
CLICKS GROUP
LIMITED

# AUDITED ANNUAL FINANCIAL STATEMENTS 2020

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# AUDITED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2020

These are the audited annual financial statements of the group and the company for the year ended 31 August 2020. 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 2020; 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, the requirements of the Companies Act of South Africa and the company's memorandum of incorporation and including the audit and risk committee report on page 3. In addition, the directors are responsible for preparing the directors' report on page 2.

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 17 November 2020 and signed by:

**David Nurek**
Independent non-executive chairman

**Vikesh Ramsunder**
Chief executive officer

**Michael Fleming CA (SA)**
Chief financial officer

Cape Town
17 November 2020

# 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.

**Matthew Welz**
Company secretary

Cape Town
17 November 2020

# DIRECTORS' REPORT

## NATURE OF BUSINESS

The company is an investment holding company listed in the Food and Drug Retailers sector of the JSE Limited. Its subsidiaries house South Africa's leading health and beauty retailer and its leading pharmaceutical distributor and wholesaler, amongst other businesses. The company operates 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 10. The profit attributable to ordinary shareholders for the year is R1 880.2 million (2019: R1 681.1 million).

## SHARE CAPITAL

During the year under review the company had the following movements in share capital:

| | |
|---|---|
| 262 083 439 | Ordinary shares issued at 31 August 2019 |
| (10 558 528) | Specific repurchase and cancellation of shares 6 February 2020 |
| (2 862 264) | Repurchase and cancellation of shares March 2020 |
| 248 662 647 | Ordinary shares issued at 31 August 2020 |

## DIVIDENDS TO SHAREHOLDERS

### Interim

The directors approved no interim dividend (2019: 118.0 cents per ordinary share).

### Final

The directors have approved a final ordinary dividend of 450.0 cents per ordinary share (2019: 327.0 cents per ordinary share). The source of such dividends will be from distributable reserves. The dividend will be payable on 25 January 2021 to shareholders registered on 22 January 2021.

## EVENTS AFTER THE FINANCIAL YEAR-END

The following significant events took place between the end of the financial year and the date of this report:

- the declaration of the final dividend;
- the resignation of Nonkululeko Gobodo from the board on 14 September 2020, and the appointment of Mfundiso Njeke to replace her on the audit and risk committee; and
- the commencement of the new financial year was impacted over four days by the protest action against the online TRESemmé advert. This protest action resulted in the group incurring losses in revenue, inventory, as well as additional costs and damages to several stores. The group plans to submit a claim in terms of the group's insurance policy for this incident.

## 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 Daniels
Mfundiso Njeke (appointed 1 March 2020)
Martin Rosen

### Executive directors

Vikesh Ramsunder (chief executive officer)
Michael Fleming (chief financial officer)
Bertina Engelbrecht (group HR director)

The company secretary's details are set out on page 77.

## RETIREMENT AND RE-ELECTION OF DIRECTORS

In accordance with the company's memorandum of incorporation John Bester, Bertina Engelbrecht and Michael Fleming retire by rotation at the forthcoming annual general meeting. Mfundiso Njeke was appointed by the board in the preceding year and accordingly retires in order to allow that his appointment be put before shareholders. These directors, being eligible, offer themselves for re-election at the 2021 AGM.

## DIRECTORS' INTEREST IN SHARES

No directors traded in securities of the company in this year.

## INCENTIVE SCHEMES

Information relating to the incentive schemes is set out on pages 47 to 49.

## SPECIAL RESOLUTIONS

Special resolutions passed at the annual general meeting held on 30 January 2020:

Special Resolution No. 1: General authority to repurchase shares

Special Resolution No. 2: Specific authority to repurchase shares from New Clicks South Africa Proprietary Limited

Special Resolution No. 3: Approval of directors' fees

Special Resolution No. 4: General approval to provide financial assistance

Special Resolution No. 5: Amendments to the memorandum of incorporation

## SUBSIDIARY COMPANIES

The names of the company's main subsidiaries and financial information relating thereto appear on page 73.

# 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 revised King Code of Governance Principles (King IV).

## 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 IV 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; and
- Recommend the integrated report for approval by the board.

### Combined assurance

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

### Finance function

- Consider the expertise and experience of the chief financial officer; and
- 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; and
- 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; and
- 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; and
- Ensure a process is in place for the committee to be informed of any reportable irregularities identified by the external auditor.

## 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 Daniels | B Sc, CA (SA) |
| Nonkululeko Gobodo | B Compt (Hons), CA (SA) |

Nonkululeko Gobodo resigned as a member of the audit committee on 14 September 2020 and was replaced by Mfundiso Njeke on 21 September 2020.

Biographical details of the committee members appear on pages 30 and 31 of the integrated annual report, with supplementary information contained in annexure 2 to the notice of annual general meeting on page 10.

Fees paid to the committee members for 2020 and the proposed fees for 2021 are disclosed in rewarding value creation on pages 73 and 74 of the integrated annual report.

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 IV.

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 regular 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 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 2020 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 audit partner in charge of the audit is rotated off the audit after five years. In terms of this policy, the current audit partner is in the third year of tenure. 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 and complies with the JSE Listings Requirements.

## POLICY ON NON-AUDIT SERVICES

Non-audit services provided by the external auditor may not exceed 25% of the total auditors' 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 in accordance with this policy.

During the year EY received fees of R573 240 (2019: R540 265) for non-audit services, equating to 7.9% (2019: 9.7%) of the total audit remuneration. These services related mainly to agreed-upon procedures for third-party confirmation 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 creating value through good governance in the integrated annual report on page 60. 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 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 2020 financial year and that its report to shareholders has been approved by the board.

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

17 November 2020

# 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 | How the matter was addressed in the audit |
|---|---|
| **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.<br><br>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.<br><br>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:<br>• determining the duration of the lease, by:<br>– establishing the beneficial occupation date of each property by assessing when initial access was granted to each property;<br>– establishing the lease term including any renewal options that are reasonably certain to be elected; and<br>– the evaluation of subsequent contract modifications;<br>• determining the incremental borrowing rate to be applied to historic leases.<br><br>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.<br><br>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. | Our audit procedures, amongst others, included the following:<br>• 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.<br>• 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.<br>• For a sample of leases, we:<br>– 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;<br>– 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;<br>– 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;<br>– 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;<br>– recalculated the lease liabilities, right-of-use assets, finance costs and depreciation based on the underlying contractual terms; and<br>– recalculated the impact of lease modifications with reference to terms in renewed or amended contracts.<br>• In order to evaluate management's impairment assessments of the right-of-use assets in line with IAS 36 we:<br>– evaluated impairment indicators with reference to store profits and the wider economic environment; and<br>– recalculated the recoverable amount for a sample of cash-generating units and compared it to the carrying value.<br>• 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.<br>• 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).<br><br>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.<br><br>The group uses derivative financial instruments to hedge market risk relating to the LTI scheme. This is classified as a cash flow hedge.<br><br>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.<br><br>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.<br><br>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:<br><br>• We evaluated the arrangements and accounting consequences in terms of the requirements of IFRS by performing the following procedures:<br>– We recalculated the values determined by management and, where appropriate, involved our quantitative advisory specialists.<br>– 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.<br>– We recalculated the recharge arrangement in terms of the company's accounting policy.<br>– We assessed the taxation consequences, with the support of our taxation specialists.<br>– We assessed whether the recognition and measurement criteria used in the accounting records were consistent with the requirements of IFRS.<br>– 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

Waterway House
3 Dock Road
Cape Town

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 AUGUST

| | Notes | 2020 R'000 | Restated* 2019 R'000 |
|---|---|---|---|
| **Revenue** | 1 | **36 591 196** | 33 376 010 |
| Turnover | 1 | **34 364 398** | 31 352 109 |
| Cost of merchandise sold | | **(27 156 052)** | (24 662 049) |
| **Gross profit** | | **7 208 346** | 6 690 060 |
| Other income | 1 | **2 166 315** | 1 960 480 |
| **Total income** | | **9 374 661** | 8 650 540 |
| Expenses | | **(6 607 789)** | (6 144 001) |
| Depreciation and amortisation | 2 | **(1 131 068)** | (1 004 998) |
| Occupancy costs | 3 | **(184 834)** | (190 119) |
| Employment costs | 4 | **(3 497 422)** | (3 341 862) |
| Other costs | 5 | **(1 790 687)** | (1 605 693) |
| Impairment allowance | | **(3 778)** | (1 329) |
| **Operating profit** | | **2 766 872** | 2 506 539 |
| Loss on disposal of property, plant and equipment | | **(8 337)** | (351) |
| Loss on disposal of investment in subsidiary company | | **(1 196)** | – |
| **Profit before financing costs** | | **2 757 339** | 2 506 188 |
| Net financing expense | 6 | **(175 450)** | (175 754) |
| Financial income | 1, 6 | **60 483** | 63 421 |
| Financial expense | 6 | **(235 933)** | (239 175) |
| **Profit before earnings from associate** | | **2 581 889** | 2 330 434 |
| Share of profit of an associate | 13 | **2 105** | 2 803 |
| **Profit before taxation** | | **2 583 994** | 2 333 237 |
| Income tax expense | 7 | **(703 819)** | (652 115) |
| **Profit for the year** | | **1 880 175** | 1 681 122 |
| **Other comprehensive income/(loss):** | | | |
| Items that will not be subsequently reclassified to profit or loss | | **9 956** | 6 337 |
| Remeasurement of post-employment benefit obligations | 23 | **13 828** | 8 801 |
| Deferred tax on remeasurement | 7 | **(3 872)** | (2 464) |
| Items that may be subsequently reclassified to profit or loss | | | |
| Exchange differences on translation of foreign subsidiaries | 22 | **3 895** | (2 222) |
| Cash flow hedges | 21 | **60 461** | (13 877) |
| Change in fair value of effective portion | | **83 973** | (19 274) |
| Deferred tax on movement of effective portion | 7 | **(23 512)** | 5 397 |
| Cost of hedging reserve | | **(18 890)** | (15 827) |
| Cost of hedging recognised | | **(26 236)** | (21 982) |
| Deferred tax on cost of hedging | | **7 346** | 6 155 |
| **Other comprehensive income/(loss) for the year, net of tax** | | **55 422** | (25 589) |
| **Total comprehensive income for the year** | | **1 935 597** | 1 655 533 |
| Earnings per share (cents) | | | |
| Basic | 8 | **751.4** | 674.8 |
| Diluted | 8 | **751.4** | 663.2 |

* Prior-period amounts restated for the adoption of IFRS 16. Refer to note 34.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 AUGUST

| | Notes | 2020 R'000 | Restated* 2019 R'000 | Restated* 2018 R'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | **5 530 507** | 5 045 548 | 5 069 238 |
| Property, plant and equipment | 9 | **2 120 674** | 2 067 036 | 1 843 402 |
| Right-of-use assets | 24 | **2 371 179** | 2 046 014 | 1 795 868 |
| Intangible assets | 10 | **568 700** | 497 078 | 476 761 |
| Goodwill | 11 | **102 806** | 102 806 | 103 510 |
| Deferred tax assets | 12 | **110 694** | 95 060 | 518 058 |
| Investment in an associate | 13 | **20 062** | 20 091 | 20 044 |
| Loans receivable | 14 | **9 608** | 10 131 | 15 003 |
| Financial assets at fair value through profit or loss | 15 | **113 951** | 75 370 | 82 482 |
| Derivative financial assets | 16 | **112 833** | 131 962 | 214 110 |
| **Current assets** | | **9 743 698** | 10 023 576 | 8 280 346 |
| Inventories | 17 | **4 920 919** | 4 710 169 | 4 250 907 |
| Trade and other receivables | 18 | **2 567 215** | 2 567 123 | 2 256 893 |
| Income tax receivable | | **–** | 29 744 | – |
| Loans receivable | 14 | **1 339** | 611 | 9 675 |
| Cash and cash equivalents | | **2 152 483** | 2 613 554 | 1 523 815 |
| Derivative financial assets | 16 | **101 742** | 102 375 | 239 056 |
| **Total assets** | | **15 274 205** | 15 069 124 | 13 349 584 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | **5 193 951** | 4 786 987 | 4 321 043 |
| Share capital | 19 | **2 487** | 2 621 | 2 686 |
| Share premium | 19 | **1 064 953** | 1 064 953 | 513 848 |
| Treasury shares | 19 | **–** | (913 194) | (702 703) |
| Share option reserve | 20 | **–** | – | 578 184 |
| Cash flow hedge reserve | 21 | **11 686** | 23 195 | 73 536 |
| Cost of hedging reserve | | **(5 968)** | (6 267) | (4 482) |
| Foreign currency translation reserve | 22 | **8 638** | 4 743 | 6 965 |
| Distributable reserve | | **4 112 155** | 4 610 936 | 3 853 009 |
| **Non-current liabilities** | | **1 940 022** | 1 688 563 | 1 502 168 |
| Lease liabilities | 24 | **1 795 306** | 1 489 563 | 1 256 761 |
| Employee benefits | 23 | **144 716** | 199 000 | 245 407 |
| **Current liabilities** | | **8 140 232** | 8 593 574 | 7 526 373 |
| Trade and other payables | 25 | **6 746 977** | 7 303 492 | 6 227 123 |
| Lease liabilities | 24 | **890 411** | 852 702 | 814 015 |
| Employee benefits | 23 | **374 429** | 366 218 | 418 216 |
| Income tax payable | | **126 045** | 71 162 | 67 019 |
| Derivative financial liabilities | 16 | **2 370** | – | – |
| **Total equity and liabilities** | | **15 274 205** | 15 069 124 | 13 349 584 |

* Prior-period amounts restated for the adoption of IFRS 16. Refer to note 34.

# 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 | Treasury shares (Note 19) R'000 |
|---|---|---|---|---|
| **Balance at 1 September 2018 as previously reported** | 244 505 | 2 686 | 513 848 | (702 703) |
| Effect of adoption of IFRS 16* | – | – | – | – |
| **Balance at 1 September 2018 (restated)** | 244 505 | 2 686 | 513 848 | (702 703) |
| **Transactions with owners, recorded directly in equity** | | | | |
| Dividends paid to shareholders | – | – | – | – |
| Employee share option scheme vesting | 8 135 | (65) | 551 105 | 146 |
| Issue of ordinary shares from vesting of ESOP scheme | 8 135 | 81 | 551 404 | – |
| "A" ordinary shares repurchased | – | (146) | – | 146 |
| Transaction costs on share issue | – | – | (299) | – |
| Share-based payment reserve movement | – | – | – | – |
| Shares repurchased | (1 115) | – | – | (210 637) |
| Net treasury share movement | – | – | – | – |
| Treasury shares acquired from vesting of employee share scheme | (261) | – | – | (50 000) |
| Disposal of treasury shares | 261 | – | – | 50 000 |
| **Total transactions with owners** | 7 020 | (65) | 551 105 | (210 491) |
| **Total comprehensive income for the year** | – | – | – | – |
| Profit for the year as restated* | – | – | – | – |
| Remeasurement of post-employment benefit obligations | – | – | – | – |
| Cash flow hedge reserve | – | – | – | – |
| Cost of hedging reserve | – | – | – | – |
| Exchange differences on translation of foreign subsidiaries as restated* | – | – | – | – |
| Transfer of reserves to inventory | – | – | – | – |
| **Restated balance at 31 August 2019** | 251 525 | 2 621 | 1 064 953 | (913 194) |
| **Transactions with owners, recorded directly in equity** | | | | |
| Dividends paid to shareholders | **–** | **–** | **–** | **–** |
| Treasury shares cancelled | **–** | **(106)** | **–** | **913 194** |
| Shares repurchased and cancelled | **(2 862)** | **(28)** | **–** | **–** |
| **Total transactions with owners** | **(2 862)** | **(134)** | **–** | **913 194** |
| **Total comprehensive income for the year** | **–** | **–** | **–** | **–** |
| Profit for the year | **–** | **–** | **–** | **–** |
| Remeasurement of post-employment benefit obligations | **–** | **–** | **–** | **–** |
| Cash flow hedge reserve | **–** | **–** | **–** | **–** |
| Cost of hedging reserve | **–** | **–** | **–** | **–** |
| Exchange differences on translation of foreign subsidiaries | **–** | **–** | **–** | **–** |
| Transfer of reserves to inventory | **–** | **–** | **–** | **–** |
| **Balance at 31 August 2020** | **248 663** | **2 487** | **1 064 953** | **–** |

