NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 August 2015

		Group	
		2015 R'000	2014 R'000
1	**Revenue**		
	Turnover	**22 070 092**	19 149 524
	Finance income	**4 922**	5 497
	Other income	**1 210 082**	1 048 279
	Distribution and logistics fees	**597 435**	532 800
	Rental income	**573**	505
	Advertising income, cost recoveries and other	**612 074**	514 974
		23 285 096	20 203 300
2	**Depreciation and amortisation**		
	Depreciation of property, plant and equipment (see note 9)	**218 543**	201 769
	Amortisation of intangible assets (see note 10)	**29 511**	27 934
	Total depreciation and amortisation	**248 054**	229 703
	Depreciation included in cost of merchandise sold and inventories	**(10 384)**	(9 832)
	Depreciation and amortisation included in expenses	**237 670**	219 871
3	**Occupancy costs**		
	Operating leases	**597 386**	530 573
	Turnover rental expense	**13 653**	13 871
	Movement in operating lease liability (see note 23)	**12 121**	16 739
	Movement in provision for onerous contracts (see note 25)	**(4 137)**	3 286
		619 023	564 469
4	**Employment costs**		
	Directors' emoluments (excluding incentives)	**19 796**	18 815
	Non-executive fees	**2 684**	2 449
	Executive	**17 112**	16 366
	Salary	**14 860**	14 316
	Other benefits	**2 252**	2 050
	Equity-settled share option costs (see note 19)	**52 084**	30 555
	Long-term incentive scheme – TSR (see note 22)	**22 851**	–
	Release of gain on cash flow hedge to profit or loss (see note 20)	**(14 508)**	–
	Long-term incentive scheme – HEPS (see note 22)	**28 218**	46 770
	Staff salaries and wages	**1 981 883**	1 786 115
	Contributions to defined contribution plans	**106 660**	96 463
	Leave pay costs (see note 22)	**13 423**	7 927
	Bonuses (see note 22)	**124 738**	121 450
	Increase in liability for defined benefit plans (see note 22)	**1 474**	1 341
	Total employment costs	**2 336 619**	2 109 436
	Employment costs included in cost of merchandise sold and inventories	**(81 202)**	(75 831)
	Employment costs included in expenses	**2 255 417**	2 033 605

For further detail of directors' emoluments refer to the remuneration committee report on page 33 of the Integrated Report or note 4.1.

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

	2015 R'000	2014 R'000
	75 090	63 865
Short-term employee benefits	**24 181**	24 146
Post-employment benefits	**3 083**	2 608
Other benefits	**2**	2
Short-term incentive scheme	**12 410**	11 826
Long-term incentive scheme	**33 274**	25 193
Termination benefits	**2 050**	–
Share-based payments	**90**	90
Non-executive directors' fees	**2 684**	2 449
	77 774	66 314

Notes to the annual financial statements (continued)

for the year ended 31 August 2015

4 Employment costs (continued)

4.1 Directors' remuneration

Executive directors' remuneration

Director	Salary R'000	RONA short-term incentive R'000	Performance based long-term incentive* R'000	Pension fund R'000	Other benefits R'000	Total R'000
2015						
Bertina Engelbrecht	**2 579**	**1 239**	**4 041**	**371**	**–**	**8 230**
Michael Fleming	**3 819**	**1 877**	**6 304**	**594**	**57**	**12 651**
David Kneale	**7 037**	**5 072**	**16 668**	**1 011**	**2**	**29 790**
Keith Warburton**	**1 425**	**n/a**	**n/a**	**190**	**27**	**1 642**
Total	**14 860**	**8 188**	**27 013**	**2 166**	**86**	**52 313**
2014						
Bertina Engelbrecht	2 405	1 100	3 185	345	–	7 035
Michael Fleming	3 593	1 670	5 181	524	57	11 025
David Kneale	6 491	4 455	13 461	933	2	25 342
Keith Warburton***	1 827	1 500	n/a	157	32	3 516
Total	14 316	8 725	21 827	1 959	91	46 918

* 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.

** Resigned as an executive director on 28 January 2015 with remuneration disclosed until this date.

*** Appointed as an executive director on 18 February 2014, with remuneration disclosed from this date.

The total number of ordinary shares in issue is 246 137 763 (2014: 246 137 763). Percentage of issued share capital held by directors is 0.26% (2014: 0.26%).

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

Non-executive directors' remuneration

Director	2015 Directors' fees (R'000)	2014 Directors' fees (R'000)
David Nurek	**878**	798
Fatima Abrahams****	**368**	337
John Bester	**476**	437
Fatima Jakoet	**326**	297
Nkaki Matlala	**376**	344
Martin Rosen	**260**	236
Total	**2 684**	2 449
Total directors' remuneration		
Executive directors	**52 313**	46 918
Non-executive directors	**2 684**	2 449
Total directors' remuneration	**54 997**	49 367

**** The fees paid to Professor Abrahams include an amount of R19 800 (2014: R18 082) for performing the role of chairperson of The Clicks Group Employee Share Ownership Trust.

