vesting period | R66.34 | 7.65 | 2.07 | 33.20 | 4.00 |
| September 2015 options three-year vesting period | R93.82 | 7.65 | 2.07 | 33.20 | 4.00 |

**Details of share option allocations – 2015**

| | Option price | Balance at the beginning of the year | Granted during the year | Delivered during the year | Forfeited during the year | Balance at the end of the year |
|---|---|---|---|---|---|---|
| September 2014 options | R57.68 | – | 1 428 333 | – | (127 826) | 1 300 507 |

The assumptions used in estimating the fair value at year-end is listed below:

| | Share price at grant date | Risk-free rate (%) | Expected dividend yield (%) | Expected volatility (%) | Expected forfeiture rate (%) |
|---|---|---|---|---|---|
| September 2014 options three-year vesting period | R66.34 | 7.58 | 2.25 | 28.30 | 4.00 |

The risk-free rate is derived from the zero coupon curve published by the Bond Exchange of South Africa.

The dividend yield is the twelve-month trailing yield (nominal annual and compounded annuity).

The implied volatility is the 250-day historic volatility of the share price.

The expected exercise rate is based on the historic trend of option forfeitures and excludes options already exercised or forfeited.

## 23 Employee benefits (continued)

### 23.1 Long-term incentive scheme – total shareholder return ("TSR") (continued)

**Long-term employee benefits recognised in terms of IAS 19 – Employee Benefits**

| **Long-term employee benefits** | Long-term incentive scheme – HEPS (note 23.2) R'000 | Post-retirement medical obligations (note 23.3) R'000 | Total R'000 |
|---|---|---|---|
| **Balance at 1 September 2014** | 65 956 | 49 380 | 115 336 |
| Current service cost | 53 886 | 1 474 | 55 360 |
| Benefit payments | – | (1 244) | (1 244) |
| Interest cost | 8 634 | 5 356 | 13 990 |
| Actuarial gain recognised in profit or loss | (25 668) | – | (25 668) |
| Actuarial gain recognised in other comprehensive income arising from changes in demographic assumptions | – | (6 026) | (6 026) |
| Actuarial loss recognised in other comprehensive income arising from changes in financial assumptions | – | 4 963 | 4 963 |
| Reclassification to short-term employee benefits | (51 527) | – | (51 527) |
| **Balance at 31 August 2015** | **51 281** | **53 903** | **105 184** |
| Current service cost | **48 088** | **1 473** | **49 561** |
| Benefit payments | **(2 139)** | **(1 377)** | **(3 516)** |
| Interest cost | **7 265** | **4 645** | **11 910** |
| Actuarial loss recognised in profit or loss | **3 975** | **–** | **3 975** |
| Reclassification to short-term employee benefits | **(68 929)** | **–** | **(68 929)** |
| **Balance at 31 August 2016** | **39 541** | **58 644** | **98 185** |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 August

## 23 Employee benefits (continued)

### 23.2 Long-term incentive scheme – headline earnings per share ("HEPS")

During 2016 the group issued 2.2 million (2015: 2.3 million) cash-settled appreciation rights to management. The value of these appreciation rights are linked to the performance of diluted HEPS over a three-year period. The amount to be provided in the current year is based on a three-year projection of diluted HEPS.

Any difference between projected performance and actual performance is recognised through an actuarial (gain)/loss based on the projected unit credit method which is taken to profit or loss.

The exercise price of each appreciation right was determined as R46.07 (2015: R40.42) per right ("base value"). In order to determine the amount to be provided a fixed factor of 12 is applied to the HEPS at the end of the three-year period. The differential between the factor multiplied by HEPS and the base value is the amount that will be paid out per right.

Should employees leave during the vesting period the rights will be forfeited.

### 23.3 Post-retirement medical obligations

The group subsidises a portion of the medical aid contributions of certain retired employees.

An actuarial valuation of the Clicks post-retirement medical aid scheme has determined that the unfunded liability in respect of pensioner post-retirement medical benefits amounts to R58.6 million (2015: R53.9 million). Provision has been made for the full unfunded liability.

The principal actuarial assumptions at the last valuation date (31 August 2015) are:

(i) a discount rate of 8.5% per annum;

(ii) general increases to medical aid contributions of 7.2%;

(iii) a retirement age of 65;

(iv) husbands are on average four years older than their spouses;

(v) mortality of pensioners determined in accordance with PA90 ultimate tables; and

(vi) mortality of in-service members determined in accordance with SA 85-90 ultimate table, with females rated down three years.

The post-retirement medical aid provision is sensitive to assumptions around medical aid inflation, discount rate, retirement age and life expectancy. A change in any of these factors would have a significant impact on the amount to be provided (expense/(credit) to other comprehensive income):

| | 2016 R'000 | 2015 R'000 |
|---|---|---|
| – Medical aid inflation increases by 1% per annum over assumptions made | **7 400** | 10 458 |
| – Medical aid inflation decreases by 1% per annum over assumptions made | **(5 102)** | (8 361) |
| – Discount rate increases by 1% per annum over assumptions made | **(5 593)** | (8 114) |
| – Discount rate decreases by 1% per annum over assumptions made | **6 728** | 10 300 |
| – Retirement age decreases by two years | **6 875** | 6 400 |
| – Life expectancy of male pensioners increases by one year | **972** | 872 |
| – Life expectancy of male pensioners decreases by one year | **(995)** | (894) |
| – Life expectancy of female pensioners increases by one year | **1 333** | 1 215 |
| – Life expectancy of female pensioners decreases by one year | **(1 350)** | (1 198) |
| The following undiscounted payments are expected contributions in future years from post-retirement medical obligations. | | |
| Within 12 months | **1 458** | 1 377 |
| Between 2 and 5 years | **7 679** | 6 929 |
| Between 5 and 10 years | **16 311** | 14 508 |
| Between 10 and 20 years | **90 500** | 79 716 |
| Between 20 and 30 years | **183 088** | 171 342 |
| Between 30 and 40 years | **188 023** | 185 078 |
| Beyond 40 years | **134 813** | 143 714 |
| **Total expected payments** | **621 872** | 602 664 |

The average duration of the post-retirement medical obligations at year-end is 21.9 years (2015: 21.9 years).