* Retrospective adjustment relating to the adoption of IFRS 16. Refer to note 34.

| Share option reserve (Note 20) R'000 | Cash flow hedge reserve (Note 21) R'000 | Cost of hedging reserve R'000 | Foreign currency translation reserve (Note 22) R'000 | Distributable reserve R'000 | Total equity R'000 |
|---|---|---|---|---|---|
| 578 184 | 73 536 | (4 482) | 8 486 | 3 954 452 | 4 424 007 |
| – | – | – | (1 521) | (101 443) | (102 964) |
| 578 184 | 73 536 | (4 482) | 6 965 | 3 853 009 | 4 321 043 |
| – | – | – | – | (980 506) | (980 506) |
| (551 485) | – | – | – | – | (299) |
| (551 485) | – | – | – | – | – |
| – | – | – | – | – | – |
| – | – | – | – | – | (299) |
| (26 699) | – | – | – | – | (26 699) |
| – | – | – | – | – | (210 637) |
| – | – | – | – | 50 974 | 50 974 |
| – | – | – | – | 50 000 | – |
| – | – | – | – | 974 | 50 974 |
| (578 184) | – | – | – | (929 532) | (1 167 167) |
| – | (13 877) | (15 827) | (2 222) | 1 687 459 | 1 655 533 |
| – | – | – | – | 1 681 122 | 1 681 122 |
| – | – | – | – | 6 337 | 6 337 |
| – | (13 877) | – | – | – | (13 877) |
| – | – | (15 827) | – | – | (15 827) |
| – | – | – | (2 222) | – | (2 222) |
| – | (36 464) | 14 042 | – | – | (22 422) |
| – | 23 195 | (6 267) | 4 743 | 4 610 936 | 4 786 987 |
| **–** | **–** | **–** | **–** | **(822 485)** | **(822 485)** |
| **–** | **–** | **–** | **–** | **(913 088)** | **–** |
| **–** | **–** | **–** | **–** | **(653 339)** | **(653 367)** |
| **–** | **–** | **–** | **–** | **(2 388 912)** | **(1 475 852)** |
| **–** | **60 461** | **(18 890)** | **3 895** | **1 890 131** | **1 935 597** |
| **–** | **–** | **–** | **–** | **1 880 175** | **1 880 175** |
| **–** | **–** | **–** | **–** | **9 956** | **9 956** |
| **–** | **60 461** | **–** | **–** | **–** | **60 461** |
| **–** | **–** | **(18 890)** | **–** | **–** | **(18 890)** |
| **–** | **–** | **–** | **3 895** | **–** | **3 895** |
| **–** | **(71 970)** | **19 189** | **–** | **–** | **(52 781)** |
| **–** | **11 686** | **(5 968)** | **8 638** | **4 112 155** | **5 193 951** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 AUGUST

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

| | Note | 2020 R'000 | Restated* 2019 R'000 |
|---|---|---|---|
| **Cash effects from operating activities** | | | |
| Profit before working capital changes | | **3 884 623** | 3 563 332 |
| Working capital changes | | **(820 884)** | 203 429 |
| Cash generated by operations | | **3 063 739** | 3 766 761 |
| Interest received | | **60 483** | 63 421 |
| Interest paid | | **(221 587)** | (219 886) |
| Taxation paid | | **(634 200)** | (262 241) |
| Acquisition of derivative financial asset used to hedge the long-term incentive scheme | | **(49 635)** | (66 313) |
| Settlement of derivative financial asset used to hedge the long-term incentive scheme | | **120 481** | 199 816 |
| Cash inflow from operating activities before dividends paid | | **2 339 281** | 3 481 558 |
| Dividends paid to shareholders | 26 | **(822 485)** | (980 506) |
| **Net cash effects from operating activities** | | **1 516 796** | 2 501 052 |
| **Cash effects from investing activities** | | | |
| Investment in property, plant and equipment and intangible assets to maintain operations | | **(242 093)** | (215 701) |
| Investment in property, plant and equipment and intangible assets to expand operations | | **(348 790)** | (431 013) |
| Proceeds from disposal of property, plant and equipment and intangible assets | | **968** | 2 220 |
| Acquisition of investments | | **(41 833)** | – |
| Decrease in loan receivables | | **–** | 9 000 |
| Proceeds from disposal of investment in subsidiary | | **9 787** | – |
| **Net cash effects from investing activities** | | **(621 961)** | (635 494) |
| **Cash effects from financing activities** | | | |
| Shares repurchased | | **(653 367)** | (210 637) |
| Proceeds from disposal of treasury shares | | **–** | 50 974 |
| Transaction cost on the issue of shares | | **–** | (299) |
| Repayment of lease liabilities | | **(702 539)** | (615 857) |
| **Net cash effects from financing activities** | | **(1 355 906)** | (775 819) |
| Net (decrease)/increase in cash and cash equivalents | | **(461 071)** | 1 089 739 |
| Cash and cash equivalents at the beginning of the year | | **2 613 554** | 1 523 815 |
| **Cash and cash equivalents at the end of the year** | | **2 152 483** | 2 613 554 |

* Prior-period amounts restated for the adoption of IFRS 16. Refer to note 34.

# NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 AUGUST

| | 2020<br>R'000 | Restated*<br>2019<br>R'000 |
|---|---|---|
| **Cash flow information** | | |
| **Profit before working capital changes** | | |
| Profit before taxation | **2 583 994** | 2 333 237 |
| Adjustment for: | **1 125 179** | 1 054 341 |
| Depreciation and amortisation | **1 177 144** | 1 036 325 |
| Release of cash flow hedge to profit or loss | **(64 779)** | 8 883 |
| Loss on disposal of property, plant and equipment | **8 337** | 351 |
| Decrease in financial assets at fair value through profit or loss | **3 252** | 7 112 |
| Impairment of goodwill | **–** | 704 |
| Impairment of loan | **–** | 1 013 |
| Loss on disposal of investment in subsidiary company | **1 196** | – |
| Net distributed/(undistributed) profits of an associate | **29** | (47) |
| Net financing expense | **175 450** | 175 754 |
| | **3 884 623** | 3 563 332 |
| **Working capital changes** | | |
| Increase in inventories | **(215 715)** | (461 047) |
| Increase in trade and other receivables | **(7 730)** | (310 230) |
| (Decrease)/increase in trade and other payables | **(550 848)** | 1 086 063 |
| Decrease in employee benefits | **(46 591)** | (111 357) |
| | **(820 884)** | 203 429 |
| **Disposal of investment in subsidiary company** | | |
| The group disposed of its interest in Kalahari Medical Distributors Proprietary Limited during the financial year. | | |
| Proceeds on disposal of investment in subsidiary company | **9 787** | – |
| Net asset value of subsidiary company | **(10 983)** | – |
| Loss on disposal of investment in subsidiary company | **(1 196)** | – |
| **Taxation paid** | | |
| Income tax payable at the beginning of the year | **(41 418)** | (67 019) |
| Normal tax charged to profit or loss | **(718 827)** | (236 640) |
| Income tax payable at the end of the year | **126 045** | 41 418 |
| | **(634 200)** | (262 241) |
| **Cash and cash equivalents at the end of the year** | | |
| Current accounts | **184 157** | 231 354 |
| Short-term deposits | **20 126** | 135 300 |
| Money market fund** | **1 948 200** | 2 246 900 |
| | **2 152 483** | 2 613 554 |

* Prior-period amounts restated for the adoption of IFRS 16. Refer to note 34.

** Low-risk corporate money market fund convertible into cash within one business day and held for short-term requirements.

# SEGMENTAL ANALYSIS

FOR THE YEAR ENDED 31 AUGUST

| R'000 | | Retail (Note 33) 2020 | Restated[1] 2019 |
|---|---|---|---|
| **Statement of financial position** | | | |
| Property, plant and equipment | | **1 858 141** | 1 806 121 |
| Right-of-use assets | | **2 359 457** | 2 030 833 |
| Intangible assets | | **538 256** | 471 115 |
| Goodwill | | **6 529** | 6 529 |
| Inventories | | **3 435 281** | 3 255 462 |
| Trade and other receivables | | **505 626** | 565 977 |
| Cash and cash equivalents | | **2 145 708** | 2 614 016 |
| Other assets | | **872 254** | 893 752 |
| **Total assets** | | **11 721 252** | 11 643 805 |
| Lease liabilities | | **2 674 034** | 2 326 973 |
| Employee benefits – non-current | | **129 141** | 181 124 |
| Trade and other payables | | **3 643 654** | 3 602 726 |
| Employee benefits – current | | **328 800** | 324 787 |
| Other liabilities | | **2 498 222** | 2 681 636 |
| **Total liabilities** | | **9 273 851** | 9 117 246 |
| **Net assets** | | **2 447 401** | 2 526 559 |
| **Statement of comprehensive income** | | | |
| Turnover | | **24 785 362** | 23 104 815 |
| Gross profit | | **7 006 610** | 6 548 822 |
| Other income | | **1 241 612** | 1 142 798 |
| Total income | | **8 248 222** | 7 691 620 |
| Expenses | | **(5 988 438)** | (5 625 318) |
| Depreciation and amortisation | | **(1 090 762)** | (966 638) |
| Occupancy costs | | **(183 687)** | (189 024) |
| Employment costs | | **(3 208 548)** | (3 071 902) |
| Other costs | | **(1 503 178)** | (1 395 534) |
| Impairment allowance | | **(2 263)** | (2 220) |
| **Operating profit** | | **2 259 784** | 2 066 302 |
| **Ratios** | | | |
| Increase in turnover | (%) | **7.3** | 9.7 |
| Selling price inflation | (%) | **2.2** | 1.5 |
| Comparable stores turnover growth | (%) | **3.4** | 6.4 |
| Gross profit margin | (%) | **28.3** | 28.3 |
| Total income margin | (%) | **33.3** | 33.3 |
| Operating expenses as a percentage of turnover | (%) | **24.2** | 24.3 |
| Increase in operating expenses[2] | (%) | **6.5** | 8.1 |
| Increase in operating profit[2] | (%) | **9.4** | 11.0 |
| Operating profit margin | (%) | **9.1** | 8.9 |
| Inventory days | | **71** | 72 |
| Trade debtor days | | **3** | 5 |
| Trade creditor days | | **45** | 48 |
| Number of stores | | **884** | 870 |
| as at 31 August 2019/2018 | | **870** | 837 |
| opened | | **45** | 46 |
| closed | | **(31)** | (13) |
| Number of pharmacies | | **585** | 545 |
| as at 31 August 2019/2018 | | **545** | 510 |
| new / converted | | **41** | 36 |
| closed | | **(1)** | (1) |
| Total leased area | ($m^2$) | **467 340** | 444 010 |
| Weighted retail trading area | ($m^2$) | **370 353** | 347 566 |
| Weighted annual sales per $m^2$ | (R) | **66 733** | 65 935 |
| Number of permanent employees | | **14 945** | 14 753 |

1 Prior-period amounts restated for the adoption of IFRS 16. Refer to note 34.
2 Comparative growth has not been restated.

| Distribution (Note 33) | | Intragroup elimination | | Total operations | |
|---|---|---|---|---|---|
| 2020 | Restated[1] 2019 | 2020 | Restated[1] 2019 | 2020 | Restated[1] 2019 |
| 262 533 | 260 915 | – | – | 2 120 674 | 2 067 036 |
| 11 722 | 15 181 | – | – | 2 371 179 | 2 046 014 |
| 30 444 | 25 963 | – | – | 568 700 | 497 078 |
| 96 277 | 96 277 | – | – | 102 806 | 102 806 |
| 1 572 716 | 1 535 712 | (87 078) | (81 005) | 4 920 919 | 4 710 169 |
| 2 761 535 | 2 711 802 | (699 946) | (710 656) | 2 567 215 | 2 567 123 |
| 6 775 | (462) | – | – | 2 152 483 | 2 613 554 |
| 2 379 346 | 2 611 177 | (2 781 371) | (3 039 585) | 470 229 | 465 344 |
| 7 121 348 | 7 256 565 | (3 568 395) | (3 831 246) | 15 274 205 | 15 069 124 |
| 11 683 | 15 292 | – | – | 2 685 717 | 2 342 265 |
| 15 575 | 17 876 | – | – | 144 716 | 199 000 |
| 3 810 153 | 4 416 724 | (706 830) | (715 958) | 6 746 977 | 7 303 492 |
| 45 629 | 41 431 | – | – | 374 429 | 366 218 |
| 409 638 | 428 767 | (2 779 445) | (3 039 241) | 128 415 | 71 162 |
| 4 292 678 | 4 920 090 | (3 486 275) | (3 755 199) | 10 080 254 | 10 282 137 |
| 2 828 670 | 2 336 475 | (82 120) | (76 047) | 5 193 951 | 4 786 987 |
| 15 473 637 | 13 909 007 | (5 894 601) | (5 661 713) | 34 364 398 | 31 352 109 |
| 203 772 | 148 072 | (2 036) | (6 834) | 7 208 346 | 6 690 060 |
| 1 113 684 | 988 441 | (188 981) | (170 759) | 2 166 315 | 1 960 480 |
| 1 317 456 | 1 136 513 | (191 017) | (177 593) | 9 374 661 | 8 650 540 |
| (804 294) | (682 239) | 184 943 | 163 556 | (6 607 789) | (6 144 001) |
| (40 306) | (38 360) | – | – | (1 131 068) | (1 004 998) |
| (2 714) | (3 440) | 1 567 | 2 345 | (184 834) | (190 119) |
| (288 874) | (269 960) | – | – | (3 497 422) | (3 341 862) |
| (470 885) | (371 370) | 183 376 | 161 211 | (1 790 687) | (1 605 693) |
| (1 515) | 891 | – | – | (3 778) | (1 329) |
| 513 162 | 454 274 | (6 074) | (14 037) | 2 766 872 | 2 506 539 |
| 11.2 | 4.0 | 4.1 | 8.9 | 9.6 | 7.2 |
| 2.5 | 0.9 | – | – | 2.4 | 1.2 |
| – | – | – | – | 3.4 | 6.4 |
| 1.3 | 1.1 | – | – | 21.0 | 21.3 |
| 8.5 | 8.2 | – | – | 27.3 | 27.6 |
| 5.2 | 4.9 | – | – | 19.2 | 19.6 |
| 17.9 | 10.2 | – | – | 7.5 | 8.1 |
| 13.0 | 25.4 | – | – | 10.4 | 14.2 |
| 3.3 | 3.3 | – | – | 8.1 | 8.0 |
| 38 | 41 | – | – | 66 | 70 |
| 47 | 54 | – | – | 31 | 37 |
| 69 | 90 | – | – | 60 | 73 |
| – | – | – | – | 884 | 870 |
| – | – | – | – | 870 | 837 |
| – | – | – | – | 45 | 46 |
| – | – | – | – | (31) | (13) |
| – | – | – | – | 585 | 545 |
| – | – | – | – | 545 | 510 |
| – | – | – | – | 41 | 36 |
| – | – | – | – | (1) | (1) |
| – | – | – | – | 467 340 | 444 010 |
| – | – | – | – | 370 353 | 347 566 |
| – | – | – | – | 66 733 | 65 935 |
| 637 | 660 | – | – | 15 582 | 15 413 |

The intragroup turnover elimination for the year comprises R5 758.3 million (2019: R5 531.1 million) of sales from Distribution to Retail and R136.3 million (2019: R130.6 million) of sales from Retail to Distribution.

# 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 2020 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 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.

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 recognises a loss allowance for financial assets.

**Trade receivables:** The loss allowances for financial assets recognised by the group at the reporting date are based on the assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions. These assumptions are based on the group's history, existing market conditions as well as forward-looking information at the end of each reporting period.

The group uses a provision matrix to calculate expected credit losses (ECLs) for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (by product type and revenue stream, i.e. pharmacy, wholesale and rebate debtors).