Notes to the annual financial statements (continued)

for the year ended 31 August 2015

	Group 2015 R'000	Group 2014 R'000
5 Other costs		
Other operating costs include:		
Fees paid for outside services		
Technical services	**31 955**	18 813
Loss/(gain) on financial assets at fair value through profit or loss	**5 953**	(3 858)
Foreign exchange gains – realised	**(1 289)**	(542)
Foreign exchange losses – unrealised	**–**	2 840
Additional impairment allowances made – trade receivables (see note 17)	**12 089**	12 638
Water and electricity	**135 944**	122 249
Retail	**128 498**	115 671
Distribution	**7 446**	6 578
6 Net financing costs		
Recognised in profit or loss:		
Interest income on bank deposits	**4 459**	5 062
Other interest income	**463**	435
Financial income	**4 922**	5 497
Interest expense on financial liabilities measured at amortised cost	**62 231**	46 157
Cash interest expense	**43 947**	36 475
Other interest expense	**18 284**	9 682
Financial expense	**62 231**	46 157
Net financing cost	**(57 309)**	(40 660)

	Group 2015 R'000	Group 2014 R'000	Company 2015 R'000	Company 2014 R'000
7 Income tax expense				
South African normal tax				
Current tax				
Current year	**385 172**	376 368	**176**	285
Capital gains tax	**–**	5 571	**–**	5 571
Prior-year overprovision	**(19 790)**	(7 727)	**–**	–
Deferred tax				
Current year	**(20 098)**	(58 395)	**–**	–
Prior-year underprovision	**23 020**	15 473	**–**	–
Foreign tax				
Current tax				
Current year	**4 963**	9 618	**–**	–
Prior-year (over)/underprovision	**(22)**	6	**–**	–
Withholding tax	**3 677**	2 220	**–**	–
Deferred tax				
Current year	**(2 213)**	(1 282)	**–**	–
Change in foreign tax rate	**–**	46	**–**	–
Prior-year overprovision	**–**	(15)	**–**	–
Taxation per income statement	**374 709**	341 883	**176**	5 856
Deferred tax – current year	**(54 193)**	(29 490)	**–**	–
Cash flow hedge recognised in other comprehensive income	**12 926**	(4 503)	**–**	–
Equity-settled transaction recognised in equity (see note 19)	**(67 417)**	(24 987)	**–**	–
Remeasurement of post-employment benefit obligations	**298**	–	**–**	–
Total income tax charge	**320 516**	312 393	**176**	5 856
Reconciliation of rate of tax	**%**	%	**%**	%
Standard rate – South Africa	**28.00**	28.00	**28.00**	28.00
Adjusted for:				
Capital gains tax	**–**	0.46	**–**	3.05
Disallowable expenditure	**0.43**	0.28	**0.04**	0.16
Exempt income and allowances	**(0.84)**	(1.21)	**(28.00)**	(28.00)
Foreign tax rate variations	**0.08**	(0.01)	**–**	–
Foreign withholding tax	**0.28**	0.18	**–**	–
Prior-year net underprovision	**0.24**	0.63	**–**	–
Effective tax rate	**28.19**	28.33	**0.04**	3.21

One of the subsidiaries of the group has an estimated tax loss of R3.2 million (2014: R6.2 million) available for set-off against future taxable income of that subsidiary. A deferred tax asset of R1.0 million (2014: R1.7 million) has been recognised in respect of the total estimated tax losses (see note 12).

Notes to the annual financial statements (continued)

for the year ended 31 August 2015

	Group	
	2015 R'000	2014 R'000
8 Earnings per share		
The calculation of basic and headline earnings per share at 31 August 2015 was based on profit for the year attributable to ordinary shareholders of Clicks Group Limited of R954.6 million (2014: R864.6 million) and headline earnings of R960.5 million (2014: R838.4 million) divided by the weighted average number of ordinary shares as follows:		
Reconciliation of headline earnings		
Profit attributable to equity holders of the parent	**954 575**	864 612
Adjusted for:	**5 880**	(26 250)
Loss/(profit) on disposal of property, plant and equipment	**9 446**	(29 687)
Insurance recovery income on property, plant and equipment	**(1 279)**	–
Tax	**(2 287)**	3 437
Headline earnings	**960 455**	838 362

	2015 cents	2014 cents
Earnings per share	**396.7**	352.4
Headline earnings per share	**399.2**	341.7
Diluted earnings per share	**381.5**	347.4
Diluted headline earnings per share	**383.9**	336.8

	2015 '000	2014 '000
Reconciliation of shares in issue to weighted average number of shares in issue		
Total number of shares in issue at the beginning of the year	**246 138**	268 323
Treasury shares held for the full year and/or cancelled	**(3 878)**	(21 443)
Treasury shares purchased during the year weighted for the period held	**(1 657)**	(1 516)
Weighted average number of shares in issue for the year	**240 603**	245 364
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)	**240 603**	245 364
Dilutive effect of share options (net of treasury shares)	**9 601**	3 528
Weighted average diluted number of shares in issue for the year	**250 204**	248 892

	Group 2015 Cost R'000	2015 Accumulated depreciation and impairment losses R'000	2014 Cost R'000	2014 Accumulated depreciation and impairment losses R'000	2013 Cost R'000	2013 Accumulated depreciation and impairment losses R'000
9 Property, plant and equipment						
Land	**25 809**	**–**	25 809	–	25 809	–
Buildings	**372 891**	**46 815**	368 168	43 720	342 065	40 023
Computer equipment	**367 010**	**252 768**	324 245	222 167	294 419	185 449
Equipment	**250 151**	**145 615**	228 724	132 542	219 268	115 677
Furniture and fittings	**1 360 727**	**725 890**	1 184 438	614 548	1 006 800	508 261
Motor vehicles	**46 296**	**30 138**	44 064	27 464	44 002	23 986
	2 422 884	**1 201 226**	2 175 448	1 040 441	1 932 363	873 396

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 2013	25 809	302 042	108 970	103 591	498 539	20 016	1 058 967
Additions	–	26 815	38 878	12 532	204 864	2 794	285 883
Disposals	–	(723)	(1 832)	(163)	(4 684)	(672)	(8 074)
Depreciation	–	(3 686)	(43 938)	(19 778)	(128 829)	(5 538)	(201 769)
Carrying amount at 31 August 2014	**25 809**	**324 448**	**102 078**	**96 182**	**569 890**	**16 600**	**1 135 007**
Additions	**–**	**4 748**	**56 100**	**30 261**	**220 185**	**4 740**	**316 034**
Disposals	**–**	**(24)**	**(144)**	**(761)**	**(9 463)**	**(448)**	**(10 840)**
Depreciation	**–**	**(3 096)**	**(43 792)**	**(21 146)**	**(145 775)**	**(4 734)**	**(218 543)**
Carrying amount at 31 August 2015	**25 809**	**326 076**	**114 242**	**104 536**	**634 837**	**16 158**	**1 221 658**