## 23 Employee benefits (continued)

### 23.3 Post-retirement medical obligations (continued)

Amounts for the current and previous four periods are as follows:

| | Post-retirement medical obligations | | | | |
|---|---|---|---|---|---|
| | 2016 R'000 | 2015 R'000 | 2014 R'000 | 2013 R'000 | 2012 R'000 |
| Defined benefit obligation | **58 644** | 53 903 | 49 380 | 45 306 | 42 763 |
| Experience adjustments on plan liabilities | **–** | (1 063) | – | (1 221) | – |

| **Short-term employee benefits** | Long-term incentive scheme – HEPS (note 23.2) R'000 | Leave pay accrual (note 23.4) R'000 | Bonus accrual (note 23.5) R'000 | Overtime accrual (note 23.6) R'000 | Total R'000 |
|---|---|---|---|---|---|
| **Balance at 1 September 2014** | 37 074 | 54 092 | 97 333 | 1 995 | 190 494 |
| Reclassification from long-term employee benefits | 51 527 | – | – | – | 51 527 |
| Benefit payments | (39 796) | (10 843) | (115 074) | (1 418) | (167 131) |
| Charge included in profit or loss | – | 13 423 | 124 738 | 1 892 | 140 053 |
| **Balance at 31 August 2015** | **48 805** | **56 672** | **106 997** | **2 469** | **214 943** |
| Reclassification from long-term employee benefits | **68 929** | **–** | **–** | **–** | **68 929** |
| Benefit payments | **(48 798)** | **(12 451)** | **(135 509)** | **(7 243)** | **(204 001)** |
| Charge included in profit or loss | **–** | **17 107** | **137 245** | **7 763** | **162 115** |
| **Balance at 31 August 2016** | **68 936** | **61 328** | **108 733** | **2 989** | **241 986** |

23.4 The leave pay accrual is based on actual leave days per employee multiplied by the employee's current total daily cost to company.

23.5 The bonus accrual includes a guaranteed thirteenth cheque and an incentive bonus based on the business or group's performance. The bonus is provided for all employees who qualify in respect of the expected cash payment.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 August

## 23 Employee benefits (continued)

23.6 The overtime accrual is in respect of overtime worked in August 2016 which is paid in September 2016.

**Pension and provident funds**

Three funds, which are registered and governed in terms of the Pension Funds Act, 24 of 1956, are operated by the group. These funds are:

- the Clicks Group Retirement Fund;
- the Clicks Group Negotiated Pension Fund; and
- the Clicks Group Negotiated Provident Fund.

All permanent full-time staff members in South Africa, Lesotho and Swaziland are obliged to join one of the funds. Employees in Namibia are members of the Namflex Umbrella Pension Fund and those in Botswana are members of the Sentlhaga Pension Fund.

The funds are all defined contribution schemes and the group carries no liability in relation to these funds. All funds provide death and disability cover, while the negotiated funds also include a funeral benefit. Combined membership across the funds was 13 705 (2015: 8 556) at year-end.

**Medical aid funds**

Membership of one of the Horizon Medical Aid Scheme benefit options is actively encouraged and all existing members of Discovery Health may continue their membership.

At year-end 2 227 South African employees were principal members of a medical aid scheme, of which 1 552 were principal members with Horizon, 573 were principal members of a Discovery Health medical aid scheme, and 102 were principal members of various other medical aid schemes.

At year-end five Botswana employees were principal members with BOMaid and one with PULA, 16 Namibian employees were principal members of Namibia Health Plan and 16 Swaziland employees were principal members of Swazimed.

At year-end 26.2% (2015: 23.1%) of the permanent full-time employees were members of a medical aid scheme. Increasing the health benefits available to employees will be a focus area for the group in the years ahead.

Employee and company contributions to the above funds are included in employment costs detailed in note 4.

| | Group 2016 R'000 | Group 2015 R'000 |
|---|---|---|
| **24 Lease commitments** | | |
| **Operating lease liability** | **190 409** | 180 468 |
| Operating leases with fixed escalations are charged to the statement of comprehensive income on a straight-line basis. | | |
| The associated liability will reverse during the latter part of each lease term when the actual cash flow exceeds the profit or loss charge. | | |
| **Operating lease commitments** The group leases all its retail premises and certain of its pharmaceutical distribution centre sites under operating leases. The lease agreements provide for minimum payments together, in certain instances, with contingent rental payments determined on the basis of achieving a specified turnover threshold. | | |
| Future minimum lease payments under non-cancellable operating leases due: | | |
| – Not later than one year | **650 493** | 590 809 |
| – Later than one year, not later than five years | **3 223 857** | 2 816 413 |
| – Later than five years | **781 238** | 360 916 |
| | **4 655 588** | 3 768 138 |
| Future minimum lease payments receivable under non-cancellable operating leases due, which relate to Intercare Management Healthcare Proprietary Limited: | | |
| – Not later than one year | **4 126** | 13 303 |
| – Later than one year, not later than five years | **8 962** | 20 086 |
| | **13 088** | 33 389 |
| The net future minimum lease payments under non-cancellable operating leases due: | | |
| – Not later than one year | **646 367** | 577 506 |
| – Later than one year, not later than five years | **3 214 895** | 2 796 327 |
| – Later than five years | **781 238** | 360 916 |
| | **4 642 500** | 3 734 749 |

Generally, leases are taken out on five or ten-year lease terms with an option to extend for a further five years in the instance of Clicks, while shorter periods are committed to for Musica, The Body Shop, GNC and Claire's.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 August

| | | Group | |
|---|---|---|---|
| | | **2016 R'000** | 2015 R'000 |
| **25** | **Trade and other payables** | | |
| | The following are included in trade and other payables: | | |
| | Trade payables | **4 212 129** | 4 144 170 |
| | Other loyalty programme deferred income (see note 25.1) | **81 765** | 108 594 |
| | Non-trade payables and accruals (see note 25.2) | **854 517** | 645 350 |
| | | **5 148 411** | 4 898 114 |

**25.1 Other loyalty programme deferred income**

The deferred income relating to points is determined based on the value of unredeemed vouchers in issue, as well as the value of points on qualifying sales that have not been converted into vouchers.

Based on the historic redemption rate, it is assumed that 76% of all vouchers in issue are ultimately redeemed.

Estimates are made based on historic trends regarding the value of points on qualifying sales that will ultimately convert into vouchers issued.