The provision matrix is initially based on the group's historical observed default rates. The group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e. pharmaceutical regulations) are expected to deteriorate over the next year which can lead to an increased number of defaults in pharmacy debtors, the historical default rates are adjusted. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECLs on the group's trade receivables is disclosed in note 18.

The determination of recoverability is established using the ECL model. 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. 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. The group assesses how uncertain tax positions affect the determination of income tax and deferred income tax. The group also considers whether the tax authorities will accept uncertain tax treatments, determines the probabilities of the acceptance and the impact on income tax and deferred income tax. 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. Refer to notes 20 and 23 for further detail.

## Clicks ClubCard customer loyalty scheme

The ClubCard points earned by customers provide them with a material right to obtain a credit in future, which results in a performance obligation on the group to fulfil. The transaction price is allocated to the product and the points on a relative stand-alone selling price basis. When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The redemption rate is based on historical experience, which is subject to uncertainty.

## 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 IFRS 9.

## 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 outlined in note 28, which may include the use of external independent valuators, to value these unquoted financial instruments.

### Valuation of lease liabilities and right-of-use assets

The application of IFRS 16 requires the group to make judgements and estimates that affect the valuation of lease liabilities and the valuation of right-of-use assets. These include: determining contracts in the scope of IFRS 16, determining the contract term and determining the interest rate used for discounting future cash flows.

The group generally enters into property leases with renewal options. The lease term determined by the group generally comprises non-cancellable periods of lease contracts, periods covered by an option to extend the lease if the group is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the group is reasonably certain not to exercise that option. The same term is applied as economic useful life of right-of-use assets.

The group applies judgement in evaluating whether it is reasonably certain or not to exercise the option to renew or terminate the lease. It considers all relevant factors that create an economic incentive to exercise either the renewal or termination. The group has concluded that at the inception of the lease, there are significant uncertainties as to whether the group may exercise the extension options. Therefore renewal periods for property leases are generally not included as part of the lease term as these are not reasonably certain to be exercised at the commencement date.

After the commencement date the group will reassess the lease term upon the occurrence of a significant event or change in circumstances that are within the control of the group and affect whether the group is reasonably certain or not to exercise an option not previously included in its determination of the lease term. The group will also reassess its estimation of the non-cancellable period for any lease terminating within 12 months. Any change to the non-cancellable period will be considered a change in estimate and will be applied prospectively. The carrying amount of the lease liability is adjusted to reflect the payments to be made over the revised term, which are discounted at the revised discount rate. An equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being depreciated over the remaining (revised) lease term.

The group cannot readily determine the interest rate implicit in the lease, therefore it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the group would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the group could borrow at, which requires estimation when no observable rates are available.

The group uses a portfolio approach when determining the discount rate as lease terms are similar, and are concluded under similar economic conditions. The majority of leases are concluded in South Africa and are negotiated at a group level. The group estimates the IBR using observable inputs (such as JIBAR) and adjusts it with certain entity-specific estimates such as a credit spread applicable to the lease term and a group-specific discount, taking into account the group's credit rating observed in the period when the lease contract commences or is modified.

The group assesses the right-of-use asset for impairment upon identification of any impairment indicators. Refer to the impairment of non-financial assets on page 26.

### Covid-19 considerations

Covid-19 impacts the financial reporting and the application of IFRS significantly. The group implements these considerations in its material judgements and estimates, impairment of financial and non-financial assets, allowance for expected credit losses, accounting for leases including impairment considerations, provision for employee benefits, share-based payments, other financial instrument disclosures and other impacted financial statement line items. All significant judgements and estimates made by management are disclosed in the notes to the annual financial statements.

## 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.

## 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.

## GOODWILL

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.

## INVESTMENT IN ASSOCIATE

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 an associate are accounted for using the equity method. On initial recognition the investment in an 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 the 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 (where appropriate) 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 an associate 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 the 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 Rands at exchange rates at the reporting date. The income and expenses of foreign operations are translated to 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.

A financial asset is classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI) or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the group's business model for managing them. The group initially measures a financial asset at its fair value plus transaction costs, in the case of a financial asset not at fair value through profit or loss. Trade receivables that do not contain a significant financing component or for which the group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are "solely payments of principal and interest" (SPPIs) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the group commits to purchase or sell the asset.

### Subsequent measurement

For purposes of subsequent measurement, the group's financial assets are classified into the following categories:

- financial assets at amortised cost (debt instruments); and
- financial assets at fair value through profit or loss.

### Financial assets at amortised cost (debt instruments)

This category is the most relevant to the group. The group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPIs on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The group's financial assets at amortised cost includes trade receivables and loans receivable.

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

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not SPPIs are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments, investments in collective investment schemes and insurance cell captive.

## Cash and cash equivalents

Cash and cash equivalents are categorised as a financial asset at amortised cost 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.

## 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 OCI. 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 OCI 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 OCI 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 OCI 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.

The group designates the spot element of forward contracts as a hedge instrument. As such, the hedging relationship of the hedge instruments to the hedged risk components is equal but opposite. Hedge effectiveness testing is based on the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items. Hedge ineffectiveness arises from differences in the timing of the cash flows of the hedged items and the hedging instruments, as well as changes to the forecasted amount of cash flows of hedged items and hedging instruments. The forward element is recognised directly in a separate cost of hedging reserve under equity. The forward contracts hedge foreign currency risk relating to inventory purchases. Upon recognition of the inventory the amount accumulated in the cost of hedging reserve is removed from the reserve and recognised directly in the initial cost of inventory. This does not constitute a reclassification adjustment and will therefore be transferred directly out of equity and not through OCI.

### 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, 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

### Initial recognition and measurement
The group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

**Group as a lessee**

The group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The group recognises lease payments in respect of leases of low-value assets and short-term leases that have a lease term of 12 months or less as an expense on a straight-line basis over the lease term.

A right-of-use asset and a lease liability are recognised at the commencement date of the contract for all leases conveying the right to control the use of an identified asset for a period of time.

The right-of-use assets are initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives; and
- any initial direct cost incurred by the group.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. These include:

- fixed payments, less any lease incentive receivables;
- variable lease payments that depend on a rate, initially measured using the rate as at the commencement date;
- the exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising an option to terminate the lease.

The lease payments exclude variable elements which are dependent on external factors such as sales volume. Variable payments not included in the initial measurement of the lease liability are recognised directly in profit or loss in the period in which the event or condition that triggers payment occurs.

In calculating the present value of lease payments the group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The lease term determined by the group comprises:

- non-cancellable periods of lease contracts;
- periods covered by an option to extend the lease if the group is reasonably certain to exercise that option at the inception of the lease; and
- periods covered by an option to terminate the lease if the group is reasonably certain not to exercise that option at the inception of the lease.

### Subsequent measurement

After the commencement date the right-of-use assets are measured at cost less any accumulated depreciation, any accumulated impairment losses and adjusted for any remeasurement of the lease liability.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

The lease liability is measured by increasing the carrying value to reflect interest on the lease liability, reducing the carrying amount to reflect lease payments made and remeasuring the carrying amount to reflect any remeasurement or lease modifications.

### Covid-19 rent concessions

The group adopted the practical expedient in IFRS 16 paragraph 46A and has elected not to assess whether a rent concession that meets the conditions in IFRS 16 paragraph 46B is a lease modification. All rent concessions have been treated as negative variable lease payments.

## 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 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 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 and 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 applies the expected credit loss (ECL) model for recognition of the loss allowance on financial instruments at amortised cost. The ECL represents the present value of estimated future cash flows (excluding future losses that have not yet been incurred), discounted at the financial asset's original effective interest rate if discounting is material. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss for financial assets at amortised cost.

The group applies the simplified approach for ECLs on trade receivables. The simplified approach uses the lifetime ECLs for each class of receivables. A loss rate for each class of receivables is established, based on past losses for retail and distribution debtors. The loss rate is adjusted for forward-looking information. This rate is applied to each class of receivables to calculate the allowance.

The group established the following macroeconomic factors to influence its forward-looking assessment:

- **Retail:** The group identified pharmacy/medical regulations, inflation and foreign currency movements as items considered when the loss rates were determined.
- **Distribution:** The group identified inflation, interest rates and petrol prices as items considered when the loss rates were determined.

The macroeconomic factors considered are those factors which might influence the ability of the counterparty to settle their debt and cause the group not to recover the debt.

The group applies the general approach for establishing the allowance in terms of the ECL model for loans and other receivables. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

## 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 the accumulated IFRS 2 share-based payment expense relating to the employee share ownership scheme 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.

## 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. 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. 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 the 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 HEPS. The liability which is not expected to be settled within 12 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.

## FINANCIAL GUARANTEES

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9 – Financial Instruments; and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principals of IFRS 15 – Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

## REVENUE

### Revenue from contracts with customers

Revenue from contracts with customers is recognised upon the satisfaction of a performance obligation, when control of all goods and services are transferred to the customer and is measured at the consideration to which the group is entitled.

### Turnover
Revenue from sale of retail and wholesale goods is recognised at the point when goods are transferred to the customer. The revenue is measured at the amount to which the group expects to be entitled to with regards to the sale and is therefore the consideration less any rebates, discounts and deferred revenue.

### Distribution and logistics fee income
Distribution and logistics fee income is recognised at the point when the goods are delivered to the client, on delivery of the service and is measured at the consideration receivable less rebates and discounts.

### Advertising income
Where advertising income represents payment for a distinct service (as in co-operative agreements), income received is recognised upon the satisfaction of the performance obligation in terms of the contract, when the service is provided to the customer. Advertising income is measured at the amount as entitled by the group in terms of the contract with the customer.

### Variable consideration/deferred revenue
**Right of return**
Customers have the right to return goods purchased from the group, within the time frame as set out in the group's returns policy. The group uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the group will be entitled. For goods that are expected to be returned, instead of revenue, the group recognises a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

**Loyalty cards**
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 loyalty points give rise to a performance obligation as they provide a material right to the customer to claim a future credit. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of the points by the customer.

When estimating the stand-alone selling price of the loyalty points, the group considers the likelihood that the customer will redeem the points. The group updates its estimates of the points that will be redeemed and any adjustments to the contract liability balance are charged against revenue.

**Gift cards/vouchers**
Customers have the option of buying gift cards and vouchers at all retail stores. The vouchers may be used in-store. On purchase, the fair value (cash value) of the vouchers is recognised as a liability and is recognised as revenue on redemption of the gift cards/vouchers by the customers.

### Assets and liabilities arising from revenue from contracts with customers
**Right of return assets**
The sale of certain goods provides the customer with a right to return the asset in terms of the group's returns policy. The right of return provides the group with a probable right to receive return assets. These assets are recognised as part of inventory and are measured at the cost of assets sold that will, in all probability, be returned to the group.

**Refund liabilities**
The customer's right to return certain goods sold provides the group with a probable obligation to refund the customer with the consideration received. The refund liability is recognised as part of trade and other payables and is recognised at the consideration received for the sale of the goods, including VAT.

### 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.

## 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 is 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. The group has identified its Retail and Distribution segments as reporting segments.

## 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 have issued several standards, amendments and interpretations, with an effective date after the date of these financial statements, none of which management believes could significantly impact the group in future periods.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST

| | | Group | |
|---|---|---|---|
| | | 2020 R'000 | Restated[1] 2019 R'000 |
| 1 | **Revenue** | | |
| | Revenue from contracts with customers | | |
| | Goods sold to customers | 34 364 398 | 31 352 109 |
| | Other income | 2 166 315 | 1 960 480 |
| | Distribution and logistics fees | 1 034 318 | 927 015 |
| | Advertising and other income | 1 131 997 | 1 033 465 |
| | **Total revenue from contracts with customers** | 36 530 713 | 33 312 589 |
| | Financial income | 60 483 | 63 421 |
| | **Total revenue** | 36 591 196 | 33 376 010 |
| 2 | **Depreciation and amortisation** | | |
| | Depreciation of property, plant and equipment (see note 9) | 399 679 | 343 373 |
| | Depreciation of right-of-use asset (see note 24) | 720 826 | 636 133 |
| | Amortisation of intangible assets (see note 10) | 56 639 | 56 819 |
| | **Total depreciation and amortisation** | 1 177 144 | 1 036 325 |
| | Depreciation included in cost of merchandise sold and inventories | (46 076) | (31 327) |
| | **Depreciation and amortisation included in expenses** | 1 131 068 | 1 004 998 |
| 3 | **Occupancy costs** | | |
| | Turnover rental expense | 55 670 | 67 665 |
| | Short-term leases | 8 868 | – |
| | Other rental expenses[2] | 131 231 | 122 454 |
| | Rental concessions | (10 935) | – |
| | **Total occupancy costs** | 184 834 | 190 119 |

[1] Prior-period amounts restated for the adoption of IFRS 16. Refer to note 34.

[2] Other rental expenses include expenses paid to landlords related to property leases not qualifying for IFRS 16 recognition, other than the turnover rental expense, which is separately disclosed.

| | Group 2020 R'000 | Group 2019 R'000 |
|---|---|---|
| **4 Employment costs** | | |
| Directors' emoluments (excluding incentives, see note 4.1) | **24 270** | 23 085 |
| Non-executive fees | **4 990** | 4 286 |
| Executive | **19 280** | 18 799 |
| Salary | **17 961** | 17 193 |
| Other benefits | **1 319** | 1 606 |
| Long-term incentive scheme – TSR (see note 23) | **103 000** | 20 353 |
| Release of gain on cash flow hedge to profit or loss (see note 21) | **(64 779)** | 8 883 |
| Long-term incentive scheme – HEPS (see note 23) | **38 201** | 62 202 |
| Staff salaries and wages | **3 207 847** | 3 035 654 |
| Contributions to defined contribution plans | **182 494** | 171 023 |
| Leave pay costs (see note 23) | **8 981** | 19 158 |
| Bonuses (see note 23) | **165 443** | 158 238 |
| Increase in liability for defined benefit plans (see note 23) | **1 003** | 1 390 |
| **Total employment costs** | **3 666 460** | 3 499 986 |
| Employment costs included in cost of merchandise sold and inventories | **(169 038)** | (158 124) |
| **Employment costs included in expenses** | **3 497 422** | 3 341 862 |

For further detail of directors' emoluments refer to rewarding value creation on pages 72 to 74 of the integrated annual report or note 4.1 below.

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

| | 2020 R'000 | 2019 R'000 |
|---|---|---|
| | **139 753** | 219 500 |
| Short-term employee benefits | **33 972** | 39 283 |
| Post-employment benefits | **2 593** | 3 074 |
| Short-term incentive scheme | **16 431** | 20 743 |
| Long-term incentive scheme | **86 757** | 151 711 |
| Termination benefits | **–** | 1 689 |
| Other benefits | **–** | 3 000 |
| Non-executive directors' fees | **4 990** | 4 286 |
| | **144 743** | 223 786 |

### 4.1 Directors' remuneration

**Executive directors' remuneration**

| Director (R'000) | Salary | Pension fund | Other benefits | Total annual guaranteed pay | RONA short-term incentive | Performance-based long-term incentive[1] | Total variable pay | Total |
|---|---|---|---|---|---|---|---|---|
| **2020** | | | | | | | | |
| Bertina Engelbrecht | **4 025** | **475** | **–** | **4 500** | **2 279** | **15 828** | **18 107** | **22 607** |
| Michael Fleming | **6 044** | **429** | **57** | **6 530** | **3 307** | **23 133** | **26 440** | **32 970** |
| Vikesh Ramsunder[3] | **7 892** | **358** | **–** | **8 250** | **5 014** | **18 871** | **23 885** | **32 135** |
| **Total** | **17 961** | **1 262** | **57** | **19 280** | **10 600** | **57 832** | **68 432** | **87 712** |
| **2019** | | | | | | | | |
| Bertina Engelbrecht | 3 757 | 443 | – | 4 200 | 1 976 | 12 009 | 13 985 | 18 185 |
| Michael Fleming | 5 682 | 391 | 57 | 6 130 | 2 884 | 17 413 | 20 297 | 26 427 |
| David Kneale[2] | 3 567 | 234 | 1 | 3 802 | – | – | – | 3 802 |
| Vikesh Ramsunder[3] | 4 187 | 309 | 171 | 4 667 | 3 499 | 14 011 | 17 510 | 22 177 |
| **Total** | 17 193 | 1 377 | 229 | 18 799 | 8 359 | 43 433 | 51 792 | 70 591 |

1 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.
2 David Kneale retired as an executive director on 1 January 2019.
3 Vikesh Ramsunder was appointed as an executive director on 1 January 2019.