Notes to the annual financial statements (continued)

for the year ended 31 August 2015

	Group					
	2015		2014		2013	
	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	**1 116**	**357**	1 116	246	1 097	135
Capitalised and purchased computer software development	**268 499**	**145 633**	219 350	122 601	168 831	98 183
Contractual rights (see note 10.2)	**17 020**	**17 020**	17 020	15 016	17 020	11 612
	564 635	**169 010**	515 486	143 863	464 948	115 930

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

	Clicks trademark R'000	Other trademarks R'000	Capitalised software development R'000	Contractual rights R'000	Total R'000
Carrying amount at 1 September 2013	272 000	962	70 648	5 408	349 018
Additions	–	19	50 952	–	50 971
Amortisation	–	(111)	(24 419)	(3 404)	(27 934)
Disposals	–	–	(432)	–	(432)
Carrying amount at 31 August 2014	**272 000**	**870**	**96 749**	**2 004**	**371 623**
Additions	**–**	**–**	**53 513**	**–**	**53 513**
Amortisation	**–**	**(111)**	**(27 396)**	**(2 004)**	**(29 511)**
Disposals	**–**	**–**	**–**	**–**	**–**
Carrying amount at 31 August 2015	**272 000**	**759**	**122 866**	**–**	**395 625**

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 2015 financial year, whereafter a perpetuity growth rate of 3.7% is used.

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

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

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

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

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

As part of the acquisition, the group acquired the contractual rights to certain Medical Aid contracts. These contractual rights were amortised over five years.

	Group 2015 R'000	2014 R'000
11 Goodwill		
Goodwill	**103 510**	103 510
Goodwill comprises:		
United Pharmaceutical Distributors Proprietary Limited ("UPD") (see note 11.1)	**96 277**	96 277
Kalahari Medical Distributors Proprietary Limited ("Kalahari") (see note 11.2)	**704**	704
Amalgamated Pharmacy Group Proprietary Limited ("Amalgamated Pharmacy Group") (see note 11.3)	**6 529**	6 529

Assessment of impairment of goodwill:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the annual financial statements (continued)

for the year ended 31 August 2015

	Group		Company	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
12 Deferred tax assets/(liabilities)				
Deferred tax assets	**177 037**	126 335	**–**	–
Deferred tax liabilities	**–**	(2 782)	**–**	–
	177 037	123 553	**–**	–
Balance at the beginning of the year	**123 553**	49 890	**–**	–
Current deferred tax (debit)/credit to profit or loss (see note 7)	**(709)**	44 173	**–**	–
Current deferred tax credit to other comprehensive income or equity (see note 7)	**54 193**	29 490	**–**	–
Balance at the end of the year	**177 037**	123 553	**–**	–
Arising as a result of:				
Capital gains tax	**(40 099)**	(40 099)	**–**	–
Derivative financial assets	**(22 044)**	(1 197)	**–**	–
Employee obligations	**248 501**	153 967	**–**	–
Income and expense accrual	**82 216**	98 274	**–**	–
Inventory	**32 467**	34 483	**–**	–
Onerous leases	**488**	915	**–**	–
Operating lease liability	**50 668**	47 354	**–**	–
Prepayments	**(17 277)**	(15 487)	**–**	–
Property, plant and equipment	**(75 466)**	(71 902)	**–**	–
Tax losses	**1 019**	1 731	**–**	–
Trademarks	**(76 172)**	(76 172)	**–**	–
Other	**(7 264)**	(8 314)	**–**	–
Balance at the end of the year	**177 037**	123 553	**–**	–

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

In respect of the deferred tax asset recognised by one (2014: two) subsidiary company, the directors consider that sufficient future taxable income will be generated by this subsidiary company to utilise the deferred tax asset recognised.

	Group	
	2015 R'000	2014 R'000
13 Loans receivable		
New Clicks Foundation Trust (see note 13.1)	**5 021**	5 021
Triton Pharmacare Capital Investments Proprietary Limited (Triton) (see note 13.2)	**7 982**	7 519
Total loans receivable	**13 003**	12 540
Short-term portion included in current assets	**–**	–
Non-current loans receivable	**13 003**	12 540

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

13.2 The loan to Triton consists of a long-term loan of R8.0 million repayable on 31 August 2017.

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

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

	Group 2015 R'000	Group 2014 R'000
14 Financial assets at fair value through profit or loss		
Investment in Guardrisk Insurance Company Limited (Cell number 171)	**16 668**	22 621
Total financial assets at fair value through profit or loss	**16 668**	22 621

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

	Group			
	2015		2014	
	Assets R'000	**Liabilities R'000**	Assets R'000	Liabilities R'000
15 Derivative financial instruments				
Equity derivative hedge – non-current	**81 662**	**–**	–	–
Forward exchange contracts – current	**24 507**	**–**	3 135	(2 840)

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

Equity derivative hedge

A European Call Option was entered into during the current year to hedge the cash-settled share-based payment obligation relating to Tranche 9 of the total shareholder return long-term incentive scheme (refer to note 22.1). The expiration date of the hedging instrument and the vesting date of the hedged item coincide on 31 August 2017.

Refer to note 20 detailing the equity derivative hedge's impact on profit or loss and other comprehensive income.

The fair value of the equity derivative hedge is 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 2015 was R252.5 million (2014: R226.7 million). Refer to note 20 detailing the foreign exchange hedging impact on profit or loss and other comprehensive income.

