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 71, which comprise the consolidated and separate statements of financial position as at 31 August 2019, 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' shareholdings table on page 73.

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 2019, 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 sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (Revised November 2018) (together the IRBA Codes) 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, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits of the group and company and in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA code) and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants* (including International Independence Standards) respectively. 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.

We have determined that there are no key audit matters to communicate in our audit report with regard to the separate financial statements of the company for the period.

Key audit matter	How the matter was addressed in the audit
Inventory valuation and supplier contracts	
At 31 August 2019 inventory to the value of R4.7 billion is held on the group balance sheet (2018: R4.3 billion). Inventory is disclosed in note 17 – Inventories. In order to carry inventory at the lower of cost and net realisable value, management make a number of manual adjustments to the inventory balance. These adjustments include the allocation of direct costs, rebate allowances and settlement discounts to the value of inventory, as well as provisions associated with the identification of slow moving, obsolete and damaged inventories. The calculation of these adjustments requires certain estimates and assumptions to be made. Estimates include the amount of direct costs, rebate allowances and settlement discounts related to inventory on hand at year-end. Judgements include projected likely future sales and estimated selling costs, using factors existing at the reporting date, in order to calculate provisions. Additional audit effort was required to assess the reasonability of these estimates and judgements and the accuracy of manual calculations. In addition to rebates from suppliers that are off-set against the cost of inventory or recognised as a reduction in cost of sales, other contracts with suppliers give rise to amounts recognised as "other income". Additional audit effort was required to assess the classification of income and rebates received from suppliers.	Our procedures included the following to assess adjustments to inventory: • Assessing the reasonableness of the methodologies applied by management for consistency with prior years and our knowledge of industry practice. • Recalculating adjustments made to inventory for the allocation of direct costs, rebate allowances and settlement discounts. • Evaluating the assumptions and estimates applied to the identification of slow moving, obsolete and damaged inventories by: – testing the identification of such inventory for each business; – testing the accuracy of historical information and data trends; and – performing analytical procedures on obsolescence levels and write-down rates. • Testing the estimated future sales values, less estimated costs to sell, against the carrying value of the inventories. • Recalculating the arithmetical accuracy of the computations. Our procedures included the following to assess the classification of income from suppliers: • Evaluating management's assessment of different supplier income streams. • Inspecting, on a sample basis, agreements with suppliers to determine whether the income was appropriately classified.
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 giving rise to employee benefit liabilities as at 31 August 2019 of R81.3 million recognised in current liabilities (2018: R182.3 million) and R64.0 million recognised in non-current liabilities (2018: R108.2 million), as set out in note 23. The TSR component of the LTI scheme is considered to be a share-based compensation arrangement and is accounted for in terms of IFRS 2 – Share-based Payments. The group uses derivative financial instruments to hedge market risk relating to the LTI scheme. This is classified as a cash flow hedge. The share-based compensation arrangement and associated hedging require the use of judgement and estimates including, where applicable, to determine fair value at grant date and at the reporting date. Management uses a specialist to determine the fair value at the reporting date. In addition, cash flow hedge accounting requires management to make an assessment of hedge effectiveness.	Our procedures included the following to assess the share-based compensation arrangements and associated hedge accounting: • Evaluating the arrangements and accounting consequences in terms of the requirements of IFRS. • Recalculating the values determined by management and, where appropriate, using our quantitative advisory specialists and relying on the work of management's specialist. • Testing the hedge effectiveness of the derivative financial instruments using our quantitative advisory specialists. • Recalculating the recharge arrangement in terms of the company's accounting policy. • Assessing the taxation consequences, including by using our taxation specialists. • Assessing whether the recognition and measurement criteria used in the accounting records were consistent with the requirements of IFRS. • Considering the adequacy and accuracy of the related disclosures in the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information included on page 1 to 5, 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, which we obtained prior to the date of this report, and the integrated annual report and five-year review, which are expected to be made available to us after that date. 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 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 on the other information obtained prior to the date of this auditor's report, 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's 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's 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, related safeguards.

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 seven years.

Ernst & Young Inc.

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

3rd Floor, Waterway House
3 Dock Road
V&A Waterfront
Cape Town
8001

8 November 2019