The total number of ordinary shares in issue is 248 662 647 (2019: 262 083 439). The percentage of issued share capital held by directors is 0.10% (2019: 0.09%).

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

## 4 Employment costs (continued)

### 4.1 Directors' remuneration (continued)

**Non-executive directors' remuneration**

| Director (R'000) | 2020 directors' fees Holding company | 2020 directors' fees Subsidiary companies | 2020 directors' fees Total | 2019 directors' fees Holding company | 2019 directors' fees Subsidiary companies | 2019 directors' fees Total |
|---|---|---|---|---|---|---|
| David Nurek | **1 419** | **–** | **1 419** | 1 303 | – | 1 303 |
| Fatima Abrahams[1] | **693** | **155** | **848** | 591 | 146 | 737 |
| John Bester | **796** | **–** | **796** | 716 | – | 716 |
| Fatima Daniels[2] | **530** | **155** | **685** | 494 | 146 | 640 |
| Nonkululeko Gobodo | **555** | **–** | **555** | 494 | – | 494 |
| Martin Rosen | **465** | **–** | **465** | 396 | – | 396 |
| Mfundiso Njeke[3] | **222** | **–** | **222** | – | – | – |
| **Total** | **4 680** | **310** | **4 990** | 3 994 | 292 | 4 286 |
| **Total directors' remuneration** | | | | | | |
| Executive directors | | | **87 712** | | | 70 591 |
| Non-executive directors | | | **4 990** | | | 4 286 |
| **Total directors' remuneration** | | | **92 702** | | | 74 877 |

[1] The fees paid to Professor Abrahams include fees for her role as chairperson of The Clicks Group Employee Share Ownership Trust and for her appointment as director of Clicks Retailers Proprietary Limited and New Clicks South Africa Proprietary Limited.
[2] The fees paid to Fatima Daniels include fees for her appointment as director of Clicks Retailers Proprietary Limited and New Clicks South Africa Proprietary Limited.
[3] Appointed as a non-executive director effective 1 March 2020.

| | Group 2020 R'000 | Group Restated* 2019 R'000 |
|---|---|---|
| **5 Other costs** | | |
| Other operating costs include: | | |
| Fees paid for outside services | | |
| Technical services | **17 931** | 16 351 |
| Decrease in financial assets at fair value through profit or loss | **3 252** | 7 112 |
| Foreign exchange (gains)/losses – realised | **(756)** | 1 492 |
| Water and electricity | **240 300** | 190 196 |
| Retail | **221 725** | 175 371 |
| Distribution | **18 575** | 14 825 |
| **6 Net financing expense** | | |
| Recognised in profit or loss: | | |
| Interest income on bank deposits and investments | **59 563** | 62 788 |
| Other interest income | **920** | 633 |
| Financial income | **60 483** | 63 421 |
| Interest expense on financial liabilities measured at amortised cost | **221 587** | 219 887 |
| Cash interest expense | **7 635** | 4 477 |
| Lease liability interest expense (see note 24) | **213 952** | 215 410 |
| Other interest expense (see note 23.2) | **14 346** | 19 288 |
| Financial expense | **235 933** | 239 175 |
| **Net financing expense** | **(175 450)** | (175 754) |

* Prior-period amounts restated for the adoption of IFRS 16. Refer to note 34.

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 R'000 | Restated* 2019 R'000 | 2020 R'000 | 2019 R'000 |
| **7 Income tax expense** | | | | |
| South African normal tax | | | | |
| Current tax | | | | |
| Current year | **709 729** | 227 099 | **49** | 619 |
| Capital gains tax | **–** | 1 466 | **–** | 1 466 |
| Prior-year overprovision | **(14 819)** | (13 997) | **–** | – |
| Deferred tax | | | | |
| Current year | **(18 741)** | 407 318 | **–** | – |
| Prior-year (overprovision)/underprovision | **(266)** | 11 163 | **–** | – |
| Withholding tax | **–** | 1 319 | **–** | – |
| Foreign tax | | | | |
| Current tax | | | | |
| Current year | **19 705** | 11 409 | **–** | – |
| Withholding tax | **4 212** | 9 344 | **–** | – |
| Deferred tax | | | | |
| Current year | **3 996** | (2 727) | **–** | – |
| Prior-year underprovision/(overprovision) | **3** | (279) | **–** | – |
| **Taxation per statement of comprehensive income** | **703 819** | 652 115 | **49** | 2 085 |
| Deferred tax – current year | **(626)** | 7 523 | **–** | – |
| Cash flow hedge recognised in other comprehensive income | **23 512** | (5 397) | **–** | – |
| Cash flow hedge recognised in equity | **(27 988)** | (14 180) | **–** | – |
| Equity-settled transaction recognised in equity (see note 20) | **–** | 26 699 | **–** | – |
| Remeasurement of post-employment benefit obligations | **3 872** | 2 464 | **–** | – |
| Cost of hedging reserve | **(22)** | (2 063) | **–** | – |
| **Total income tax charge** | **703 193** | 659 638 | **49** | 2 085 |
| *Reconciliation of rate of tax* | **%** | % | **%** | % |
| Standard rate – South Africa | **28.00** | 28.00 | **28.00** | 28.00 |
| Adjusted for: | | | | |
| Disallowable expenditure[1] | **0.35** | 0.37 | **–** | 0.01 |
| Exempt income and allowances[2] | **(0.57)** | (0.72) | **(28.00)** | (27.96) |
| Foreign tax rate variations | **(0.12)** | (0.06) | **–** | – |
| Foreign withholding tax | **0.16** | 0.45 | **–** | – |
| Prior-year net overprovision | **(0.58)** | (0.15) | **–** | – |
| Capital gains tax | **–** | 0.06 | **–** | 0.13 |
| **Effective tax rate** | **27.24** | 27.95 | **–** | 0.18 |

* Prior-period amounts restated for the adoption of IFRS 16. Refer to note 34.

1 Disallowable expenditure consists of expenses not in the production of income and expenditure of a capital nature, which includes legal fees, consulting fees, share expenses and donations.

2 Exempt income consists of tax-free allowances received.

One of the subsidiary companies of the group has an estimated tax loss of R64.9 million (2019: R82.2 million) available for set-off against future taxable income of that subsidiary company. A deferred tax asset of R21.6 million (2019: R27.2 million) has been recognised in respect of the total estimated tax loss (see note 12).

| | Group | |
|---|---|---|
| | 2020 R'000 | Restated* 2019 R'000 |

## 8 Earnings per share

The calculation of basic and headline earnings per share at 31 August 2020 was based on profit for the year attributable to ordinary shareholders of Clicks Group Limited of R1 880.2 million (2019: R1 681.1 million) and headline earnings of R1 887.4 million (2019: R1 682.1 million) divided by the weighted average number of ordinary shares as follows:

| | 2020 R'000 | Restated* 2019 R'000 |
|---|---|---|
| *Reconciliation of headline earnings* | | |
| Profit attributable to equity holders of the parent | **1 880 175** | 1 681 122 |
| Adjusted for: | | |
| | **7 199** | 958 |
| Loss on disposal of property, plant and equipment | **8 337** | 351 |
| Tax on disposal of property, plant and equipment | **(2 334)** | (97) |
| Loss on disposal of investment in subsidairy company | **1 196** | – |
| Goodwill impairment | **–** | 704 |
| **Headline earnings** | **1 887 374** | 1 682 080 |

| | 2020 cents | Restated* 2019 cents |
|---|---|---|
| Earnings per share | **751.4** | 674.8 |
| Headline earnings per share | **754.3** | 675.2 |
| Diluted earnings per share | **751.4** | 663.2 |
| Diluted headline earnings per share | **754.3** | 663.6 |

| | 2020 '000 | 2019 '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 | **262 083** | 253 948 |
| Treasury shares held and cancelled in the current year | **(10 559)** | (9 443) |
| Ordinary shares acquired and cancelled during the year weighted for the period held | **(1 313)** | (60) |
| Ordinary shares issued during the year weighted for the period held | **–** | 4 680 |
| **Weighted average number of shares in issue for the year** | **250 212** | 249 125 |
| *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) | **250 212** | 249 125 |
| Dilutive effect of share options (net of treasury shares) | **–** | 4 346 |
| **Weighted average diluted number of shares in issue for the year** | **250 212** | 253 471 |

* Prior-period amounts restated for the adoption of IFRS 16. Refer to note 34.

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | 2018 | |
| | 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 | **568 554** | **68 650** | 560 059 | 64 376 | 518 511 | 58 041 |
| Computer equipment | **579 299** | **388 564** | 552 428 | 370 308 | 496 298 | 329 100 |
| Equipment | **413 379** | **237 750** | 385 620 | 227 908 | 335 736 | 196 273 |
| Furniture and fittings | **2 640 650** | **1 435 058** | 2 500 992 | 1 321 930 | 2 122 936 | 1 100 554 |
| Motor vehicles | **53 324** | **30 319** | 52 117 | 25 467 | 52 309 | 24 229 |
| | **4 281 015** | **2 160 341** | 4 077 025 | 2 009 989 | 3 551 599 | 1 708 197 |

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 2018** | 25 809 | 460 470 | 167 198 | 139 463 | 1 022 382 | 28 080 | 1 843 402 |
| Additions | – | 41 565 | 80 111 | 56 430 | 385 315 | 6 082 | 569 503 |
| Disposals | – | (16) | (196) | (43) | (893) | (1 348) | (2 496) |
| Depreciation | – | (6 336) | (64 993) | (38 138) | (227 742) | (6 164) | (343 373) |
| **Carrying amount at 31 August 2019** | **25 809** | **495 683** | **182 120** | **157 712** | **1 179 062** | **26 650** | **2 067 036** |
| Additions | **–** | **8 880** | **85 512** | **66 123** | **298 659** | **3 441** | **462 615** |
| Disposals | **–** | **–** | **(440)** | **(247)** | **(8 095)** | **(516)** | **(9 298)** |
| Depreciation | **–** | **(4 659)** | **(76 457)** | **(47 959)** | **(264 034)** | **(6 570)** | **(399 679)** |
| **Carrying amount at 31 August 2020** | **25 809** | **499 904** | **190 735** | **175 629** | **1 205 592** | **23 005** | **2 120 674** |

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | 2018 | |
| | Cost R'000 | Accumulated amortisation and impairment losses R'000 | Cost R'000 | Accumulated amortisation and impairment losses R'000 | Cost R'000 | 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 | **1 217** | **1 005** | 1 217 | 842 | 1 116 | 693 |
| Capitalised and purchased computer software development | **535 809** | **246 256** | 429 357 | 212 545 | 385 973 | 187 255 |
| Contractual rights (see note 10.2) | **33 858** | **26 923** | 30 909 | 23 018 | 25 633 | 20 013 |
| | **848 884** | **280 184** | 739 483 | 242 405 | 690 722 | 213 961 |

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

| | Clicks trademark R'000 | Other trademarks and contractual rights R'000 | Capitalised software development R'000 | Total R'000 |
|---|---|---|---|---|
| **Carrying amount at 1 September 2018** | 272 000 | 6 043 | 198 718 | 476 761 |
| Additions | – | 5 376 | 71 835 | 77 211 |
| Amortisation | – | (3 153) | (53 666) | (56 819) |
| Disposals | – | – | (75) | (75) |
| **Carrying amount at 31 August 2019** | **272 000** | **8 266** | **216 812** | **497 078** |
| Additions | **–** | **2 949** | **125 319** | **128 268** |
| Amortisation | **–** | **(4 068)** | **(52 571)** | **(56 639)** |
| Disposals | **–** | **–** | **(7)** | **(7)** |
| **Carrying amount at 31 August 2020** | **272 000** | **7 147** | **289 553** | **568 700** |

**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 2020 financial year, whereafter a perpetuity growth rate of 7.0% (2019: 7.0%) 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 12.5% (2019: 13.2%) 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 reasonably possible change in any of these assumptions would not cause the carrying amounts to exceed their recoverable amounts.

10.2 During the year the group acquired contractual rights relating to medicine formulas. These contractual rights are amortised over five years.

| | Group | |
|---|---|---|
| | 2020 R'000 | 2019 R'000 |
| **11 Goodwill** | | |
| Goodwill | **102 806** | 102 806 |
| Goodwill comprises: | | |
| United Pharmaceutical Distributors Proprietary Limited (UPD) (see note 11.1) | **96 277** | 96 277 |
| Amalgamated Pharmacy Group Proprietary Limited (Amalgamated Pharmacy Group) (see note 11.2) | **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 2020 financial year, whereafter a perpetuity growth rate of 6.5% (2019: 6.5%) 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 12.5% (2019: 13.2%) 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 reasonably possible change in any of these assumptions would not cause the carrying amounts to exceed their recoverable amounts.

11.2 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 2020 financial year, whereafter a perpetuity growth rate of 7.0% (2019: 7.0%) 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 12.5% (2019: 13.2%) 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 reasonably possible change in any of these assumptions would not cause the carrying amounts to exceed their recoverable amounts.

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 R'000 | Restated* 2019 R'000 | 2020 R'000 | 2019 R'000 |
| **12 Deferred tax assets/(liabilities)** | | | | |
| Deferred tax assets | **110 694** | 95 060 | **–** | – |
| | **110 694** | 95 060 | **–** | – |
| Balance at the beginning of the year | **95 060** | 518 058 | **–** | – |
| Current deferred tax credit/(charge) to profit or loss (see note 7) | **15 008** | (415 475) | **–** | – |
| Current deferred tax credit/(charge) to other comprehensive income or equity (see note 7) | **626** | (7 523) | **–** | – |
| **Balance at the end of the year** | **110 694** | 95 060 | **–** | – |
| Arising as a result of: | | | | |
| Capital gains tax | **(48 110)** | (48 110) | **–** | – |
| Derivative financial assets and liabilities | **(57 669)** | (60 991) | **–** | – |
| Employee obligations | **135 921** | 152 533 | **–** | – |
| Income and expense accrual | **129 434** | 112 566 | **–** | – |
| Inventory | **51 406** | 41 984 | **–** | – |
| Lease liabilities | **112 927** | 104 418 | **–** | – |
| Prepayments | **(27 006)** | (24 022) | **–** | – |
| Property, plant and equipment | **(131 652)** | (127 038) | **–** | – |
| Tax losses | **21 615** | 27 156 | **–** | – |
| Trademarks | **(76 172)** | (76 172) | **–** | – |
| Other | **–** | (7 264) | **–** | – |
| **Balance at the end of the year** | **110 694** | 95 060 | **–** | – |

* Prior-period amounts restated for the adoption of IFRS 16. Refer to note 34.

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 include a debit of R4.5 million (2019: R19.6 million credit) recognised in other comprehensive income and equity.

In respect of the deferred tax asset recognised by one (2019: 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.

## 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, paid during 2016 and 2017 respectively, on achievement of turnover targets.