	Group 2015 R'000	Group 2014 R'000
16 Inventories		
Inventories comprise:		
Goods for resale	**3 085 896**	2 496 653
Goods in transit	**164 018**	117 543
	3 249 914	2 614 196
Inventories stated at net realisable value	**55 554**	55 894

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

	Group 2015 R'000	Group 2014 R'000
17 Trade and other receivables		
Trade and other receivables comprise:		
Trade receivables	**1 489 854**	1 322 430
Less: impairment of trade receivables	**(28 678)**	(28 113)
Trade receivables – net	**1 461 176**	1 294 317
Prepayments	**76 580**	62 973
Income accruals	**106 197**	73 858
Income tax receivable	**4 077**	1 073
Logistics fees receivable	**134 177**	91 286
Other (refer to note 17.1)	**89 409**	84 152
	1 871 616	1 607 659

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.

Notes to the annual financial statements (continued)

for the year ended 31 August 2015

	Group 2015 R'000	Group 2014 R'000
17 Trade and other receivables (continued)		
The movement in the doubtful debt provision in respect of trade receivables during the year was as follows:		
Balance at 1 September	**28 113**	25 158
Impairment provision raised	**12 089**	12 638
Impairment loss utilised	**(11 524)**	(9 683)
Balance at 31 August	**28 678**	28 113

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

	Group and Company 2015 R'000	Group and Company 2014 R'000
18 Share capital and share premium		
Authorised – group and company		
600 million (2014: 600 million) ordinary shares of one cent each	**6 000**	6 000
50 million (2014: 50 million) "A" ordinary shares of one cent each	**500**	500
Issued ordinary shares – group and company		
246.138 million (2014: 246.138 million) ordinary shares of one cent each and 29.153 million (2014: 29.153 million) "A" ordinary shares of one cent each	**2 754**	2 754
Share premium – group	**3 497**	3 497
Share premium – company	**14 089**	14 089

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

	Ordinary shares '000	"A" Ordinary shares '000	Group and Company Total 2015 '000	Group and Company Total 2014 '000
Reconciliation of total number of shares in issue to net number of shares in issue				
Total number of shares in issue at the end of the year	246 138	29 153	**275 291**	275 291
Treasury shares held at the end of the year	(6 254)	(29 153)	**(35 407)**	(33 031)
Net number of shares in issue at the end of the year	239 884	–	**239 884**	242 260

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

	2015 R'000	2014 R'000
Shares held by a subsidiary – 6.084 million (2014: 3.708 million) ordinary shares of one cent each – cost	**412 385**	236 121
Shares held by the New Clicks Holdings Share Trust – 0.170 million (2014: 0.170 million) ordinary shares of one cent each – cost	**1 450**	1 450
Shares held by the Clicks Group Employee Share Ownership Trust – 29.153 million (2014: 29.153 million) "A" ordinary shares of one cent each – cost	**292**	292
	414 127	237 863

No ordinary shares were cancelled during the current financial year (2014: 22.2 million).

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

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

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

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

19 Share option reserve

Equity-settled share-based payment

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

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

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

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

	Group Number of shares	
	2015	2014
"A" shares issued in terms of the ESOP	**29 153 295**	29 153 295

Details of share option allocations:

Grant date	Option price	Balance at the beginning of the year	Granted during the year	Delivered during the year	Forfeited during the year	Balance at the end of the year
2015						
February 2011	**R41.54**	**15 160 100**	**–**	**–**	**(1 120 096)**	**14 040 004**
February 2012	**R41.11**	**2 843 205**	**–**	**–**	**(492 685)**	**2 350 520**
February 2013	**R60.00**	**4 778 134**	**–**	**–**	**(669 209)**	**4 108 925**
February 2014	**R56.78**	**4 298 777**	**–**	**–**	**(1 364 673)**	**2 934 104**
February 2015	**R90.32**	**–**	**3 119 681**	**–**	**(296 988)**	**2 822 693**
Unallocated share options						**2 897 049**
						29 153 295
2014						
February 2011	R41.54	17 725 256	–	–	(2 565 156)	15 160 100
February 2012	R41.11	3 309 343	–	–	(466 138)	2 843 205
February 2013	R60.00	5 617 734	–	–	(839 600)	4 778 134
February 2014	R56.78	–	4 421 858	–	(123 081)	4 298 777
Unallocated share options						2 073 079
						29 153 295

Notes to the annual financial statements (continued)

for the year ended 31 August 2015

19 Share option reserve (continued)

Fair value of share-based payments in respect of options

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

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

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

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

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

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

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

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

	Group	
	2015 R'000	2014 R'000
Share option reserve		
Balance at the beginning of the year	**135 091**	79 549
	119 501	55 542
Equity-settled share-based payment expense	**52 084**	30 555
Deferred tax recorded directly in equity arising on consolidation	**67 417**	24 987
Balance at the end of the year	**254 592**	135 091
	152 517	100 433
Equity-settled share-based payment expense in opening retained earnings	**100 433**	69 878
Equity-settled share-based payment expense	**52 084**	30 555
Deferred tax recorded directly in equity arising on consolidation	**102 075**	34 658
Estimate of options not yet vested but expected to vest	**254 592**	135 091

	Group 2015 R'000	Group 2014 R'000
20 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 year	1 958	13 542
Movement in cash flow hedge	46 164	(16 087)
Movement in cash flow hedge relating to forward exchange contracts	27 247	(16 087)
Movement in cash flow hedge relating to the equity derivative hedge	18 917	–
Deferred tax recognised in other comprehensive income	(12 926)	4 503
Balance at the end of the year	35 196	1 958

The cash flow hedge reserve represents the cumulative portion of gains or losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is reclassified to profit or loss only when the hedged transaction affects profit or loss. During the year there was a mark-to-market gain of R105.2 million (2014: R9.2 million) and R59.1 million was recycled to profit or loss (2014: R25.2 million). R44.6 million (2014: R9.2 million) of the recycled gains are included in cost of merchandise sold and R14.5 million (2014: Rnil) are included under employment costs. R27.2 million will be recycled to profit or loss in 2016 relating to forward exchange contracts and R18.9 million will be recycled to profit or loss as and when the related employment costs affect profit or loss relating to the equity derivative hedge. Refer to note 15 – Derivative financial instruments for further information.