25.2 Non-trade payables and accruals consist of expense and payroll accruals, value-added tax and unredeemed gift cards.

| | | | |
|---|---|---|---|
| **26** | **Provisions** | | |
| | **Provision for onerous contracts** | | |
| | Balance at the beginning of the year | **5 745** | 9 882 |
| | Movement in provision during the year recognised in occupancy costs | **1 194** | (4 137) |
| | **Balance at the end of the year** | **6 939** | 5 745 |
| | Current | **6 939** | 5 745 |
| | Non-current | **–** | – |
| | | **6 939** | 5 745 |

Onerous contracts are identified where the present value of future obligations in terms of the contracts in question exceeds the estimated benefits accruing to the group from the contracts. The provision relates to certain leases where the site is either vacant or the commercial activity on the site is incurring losses.

Future cash flows are determined in accordance with the contractual lease obligations and are adjusted by market-related sub-let rentals and discounted at the group's risk adjusted pre-tax weighted average cost of capital rate.

The provision is further reduced to the extent that a straight-line operating lease accrual has already been recognised (see note 24).

| | | | |
|---|---|---|---|
| **27** | **Financial liability at fair value through profit or loss** | | |
| | Contingent consideration arising from investment in associate | **2 331** | – |
| | **Total financial liabilities at fair value through profit or loss** | **2 331** | – |

The group acquired a 25% interest in Sorbet Brands Proprietary Limited in the current year for a purchase price of R15.0 million on signing of the contract and two contingent payments of R2.5 million each, payable on 31 August 2016 and 31 August 2017 respectively, on achievement of certain milestones.

The final contingent payment has been discounted to present value using the group's borrowing rate at year-end and is within level 3 of the fair value hierarchy.

| | Group | |
|---|---|---|
| | 2016 R'000 | 2015 R'000 |
| **28 Dividends to shareholders** | | |
| Previous year final cash dividend out of distributable reserves – 169.5 cents per share paid 25 January 2016 (2015: 136.5 cents per share paid 26 January 2015 out of distributable reserves) | **417 204** | 335 978 |
| Current year interim cash dividend out of distributable reserves – 76 cents per share paid 4 July 2016 (2015: 65.5 cents per share paid 6 July 2015 out of distributable reserves) | **187 064** | 161 220 |
| "A" shares – Previous year final cash dividend out of distributable reserves – 23.5 cents per share paid 25 January 2016 (2015: 19 cents per share paid 30 January 2015) | **6 851** | 5 539 |
| Total dividends to shareholders | **611 119** | 502 737 |
| Dividends on treasury shares | **(24 780)** | (11 358) |
| Dividends on "A" shares held in trust | **(582)** | (621) |
| **Dividends paid outside the group** | **585 757** | 490 758 |

On 27 October 2016 the directors approved the final proposed dividend of 196 cents per share and 27.2 cents per "A" share.

The source of such a dividend will be from distributable reserves and paid in cash and will be recognised in the statement of changes in equity in 2017.

**Dividend policy**
The dividend cover is 1.7 (2015: 1.7) times.

For further details refer to the directors' report on page 2.

## 29 Financial risk management

The group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk, interest rate risk), credit risk and liquidity risk.

This note presents information about the group's exposure to each of the above risks, the group's objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The group uses derivative financial instruments to hedge certain risk exposures.

The group treasury functions within the parameters of the treasury policy and reports to a sub-committee of management.

**Market risk**
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the group's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The group buys derivatives to hedge economic exposures in the ordinary course of business to manage certain market risks.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 August

## 29 Financial risk management (continued)

***Currency risk***

The group is exposed to foreign exchange risk through its imports of merchandise.

The currencies in which these transactions are primarily denominated are USD, EUR, GBP and CNY.

The group's treasury risk management policy is to take out forward exchange contracts, to cover both committed and anticipated exposures.

The impact of a 10% strengthening or weakening of the currency against the USD, EUR, GBP and CNY with all other variables held constant is disclosed in note 30.2. The effect of this movement is based on the outstanding forward foreign exchange contracts held by the group at year-end.

***Interest rate risk***

As the group has no significant interest-bearing assets, the group's income and operating cash flows are substantially independent of changes in market interest rates.

The group's interest rate risk arises from long-term and short-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk. During 2015 and 2016 the group's borrowings at variable rates were denominated in Rands.

There were no material interest rate sensitivities at year-end.

***Price risk***

The group's exposure to other price risk relates to fluctuations in the share price of the company as a result of the options that have been granted to employees in terms of the long-term incentive scheme (refer to note 23.1). The group uses derivative financial instruments in the form of options to hedge exposure in respect of fluctuations in the share scheme obligation arising from movements in the company's share price. Sufficient options were purchased in order to settle the total expected future obligation. As a result of the hedging relationship, movements in the company share price will not have a material impact on either profit or loss or equity of the group.

**Credit risk**

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the group's receivables. Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to Distribution and Retail customers, including outstanding receivables and committed transactions.

***Trade and other receivables***

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. In relation to the Retail business, trade receivables primarily relate to recoverables from vendors with which the group has a trading relationship and medical aids with respect to pharmacy recoverables, while in Distribution, customers (excluding intercompany) are primarily hospitals and independent pharmacists.

In relation to the Distribution business, the risk management has been delegated to the management of the subsidiary business.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers.

Credit Guarantee Insurance Corporation of Africa Limited is utilised to cover the majority of wholesale customers with a credit balance over a predetermined amount.

Goods are sold subject to retention of title clauses in Distribution so that in the event of non-payment the group may have a secured claim.

The group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

The main components of this allowance are specific loss components that relate to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

The collective loss allowance is determined based on historical data of payment statistics of similar financial assets.

## 29 Financial risk management (continued)

**Liquidity risk**

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due.

The group's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the group's reputation. Due to the dynamic nature of the underlying businesses, group treasury maintains flexibility in funding by holding availability through credit lines. At year-end the group's total uncommitted facilities available was R2 025 million (2015: R1 967 million) of which the full balance remained undrawn (2015: nil drawn down).

See note 30.5 for details of maturity analysis of the group's financial liabilities.

**Capital risk management**

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 the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The group's target of maintaining a ratio of shareholders' interest to total assets is in the range of 25% to 30%. This is obtained through achieving the group's earnings targets, management of working capital, share buy-backs and dividends.

In 2016 the shareholders' interest to total assets was 29.3% (2015: 26.6%).

## 30 Financial instruments

**Market risk**

**30.1 Treasury risk management**

The treasury committee meets on a regular basis to analyse currency and interest rate exposures and re-evaluate treasury management strategies.

**30.2 Foreign exchange risk management**

The group is exposed to foreign currency risk as it imports merchandise. This risk is mitigated by entering into forward exchange contracts. These contracts are matched with anticipated future cash flows in foreign currencies.

The group does not use forward exchange contracts for speculative purposes.