Sorbet Brands holds all the trademark rights of the Sorbet brand in South 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 | |
|---|---|---|
| | 2020 R'000 | 2019 R'000 |
| **Assets** | | |
| Non-current assets | **80 000** | 80 000 |
| Current assets | **2 020** | 1 103 |
| **Liabilities** | | |
| Current liabilities | **1 771** | 739 |
| **Equity** | **80 249** | 80 364 |
| **Group's carrying amount of the investment** | **20 062** | 20 091 |
| **Summarised statement of comprehensive income** | | |
| Income | **18 826** | 22 304 |
| Expenses | **(7 132)** | (6 732) |
| **Profit before taxation** | **11 694** | 15 572 |
| Income tax expense | **(3 274)** | (4 360) |
| **Profit for the year** | **8 420** | 11 212 |
| **Total comprehensive income for the year** | **8 420** | 11 212 |
| Group's proportionate share of profit for the year | **2 105** | 2 803 |
| Dividends received from associate | **2 134** | 2 362 |

## 14 Loans receivable

| | Group | |
|---|---|---|
| | 2020 R'000 | 2019 R'000 |
| AfroBotanics Proprietary Limited (see note 14.1) | **1 500** | 1 500 |
| Brian Philippe Thomas Proprietary Limited shareholders (see note 14.2) | **911** | 1 579 |
| UPD Owner-Driver Initiative (see note 14.3) | **7 055** | 6 830 |
| JGB Couriers Proprietary Limited (see note 14.4) | **142** | 222 |
| **Non-current loans receivable** | **9 608** | 10 131 |
| Brian Philippe Thomas Proprietary Limited shareholders (see note 14.2) | **1 252** | 524 |
| JGB Couriers Proprietary Limited (see note 14.4) | **87** | 87 |
| **Current loans receivable** | **1 339** | 611 |
| **Total loans receivable** | **10 947** | 10 742 |

## 14 Loans receivable (continued)

14.1 The loan is unsecured, interest free and repayable within 10 business days of demand.

14.2 Brian Philippe Thomas Proprietary Limited was indebted to Clicks Retailers Proprietary Limited for the amount of R3 000 000. On 15 December 2017 Clicks Retailers Proprietary Limited and the shareholders of Brian Philippe Thomas Proprietary Limited concluded a loan agreement for the amount of R3 000 000 to discharge the debt owed by Brian Philippe Thomas Proprietary Limited to Clicks Retailers Proprietary Limited. The loan is interest free and is repayable in five equal instalments of R600 000 per annum on 30 November each year. The annual repayments are in the form of the annual management fees due to Brian Philippe Thomas Proprietary Limited, in terms of the acquisition agreement of the Prospur Pharmacy, to be allocated to loan instalments due by the co-principal debtors. The loan is secured via a second mortgage bond of R900 000 and a fourth mortgage bond of R2 100 000.

14.3 The amount relates to loans to various individuals who participate in the UPD Owner-Driver Scheme. The loans are interest free, were advanced on 1 August 2018 and are expected to be repaid after five years.

14.4 The loan is unsecured, interest free and repayable by 30 April 2023 in monthly instalments.

| | Group | |
|---|---|---|
| | **2020 R'000** | 2019 R'000 |
| **15 Financial assets at fair value through profit or loss** | | |
| Investment in Guardrisk Insurance Company Limited (Cell number 171) (see note 15.1) | **7 179** | 9 618 |
| Collective investment scheme funds (see note 15.2) | **106 772** | 65 752 |
| **Total financial assets at fair value through profit or loss** | **113 951** | 75 370 |

15.1 The investment in Guardrisk Insurance Company Limited 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.

15.2 The New Clicks Foundation Trust invests primarily in collective investment scheme funds.

| | Group | | | |
|---|---|---|---|---|
| | **2020** | | 2019 | |
| | **Assets R'000** | **Liabilities R'000** | Assets R'000 | Liabilities R'000 |
| **16 Derivative financial instruments** | | | | |
| **Non-current** | | | | |
| Equity derivative hedge | **112 833** | **–** | 131 962 | – |
| **Current** | | | | |
| Equity derivative hedge | **99 338** | **–** | 77 063 | – |
| Forward exchange contracts | **2 404** | **(2 370)** | 25 312 | – |
| | **101 742** | **(2 370)** | 102 375 | – |

**Equity derivative hedge**
European call options have been purchased to hedge the cash-settled share-based payment obligation relating to tranches 12, 13 and 14 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 on 31 August 2020, 2021 and 2022 respectively.

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 2020 was R779 million (2019: R634.4 million). Refer to note 21 detailing the foreign exchange hedging impact on profit or loss and other comprehensive income.

## 17 Inventories

| | Group 2020 R'000 | Group 2019 R'000 |
|---|---|---|
| Inventories comprise: | | |
| Goods for resale | **4 639 855** | 4 464 407 |
| Right of return asset | **25 418** | 25 198 |
| Goods in transit | **255 646** | 220 564 |
| **Total inventories** | **4 920 919** | 4 710 169 |
| Inventories stated at net realisable value* | **107 854** | 95 809 |
| The group's inventory balance is stated net of impairment allowances. The analysis of impairment allowances are as follows: | | |
| Balance at the beginning of the year | **84 278** | 74 168 |
| Inventory allowance raised during the year | **34 739** | 33 572 |
| Inventory allowance derecognised on sale of goods | **(34 645)** | (23 462) |
| Balance at the end of the year | **84 372** | 84 278 |

* 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.

## 18 Trade and other receivables

| | Group 2020 R'000 | Group Restated* 2019 R'000 |
|---|---|---|
| Trade and other receivables comprise: | | |
| Trade receivables | **1 914 012** | 1 920 050 |
| Less: impairment of trade receivables | **(25 029)** | (23 278) |
| Trade receivables – net | **1 888 983** | 1 896 772 |
| Prepayments | **101 146** | 91 668 |
| Income accruals | **290 027** | 372 048 |
| Logistics fees receivable | **221 133** | 192 545 |
| Other (refer to note 18.1) | **65 926** | 14 090 |
| **Total trade and other receivables** | **2 567 215** | 2 567 123 |

* Prior-period amounts restated for the adoption of IFRS 16. Refer to note 34.

The carrying amount of trade and other receivables approximates their fair value. Trade and other receivables are predominantly non-interest bearing. Refer to note 28.4 for the credit risk management of trade and other receivables.

Impairment losses are recorded in the allowance account until the group is satisfied that the amount is irrecoverable and is written off against the financial asset directly. Impairment losses have been included in the statement of comprehensive income.

The movement in the allowance for impairment loss in respect of trade receivables during the year was as follows:

| | Group 2020 R'000 | Group 2019 R'000 |
|---|---|---|
| Balance at 1 September | **23 278** | 27 610 |
| Impairment provision raised | **10 072** | 2 299 |
| Impairment loss utilised | **(8 321)** | (6 631) |
| Balance at 31 August | **25 029** | 23 278 |
| The impairment allowance in the statement of comprehensive income can be reconciled as follows: | | |
| Trade receivables impairment allowance | **(10 072)** | (2 299) |
| Other receivables impairment recovery | **6 294** | 970 |
| | **(3 778)** | (1 329) |

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

## 19 Share capital and share premium

| | Group and Company 2020 R'000 | 2019 R'000 |
|---|---|---|
| **Authorised – group and company** | | |
| 600 million (2019: 600 million) ordinary shares of one cent each | **6 000** | 6 000 |
| Nil (2019: 50 million) "A" ordinary shares of one cent each | **–** | 500 |
| **Issued ordinary shares – group and company** | | |
| 248.663 million (2019: 262.083 million) ordinary shares of one cent each | **2 487** | 2 621 |
| Share premium – group | **1 064 953** | 1 064 953 |
| Share premium – company | **3 301 189** | 3 301 189 |

The company and the group have different values for share premium due to the issue of ordinary shares at the 30-day VWAP on 2 February 2018 and 4 February 2019 which was settled by The Clicks Group Employee Share Ownership Trust, a subsidiary of the group. Other differences arose in previous years, being preliminary expenses written off against share premium related to the acquisition of certain businesses in 1996 and the cancellation of shares at a holding company level at market value while on consolidation the cancellation was carried out at cost.

| | Group and Company Total 2020 '000 | Total 2019 '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 | **248 663** | 262 083 |
| Treasury shares held at the end of the year | **–** | (10 559) |
| **Net number of shares in issue at the end of the year** | **248 663** | 251 524 |

Of the shares in issue, the group holds the following treasury shares:

| | Group R'000 | R'000 |
|---|---|---|
| Shares held by a subsidiary – nil (2019: 10.559 million) ordinary shares of one cent each – cost | **–** | 913 194 |

10 558 528 ordinary shares were cancelled during the current financial year. In addition, the group repurchased and cancelled 2 862 264 Clicks Group Limited ordinary shares.

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.

## 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 Share 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.

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

| | Group | |
|---|---|---|
| | Number of shares 2020 | Number of shares 2019 |
| "A" shares issued in terms of the ESOP | – | – |

**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/ reinstated during the year | Balance at the end of the year |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| February 2011 | R41.54 | 6 385 759 | – | (6 361 191) | (24 568) | – |
| February 2012 | R41.11 | 912 282 | – | (907 099) | (5 183) | – |
| February 2013 | R60.00 | 1 508 220 | – | (1 505 511) | (2 709) | – |
| February 2014 | R56.78 | 1 024 937 | – | (1 011 144) | (13 793) | – |
| February 2015 | R90.32 | 999 342 | – | (996 299) | (3 043) | – |
| February 2016 | R86.75 | 168 049 | – | (172 415) | 4 366 | – |
| February 2017 | R120.29 | 92 272 | – | (100 519) | 8 247 | – |

## 20 Share option reserve (continued)

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

Options granted were valued using the Monte Carlo option pricing model by an independent, external valuator. The fair value of the options determined at the grant date was amortised over the vesting period to the extent that the options were ultimately 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 |
| February 2017 – one-year vesting period | R120.29 | 7.36 | 2.00 | 24.00 | 9.00 |
| February 2017 – two-year vesting period | R120.29 | 7.36 | 2.00 | 24.00 | 9.00 |

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 five-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 | |
|---|---|---|
| | 2020 R'000 | 2019 R'000 |
| **Share option reserve** | | |
| Balance at the beginning of the year | – | 578 184 |
| | – | (578 184) |
| Transferred to share premium | – | (551 485) |
| Deferred tax recorded directly in equity arising on consolidation | – | (26 699) |
| **Balance at the end of the year** | – | – |
| | – | – |
| Equity-settled share-based payment expense in opening retained earnings | – | 163 356 |
| Transferred to share premium | – | (163 356) |
| **Estimate of options not yet vested but expected to vest** | – | – |

| | Group 2020 R'000 | 2019 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 | **23 195** | 73 536 |
| Movement relating to forward exchange contracts, net of deferred tax | **(18 143)** | (6 641) |
| Total gain for the year recognised in other comprehensive income | **53 827** | 29 823 |
| Gains reclassified to inventories directly from the statement of changes in equity | **(71 970)** | (36 464) |
| Movement relating to the equity derivative hedge, net of deferred tax | **6 634** | (43 700) |
| Total gain/(loss) for the year in other comprehensive income | **53 275** | (50 096) |
| (Gains)/losses reclassified to employment costs through other comprehensive income | **(46 641)** | 6 396 |
| **Balance at the end of the year** | **11 686** | 23 195 |

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

| | Group 2020 R'000 | Restated* 2019 R'000 |
|---|---|---|
| **22 Foreign currency translation reserve** | | |
| Unrealised gain on the translation of assets and liabilities of subsidiary companies whose financial statements are denominated in foreign currencies | **8 638** | 4 743 |
| | **8 638** | 4 743 |
| *Reconciliation of foreign currency translation reserve* | | |
| Balance at the beginning of the year | **4 743** | 6 965 |
| Exchange differences on translation of foreign subsidiaries | **3 895** | (2 222) |
| **Balance at the end of the year** | **8 638** | 4 743 |

* Prior-period amounts restated for the adoption of IFRS 16. Refer to note 34.

| | Group 2020 R'000 | Group 2019 R'000 |
|---|---|---|
| **23 Employee benefits** | | |
| Long-term incentive schemes | **91 785** | 137 328 |
| Post-retirement medical obligations | **52 931** | 61 672 |
| **Total long-term employee benefits** | **144 716** | 199 000 |
| *Accounted for as follows:* | | |
| Long-term employee benefits recognised in terms of IFRS 2 – Share-based Payments (see note 23.1) | **46 863** | 63 977 |
| Long-term employee benefits recognised in terms of IAS 19 – Employee Benefits (see note 23.2) | **97 853** | 135 023 |
| **Total long-term employee benefits** | **144 716** | 199 000 |

**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 31 August 2018** | 108 167 |
| Expense from cash-settled share-based payment | 20 353 |
| Reclassification to short-term benefits | (64 543) |
| **Balance at 31 August 2019** | **63 977** |
| Expense from cash-settled share-based payment | **103 000** |
| Early settlement | **(22 946)** |
| Actuarial gain on early settlement | **(477)** |
| Reclassification to short-term benefits | **(96 691)** |
| **Balance at 31 August 2020** | **46 863** |

## 23 Employee benefits (continued)

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

During 2020 the group issued 0.6 million (2019: 0.5 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 September 2016 options were settled during the year.

The September 2017 options outstanding at year-end are due for settlement.

The contractual life of the September 2018 options outstanding at year-end was one year.

The contractual life of the September 2019 options outstanding at year-end was two years.

**Details of share option allocations – 2020**

| | 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 2016 options | – | 741 300 | – | (741 300) | – | – |
| September 2017 options | R183.34 | 750 537 | – | (216 838) | (3 723) | 529 976 |
| September 2018 options | R89.75 | 455 072 | – | – | (2 482) | 452 590 |
| September 2019 options | R124.05 | – | 557 019 | – | – | 557 019 |

* The exercise date VWAP at which the options were delivered was R199.01.

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

| | Share price at grant date | Risk-free rate (%) | Expected dividend yield (%) | Expected volatility (%) | Expected forfeiture rate (%) |
|---|---|---|---|---|---|
| September 2017 options – three-year vesting period | R146.10 | 3.81 | 2.40 | 39.09 | 4.00 |
| September 2018 options – three-year vesting period | R193.96 | 3.81 | 2.40 | 39.09 | 4.00 |
| September 2019 options – three-year vesting period | R199.01 | 3.81 | 2.40 | 39.09 | 4.00 |

**Details of share option allocations – 2019**

| | 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 2015 options | – | 910 021 | – | (910 021) | – | – |
| September 2016 options | R109.61 | 782 254 | – | – | (40 954) | 741 300 |
| September 2017 options | R110.45 | 808 531 | – | – | (57 994) | 750 537 |
| September 2018 options | R82.46 | – | 477 695 | – | (22 623) | 455 072 |

* The exercise date VWAP at which the options were delivered was R193.96.

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

| | Share price at grant date | Risk-free rate (%) | Expected dividend yield (%) | Expected volatility (%) | Expected forfeiture rate (%) |
|---|---|---|---|---|---|
| September 2016 options – three-year vesting period | R126.03 | 6.59 | 2.05 | 32.02 | 4.00 |
| September 2017 options – three-year vesting period | R146.10 | 6.59 | 2.05 | 32.02 | 4.00 |
| September 2018 options – three-year vesting period | R193.96 | 6.59 | 2.05 | 32.02 | 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 12-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)

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

| Long-term employee benefits | Long-term incentive scheme – HEPS (note 23.3) R'000 | Post-retirement medical obligations (note 23.4) R'000 | Total R'000 |
|---|---|---|---|
| **Balance at 1 September 2018** | 74 003 | 63 237 | 137 240 |
| Current service cost | 68 810 | 1 390 | 70 200 |
| Benefit payments | – | (1 390) | (1 390) |
| Interest cost | 12 052 | 7 236 | 19 288 |
| Actuarial gain recognised in profit or loss | (6 608) | – | (6 608) |
| Actuarial gain recognised in other comprehensive income – financial assumptions | – | (2 079) | (2 079) |
| Actuarial gain recognised in other comprehensive income – demographic assumptions | – | (6 722) | (6 722) |
| Reclassification to short-term employee benefits | (74 906) | – | (74 906) |
| **Balance at 31 August 2019** | **73 351** | **61 672** | **135 023** |
| Current service cost | **61 978** | **1 003** | **62 981** |
| Benefit payments | **(16 099)** | **(1 003)** | **(17 102)** |
| Interest cost | **9 259** | **5 087** | **14 346** |
| Actuarial gain recognised in profit or loss | **(23 777)** | **–** | **(23 777)** |
| Actuarial gain recognised in other comprehensive income – financial assumptions | **–** | **(5 490)** | **(5 490)** |
| Actuarial gain recognised in other comprehensive income – demographic assumptions | **–** | **(8 338)** | **(8 338)** |
| Reclassification to short-term employee benefits | **(59 790)** | **–** | **(59 790)** |
| **Balance at 31 August 2020** | **44 922** | **52 931** | **97 853** |

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

During 2020 the group issued 1.4 million (2019: 1.3 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 R79.63 (2019: R68.10, adjusted from R69.36 for the adoption of IFRS 16 – Leases) 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 difference 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 Employee benefits (continued)

### 23.4 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 R52.9 million (2019: R61.7 million). Provision has been made for the full unfunded liability.