	Group 2015 R'000	Group 2014 R'000
21 Foreign currency translation reserve		
Unrealised gain on the translation of assets and liabilities of subsidiaries whose financial statements are denominated in foreign currencies	6 331	1 554
	6 331	1 554
Reconciliation of foreign currency translation reserve		
Balance at the beginning of the year	1 554	1 790
Exchange differences on translation of foreign subsidiaries	4 777	(236)
Balance at end of the year	6 331	1 554
22 Employee benefits		
Long-term incentive schemes	74 132	65 956
Post-retirement medical obligations	53 903	49 380
Total long-term employee benefits	128 035	115 336
Accounted for as follows:		
Long-term employee benefits recognised in terms of IFRS 2 – Share-based Payments (see note 22.1)	22 851	–
Long-term employee benefits recognised in terms of IAS 19 – Employee Benefits	105 184	115 336
Total long-term employee benefits	128 035	115 336

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 22.1) R'000
Balance at 1 September 2013	–
Expense from cash-settled share-based payment	–
Balance at 31 August 2014	–
Expense from cash-settled share-based payment	22 851
Balance at 31 August 2015	22 851

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

During 2015, the group issued 1.4 million (2014: nil) cash-settled appreciation rights to management. The value of these appreciation rights are linked to the TSR (capital gain plus dividends) over a three-year vesting period. These appreciation rights are classified as cash-settled share-based payment benefits and the liability has been valued using the Monte Carlo option pricing model by an independent, external valuator.

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

Notes to the annual financial statements (continued)

for the year ended 31 August 2015

22 Employee benefits (continued)

Details of share option allocations – 2015:

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

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

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

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

The dividend yield is the 12-month trailing yield.

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.

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

Long-term employee benefits	Long-term incentive scheme – HEPS (note 22.2) R'000	Post-retirement medical obligations (note 22.3) R'000	Total R'000
Balance at 1 September 2013	46 183	45 306	91 489
Current service cost	55 052	1 341	56 393
Benefit payments	–	(1 136)	(1 136)
Interest cost	5 813	3 869	9 682
Actuarial gain recognised in profit or loss	(8 282)	–	(8 282)
Reclassification to short-term employee benefits	(32 810)	–	(32 810)
Balance at 31 August 2014	**65 956**	**49 380**	**115 336**
Current service cost	**53 886**	**1 474**	**55 360**
Benefit payments	**–**	**(1 244)**	**(1 244)**
Interest cost	**8 634**	**5 356**	**13 990**
Actuarial gain recognised in profit or loss	**(25 668)**	**–**	**(25 668)**
Actuarial gain recognised in other comprehensive income arising from changes in demographic assumptions	**–**	**(6 026)**	**(6 026)**
Actuarial loss recognised in other comprehensive income arising from changes in financial assumptions	**–**	**4 963**	**4 963**
Reclassification to short-term employee benefits	**(51 527)**	**–**	**(51 527)**
Balance at 31 August 2015	**51 281**	**53 903**	**105 184**

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

During 2015, the group issued 2.3 million (2014: 4.7 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 R40.42 (2014: R35.83) per right ("base value"). In order to determine the amount to be provided a fixed factor of 12 is applied to the HEPS at the end of the three-year period. The differential between the factor multiplied by HEPS and the base value is the amount that will be paid out per right. Should employees leave during the vesting period the rights will be forfeited.

22 Employee benefits (continued)

22.3 Post-retirement medical obligations

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

An actuarial valuation of the Clicks post-retirement medical aid scheme has determined that the unfunded liability in respect of pensioner post-retirement medical benefits amounts to R53.9 million (2014: R49.4 million). Provision has been made for the full unfunded liability.

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

i) a discount rate of 8.5% per annum (2014: 8.4%);

ii) general increases to medical aid contributions of 7.2% (2014: 7.0%);

iii) a retirement age of 65 (2014: 65);

iv) husbands are on average four years older than their spouses (2014: three years);

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

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

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

	2015 R'000	2014 R'000
Medical aid inflation increases by 1% per annum over assumptions made	**10 458**	5 244
Medical aid inflation decreases by 1% per annum over assumptions made	**(8 361)**	(3 680)
Discount rate increases by 1% per annum over assumptions made	**(8 114)**	(4 134)
Discount rate decreases by 1% per annum over assumptions made	**10 300**	4 615
Retirement age decreases by two years	**6 400**	4 903
Life expectancy of male pensioners increases by one year	**872**	914
Life expectancy of male pensioners decreases by one year	**(894)**	(673)
Life expectancy of female pensioners increases by one year	**1 215**	1 225
Life expectancy of female pensioners decreases by one year	**(1 198)**	(989)
The following undiscounted payments are expected contributions in future years from post-retirement medical obligations.		
Within 12 months	**1 377**	1 236
Between 2 and 5 years	**6 929**	6 258
Between 5 and 10 years	**14 508**	13 502
Between 10 and 20 years	**79 716**	72 976
Between 20 and 30 years	**171 342**	162 509
Between 30 and 40 years	**185 078**	183 002
Beyond 40 years	**143 714**	153 283
Total expected payments	**602 664**	592 766

The average duration of the post-retirement medical obligations at year-end is 21.9 years (2014: 22.5 years).