The group has measured these instruments at fair value (see note 16).

| | 31 August 2016 | | | | 31 August 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| **Exposure to currency risk – foreign exchange contracts** | **USD '000** | **GBP '000** | **EUR '000** | **CNY '000** | USD '000 | GBP '000 | EUR '000 | CNY '000 |
| Forecast purchases and payables due at the end of the year | **18 498** | **3 251** | **2 263** | **103 377** | 16 026 | 1 196 | 1 604 | 44 155 |
| Forward exchange contracts subject to cash flow hedging | **17 546** | **1 845** | **1 978** | **62 803** | 14 283 | 200 | – | 37 321 |
| Net exposure | **952** | **1 406** | **285** | **40 574** | 1 743 | 996 | 1 604 | 6 834 |

The following exchange rates applied during the year:

| | Average rate | | Reporting date mid-spot rate | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| USD | **14.74** | 11.79 | **14.49** | 13.31 |
| GBP | **21.48** | 18.49 | **19.06** | 20.71 |
| EUR | **16.56** | 13.86 | **16.30** | 15.11 |
| CNY | **2.26** | 1.92 | **2.18** | 2.09 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 August

## 30 Financial instruments (continued)

### 30.2 Foreign exchange risk management (continued)

**Foreign exchange rate sensitivity analysis**

The following table details the group's sensitivity to a 10% strengthening in the South African Rand against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to management personnel and represents management's assessment of a reasonable possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and their adjusted translation for a 10% change in foreign currency rates.

| | USD impact | | GBP impact | | EUR impact | | CNY impact | |
|---|---|---|---|---|---|---|---|---|
| | 2016 R'000 | 2015 R'000 | 2016 R'000 | 2015 R'000 | 2016 R'000 | 2015 R'000 | 2016 R'000 | 2015 R'000 |
| Decrease in pre-tax other comprehensive income | **(27 456)** | (17 496) | **(4 069)** | (394) | **(3 322)** | – | **(14 464)** | (7 365) |
| Increase in profit before tax | **1 384** | 2 342 | **2 680** | 2 062 | **464** | 2 424 | **8 845** | 1 429 |

For a 10% weakening of the South African Rand against the relevant currency, there would be an equal but opposite increase in pre-tax other comprehensive income and decrease in profit before tax.

### 30.3 Fair values of financial instruments

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| | | 31 August 2016 | | 31 August 2015 | |
|---|---|---|---|---|---|
| | | Carrying value R'000 | Fair value R'000 | Carrying value R'000 | Fair value R'000 |
| **Financial assets** | | | | | |
| Trade receivables (see note 18) | Loans and receivables | **1 618 962** | **1 618 962** | 1 461 176 | 1 461 176 |
| Logistics fees receivable (see note 18) | Loans and receivables | **118 725** | **118 725** | 134 177 | 134 177 |
| Other receivable (see note 18) | Loans and receivables | **22 976** | **22 976** | 89 409 | 89 409 |
| Loans receivable (see note 14) | Loans and receivables | **17 997** | **17 997** | 13 003 | 13 003 |
| Financial assets at fair value through profit or loss (see note 15) | Assets at fair value | **16 145** | **16 145** | 16 668 | 16 668 |
| Cash and cash equivalents | Loans and receivables | **369 800** | **369 800** | 400 738 | 400 738 |
| Equity derivative contracts used for cash flow hedging (see note 16) | Assets at fair value | **231 242** | **231 242** | 81 662 | 81 662 |
| Forward exchange contracts used for cash flow hedging (see note 16) | Assets at fair value | **–** | **–** | 24 507 | 24 507 |
| **Financial liabilities** | | | | | |
| Forward exchange contracts used for cash flow hedging (see note 16) | Financial liabilities measured at fair value | **26 971** | **26 971** | – | – |
| Financial liability at fair value through profit or loss (see note 27) | Financial liabilities measured at fair value | **2 331** | **2 331** | – | – |
| Trade and other payables (see note 25) | Financial liabilities measured at amortised cost | **4 968 333** | **4 968 333** | 4 733 826 | 4 733 826 |

## 30 Financial instruments (continued)

### 30.3 Fair values of financial instruments (continued)

**Basis for determining fair values**

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

**Derivatives**

Fair values of currency, interest rate and equity derivatives are calculated using standard market calculation conventions with reference to the relevant closing market spot rates, forward foreign exchange, interest rates and share price.

**Non-derivative financial assets and liabilities**

Fair value 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 except for the insurance cell captive where fair value is determined based on the net asset value at the reporting date.

**Interest rates used in determining fair value**

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate constant credit spread, and were as follows:

| | 2016 % | 2015 % |
|---|---|---|
| Borrowings | **10.50** | 9.50 |
| Leases | **n/a** | n/a |

The table below provides the valuation method of financial instruments carried at fair value. The different levels have been defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 August

## 30 Financial instruments (continued)

### 30.3 Fair values of financial instruments (continued)

**Financial assets and financial liabilities measured at fair value**

| Group | Level 2 R'000 | Level 3 R'000 | Total R'000 |
|---|---|---|---|
| **2016** | | | |
| **Financial assets** | | | |
| Financial assets at fair value through profit or loss (see note 15) | **16 145** | **–** | **16 145** |
| Equity derivative contracts used for cash flow hedging (see note 16) | **231 242** | **–** | **231 242** |
| **Total** | **247 387** | **–** | **247 387** |
| **Financial liabilities** | | | |
| Forward exchange contracts used for cash flow hedging (see note 16) | **26 971** | **–** | **26 971** |
| Financial liability at fair value through profit or loss (see note 27) | **–** | **2 331** | **2 331** |
| **Total** | **26 971** | **2 331** | **29 302** |
| **2015** | | | |
| **Financial assets** | | | |
| Financial assets at fair value through profit or loss (see note 15) | 16 668 | – | 16 668 |
| Equity derivative contracts used for cash flow hedging (see note 16) | 81 662 | – | 81 662 |
| Forward exchange contracts used for cash flow hedging (see note 16) | 24 507 | – | 24 507 |
| **Total** | 122 837 | – | 122 837 |

There have been no transfers between level 1, 2 and 3 during the period.