The principal actuarial assumptions at the last valuation date (31 August 2020) are:

(i) a discount rate of 11.5% (2019: 8.3%) per annum;

(ii) general increases to medical aid contributions of 7.9% (2019: 6.3%);

(iii) a retirement age of 65 (2019: 65);

(iv) husbands are on average four (2019: 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.

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):

| | 2020<br>R'000 | 2019<br>R'000 |
|---|---|---|
| – Medical aid inflation increases by 1% per annum over assumptions made | **7 156** | 9 414 |
| – Medical aid inflation decreases by 1% per annum over assumptions made | **(6 119)** | (7 773) |
| – Discount rate increases by 1% per annum over assumptions made | **(5 818)** | (7 473) |
| – Discount rate decreases by 1% per annum over assumptions made | **6 879** | (9 178) |
| – Retirement age decreases by two years | **4 536** | 5 816 |
| – Life expectancy of male pensioners increases by one year | **739** | 967 |
| – Life expectancy of male pensioners decreases by one year | **(849)** | (945) |
| – Life expectancy of female pensioners increases by one year | **(1 094)** | 1 307 |
| – Life expectancy of female pensioners decreases by one year | **974** | (1 295) |
| The following undiscounted payments are expected contributions in future years from post-retirement medical obligations: | | |
| Within 12 months | **2 350** | 2 597 |
| Between 2 and 5 years | **11 579** | 12 212 |
| Between 5 and 10 years | **21 048** | 21 904 |
| Between 10 and 20 years | **82 160** | 84 678 |
| Between 20 and 30 years | **113 111** | 118 558 |
| Between 30 and 40 years | **84 873** | 91 467 |
| Beyond 40 years | **38 661** | 45 773 |
| **Total expected payments** | **353 782** | 377 189 |

The average duration of the post-retirement medical obligations at year-end is 16.0 years (2019: 17.0 years).

## 23 Employee benefits (continued)

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

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

| | Post-retirement medical obligations | | | | |
|---|---|---|---|---|---|
| | 2020 R'000 | 2019 R'000 | 2018 R'000 | 2017 R'000 | 2016 R'000 |
| Defined benefit obligation | **52 931** | 61 671 | 63 237 | 58 603 | 58 644 |

| **Short-term employee benefits** | Long-term incentive scheme – TSR (note 23.1) R'000 | Long-term incentive scheme – HEPS (note 23.3) R'000 | Leave pay accrual (note 23.5) R'000 | Bonus accrual (note 23.6) R'000 | Overtime accrual (note 23.7) R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 September 2018** | 182 257 | 45 732 | 71 844 | 114 699 | 3 684 | 418 216 |
| Reclassification from long-term employee benefits | 64 543 | 74 906 | – | – | – | 139 449 |
| Benefit payments | (165 549) | (46 172) | (11 126) | (146 468) | (21 920) | (391 235) |
| Charge included in profit or loss | – | – | 19 158 | 158 238 | 22 392 | 199 788 |
| **Balance at 31 August 2019** | **81 251** | **74 466** | **79 876** | **126 469** | **4 156** | **366 218** |
| Reclassification from long-term employee benefits | **96 691** | **59 790** | **–** | **–** | **–** | **156 481** |
| Benefit payments | **(80 776)** | **(74 325)** | **(7 881)** | **(164 133)** | **(33 318)** | **(360 433)** |
| Charge included in profit or loss | **–** | **–** | **8 981** | **165 443** | **37 739** | **212 163** |
| **Balance at 31 August 2020** | **97 166** | **59 931** | **80 976** | **127 779** | **8 577** | **374 429** |

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

23.6 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.

23.7 The overtime accrual is in respect of overtime worked in August 2020 which is paid in September 2020.

## 23 Employee benefits (continued)

### 23.8 Pension and provident funds

Three funds, which are registered and governed in terms of the Pension Funds Act No. 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 Eswatini 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 15 226 (2019: 14 893) at year-end.

### 23.9 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 12 330 (2019: 11 842) South African employees were principal members of a medical aid scheme, of whom 2 286 (2019: 2 189) were principal members with Horizon, 9 973 (2019: 9 583) were principal members of a Discovery Health medical aid scheme, and 71 (2019: 70) were principal members of various other medical aid schemes.

At year-end two (2019: four) Botswana employees were principal members with BOMaid, 16 (2019: 14) Namibian employees were principal members of Namibia Health Plan and 26 (2019: 27) Eswatini employees were principal members of Momentum.

At year-end 78.7% (2019: 77.8%) 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.

## 24 Leases

The group enters into lease agreements for all of its retail stores and certain of its pharmaceutical distribution centre sites. Leases of the group's retail stores have an average lease term of six years, although leases could be negotiated with varying terms. Several of these lease contracts include renewal options. The group assesses on a contract-by-contract basis whether it's probable that, at the inception of the lease, these options will be entered into and whether the options should be capitalised to the lease term at the inception of the lease. The group discounts all future lease payments at the group's average incremental borrowing rate of 4.9% at 31 August 2020 (8.8% at 31 August 2019). The group entered into lease contracts for stores which have not opened yet, amounting to R9.1 million (2019: R38.3 million).

The group also leases items of equipment with low value or with lease terms of 12 months or less. The group applies the "short-term lease" and "lease of low-value assets" recognition exemption for these leases.

| | Total R'000 |
|---|---|
| **Reconciliation of right-of-use assets** | |
| **As at 1 September 2018 (Restated)** | 1 795 868 |
| Additions | 886 279 |
| New stores | 192 001 |
| Renewals | 694 278 |
| Depreciation | (636 133) |
| **As at 31 August 2019 (Restated)** | **2 046 014** |
| Additions | **1 023 060** |
| New stores | **170 114** |
| Renewals | **852 946** |
| Depreciation | **(720 826)** |
| Remeasurements, modifications and terminations | **22 931** |
| **As at 31 August 2020** | **2 371 179** |

## 24 Leases (continued)

| | Total R'000 |
|---|---|
| **Reconciliation of lease liabilities** | |
| **As at 1 September 2018 (Restated)** | 2 070 776 |
| Additions | 886 279 |
| New stores | 192 001 |
| Renewals | 694 278 |
| Interest | 215 410 |
| Payments | (831 267) |
| Remeasurements | 1 067 |
| **As at 31 August 2019 (Restated)** | **2 342 265** |
| Additions | **1 023 060** |
| New stores | **170 114** |
| Renewals | **852 946** |
| Interest | **213 952** |
| Payments | **(916 491)** |
| Remeasurements, modifications and terminations | **22 931** |
| **As at 31 August 2020** | **2 685 717** |

| | 2020 R'000 | Restated[1] 2019 R'000 |
|---|---|---|
| Non-current lease liabilities | **1 795 306** | 1 489 563 |
| Current lease liabilities | **890 411** | 852 702 |
| | **2 685 717** | 2 342 265 |

The group's rental agreements include both fixed and variable payments. The fixed rental payments relate to base rentals that are paid to landlords based on the contractual obligation on the group. The variable rental payments consist of both other lease-related costs not included in the lease liability, as well as turnover rentals, which represents lease payments calculated as a percentage of the turnover of the specific store. The percentage payable is determined as part of the rental agreement. Turnover rental averages 0.2% (2019: 0.2%) of turnover.

| | 2020 R'000 | Restated[1] 2019 R'000 |
|---|---|---|
| Fixed rental payments reducing the lease liability | **916 491** | 831 267 |
| Rental payments as a result of short-term leases | **29 314** | 14 187 |
| Rental payments as a result of low-value assets | **10 527** | 21 860 |
| Variable lease payments not reducing the lease liability | **177 338** | 169 761 |
| Total cash outflow | **1 133 670** | 1 037 075 |

**Maturity of lease commitments**

The group leases all of its retail premises and certain of its pharmaceutical distribution centre sites.

The lease agreements provide for minimum payments together, in certain instances, with contingent rental payments determined on the basis of achieving a specified threshold turnover.

The leases are discounted at the group's average borrowing rate.

| | 2020 R'000 | Restated[1] 2019 R'000 |
|---|---|---|
| Future minimum lease payments under non-cancellable leases due: | | |
| – Not later than one year | **890 411** | 852 702 |
| – Later than one year, not later than five years | **2 158 802** | 1 927 307 |
| – Later than five years | **89 718** | 7 577 |
| | **3 138 931** | 2 787 586 |

[1] Prior-period amounts restated for the adoption of IFRS 16. Refer to note 34.

## 25 Trade and other payables

| | Group 2020 R'000 | Group 2019 R'000 |
|---|---|---|
| The following are included in trade and other payables: | | |
| Trade payables | **5 131 959** | 5 668 481 |
| Loyalty programme deferred income (see note 25.1) | **109 052** | 94 733 |
| Refund liability | **35 578** | 35 998 |
| Non-trade payables and accruals (see note 25.2) | **1 470 388** | 1 504 280 |
| **Total trade and other payables** | **6 746 977** | 7 303 492 |
| The following are excluded from financial liabilities (see note 28.5) but included in trade and other payables: | | |
| Loyalty programme deferred income (see note 25.1) | **(109 052)** | (94 733) |
| Value-added tax | **(320 678)** | (212 750) |
| **Financial liabilities (see note 28.5)** | **6 317 247** | 6 996 009 |

25.1 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 91% of all points 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, unredeemed gift cards and income received in advance.

## 26 Dividends paid to shareholders

| | Group 2020 R'000 | Group 2019 R'000 |
|---|---|---|
| Previous year final cash dividend out of distributable reserves – 327.0 cents per share paid 27 January 2020 (2019: 277.5 cents per share paid 28 January 2019 out of distributable reserves) | **857 013** | 704 707 |
| No current year interim cash dividend was paid or declared (2019: 118.0 cents per share paid 1 July 2019 out of distributable reserves) | **–** | 298 025 |
| "A" shares – Previous year final cash dividend out of distributable reserves – No dividend paid in 2020 (2019: 38.0 cents per share paid 28 January 2019) | **–** | 5 539 |
| Total dividends paid to shareholders | **857 013** | 1 008 271 |
| Dividends on treasury shares | **(34 528)** | (26 440) |
| Dividends on "A" shares held in trust | **–** | (1 325) |
| **Dividends paid outside the group** | **822 485** | 980 506 |

On 21 October 2020 the directors approved the final proposed dividend of 450.0 cents per 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 2021.

**Dividend payout ratio**
The dividend payout ratio is 60%.

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

## 27 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.

***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 28.2. The effect of this movement is based on the outstanding forward foreign exchange contracts held by the group at year-end.

***Interest rate risk***

The group has interest-bearing assets and liabilities in the form of call deposits, money market investments and short-term borrowings. Interest-bearing assets and liabilities have variable rates which are impacted by market factors and expose the group to cash flow interest rate risk.

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

***Price risk***

The group's primary 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, money market investments, 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 expected credit 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 expected but not yet identified.

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

## 27 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 439 million and USD51 million (2019: R2 594 million and USD44 million) of which the full balance remained undrawn (2019: Rnil drawn down).

See note 28.5 for details for 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 and issue new shares. 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 2020 the shareholders' interest to total assets was 37.8% (2019: 37.0%).

## 28 Financial instruments

**Market risk**

**28.1 Treasury risk management**

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

**28.2 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 maturity of the contracts is up to six months after year-end.

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 2020** | | | | 31 August 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| **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 | **21 833** | **6 118** | **11 519** | **90 151** | 23 077 | 7 396 | 6 689 | 98 816 |
| Forward exchange contracts subject to cash flow hedging | **23 279** | **2 384** | **5 535** | **93 395** | 19 144 | 3 543 | 4 624 | 102 823 |
| Net exposure | **(1 446)** | **3 734** | **5 984** | **(3 244)** | 3 933 | 3 853 | 2 065 | (4 007) |

The following exchange rates applied during the year:

| | **Average rate** | | **Reporting date mid-spot rate** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| USD | **16.08** | 14.34 | **16.58** | 15.32 |
| GBP | **20.40** | 18.57 | **22.12** | 18.82 |
| EUR | **17.92** | 16.44 | **19.73** | 17.08 |
| CNY | **2.30** | 2.09 | **2.41** | 2.13 |

## 28 Financial instruments (continued)

### 28.2 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 reasonably 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 | |
|---|---|---|---|---|---|---|---|---|
| | 2020 R'000 | 2019 R'000 | 2020 R'000 | 2019 R'000 | 2020 R'000 | 2019 R'000 | 2020 R'000 | 2019 R'000 |
| Decrease in pre-tax other comprehensive income | **(39 650)** | (27 519) | **(5 174)** | (6 532) | **(10 717)** | (7 624) | **(22 357)** | (21 766) |
| (Decrease)/increase in profit before tax | **(2 397)** | 6 025 | **8 262** | (7 253) | **11 807** | (3 527) | **(783)** | (854) |

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

### 28.3 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 2020 | | 31 August 2019 | |
|---|---|---|---|---|---|
| | | Carrying value R'000 | Fair value R'000 | Carrying value R'000 | Fair value R'000 |
| **Financial assets** | | | | | |
| Trade receivables (see note 18) | Amortised cost | **1 888 983** | **1 888 983** | 1 896 772 | 1 896 772 |
| Logistics fees receivable (see note 18) | Amortised cost | **221 133** | **221 133** | 192 545 | 192 545 |
| Other receivables (see note 18) | Amortised cost | **65 926** | **65 926** | 14 090 | 14 090 |
| Loans receivable (see note 14) | Amortised cost | **10 947** | **10 947** | 10 742 | 10 742 |
| Financial assets at fair value through profit or loss (see note 15) | Financial assets at fair value through profit or loss | **113 951** | **113 951** | 75 370 | 75 370 |
| Cash and cash equivalents | Amortised cost | **2 152 483** | **2 152 483** | 2 613 554 | 2 613 554 |
| Equity derivative contracts designated as hedging instruments (see note 16) | Financial assets at fair value through other comprehensive income | **212 171** | **212 171** | 209 025 | 209 025 |
| Forward exchange contracts designated as hedging instruments (see note 16) | Financial assets at fair value through other comprehensive income | **2 404** | **2 404** | 25 312 | 25 312 |
| **Financial liabilities** | | | | | |
| Trade and other payables (see note 25) | Financial liabilities measured at amortised cost | **6 317 247** | **6 317 247** | 6 996 009 | 6 996 009 |
| Lease liabilities (see note 24) | Financial liabilities measured at amortised cost | **2 685 717** | **2 685 717** | 2 342 265 | 2 342 265 |
| Forward exchange contracts designated as hedging instruments (see note 16) | Financial liabilities measured at fair value through other comprehensive income | **2 370** | **2 370** | – | – |

## 28 Financial instruments (continued)

### 28.3 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 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 (see note 16).

**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.

The fair value of unit trusts is determined by reference to the quoted price in an active market.

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.

