INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CLICKS GROUP LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated and separate financial statements of Clicks Group Limited and its subsidiaries (the group) and company set out on pages 10 to 73, which comprise the consolidated and separate statements of financial position as at 31 August 2020, and the consolidated and separate statements of profit or loss and other comprehensive income , the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies and the directors' shareholding table on page 75.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group and company as at 31 August 2020, 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated and separate financial statements* section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board of Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements of the group and company and in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits of the group and company and in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the consolidated and separate financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

The key audit matters apply only to the audit of the consolidated financial statements.

Key audit matter

Adoption of IFRS 16 – Leases

The group adopted IFRS 16 – Leases during the financial year ended 31 August 2020 and applied the full retrospective approach on adoption. This resulted in the recognition of right-of-use assets of R2 371 million (2019: R2 046 million) and lease liabilities amounting R2 686 million (2019: R2 342 million) as at 31 August 2020. The right-of-use assets represent approximately 15.5% (2019: 13.6%) of the total assets of the group and the lease liabilities represent approximately 26.6% (2019: 22.8%) of the total liabilities of the group.

The adoption of IFRS 16 was considered to be a matter of most significance to the current year's audit and identified as a key audit matter. This is due to the audit effort expended in assessing the judgements that were required of management in applying the requirements of the standard to a significant volume of contracts, the outcome of which has a material effect on the financial position and performance of the group.

The application of IFRS 16 required management to assess each active contract to which the group is party to identify whether it is, or it contains, a lease. Further, management was also required to make significant judgements in the initial accounting for, and subsequently measurement of, these leases, including:

- determining the duration of the lease, by:
  - establishing the beneficial occupation date of each property by assessing when initial access was granted to each property;
  - establishing the lease term including any renewal options that are reasonably certain to be elected; and
  - the evaluation of subsequent contract modifications;
- determining the incremental borrowing rate to be applied to historic leases.

The Covid-19 pandemic and resultant lockdown had an impact on the lease contracts identified by management, including rent concessions, which the audit team established through discussions with management to determine whether these impacts represent indicators of impairment of the right-of-use assets recognised.

The disclosures required per IFRS 16 – Leases are set out in the audited annual financial statements in note 3 – Occupancy costs, note 6 – Net financing expense and note 24 – Leases. The disclosure associated with adopting IFRS 16 – Leases is disclosed in note 34 – Comparative information restated.

How the matter was addressed in the audit

Our audit procedures, amongst others, included the following:

- We evaluated management's policies, processes and controls put in place to identify, capture and account for active leases across the group by obtaining an understanding of the system through discussion with management and assessing it in light of the requirements of the accounting standard.
- We evaluated the completeness of the leases identified by management by comparing the right-of-use asset population within the lease management system to the stores population in the accounting system and by testing the beneficial occupation dates for a sample of stores opened before and after year-end.
- For a sample of leases, we:
  - inspected the terms and conditions of the underlying contracts and evaluated management's identification of relevant lease terms to determine whether the leases were correctly considered for adoption and accounted for in terms of the standard;
  - assessed the appropriateness of the contractual considerations identified by management, including the assessment of fixed and variable lease payments, by agreeing lease payments to lease contracts and terms;
  - assessed the historic discount rates determined by management with reference to entity-specific borrowing rates and external market data with the assistance of our internal valuation specialists;
  - evaluated the appropriateness of the lease periods used in the valuation by agreeing lease terms and options to lease agreements, and assessed the expected lease period determined by management;
  - recalculated the lease liabilities, right-of-use assets, finance costs and depreciation based on the underlying contractual terms; and
  - recalculated the impact of lease modifications with reference to terms in renewed or amended contracts.
- In order to evaluate management's impairment assessments of the right-of-use assets in line with IAS 36 we:
  - evaluated impairment indicators with reference to store profits and the wider economic environment; and
  - recalculated the recoverable amount for a sample of cash-generating units and compared it to the carrying value.
- We evaluated the completeness of changes made to lease agreements identified by management through enquiries with the property management team and through the use of data analytics to identify anomalies. For a sample of lease modifications, we reperformed the calculation of the impact on the associated right-of-use assets and lease liabilities.
- We evaluated key accounting policy decisions and the completeness and accuracy of disclosures made by management with reference to the requirements of IFRS 16, with the assistance of our internal financial reporting specialists where appropriate.

Key audit matter	How the matter was addressed in the audit
Share-based compensation arrangements and associated hedge accounting	
The group operates a Long-Term Incentive (LTI) scheme that includes a Total Shareholder Return (TSR) component of R97.2 million recognised in current liabilities (2019: R81.3 million) and R46.9 million recognised in non-current liabilities (2019: R64.0 million). The TSR component of the LTI scheme is considered to be a share-based compensation arrangement and is accounted for in terms of IFRS 2 – Share-based Payments. The group uses derivative financial instruments to hedge market risk relating to the LTI scheme. This is classified as a cash flow hedge. The share-based compensation arrangement and associated hedging require the use of judgement and estimates including, where applicable, to determine fair value at grant date and at the reporting date. Management uses a specialist to determine the fair value at the reporting date. In addition, cash flow hedge accounting requires management to make an assessment of hedge effectiveness. The Share-based compensation arrangements and associated hedge accounting, including the sensitivity of significant inputs to volatility in the current market data, was considered to be a matter of most significance to the current year's audit and identified as a key audit matter. The disclosures required per IFRS 2 – Share-based Payments are set out in the audited annual financial statements in note 23 – Employee benefits.	Our procedures, amongst others, included the following to assess the share-based compensation arrangements and associated hedge accounting: • We evaluated the arrangements and accounting consequences in terms of the requirements of IFRS by performing the following procedures: – We recalculated the values determined by management and, where appropriate, involved our quantitative advisory specialists. – We tested the hedge effectiveness of the derivative financial instruments with the assistance of our quantitative advisory specialists who reviewed the fair valuation inputs and assumptions for reasonability by comparing them to independently sourced market data and performed an independent valuation using these inputs. – We recalculated the recharge arrangement in terms of the company's accounting policy. – We assessed the taxation consequences, with the support of our taxation specialists. – We assessed whether the recognition and measurement criteria used in the accounting records were consistent with the requirements of IFRS. – We considered the adequacy and accuracy of the related disclosures in the financial statements in accordance with the requirements of IFRS 2 – Share-based Payments with the assistance of our internal financial reporting specialists.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the 77-page document titled "Clicks Group Limited Audited Annual Financial Statements 2020", which includes the Directors' report, the Audit Committee's report and the Company Secretary's certificate as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the 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.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 group and company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 eight years.

Ernst & Young Inc.

Ernst & Young Inc.
Director – Anthony Robert Cadman
Chartered Accountant
Registered Auditor

17 November 2020

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3 Dock Road
Cape Town