### 30.4 Credit risk management

Credit risk refers to the risk that a counterparty may default on its contractual obligation resulting in financial loss to the group. The group is exposed to credit risk arising from cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to Distribution and Retail customers, including outstanding receivables and committed transactions. Management has a formal credit policy in place as a means of mitigating the risk of financial loss to the group.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | Carrying amount | |
|---|---|---|
| | 2016 R'000 | 2015 R'000 |
| Derivative financial assets (see note 16) | **231 242** | 106 169 |
| Trade receivables (see note 18) | **1 618 962** | 1 461 176 |
| Logistics fees receivable (see note 18) | **118 725** | 134 177 |
| Other receivable (see note 18) | **22 976** | 89 409 |
| Cash and cash equivalents | **369 800** | 400 738 |
| Loans receivable (see note 14) | **17 997** | 13 003 |
| | **2 379 702** | 2 204 672 |

## 30 Financial instruments (continued)

### 30.4 Credit risk management (continued)

**Trade receivables**

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers who purchase from the group.

Trade receivables can be categorised into Distribution customers and Retail customers.

The maximum exposure to credit risk, after impairment, for trade receivables at the reporting date by type of customer was:

| | Carrying amount | |
|---|---|---|
| | **2016 R'000** | 2015 R'000 |
| Retail customers | **80 622** | 78 626 |
| Distribution customers | **1 538 340** | 1 382 550 |
| | **1 618 962** | 1 461 176 |

**Retail customers**

The ageing of trade receivables at the reporting date was:

| | **2016** | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Gross R'000** | **Impairment R'000** | **Net R'000** | Gross R'000 | Impairment R'000 | Net R'000 |
| Not past due | **84 922** | **(4 300)** | **80 622** | 84 396 | (5 770) | 78 626 |
| Past due 0 – 30 days | **–** | **–** | **–** | 13 | (13) | – |
| Past due more than 31 days | **–** | **–** | **–** | 117 | (117) | – |
| **Total** | **84 922** | **(4 300)** | **80 622** | 84 526 | (5 900) | 78 626 |

Retail trade receivables mainly relate to receivables from medical aids with respect to pharmacy debtors.

Trade debtors are classified as past due when they have passed their payment date by one day.

**Distribution customers**

The ageing of trade receivables at the reporting date was:

| | **2016** | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Gross R'000** | **Impairment R'000** | **Net R'000** | Gross R'000 | Impairment R'000 | Net R'000 |
| Not past due | **1 276 046** | **(65)** | **1 275 981** | 1 055 980 | – | 1 055 980 |
| Past due 0 – 30 days | **185 993** | **(700)** | **185 293** | 295 452 | – | 295 452 |
| Past due more than 31 days | **96 082** | **(19 016)** | **77 066** | 53 896 | (22 778) | 31 118 |
| **Total** | **1 558 121** | **(19 781)** | **1 538 340** | 1 405 328 | (22 778) | 1 382 550 |

Trade debtors are classified as past due when they have passed their payment date by one day.

Distribution customers are primarily hospitals and independent pharmacists.

The Distribution business minimises its exposure to credit risk by insuring debtors with balances greater than a predetermined amount.

There is an excess (which varies between hospitals and independent pharmacists) that is carried by the Distribution business with the balance being covered by Credit Guarantee Insurance Corporation of Africa Limited.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 August

## 30 Financial instruments (continued)

### 30.4 Credit risk management (continued)

The split between insured and uninsured debtors is as follows:

| | Gross amount | |
|---|---|---|
| | **2016 R'000** | 2015 R'000 |
| Insured | **1 548 178** | 1 385 002 |
| Uninsured | **9 943** | 20 326 |
| | **1 558 121** | 1 405 328 |

Uninsured debtors consist mainly of a concentration of debtors with a monthly turnover of less than R40 000 and low-risk debtors such as government debtors.

The exposure to credit risk in respect of these debtors is managed through credit evaluations.

**Impairment loss**
The impairment is determined based on information regarding the financial position of each trade receivable at year-end.

The group's trade receivables are stated net of impairment losses. An analysis of impairment losses are as follows:

| | Retail | | Distribution | |
|---|---|---|---|---|
| | **2016 R'000** | 2015 R'000 | **2016 R'000** | 2015 R'000 |
| Balance at the beginning of the year | **(5 900)** | (4 500) | **(22 778)** | (23 613) |
| Additional allowances made | **–** | (7 170) | **86** | (4 919) |
| Trade receivables written off during the year as uncollectible | **1 600** | 5 770 | **2 911** | 5 754 |
| **Balance at the end of the year** | **(4 300)** | (5 900) | **(19 781)** | (22 778) |

The creation of impairment losses have been included in "other costs" in profit or loss.

Amounts charged to the allowance account are generally written off to profit or loss when there is no expectation of recovery.

**Cash and cash equivalents**
The group's banking facilities are with reputable institutions, all of which have a strong credit rating.

**Other loans**
Other loans are reviewed at least on an annual basis to assess their recoverability. None of the loans are considered to be impaired at the end of the financial year.

### 30.5 Liquidity risk management

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the group's reputation.

## 30 Financial instruments (continued)

### 30.5 Liquidity risk management (continued)

**Liquidity and interest risk tables**

The following tables detail the group's remaining contractual maturity for its financial liabilities, including interest payments and excluding the impact of netting agreements:

| | Carrying amount R'000 | Contractual cash flows R'000 | One year or less R'000 |
|---|---|---|---|
| **2016** | | | |
| **Liabilities** | | | |
| Derivative financial liabilities (see note 16) | **26 971** | **26 971** | **26 971** |
| Financial liability at fair value through profit or loss (see note 27) | **2 331** | **2 500** | **2 500** |
| Trade and other payables (see note 25) | **4 968 333** | **4 968 333** | **4 968 333** |
| | **4 997 635** | **4 997 804** | **4 997 804** |
| **2015** | | | |
| **Liabilities** | | | |
| Trade and other payables (see note 25) | 4 733 826 | 4 733 826 | 4 733 826 |
| | 4 733 826 | 4 733 826 | 4 733 826 |

## 31 Capital commitments

| | Group | |
|---|---|---|
| | 2016 R'000 | 2015 R'000 |
| Capital expenditure approved by the directors | | |
| Contracted | **25 866** | 20 713 |
| Not contracted | **551 534** | 411 587 |
| | **577 400** | 432 300 |

The capital expenditure will be financed from borrowings and internally generated funds.

## 32 Financial guarantees

Group companies provide surety for other group companies to the value of R2 025 million (2015: R1 967 million) with respect to facilities held with various banks. At year-end these facilities had no drawings by group companies (2015: nil). The fair values of the financial guarantees are considered negligible.

## 33 Related party transactions

### 33.1 Group

Clicks Group Limited is the ultimate holding company of the group.