## 28 Financial instruments (continued)

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

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

| Group | Level 1 R'000 | Level 2 R'000 | Level 3 R'000 | Total R'000 |
|---|---|---|---|---|
| **2020** | | | | |
| **Financial assets** | | | | |
| Financial assets at fair value through profit or loss – investment in Guardrisk Insurance Company Limited (see note 15) | **–** | **7 179** | **–** | **7 179** |
| Financial assets at fair value through profit or loss – collective investment schemes (see note 15) | **106 772** | **–** | **–** | **106 772** |
| Equity derivative contracts designated as hedging instruments (see note 16) | **–** | **212 171** | **–** | **212 171** |
| Forward exchange contracts designated as hedging instruments (see note 16) | **–** | **2 404** | **–** | **2 404** |
| **Total** | **106 772** | **221 754** | **–** | **328 526** |
| **Financial liabilities** | | | | |
| Forward exchange contracts designated as hedging instruments (see note 16) | **–** | **(2 370)** | **–** | **(2 370)** |
| **2019** | | | | |
| **Financial assets** | | | | |
| Financial assets at fair value through profit or loss – investment in Guardrisk Insurance Company Limited (see note 15) | – | 9 618 | – | 9 618 |
| Financial assets at fair value through profit or loss – collective investment schemes (see note 15) | 65 752 | – | – | 65 752 |
| Equity derivative contracts used for cash flow hedging (see note 16) | – | 209 025 | – | 209 025 |
| Forward exchange contracts used for cash flow hedging (see note 16) | – | 25 312 | – | 25 312 |
| **Total** | 65 752 | 243 955 | – | 309 707 |

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

### 28.4 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, a money market investment, 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 | |
|---|---|---|
| | 2020 R'000 | 2019 R'000 |
| Derivative financial assets (see note 16) | **214 575** | 234 337 |
| Trade receivables (see note 18) | **1 888 983** | 1 896 772 |
| Logistics fees receivable (see note 18) | **221 133** | 192 545 |
| Other receivables (see note 18) | **65 926** | 14 090 |
| Cash and cash equivalents | **2 152 483** | 2 613 554 |
| Loans receivables (see note 14) | **10 947** | 10 742 |
| | **4 554 047** | 4 962 040 |

## 28 Financial instruments (continued)

### 28.4 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. The group uses the expected credit loss model whereby a provision matrix is performed on the simplified method to calculate the provision.

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

| | Carrying amount 2020 R'000 | Carrying amount 2019 R'000 |
|---|---|---|
| Retail customers | **75 885** | 103 118 |
| Distribution customers | **1 813 098** | 1 793 654 |
| | **1 888 983** | 1 896 772 |

**Expected credit loss model**

At each reporting date the group performs an impairment analysis using a provision matrix to determine the expected credit loss of trade receivables. The receivables balances are disaggregated according to similar characteristics and loss patterns, being pharmacy and wholesale debtors. The group used historical loss rates, adjusted for forward-looking information as per the group's accounting policy to determine the loss rate as outlined below:

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

| | Retail | | Distribution | |
|---|---|---|---|---|
| | 2020 R'000 | 2019 R'000 | 2020 R'000 | 2019 R'000 |
| Balance at the beginning of the year | **(5 335)** | (9 013) | **(17 943)** | (18 597) |
| Impairment (allowance)/recovery recognised/derecognised during the year | **(2 796)** | 3 678 | **(7 276)** | (5 977) |
| Trade receivables written off during the year as uncollectible | **–** | – | **8 321** | 6 631 |
| **Balance at the end of the year** | **(8 131)** | (5 335) | **(16 898)** | (17 943) |

The creation of impairment losses has been included in note 18.

Amounts charged to the allowance account are generally written off to the financial asset when there is no expectation of recovery.

**Retail customers**

The ageing of trade receivables at the reporting date was:

| | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Loss rate % | Estimated gross carrying amount at default R'000 | Expected credit loss R'000 | Net R'000 | Loss rate % | Estimated gross carrying amount at default R'000 | Expected credit loss R'000 | Net R'000 |
| Not past due | **9.7** | **84 016** | **(8 131)** | **75 885** | 4.9 | 108 453 | (5 335) | 103 118 |
| Past due 0 – 30 days | **–** | **–** | **–** | **–** | – | – | – | – |
| Past due more than 31 days | **–** | **–** | **–** | **–** | – | – | – | – |
| **Total** | | **84 016** | **(8 131)** | **75 885** | | 108 453 | (5 335) | 103 118 |

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.

## 28 Financial instruments (continued)

### 28.4 Credit risk management (continued)

**Distribution customers**

The ageing of trade receivables at the reporting date was:

| | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Loss rate % | Estimated gross carrying amount at default R'000 | Expected credit loss R'000 | Net R'000 | Loss rate % | Estimated gross carrying amount at default R'000 | Expected credit loss R'000 | Net R'000 |
| Not past due | **0.3** | **1 639 067** | **(5 026)** | **1 634 041** | – | 1 522 971 | – | 1 522 971 |
| Past due 0 – 30 days | **0.2** | **149 958** | **(356)** | **149 602** | 0.3 | 216 861 | (584) | 216 277 |
| Past due more than 31 days | **28.1** | **40 971** | **(11 516)** | **29 455** | 24.2 | 71 765 | (17 359) | 54 406 |
| **Total** | | **1 829 996** | **(16 898)** | **1 813 098** | | 1 811 597 | (17 943) | 1 793 654 |

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.

The split between insured and uninsured debtors is as follows:

| | Gross amount | |
|---|---|---|
| | 2020 R'000 | 2019 R'000 |
| Insured | **1 826 319** | 1 807 918 |
| Uninsured | **3 677** | 3 679 |
| | **1 829 996** | 1 811 597 |

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.

**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.

## 28 Financial instruments (continued)

### 28.5 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.

**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 | Not later than one year R'000 | Later than one year, not later than five years R'000 | Later than five years R'000 |
|---|---|---|---|---|---|
| **2020** | | | | | |
| **Liabilities** | | | | | |
| Derivative financial liabilities (see note 16) | **2 370** | **2 370** | **2 370** | **–** | **–** |
| Trade and other payables (see note 25) | **6 317 247** | **6 317 247** | **6 317 247** | **–** | **–** |
| Lease liabilities (see note 24) | **2 685 717** | **3 138 931** | **890 411** | **2 158 802** | **89 718** |
| | **9 005 334** | **9 458 548** | **7 210 028** | **2 158 802** | **89 718** |
| **2019** | | | | | |
| **Liabilities** | | | | | |
| Trade and other payables (see note 25) | 6 996 009 | 6 996 009 | 6 996 009 | – | – |
| Lease liabilities (see note 24) | 2 342 265 | 2 787 586 | 852 702 | 1 927 307 | 7 577 |
| | 9 338 274 | 9 783 595 | 7 848 711 | 1 927 307 | 7 577 |

## 29 Capital commitments

| | Group 2020 R'000 | Group 2019 R'000 |
|---|---|---|
| Capital expenditure approved by the directors | | |
| Contracted | **73 736** | 126 410 |
| Not contracted | **671 349** | 591 420 |
| | **745 085** | 717 830 |

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

## 30 Financial guarantees

Group companies provide surety for other group companies to the value of R2 439 million and USD51 million (2019: R2 594 million and USD44 million) with respect to facilities held with various banks. At year-end these facilities had no drawings by group companies (2019: Rnil). The fair values of the financial guarantees are considered negligible.

## 31 Related party transactions

### 31.1 Group

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

**Transactions between group subsidiary companies**

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 subsidiary companies, see page 73.

Related party transactions include:

(i) dividends paid and received from subsidiary companies and associates;
(ii) interest received from or paid to subsidiary companies;
(iii) loans to or from subsidiary companies; and
(iv) sale of goods between subsidiary companies.

**Directors and key management**

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 percentage of shares held by directors of the company at year-end is disclosed on page 32.

| | Group | |
|---|---|---|
| | **2020 R'000** | 2019 R'000 |
| **Transactions with Sorbet Brands Proprietary Limited** | | |
| Dividends received | **2 134** | 2 362 |
| Management fee received | **1 742** | 2 160 |
| Royalties paid | **8 832** | 6 713 |
| **Other related parties**<br>The group has identified The Clicks Helping Hand Trust as a related party because of the group's involvement in the charitable and developmental activities of the trust. The group has not consolidated the trust as it is not exposed to variable returns from them and any non-financial benefit is considered to be insignificant. The total net assets for the trust is R4 540 095 (2019: R191 492) with a net profit of R4 348 602 (2019: R158 035). Donations to the trust during the year from subsidiary companies were: | | |
| The Clicks Helping Hand Trust | **12 816** | 10 988 |

No financial benefits were derived by the group from this relationship.

**Contributions to pension and provident funds**

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

| | Company | |
|---|---|---|
| | 2020 R'000 | 2019 R'000 |
| **31 Related party transactions (continued)** | | |
| **31.2 Company** | | |
| The company has the following related party transactions: | | |
| **31.2.1 Dividends received** | | |
| New Clicks South Africa Proprietary Limited | **5 310 752** | 1 109 258 |
| Total dividends received from related parties | **5 310 752** | 1 109 258 |
| **31.2.2 Dividends paid** | | |
| New Clicks South Africa Proprietary Limited | **34 528** | 26 440 |
| Clicks Group Employee Share Ownership Trust | **–** | 5 539 |
| Total dividends paid to related parties | **34 528** | 31 979 |
| **31.2.3 Loans to subsidiary companies** | | |
| New Clicks South Africa Proprietary Limited | **3 944 621** | 2 857 886 |
| Clicks Centurion Proprietary Limited | **9 000** | 9 000 |
| | **3 953 621** | 2 866 886 |

**31.2.4** Repurchase of nil (2019: 14 576 648) ordinary "A" shares from the Employee Share Ownership Trust.

**31.2.5** Issue of nil (2019: 261 396) Clicks Group Limited ordinary shares to the New Clicks Foundation Trust through the unwinding of the scheme.

A schedule of the loans and investments in related parties is included on page 73.

Details regarding dividends relating to treasury shares are included in note 26.

## 32 Borrowing powers

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

## 33 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, Eswatini, Botswana and Lesotho. The revenue, assets and liabilities recognised in countries outside of South Africa are not significant in relation to those recognised locally.

**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.

The information regarding the results of each reportable segment is included on pages 16 and 17. 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.

## 34 Comparative information restated

**Adoption of new accounting policies**

The group adopted IFRS 16 – Leases on a full retrospective basis during the current financial period, with the date of initial application being 1 September 2019.

IFRS 16 was issued and published by the IASB in January 2016 and replaces IAS 17 – Leases. It requires lessees to make use of a single lease accounting model to recognise a right-of-use asset for all qualifying leases and a corresponding lease liability as the present value of all future payments as opposed to IAS 17 which required lessees to classify leases as either finance or operating leases and only recognise a lease expense on a straight-line basis in profit or loss when classified as an operating lease. IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases.

The group has an extensive portfolio of leases across its retail stores. The group recognises a right-of-use asset and corresponding lease liability for each retail store in the group, except for stores where the contract qualifies for recognition of a short-term lease of less than 12 months. All other leases (mainly leases of computer equipment and equipment) are recognised as short-term leases or low-value items. As a practical expedient, the group applied IFRS 16C.3 where it applied IFRS 16 to leases previously identified under IAS 17 and IFRIC 4 and did not apply IFRS 16 to contracts where a lease was not identified under IAS 17 and IFRIC 4.

At inception of the lease the group recognises a right-of-use asset and corresponding lease liability at the present value of all future lease payments, over the term of the lease. All leases of low-value assets and short-term leases are expensed in the statement of comprehensive income as a rent expense on a straight-line basis in the year when the expense was incurred.

The group early adopted the Covid-19-Related Rent Concessions, IFRS 16 amendment during the current financial year for rentals of retail space that meet the definitions as set out in the amendment. The group negotiated rental relief amounting to R10.9 million with landlords as a result of Musica, The Body Shop and Claire's stores being closed during the lockdown period. The group accounted for these rental concessions by reducing the lease liability and recognising a negative variable lease payment in occupancy costs.

IFRS 16 impacts the group's statement of financial position, statement of comprehensive income, disclosure in the statement of cash flows and the notes to the annual financial statements. The adoption of the standard results in changes to lease liabilities, deferred tax, depreciation, finance cost and income tax expense and the recognition of a right-of-use asset.

On the adoption of the new standard, the group considered the disclosure of interest paid on lease liabilities to be more appropriately classified with interest paid and disclosed under operating cash flow activities instead of being included in repayment of lease liability under financing activities as previously disclosed in the interim results in February 2020.

## 34 Comparative information restated (continued)

The impact on the financial statements of the above restatements are as follows:

| R'000 | 2019 As reported | Restated IFRS 16 | 2019 Restated |
|---|---|---|---|
| **Consolidated statement of financial position** | | | |
| **Non-current assets** | | | |
| Right-of-use assets | – | 2 046 014 | 2 046 014 |
| Deferred tax asset | 47 136 | 47 924 | 95 060 |
| **Current assets** | | | |
| Trade and other receivables | 2 646 612 | (79 489) | 2 567 123 |
| **Equity** | | | |
| Distributable reserve | 4 734 171 | (123 235) | 4 610 936 |
| Foreign currency translation reserve | 7 331 | (2 588) | 4 743 |
| **Non-current liabilities** | | | |
| Operating lease liability | 192 894 | (192 894) | – |
| Lease liabilities | – | 1 489 563 | 1 489 563 |
| **Current liabilities** | | | |
| Lease liabilities | – | 852 702 | 852 702 |
| Provisions | 9 099 | (9 099) | – |
| **Consolidated statement of comprehensive income** | | | |
| Depreciation and amortisation | (368 865) | (636 133) | (1 004 998) |
| Occupancy costs | (1 011 396) | 821 277 | (190 119) |
| Financial expense | (23 765) | (215 410) | (239 175) |
| Income tax expense | (660 589) | 8 474 | (652 115) |
| *Other comprehensive income* | | | |
| Exchange differences on translation of foreign subsidiaries | (1 155) | (1 067) | (2 222) |
| **Earnings per share** | | | |
| Profit attributable to equity holders of the parent | 1 702 914 | (21 792) | 1 681 122 |
| Earnings per share (cents per share) | 683.6 | (8.8) | 674.8 |
| Diluted earnings per share (cents per share) | 671.8 | (8.6) | 663.2 |

## 34 Comparative information restated (continued)

| R'000 | 2019 As reported | Restated IFRS 16 | 2019 Restated |
|---|---|---|---|
| **Consolidated cash flow statement** | | | |
| **Cash effects from operating activities** | | | |
| Profit before working capital changes | 2 732 810 | 830 522 | 3 563 332 |
| Working capital changes | 202 684 | 745 | 203 429 |
| Interest paid | (4 476) | (215 410) | (219 886) |
| **Cash effects from financing activities** | | | |
| Repayment of lease liabilities | – | (615 857) | (615 857) |
| **Notes to the consolidated statement of cash flows** | | | |
| **Profit before working capital changes** | | | |
| Profit before tax | 2 363 503 | (30 266) | 2 333 237 |
| Net financing expense | (39 656) | 215 410 | 175 754 |
| Depreciation and amortisation | 400 192 | 636 133 | 1 036 325 |
| Movement in operating lease liability | (9 245) | 9 245 | – |
| **Working capital changes** | | | |
| Increase in trade and other receivables | (315 081) | 4 851 | (310 230) |
| Increase in provisions | 4 106 | (4 106) | – |

| R'000 | 2018 As reported | Restated IFRS 16 | 2018 Restated |
|---|---|---|---|
| **Consolidated statement of financial position** | | | |
| **Non-current assets** | | | |
| Right-of-use assets | – | 1 795 868 | 1 795 868 |
| Deferred tax asset | 478 608 | 39 450 | 518 058 |
| **Current assets** | | | |
| Trade and other receivables | 2 331 531 | (74 638) | 2 256 893 |
| **Equity** | | | |
| Distributable reserve | 3 954 452 | (101 443) | 3 853 009 |
| Foreign currency translation reserve | 8 486 | (1 521) | 6 965 |
| **Non-current liabilities** | | | |
| Operating lease liability | 202 139 | (202 139) | – |
| Lease liabilities | – | 1 256 761 | 1 256 761 |
| **Current liabilities** | | | |
| Lease liabilities | – | 814 015 | 814 015 |
| Provisions | 4 993 | (4 993) | – |

## 35 Ongoing financial impact of Covid-19

Covid-19 has had a negative impact on the group during the 2020 financial year. During the initial lockdown (27 March 2020 to 1 May 2020) all Musica, The Body Shop and Claire's stores were closed, since these stores were classified as non-essential services. All Clicks stores were permitted to trade essential products only and for limited hours daily. Subsequent to the initial lockdown The Body Shop stores opened on 1 May 2020, while Claire's and Musica stores were permitted to trade from 1 June 2020. The initial and subsequent lockdown levels resulted in restricted trading hours, as well as lower customer footfall due to fears of Covid-19 and travel restrictions imposed on consumers. As a result consumers continued to buy larger basket values, while preferring convenience stores over destination stores.