Notes to the annual financial statements (continued)

for the year ended 31 August 2015

22 Employee benefits (continued)

22.3 Post-retirement medical obligations (continued)

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

	Post-retirement medical obligations				
	2015 R'000	2014 R'000	2013 R'000	2012 R'000	2011 R'000
Defined benefit obligation	**53 903**	49 380	45 306	42 763	38 767
Experience adjustments on plan liabilities	**(1 063)**	–	(1 221)	–	823

Short-term employee benefits	Long-term incentive scheme – HEPS (note 22.2) R'000	Leave pay accrual (note 22.4) R'000	Bonus accrual (note 22.5) R'000	Overtime accrual (note 22.6) R'000	Total R'000
Balance at 1 September 2013	43 370	56 501	45 970	2 561	148 402
Reclassification from long-term employee benefits	32 810	–	–	–	32 810
Benefit payments	(39 106)	(10 336)	(70 087)	(2 521)	(122 050)
Charge included in profit or loss	–	7 927	121 450	1 955	131 332
Balance at 31 August 2014	**37 074**	**54 092**	**97 333**	**1 995**	**190 494**
Reclassification from long-term employee benefits	**51 527**	**–**	**–**	**–**	**51 527**
Benefit payments	**(39 796)**	**(10 843)**	**(115 074)**	**(1 418)**	**(167 131)**
Charge included in profit or loss	**–**	**13 423**	**124 738**	**1 892**	**140 053**
Balance at 31 August 2015	**48 805**	**56 672**	**106 997**	**2 469**	**214 943**

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

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

22.6 The overtime accrual is in respect of overtime worked in August 2015 which is paid in September 2015.

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 Swaziland are obliged to join one of the funds.

Employees in Namibia are members of the Namflex Umbrella Pension Fund and those in Botswana are members of the Sentlhaga Pension Fund.

The funds are all defined contribution schemes and the group carries no liability in relation to these funds.

All funds provide death and disability cover, while the negotiated funds also include a funeral benefit. Combined membership across the funds was 8 556 (2014: 8 625) at year-end.

Medical aid funds

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

At year-end 1 998 South African employees were principal members of a medical aid scheme, of which 1 281 were principal members with Horizon, 612 were principal members of a Discovery Health medical aid scheme, and 105 were principal members of various other medical aid schemes.

At year-end five Botswana employees were principal members with BOMaid and one with PULA, 14 Namibian employees were principal members of Namibia Health Plan and 17 Swaziland employees were principal members of Swazimed.

At year-end 23.1% (2014: 21.1%) of the permanent full-time employees were members of a medical aid scheme. Increasing the health benefits available to employees will be a focus area for the group in the years ahead.

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

	Group 2015 R'000	Group 2014 R'000
23 Lease commitments		
Operating lease liability	**180 468**	168 347
Operating leases with fixed escalations are charged to the statement of comprehensive income on a straight-line basis. The associated liability will reverse during the latter part of each lease term when the actual cash flow exceeds the profit or loss charge.		
Operating lease commitments		
The group leases all its retail premises and certain of its pharmaceutical distribution centre sites under operating leases. The lease agreements provide for minimum payments together, in certain instances, with contingent rental payments determined on the basis of achieving a specified turnover threshold.		
Future minimum lease payments under non-cancellable operating leases due:		
– Not later than one year	**590 809**	465 007
– Later than one year, not later than five years	**2 816 413**	1 213 885
– Later than five years	**360 916**	451 235
	3 768 138	2 130 127
Future minimum lease payments receivable under non-cancellable operating leases due, which relate to Intercare Management Healthcare Proprietary Limited:		
– Not later than one year	**13 303**	15 553
– Later than one year, not later than five years	**20 086**	12 426
	33 389	27 979
The net future minimum lease payments under non-cancellable operating leases due:		
– Not later than one year	**577 506**	449 454
– Later than one year, not later than five years	**2 796 327**	1 201 459
– Later than five years	**360 916**	451 235
	3 734 749	2 102 148
Generally, leases are taken out on five or ten-year lease terms with an option to extend for a further five years in the instance of Clicks while shorter periods are committed to for Musica, The Body Shop, GNC and Claire's.		
24 Trade and other payables		
The following are included in trade and other payables:		
Trade payables	**4 144 170**	3 202 266
Other loyalty programme deferred income (see note 24.1)	**108 594**	146 218
Non-trade payables and accruals (see note 24.2)	**645 350**	692 777
	4 898 114	4 041 261

24.1 Other loyalty programme deferred income

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

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

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

Notes to the annual financial statements (continued)

for the year ended 31 August 2015

	2015 R'000	2014 R'000
25 Provisions		
Provision for onerous contracts		
Balance at the beginning of the year	**9 882**	6 596
Movement in provision during the year recognised in occupancy costs	**(4 137)**	3 286
Balance at the end of the year	**5 745**	9 882
Current	**5 745**	9 882
Non-current	**–**	–
	5 745	9 882

Onerous contracts are identified where the present value of future obligations in terms of the contracts in question exceeds the estimated benefits accruing to the group from the contracts.

The provision relates to certain leases where the site is either vacant or the commercial activity on the site is incurring losses.

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

The provision is further reduced to the extent that a straight-line operating lease accrual has already been recognised (see note 23).

	2015 R'000	2014 R'000
26 Dividends to shareholders		
Previous year final cash dividend out of distributable reserves – 136.5 cents per share paid 26 January 2015 (2014: 119.5 cents per share paid 27 January 2014 out of distributable reserves)	**335 978**	320 646
Current year interim cash dividend out of distributable reserves – 65.5 cents per share paid 6 July 2015 (2014: 53.5 cents per share paid 7 July 2014 out of distributable reserves)	**161 220**	131 684
"A" shares – Previous year final cash dividend out of distributable reserves – 19 cents per share paid 30 January 2015 (2014: 16.8 cents per share paid 14 February 2014)	**5 539**	4 898
Total dividends to shareholders	**502 737**	457 228
Dividends on treasury shares	**(11 358)**	(27 363)
Dividends on "A" shares held in trust	**(621)**	(588)
Dividends paid outside the group	**490 758**	429 277

On 22 October 2015, the directors approved the final proposed dividend of 169.5 cents per share and 23.5 cents per "A" share.

The source of such a dividend will be from distributable reserves and paid in cash and will be recognised in the statement of changes in equity in 2016.

Dividend policy
The dividend cover is 1.7 (2014: 1.8) times.