**Transactions between group subsidiaries**

During the year, in the ordinary course of business, certain companies within the group entered into transactions with one another. These intragroup transactions have been eliminated on consolidation. For a list of the group's subsidiaries, see page 67.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 August

## 33 Related party transactions (continued)

### 33.1 Group (continued)

**Directors and key management**

Related party transactions include:

(i) dividends paid and received from subsidiary companies and associates;

(ii) interest received from or paid to subsidiary companies; and

(iii) loans to or from subsidiary companies.

Certain non-executive directors are also non-executive directors of other public companies which transact with the group. The relevant directors do not believe that they have control, joint control or significant influence over the financial or operating policies of those companies.

Executive directors' employment contracts do not provide for a defined period of employment, but specify a notice period for the chief executive officer of 12 months and six months for the other executive directors. During this notice period all standard benefits accrue to the directors in question. Contracts do not provide for predetermined compensation on termination other than that accorded to employees in terms of the group's remuneration policies.

Employee benefits paid to directors and key management personnel are detailed in note 4.

**Shares held by directors and their related entities**

The audited percentage of shares held by directors of the company at year-end is disclosed on page 69.

| | Group | |
|---|---|---|
| | **2016 R'000** | 2015 R'000 |
| Transactions with Sorbet Brands Proprietary Limited | | |
| Dividends received | **1 638** | – |
| Royalties paid | **3 117** | – |
| **Other related parties** | | |
| The group has identified The New Clicks Foundation Trust and The Clicks Helping Hand Trust as related parties because of the group's involvement in the charitable and developmental activities of the trusts. The group has not consolidated these entities as it is not exposed to variable returns from them and any non-financial benefit is considered to be insignificant. The total net assets and net income for the two entities are R20.5 million (2015: R16.2 million) and R4.8 million (2015: R2.1 million) respectively. Donations to these entities during the year from subsidiary companies were: | | |
| The Clicks Helping Hand Trust | **8 097** | 5 729 |
| The New Clicks Foundation Trust | **–** | – |

No financial benefits were derived by the group from these relationships. See note 14 for further information relating to the loan balances owing by the charitable trusts.

**Contributions to pension and provident fund**

Contributions paid to pension and provident funds are included in note 4 and additional information in note 23.

| | Company | |
|---|---|---|
| | 2016 R'000 | 2015 R'000 |
| **33 Related party transactions (continued)** | | |
| **33.2 Company** | | |
| The company has the following related party transactions: | | |
| **33.2.1 Dividends received** | | |
| New Clicks South Africa Proprietary Limited | **624 055** | 400 000 |
| Total dividends received from related parties | **624 055** | 400 000 |
| **33.2.2 Dividends paid** | | |
| New Clicks South Africa Proprietary Limited | **24 366** | 11 017 |
| Clicks Group Employee Share Ownership Trust | **6 851** | 5 539 |
| New Clicks Holdings Share Trust | **414** | 341 |
| Total dividends paid to related parties | **31 631** | 16 897 |
| **33.2.3 Loans to/(by) subsidiary companies** | | |
| New Clicks South Africa Proprietary Limited | **(216 903)** | (228 589) |
| Clicks Group Employee Share Ownership Trust | **291** | 291 |
| Clicks Centurion Proprietary Limited | **9 000** | 9 000 |
| | **(207 612)** | (219 298) |

A schedule of the loans and investments in related parties is included on page 67.

Details regarding dividends relating to treasury shares are included in note 28.

## 34 Borrowing powers

In terms of the memorandum of incorporation the borrowing powers of the company are unlimited.

## 35 Operating segments

The group has identified two reportable segments, as described below.

For each of the operating brands the group's chief decision-makers review internal management reports on a monthly basis. The following describes the operations in each of the group's reportable segments:

**Retail**

Retail comprises Clicks, a specialist health, beauty and homeware retailer; Claire's, a speciality retailer of fashionable jewellery and accessories at affordable prices; GNC, a speciality retailer of health and wellness products; Musica, a retailer of entertainment-related merchandise; and The Body Shop, which specialises in naturally inspired luxury toiletries, cosmetics, gifting and grooming, with stores in the Republic of South Africa, Namibia, Swaziland, Botswana and Lesotho.

**Distribution**

UPD is a national full-range pharmaceutical wholesaler and also provides distribution capability for the Clicks Group. UPD operates within the Republic of South Africa and in Botswana.

The information regarding the results of each reportable segment is included on page 13. Performance is measured based on segment operating profit, as included in the internal management reports that are reviewed by the group's chief operating decision-makers. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment transactions are on an arm's length basis.

**Major customers**

There are no external customers that account for more than 10% of the group's revenue.

# COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 August

| | Notes | 2016 R'000 | 2015 R'000 |
|---|---|---|---|
| Loss on sale of fixed assets | | **–** | (68) |
| Dividend income – subsidiary | | **624 055** | 400 000 |
| Bank charges | | **(4)** | (7) |
| Operating costs | | **(975)** | (797) |
| **Profit before financing cost** | | **623 076** | 399 128 |
| Financial income | | **83** | 635 |
| **Profit before taxation** | | **623 159** | 399 763 |
| Income tax expense | 7 | **(1 136)** | (176) |
| **Profit for the year** | | **622 023** | 399 587 |
| Other comprehensive income for the year, net of tax | | **–** | – |
| **Total comprehensive income for the year** | | **622 023** | 399 587 |

# COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 August

| | Notes | 2016 R'000 | 2015 R'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Interest in subsidiary companies (see page 67) | | **307 477** | 230 258 |
| **Current assets** | | **122** | 312 |
| Cash and cash equivalents | | **122** | 312 |
| **Total assets** | | **307 599** | 230 570 |
| **Equity** | | **298 891** | 222 454 |
| Share capital | 19 | **2 754** | 2 754 |
| Share premium | 19 | **14 089** | 14 089 |
| Share option reserve | 20 | **218 050** | 152 517 |
| Distributable reserve | | **63 998** | 53 094 |
| **Current liabilities** | | **8 708** | 8 116 |
| Trade and other payables | | **2 115** | 2 257 |
| Income tax payable | | **6 593** | 5 859 |
| **Total equity and liabilities** | | **307 599** | 230 570 |

# COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August

| | Number of shares (Note 19) '000 | Share capital (Note 19) R'000 | Share premium (Note 19) R'000 | Share option reserve (Note 20 R'000) | Distributable reserve R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 September 2014** | 275 291 | 2 754 | 14 089 | 100 433 | 156 244 | 273 520 |
| Equity-settled capital contribution to subsidiary | – | – | – | 52 084 | – | 52 084 |
| Total comprehensive income for the year | – | – | – | – | 399 587 | 399 587 |
| Dividends to shareholders (see note 28) | – | – | – | – | (502 737) | (502 737) |
| **Balance at 31 August 2015** | **275 291** | **2 754** | **14 089** | **152 517** | **53 094** | **222 454** |
| Equity-settled capital contribution to subsidiary | **–** | **–** | **–** | **65 533** | **–** | **65 533** |
| Total comprehensive income for the year | **–** | **–** | **–** | **–** | **622 023** | **622 023** |
| Dividends to shareholders (see note 28) | **–** | **–** | **–** | **–** | **(611 119)** | **(611 119)** |
| **Balance at 31 August 2016** | **275 291** | **2 754** | **14 089** | **218 050** | **63 998** | **298 891** |

# COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 August

| | 2016 R'000 | 2015 R'000 |
|---|---|---|
| **Cash effects of operating activities** | | |
| Loss before working capital changes | **(979)** | (804) |
| Dividends received | **624 055** | 400 000 |
| Financial income | **83** | 635 |
| Working capital changes | **(142)** | (5 345) |
| Cash generated by operations | **623 017** | 394 486 |
| Taxation paid | **(402)** | (81) |
| Cash inflow from operating activities before dividends paid | **622 615** | 394 405 |
| Dividends paid to shareholders | **(611 119)** | (502 737) |
| Net cash effects of operating activities | **11 496** | (108 332) |
| **Cash effects of investing activities** | | |
| Costs from disposal of fixed assets | **–** | (68) |
| (Decrease)/increase in subsidiary loans payable | **(11 686)** | 97 918 |
| Net cash effects of investing activities | **(11 686)** | 97 850 |
| Net movement in cash and cash equivalents | **(190)** | (10 482) |
| Cash and cash equivalents at the beginning of the year | **312** | 10 794 |
| **Cash and cash equivalents at the end of the year** | **122** | 312 |

# NOTES TO THE COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 August

| | 2016 R'000 | 2015 R'000 |
|---|---|---|
| **Loss before working capital changes** | | |
| Profit before taxation | **623 159** | 399 763 |
| Adjustment for: | | |
| Dividend received | **(624 055)** | (400 000) |
| Loss on disposal of fixed assets | **–** | 68 |
| Financial income | **(83)** | (635) |
| | **(979)** | (804) |
| **Working capital changes** | | |
| Decrease in trade and other payables | **(142)** | (5 345) |
| | **(142)** | (5 345) |
| **Taxation paid** | | |
| Income tax payable at the beginning of the year | **5 859** | 5 764 |
| Current tax charge | **1 136** | 176 |
| Income tax payable at the end of the year | **(6 593)** | (5 859) |
| | **402** | 81 |

# INTEREST IN SUBSIDIARY COMPANIES

at 31 August

| Name of company/entity and nature of business | Country of incorporation | Ordinary issued share capital/ trust capital | Shares at cost less amounts written off 2016 R'000 | Shares at cost less amounts written off 2015 R'000 | Amount owing (to)/ by subsidiaries 2016 R'000 | Amount owing (to)/ by subsidiaries 2015 R'000 |
|---|---|---|---|---|---|---|
| **Directly held** | | | | | | |
| (i) Trading | | | | | | |
| New Clicks South Africa Proprietary Limited | South Africa | R500 | **272 439** | 272 439 | **(216 903)** | (228 589) |
| (ii) Clicks Group Employee Share Ownership Trust | South Africa | R1 000 | **–** | – | **291** | 291 |
| (iii) Property owning | | | | | | |
| Clicks Centurion Proprietary Limited | South Africa | R10 | ***** | * | **9 000** | 9 000 |
| **Indirectly held** | | | | | | |
| (i) Trading | | | | | | |
| Safeway (Swaziland) Proprietary Limited | Swaziland | E2 | **–** | – | **–** | – |
| The Clicks Organisation (Botswana) Proprietary Limited | Botswana | BWP3 000 | **–** | – | **–** | – |
| Clicks Group (Namibia) Proprietary Limited | Namibia | N$100 | **–** | – | **–** | – |
| Clicks Stores (Lesotho) Proprietary Limited | Lesotho | M1 000 | **–** | – | **–** | – |
| Unicorn Pharmaceutical Proprietary Limited | South Africa | R10 | **–** | – | **–** | – |
| Clicks Retailers Proprietary Limited | South Africa | R200 | **–** | – | **–** | – |
| Clicks Investments Proprietary Limited | South Africa | R16 685 175 000 | **–** | – | **–** | – |
| BTB Media Proprietary Limited | South Africa | R120 | **–** | – | **–** | – |
| Clicks Mobile Communications Proprietary Limited | South Africa | R2 000 | **–** | – | **–** | – |
| Kala Hari Medical Distributors Proprietary Limited | Botswana | BWP400 | **–** | – | **–** | – |
| (ii) Name protection and dormant | | | | | | |
| Five companies (2015: Five companies) | | | **–** | – | **–** | – |
| | | | **272 439** | 272 439 | **(207 612)** | (219 298) |

| | 2016 R'000 | 2015 R'000 |
|---|---|---|
| Shares at cost less amounts written off | **272 439** | 272 439 |
| Amounts owing to subsidiary companies | **(207 612)** | (219 298) |
| Share-based payments capitalised | **242 650** | 177 117 |
| Interest in subsidiaries | **307 477** | 276 092 |

All subsidiary companies/entities are wholly owned with the exception of The Link Investment Trust ("Link") and Clicks Mobile Communications Proprietary Limited ("Clicks Mobile"). Clicks Group Limited has a 56% interest in Link and a 50.1% interest in Clicks Mobile.

All loans are interest free, unsecured and repayable by agreement.

* Values less than R1 000.