The lockdown restrictions have resulted in lower sales as a consequence. The group incurred additional expenditure, which included personal protective equipment, store hygiene and deep-cleaning costs, protective consumables, additional data and other transport costs.

Management took decisive action to reduce variable costs and access government-funded Covid-19 assistance. These initiatives achieved savings in employment and other costs due to certain stores being closed, reduced trading hours, as well as TERS and skill levy recoveries claimed. The group also negotiated rental relief from landlords as a result of stores being closed during the lockdown period.

Despite the negative impact of Covid-19 on operations, the group has actively managed the balance sheet, thereby ensuring adequate cash resources and borrowing capacity have remained available to sustain and grow operations.

The group has performed a line-by-line assessment on the annual financial statements for the year ended 31 August 2020 for the impact of the Covid-19 pandemic on the business and its financial and operating performance.

The following material financial statement line items were considered and appropriate disclosures have been made.

### 35.1 Going concern

- The group assessed the going concern assumption at year-end as a result of the current economic, trading and operational conditions on the group consolidated annual financial statements, as well as the financial statements of each statutory entity. The directors are comfortable, based on the forecast evaluation and current financial position, that the group will continue to operate as a going concern for the 12 months after year-end.

### 35.2 Significant estimates and judgements

- Impairment of trade and other receivables (Retail and Distribution)
  - The impact of Covid-19 on the group's trade receivables was considered in the expected credit loss matrix. There was no material impact on Retail dispensary debtors. The impact on Distribution and other debtors was assessed and included in the expected credit loss matrix.

    The group considered and included, where appropriate, the impact of Covid-19 in the assessment of its forward-looking information and loss percentage adjustment.
- Impairment of goodwill, intangible assets and cash-generating units
  - The group performs an annual value-in-use calculation on all business units/cash-generating units, including those where goodwill is allocated and where intangible assets are recognised. This value in use is based on the assessment of the group's future cash flows.
- Net realisable value of inventory
  - The group assesses all inventory categories for write-down to net realisable value, should this be lower than cost. The group included the impact of Covid-19 on sales patterns and realisable values on inventory categories in its assessment of the net realisable values of these categories.

## 35 Ongoing financial impact of Covid-19 (continued)

- Provision for employee benefits/share-based payments
  - The long-term incentive (LTI) liability is revalued annually based on observable inputs and the three-year plan. Covid-19 has not significantly impacted the valuation.
  - The post-retirement medical aid obligation is formally revalued every second year. Even though the group's external valuation experts performed a valuation in 2019, a valuation was performed in 2020 due to the impact of Covid-19 on the economic factors and interest rates used in the valuation.
- ClubCard provision
  - The group annually reassesses its expected redemption rate used in the valuation of the ClubCard provision. Covid-19 has not significantly impacted the valuation.
- Financial instruments (FECs and LTI hedge)
  - The group's financial instruments are measured at fair value. The group uses observable inputs to value these instruments.

    The effectiveness of the hedges is evaluated annually.
- Financial assets at fair value through profit or loss
  - The group has an investment in a unit trust investment portfolio. This portfolio is valued using observable inputs.

    Covid-19 has not significantly impacted the valuation as stock market investments have largely recovered.
- Leases
  - The group adopted the practical expedient issued by the IASB for rental concessions granted by lessors. The group elected not to treat these rental concessions as a modification to the lease, but rather treat these as a negative variable lease payment credit in the income statement.

    The group tests the right-of-use assets annually for impairment. This impairment test uses the budgeted future cash flows, which already takes into account the effects of Covid-19.

## 36 Events after the reporting period

The commencement of the new financial year was impacted over four days by the protest action against the online TRESemmé advert. This protest action resulted in the group incurring losses in revenue, inventory, as well as additional costs and damages to several stores. The group plans to submit a claim in terms of the group's insurance policy for this incident.

# COMPANY STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 AUGUST

| | Note | 2020 R'000 | 2019 R'000 |
|---|---|---|---|
| Dividend income – subsidiary | | **5 310 752** | 1 109 258 |
| Other income | | **–** | 40 773 |
| Bank charges | | **(4)** | (5) |
| Operating costs | | **(188)** | (440) |
| **Profit before financing cost** | | **5 310 560** | 1 149 586 |
| Financial income | | **178** | 2 217 |
| **Profit before taxation** | | **5 310 738** | 1 151 803 |
| Income tax expense | 7 | **(49)** | (2 085) |
| **Profit for the year** | | **5 310 689** | 1 149 718 |
| Other comprehensive income for the year, net of tax | | **–** | – |
| **Total comprehensive income for the year** | | **5 310 689** | 1 149 718 |

# COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 AUGUST

| | Notes | 2020 R'000 | 2019 R'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Interest in subsidiary companies (see page 73) | | **4 578 371** | 3 491 636 |
| **Current assets** | | **1 527** | 899 |
| Cash and cash equivalents | | **1 527** | 899 |
| **Total assets** | | **4 579 898** | 3 492 535 |
| **Equity** | | **4 569 844** | 3 482 280 |
| Share capital | 19 | **2 487** | 2 621 |
| Share premium | 19 | **3 301 189** | 3 301 189 |
| Share option reserve | 20 | **–** | – |
| Distributable reserve | | **1 266 168** | 178 470 |
| **Current liabilities** | | **10 054** | 10 255 |
| Trade and other payables | | **2 220** | 2 220 |
| Income tax payable | | **7 834** | 8 035 |
| **Total equity and liabilities** | | **4 579 898** | 3 492 535 |

# 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 31 August 2018** | 268 525 | 2 686 | 1 581 634 | 163 856 | 43 824 | 1 792 000 |
| Total comprehensive income for the year | – | – | – | – | 1 149 718 | 1 149 718 |
| Employee share option scheme vesting | (6 442) | (65) | 1 719 555 | (163 856) | – | 1 555 634 |
| Issue of ordinary shares from vesting of employee share scheme | 8 135 | 81 | 1 719 854 | (163 856) | – | 1 556 079 |
| "A" ordinary shares repurchased | (14 577) | (146) | – | – | – | (146) |
| Transaction cost on share issue | – | – | (299) | – | – | (299) |
| Dividends paid to shareholders | – | – | – | – | (1 015 072) | (1 015 072) |
| **Balance at 31 August 2019** | **262 083** | **2 621** | **3 301 189** | **–** | **178 470** | **3 482 280** |
| Total comprehensive income for the year | **–** | **–** | **–** | **–** | **5 310 689** | **5 310 689** |
| Shares purchased and cancelled | **–** | **(134)** | **–** | **–** | **(3 365 978)** | **(3 366 112)** |
| Dividends paid to shareholders | **–** | **–** | **–** | **–** | **(857 013)** | **(857 013)** |
| **Balance at 31 August 2020** | **262 083** | **2 487** | **3 301 189** | **–** | **1 266 168** | **4 569 844** |

# COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 AUGUST

| | 2020 R'000 | 2019 R'000 |
|---|---|---|
| **Cash effects of operating activities** | | |
| (Loss)/profit before working capital changes | **(192)** | 40 328 |
| Dividends received | **857 013** | 1 109 258 |
| Financial income | **178** | 2 217 |
| Cash generated by operations | **856 999** | 1 151 803 |
| Taxation paid | **(250)** | (529) |
| Cash inflow from operating activities before dividends paid | **856 749** | 1 151 274 |
| Dividends paid to shareholders | **(857 013)** | (1 015 072) |
| Net cash effects of operating activities | **(264)** | 136 202 |
| **Cash effects of investing activities** | | |
| Increase in subsidiary company loans | **654 259** | (1 692 541) |
| Net cash effects of investing activities | **654 259** | (1 692 541) |
| **Cash effects of financing activities** | | |
| Proceeds from the issue of shares | **–** | 1 555 933 |
| Transaction cost on the issue of shares | **–** | (299) |
| Repurchase and cancellation of shares | **(653 367)** | – |
| Net cash effects of financing activities | **(653 367)** | 1 555 634 |
| Net movement in cash and cash equivalents | **628** | (705) |
| Cash and cash equivalents at the beginning of the year | **899** | 1 604 |
| **Cash and cash equivalents at the end of the year** | **1 527** | 899 |

# NOTES TO THE COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 AUGUST

| | 2020 R'000 | 2019 R'000 |
|---|---|---|
| **(Loss)/profit before working capital changes** | | |
| Profit before taxation | **5 310 738** | 1 151 803 |
| Adjustment for: | | |
| Dividend received | **(5 310 752)** | (1 109 258) |
| Financial income | **(178)** | (2 217) |
| | **(192)** | 40 328 |
| **Taxation paid** | | |
| Income tax payable at the beginning of the year | **8 035** | 6 479 |
| Current tax charge | **49** | 2 085 |
| Income tax payable at the end of the year | **(7 834)** | (8 035) |
| | **250** | 529 |

# 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 2020 R'000 | Shares at cost less amounts written off 2019 R'000 | Amount owing by subsidiary companies 2020 R'000 | Amount owing by subsidiary companies 2019 R'000 |
|---|---|---|---|---|---|---|
| **Directly held** | | | | | | |
| (i) Trading | | | | | | |
| New Clicks South Africa Proprietary Limited | South Africa | R500 | **272 439** | 272 439 | **3 944 621** | 2 857 886 |
| (ii) Property owning | | | | | | |
| Clicks Centurion Proprietary Limited | South Africa | R10 | * | * | **9 000** | 9 000 |
| (iii) New Clicks Foundation Trust | South Africa | R5 000 | **–** | – | **–** | – |
| **Indirectly held** | | | | | | |
| (i) Trading | | | | | | |
| Safeway (Swaziland) Proprietary Limited | Eswatini | 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 Pharmaceuticals 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 | **–** | – | **–** | – |
| (ii) Name protection and dormant | | | | | | |
| Two companies (2019: Two companies) | | | **–** | – | **–** | – |
| | | | **272 439** | 272 439 | **3 953 621** | 2 866 886 |
| Shares at cost less amounts written off | | | **272 439** | 272 439 | | |
| Amounts owing by subsidiary companies | | | **3 953 621** | 2 866 886 | | |
| Share-based payments capitalised | | | **352 311** | 352 311 | | |
| Interest in subsidiaries | | | **4 578 371** | 3 491 636 | | |

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

* Values less than R1 000.

# ANALYSIS OF SHAREHOLDERS

AT 31 AUGUST

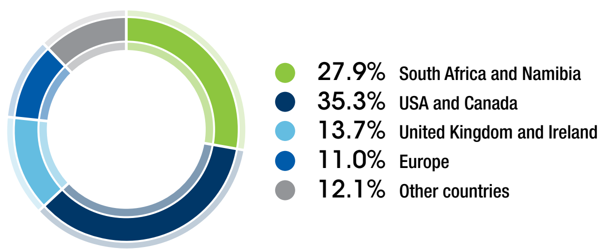
| Public and non-public shareholders | Number of shares | Percentage of shares |
|---|---|---|
| Public shareholders | 248 422 042 | 99.9% |
| Non-public shareholders | | |
| Shares held by directors | 240 605 | 0.1% |
| Total non-public shareholders | 240 605 | 0.1% |
| Total shareholders | 248 662 647 | 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 fund managers managed 3% or more of the issued share capital at 31 August 2020:

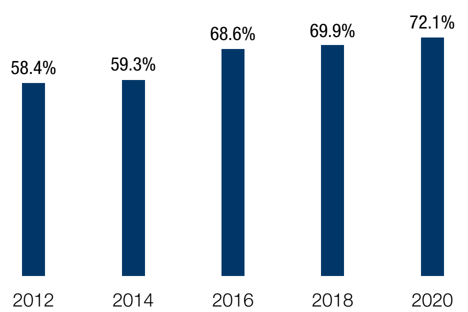
| Major fund managers managing 3% or more | 2020 Percentage of shares | 2019 Percentage of shares |
|---|---|---|
| Public Investment Corporation (SA) | 13.7% | 12.4% |
| BlackRock (US and UK) | 6.1% | 4.1% |
| JPMorgan Asset Management (UK and US) | 6.1% | 5.1% |
| Fidelity Management & Research (US) | 6.1% | 7.5% |
| RBC Global Asset Management (UK) | 5.8% | 5.0% |
| GIC Asset Management (Singapore) | 3.9% | 3.5% |
| BMO Financial Group (UK) | 3.8% | 2.3% |
| The Vanguard Group (US) | 3.7% | 3.8% |
| T Rowe Price (UK and US) | 3.6% | 3.3% |

| Major beneficial shareholders holding 3% or more | Number of shares | Percentage of shares |
|---|---|---|
| Government Employees Pension Fund | 31 785 293 | 12.8% |
| GIC Asset Management | 10 007 702 | 4.0% |
| RBC Emerging Markets Equity Fund | 7 802 264 | 3.1% |

## Geographic distribution of shareholders




## Offshore shareholding



| Classification of registered shareholdings | Number of shares | Percentage of shares |
|---|---|---|
| Banks/Brokers | 164 951 631 | 66.3% |
| Retirement funds | 44 838 999 | 18.0% |
| Mutual funds | 25 736 838 | 10.4% |
| Insurance companies | 6 776 098 | 2.7% |
| Individuals | 3 391 110 | 1.4% |
| Trusts | 1 356 239 | 0.5% |
| Endowment funds | 875 234 | 0.4% |
| Other | 736 498 | 0.3% |
| | 248 662 647 | 100.0% |

| Distribution of registered shareholdings | Number of holders | Percentage of holders | Number of shares | Percentage of shares |
|---|---|---|---|---|
| 1 – 1 000 | 6 638 | 79.0% | 1 092 777 | 0.5% |
| 1 001 – 10 000 | 1 154 | 13.7% | 3 672 374 | 1.5% |
| 10 001 – 100 000 | 403 | 4.8% | 13 477 209 | 5.4% |
| 100 001 – 1 000 000 | 166 | 2.0% | 53 290 072 | 21.4% |
| 1 000 001 shares and over | 44 | 0.5% | 177 130 215 | 71.2% |
| | 8 405 | 100.0% | 248 662 647 | 100.0% |

**Directors' shareholdings**

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| **Director** | Direct beneficial shares | Indirect beneficial shares | Total | Direct beneficial shares | Indirect beneficial shares | Total |
| David Nurek | – | 100 000 | 100 000 | – | 100 000 | 100 000 |
| John Bester | 12 000 | 10 000 | 22 000 | 12 000 | 10 000 | 22 000 |
| Bertina Engelbrecht | 75 068 | – | 75 068 | 75 068 | – | 75 068 |
| Michael Fleming | 30 421 | – | 30 421 | 30 421 | – | 30 421 |
| Vikesh Ramsunder | 11 116 | – | 11 116 | 11 116 | – | 11 116 |
| Martin Rosen | – | 2 000 | 2 000 | – | 2 000 | 2 000 |
| Total | 128 605 | 112 000 | 240 605 | 128 605 | 112 000 | 240 605 |

The total number of ordinary shares in issue is 248 662 647 (2019: 262 083 439). The percentage of issued share capital held by directors is 0.10% (2019: 0.09%). 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** | 27 January 2021 |
| **Preliminary results announcements** | |
| Interim results to February 2021 | on or about 22 April 2021 |
| Final results to August 2021 | on or about 21 October 2021 |
| **Publication of 2021 Integrated Annual Report** | November 2021 |
| **Ordinary share dividend** | |
| **2020 final dividend** | |
| Last day to trade with dividend included | 19 January 2021 |
| Date of dividend payment | 25 January 2021 |
| **2021 interim dividend** | |
| Last day to trade with dividend included | July 2021 |
| Date of dividend payment | July 2021 |
| **2021 final dividend** | |
| Last day to trade with dividend included | January 2022 |
| Date of dividend payment | January 2022 |

# 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: companysecretary@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: Rosebank Towers,
15 Biermann Avenue, Rosebank 2196
Postal address: Private Bag X9000, Saxonwold 2132
Telephone: +27 (0)11 370 5000

## Investor relations consultants
Tier 1 Investor Relations
Telephone: +27 (0)21 702 3102
E-mail: ir@tier1ir.co.za

For more information, please visit our website at
**www.clicksgroup.co.za**

GROUNDPEPPER

www.clicksgroup.co.za

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LIMITED