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

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

The group's interest rate risk arises from long-term and short-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk. During 2014 and 2015 the group's borrowings at variable rates were denominated in Rands.

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

Price risk

The group's exposure to other price risk relates to fluctuations in the share price of the company as a result of the options that have been granted to employees in terms of the long-term incentive scheme (refer note 22.1). The group uses derivative financial instruments in the form of options to hedge exposure in respect of fluctuations in the share scheme obligation arising from movements in the company's share price. Sufficient options were purchased in order to settle the total expected future obligation. As a result of the hedging relationship, movements in the company share price will not have a material impact on either profit or loss or equity of the group.

Credit risk

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

Trade and other receivables

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

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

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

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

Notes to the annual financial statements (continued)

for the year ended 31 August 2015

27 Financial risk management (continued)

Trade and other receivables (continued)

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

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

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

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

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 R1.967 million (2014: R1.676 million) of which the full balance remained undrawn (2014: nil 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, issue new shares or sell assets to reduce debt. The group's target of maintaining a ratio of shareholders' interest to total assets is in the range of 25% to 30%. This is obtained through achieving the group's earnings targets, management of working capital, share buy-backs and dividends.

In 2015 the shareholders' interest to total assets was 26.6% (2014: 25.3%).

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 group does not use forward exchange contracts for speculative purposes.

The group has measured these instruments at fair value (see note 15).

Exposure to currency risk – foreign exchange contracts

	31 August 2015				31 August 2014			
	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	**16 026**	**1 196**	**1 604**	**44 155**	19 823	1 305	1 510	–
Forward exchange contracts subject to cash flow hedging	**14 283**	**200**	**–**	**37 321**	19 028	984	1 041	–
Net exposure	**1 743**	**996**	**1 604**	**6 834**	795	321	469	–

28 Financial instruments (continued)

28.2 Foreign exchange risk management (continued)

The following exchange rates applied during the year:

	Average rate		Reporting date mid-spot rate	
	2015	2014	**2015**	2014
USD	**11.79**	10.50	**13.31**	10.65
GBP	**18.49**	17.36	**20.71**	17.64
EUR	**13.86**	14.29	**15.11**	14.02
CNY	**1.92**	1.71	**2.09**	1.74

Foreign exchange rate sensitivity analysis

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

	USD impact		GBP impact		Euro impact		CNY impact	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000	**2015 R'000**	2014 R'000	**2015 R'000**	2014 R'000
Decrease in pre-tax other comprehensive income	**(17 496)**	(20 525)	**(394)**	(1 769)	**–**	(1 502)	**(7 365)**	–
Increase in profit before tax	**2 342**	853	**2 062**	569	**2 424**	1 919	**1 429**	–

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

Notes to the annual financial statements (continued)

for the year ended 31 August 2015

28 Financial instruments (continued)

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 2015		31 August 2014	
		Carrying value R'000	Fair value R'000	Carrying value R'000	Fair value R'000
Financial assets					
Trade receivables (see note 17)	Loans and receivables	**1 461 176**	**1 461 176**	1 294 317	1 294 317
Logistics fees receivable (see note 17)	Loans and receivables	**134 177**	**134 177**	91 286	91 286
Other receivables (see note 17)	Loans and receivables	**89 409**	**89 409**	84 152	84 152
Loans receivable (see note 13)	Loans and receivables	**13 003**	**13 003**	12 540	12 540
Financial assets at fair value through profit or loss (see note 14)	Assets at fair value	**16 668**	**16 668**	22 621	22 621
Cash and cash equivalents	Loans and receivables	**400 738**	**400 738**	195 631	195 631
Equity derivative contracts used for cash flow hedging (see note 15)	Assets at fair value	**81 662**	**81 662**	–	–
Forward exchange contracts used for cash flow hedging (see note 15)	Assets at fair value	**24 507**	**24 507**	3 135	3 135
Financial liabilities					
Forward exchange contracts used for hedging (see note 15)	Financial liabilities at fair value	**–**	**–**	2 840	2 840
Trade and other payables (see note 24)	Financial liabilities measured at amortised cost	**4 733 826**	**4 733 826**	3 760 495	3 760 495

Basis for determining fair values

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

Derivatives

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

Non-derivative financial assets and liabilities

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date except for the insurance cell captive where fair value is determined based on the net asset value at the reporting date.

Interest rates used in determining fair value

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

	2015 %	2014 %
Borrowings	**9.50**	9.25
Leases	**n/a**	n/a

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

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

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

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

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

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

28 Financial instruments (continued)

28.3 Fair values of financial instruments (continued)

Financial assets and financial liabilities measured at fair value

Group	Level 2 R'000	Total R'000
2015		
Financial assets		
Financial assets at fair value through profit or loss (see note 14)	**16 668**	**16 668**
Equity derivative contracts used for cash flow hedging (see note 15)	**81 662**	**81 662**
Forward exchange contracts used for cash flow hedging (see note 15)	**24 507**	**24 507**
Total	**122 837**	**122 837**
2014		
Financial assets		
Financial assets at fair value through profit or loss (see note 14)	22 621	22 621
Forward exchange contracts used for cash flow hedging (see note 15)	3 135	3 135
Total	25 756	25 756
Financial liabilities		
Forward exchange contracts used for hedging (see note 15)	2 840	2 840
Total	2 840	2 840

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

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, 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 have 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	
	2015 R'000	2014 R'000
Derivative financial assets (see note 15)	**106 169**	3 135
Trade receivables (see note 17)	**1 461 176**	1 294 317
Logistics fees receivable (see note 17)	**134 177**	91 286
Other receivables (see note 17)	**89 409**	84 152
Cash and cash equivalents	**400 738**	195 631
Loans receivable (see note 13)	**13 003**	12 540
	2 204 672	1 681 061

Trade receivables

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

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

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

	Carrying amount	
	2015 R'000	2014 R'000
Retail customers	**78 626**	72 229
Distribution customers	**1 382 550**	1 222 088
	1 461 176	1 294 317