# ANALYSIS OF SHAREHOLDERS

at 31 August

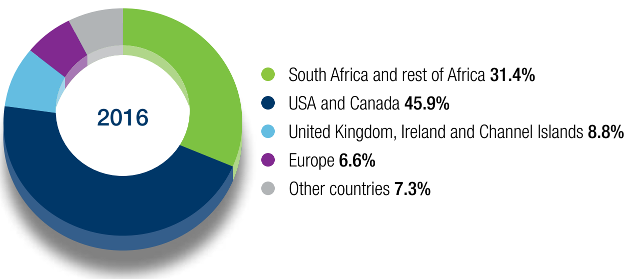
| Public and non-public shareholders | Number of shares | Percentage of shares |
|---|---|---|
| Public shareholders | 236 020 474 | 95.9 |
| Non-public shareholders | | |
| Shares held by directors | 503 394 | 0.2 |
| Treasury stock held by New Clicks South Africa Proprietary Limited | 9 443 445 | 3.8 |
| The New Clicks Holdings Share Trust | 170 450 | 0.1 |
| Total non-public shareholders | 10 117 289 | 4.1 |
| Total shareholders | 246 137 763 | 100.0 |

According to the company's register of shareholders, read in conjunction with the company's register of disclosure of beneficial interests made by registered shareholders acting in a nominee capacity, the following shareholders held 3% or more of the issued share capital at 31 August 2016:

| Major beneficial shareholders holding 3% or more | 2016 Percentage of shares | 2015 Percentage of shares |
|---|---|---|
| Government Employees Pension Fund | 15.6 | 17.8 |
| GIC Private Limited | 4.4 | 3.5 |
| Fidelity International Growth Fund | 3.2 | 4.0 |
| Mawer International Equity Pooled Fund | 3.0 | 2.7 |

| Major fund managers managing 3% or more | 2016 Percentage of shares | 2015 Percentage of shares |
|---|---|---|
| Public Investment Corporation (SA) | 14.5 | 15.2 |
| Baillie Gifford & Co (UK) | 5.3 | 4.4 |
| Fidelity Management & Research (US) | 5.0 | 7.4 |
| Mawer Investment Management (CA) | 4.7 | 3.8 |
| GIC (Singapore) | 4.3 | 3.4 |
| Wasatch Advisors (US) | 3.7 | 2.3 |
| Aberdeen Asset Management (UK) | 3.6 | 3.2 |
| *Fund managers no longer managing over 3%:* | | |
| Coronation Fund Managers (SA) | 1.2 | 6.5 |
| MFS Investment Management (US) | 2.4 | 3.5 |

## GEOGRAPHIC DISTRIBUTION OF SHAREHOLDERS



# ANALYSIS OF SHAREHOLDERS (CONTINUED)

at 31 August

| Classification of registered shareholdings | Number of shares | Percentage of shares |
|---|---|---|
| Custodians | 148 779 822 | 60.4 |
| Retirement funds | 44 481 388 | 18.1 |
| Mutual funds | 29 678 583 | 12.1 |
| Treasury shares | 9 443 445 | 3.8 |
| Insurance companies | 4 821 877 | 2.0 |
| Individuals | 3 874 327 | 1.6 |
| Banks/Brokers | 1 812 250 | 0.7 |
| Trusts | 1 668 520 | 0.7 |
| Endowment funds | 572 175 | 0.2 |
| Other | 1 005 376 | 0.4 |
| | 246 137 763 | 100.0 |

| Distribution of registered shareholdings | Number of holders | Percentage of holders | Number of shares | Percentage of shares |
|---|---|---|---|---|
| 1 – 1 000 | 2 606 | 65.8 | 741 706 | 0.3 |
| 1 001 – 10 000 | 968 | 24.5 | 3 194 252 | 1.3 |
| 10 001 – 100 000 | 242 | 6.1 | 8 217 746 | 3.3 |
| 100 001 – 1 000 000 | 102 | 2.6 | 31 439 694 | 12.8 |
| 1 000 001 shares and over | 40 | 1.0 | 202 544 365 | 82.3 |
| | 3 958 | 100.0 | 246 137 763 | 100.0 |

**Directors' shareholdings**

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| Director | Direct beneficial shares | Indirect beneficial shares | Total | Direct beneficial shares | Indirect beneficial shares | Total |
| David Nurek | – | 100 000 | 100 000 | – | 200 000 | 200 000 |
| John Bester | 12 000 | 10 000 | 22 000 | 12 000 | 10 000 | 22 000 |
| Bertina Engelbrecht | 98 755 | – | 98 755 | 91 701 | – | 91 701 |
| Michael Fleming | 20 837 | – | 20 837 | 24 833 | – | 24 833 |
| David Kneale | 259 802 | – | 259 802 | 309 256 | – | 309 256 |
| Martin Rosen | – | 2 000 | 2 000 | – | 2 000 | 2 000 |
| Total | 391 394 | 112 000 | 503 394 | 437 790 | 212 000 | 649 790 |

The total number of ordinary shares in issue is 246 137 763 (2015: 246 137 763). Percentage of issued share capital held by directors is 0.20% (2015: 0.26%). Details of all dealings in Clicks Group shares by directors during the financial year are contained in the directors' report on page 2.

# SHAREHOLDERS' DIARY

| | |
|---|---|
| **Annual general meeting** | 26 January 2017 |
| **Preliminary results announcements** | |
| Interim results to February 2016 | on or about 21 April 2017 |
| Final results to August 2016 | on or about 26 October 2017 |
| **Publication of 2017 Integrated Annual Report** | November 2017 |
| **Ordinary share dividend** | |
| **2016 final dividend** | |
| Last day to trade with dividend included | 24 January 2017 |
| Date of dividend payment | 30 January 2017 |
| **2017 interim dividend** | |
| Last day to trade with dividend included | July 2017 |
| Date of dividend payment | July 2017 |
| **2017 final dividend** | |
| Last day to trade with dividend included | January 2018 |
| Date of dividend payment | January 2018 |

# CORPORATE INFORMATION

## Clicks Group Limited

Incorporated in the Republic of South Africa
Registration number 1996/000645/06
Income tax number 9061/745/71/8

JSE share code: CLS
ISIN: ZAE000134854
ADR ticker symbol: CLCGY
ADR CUSIP code: 18682W205

## Registered address

Cnr Searle and Pontac Streets
Cape Town 8001
Telephone: +27 (0)21 460 1911

## Postal address

PO Box 5142
Cape Town 8000

## Company secretary

Matthew Welz, LLB
E-mail: matthew.welz@clicksgroup.co.za

## Auditors

Ernst & Young Inc. (EY)

## Principal bankers

The Standard Bank of South Africa

## JSE sponsor

Investec Bank Limited

## Transfer secretaries

Computershare Investor Services Proprietary Limited
Business address: 70 Marshall Street, Johannesburg 2001
Postal address: PO Box 61051, Marshalltown 2107
Telephone: +27 (0)11 370 5000

## Investor relations consultants

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CLICKS GROUP
LIMITED