Notes to the annual financial statements (continued)

for the year ended 31 August 2015

28 Financial instruments (continued)

28.4 Credit risk management (continued)

Retail customers

The ageing of trade receivables at the reporting date was:

	2015			2014		
	Gross R'000	Impairment R'000	Net R'000	Gross R'000	Impairment R'000	Net R'000
Not past due	**84 396**	**(5 770)**	**78 626**	76 584	(4 355)	72 229
Past due 0 – 30 days	**13**	**(13)**	**–**	–	–	–
Past due more than 31 days	**117**	**(117)**	**–**	145	(145)	–
Total	**84 526**	**(5 900)**	**78 626**	76 729	(4 500)	72 229

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

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

Distribution customers

The ageing of trade receivables at the reporting date was:

	2015			2014		
	Gross R'000	Impairment R'000	Net R'000	Gross R'000	Impairment R'000	Net R'000
Not past due	**1 055 980**	**–**	**1 055 980**	1 104 184	–	1 104 184
Past due 0 – 30 days	**295 452**	**–**	**295 452**	82 320	–	82 320
Past due more than 31 days	**53 896**	**(22 778)**	**31 118**	59 197	(23 613)	35 584
Total	**1 405 328**	**(22 778)**	**1 382 550**	1 245 701	(23 613)	1 222 088

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

Distribution customers are primarily hospitals and independent pharmacists.

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

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

The split between insured and uninsured debtors is as follows:

	Gross amount	
	2015 R'000	2014 R'000
Insured	**1 385 002**	1 227 419
Uninsured	**20 326**	18 282
	1 405 328	1 245 701

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.

28 Financial instruments (continued)

28.4 Credit risk management (continued)

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

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

	Retail		Distribution	
	2015 R'000	2014 R'000	2015 R'000	2014 R'000
Balance at the beginning of the year	**(4 500)**	(4 500)	**(23 613)**	(20 658)
Additional allowances made	**(7 170)**	(4 355)	**(4 919)**	(8 283)
Trade receivables written off during the year as uncollectable	**5 770**	4 355	**5 754**	5 328
Balance at the end of the year	**(5 900)**	(4 500)	**(22 778)**	(23 613)

The creation of impairment losses have been included in "other costs" in profit or loss (see note 5).

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

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

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

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	One year or less R'000
2015			
Non-derivative liabilities			
Trade and other payables (see note 24)	**4 733 826**	**4 733 826**	**4 733 826**
	4 733 826	**4 733 826**	**4 733 826**
2014			
Non-derivative liabilities			
Trade and other payables (see note 24)	3 760 495	3 760 495	3 760 495
	3 760 495	3 760 495	3 760 495
Derivative financial liabilities			
Forward exchange contracts (see note 15)	2 840	4 395	4 395
Total financial liabilities	3 763 335	3 764 890	3 764 890

Notes to the annual financial statements (continued)

for the year ended 31 August 2015

29 Capital commitments

	Group	
	2015 R'000	2014 R'000
Capital expenditure approved by the directors		
Contracted	**20 713**	18 296
Not contracted	**411 587**	351 404
	432 300	369 700

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 R1 967 million (2014: R1 676 million) with respect to facilities held with various banks. At year-end these facilities had no drawings by group companies (2014: nil drawn down). 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 subsidiaries

During the year, in the ordinary course of business, certain companies within the group entered into transactions with one another. These intragroup transactions have been eliminated on consolidation. For a list of the group's subsidiaries, see page 58.

Directors and key management

Related party transactions include:

(i) Dividends paid and received from subsidiary companies;

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

(iii) Loans to or from subsidiary companies.

Certain non-executive directors are also non-executive directors of other public companies which transact with the group.

The relevant directors do not believe that they have control, joint control or significant influence over the financial or operating policies of those companies.

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

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

Shares held by directors and their related entities

The audited percentage of shares held by directors of the company at year-end is disclosed on page 60. Subsequent to the year-end and after the closed period David Nurek sold 40 000 shares with the requisite approval.

Other related parties

The group has identified The New Clicks Foundation Trust and The Clicks Helping Hand Trust as related parties because of the group's involvement in the charitable and developmental activities of the trusts. The group has not consolidated these entities as it is not exposed to variable returns from them and any non-financial benefit is considered to be insignificant. The total net assets and net income for the two entities are R16.2 million (2014: R14.0 million) and R2.1 million (2014: R4.6 million) respectively. Donations to these entities during the year from subsidiary companies were:

	Group	
	2015 R'000	2014 R'000
The Clicks Helping Hand Trust	**5 729**	5 507
The New Clicks Foundation Trust	**–**	–

No financial benefits were derived by the group from these relationships. See note 13 for further information relating the loan balances owing by the charitable trusts.

Contributions to pension and provident fund

Contributions paid to pension and provident funds are included in note 4 and additional information in note 22.

31 Related party transactions (continued)

31.2 Company

	Company 2015 R'000	2014 R'000
The company has the following related party transactions:		
31.2.1 Dividends received		
New Clicks South Africa Proprietary Limited	**400 000**	145 000
Total dividends received from related parties	**400 000**	145 000
31.2.2 Dividends paid		
New Clicks South Africa Proprietary Limited	**11 017**	27 078
Clicks Group Employee Share Ownership Trust	**5 539**	4 898
New Clicks Holdings Share Trust	**341**	285
Total dividends paid to related parties	**16 897**	32 261
31.2.3 Amounts owing to/(by) subsidiary companies		
New Clicks South Africa Proprietary Limited	**(228 589)**	(130 671)
Clicks Group Employee Share Ownership Trust	**291**	291
Clicks Centurion Proprietary Limited	**9 000**	9 000
	(219 298)	(121 380)

A schedule of the loans and investments in related parties is included on page 58.

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

Notes to the annual financial statements (continued)

for the year ended 31 August 2015

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

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

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

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