NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST

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

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

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

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

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

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

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

4.1 Directors' remuneration

Executive directors' remuneration

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

1 Payments relating to the performance for the year ended 31 August are paid in November. The expense is provided for over the three-year vesting period in the relevant financial year.
2 David Kneale retired as an executive director on 1 January 2019.
3 Vikesh Ramsunder was appointed as an executive director on 1 January 2019.

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

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

4 Employment costs (continued)

4.1 Directors' remuneration (continued)

Non-executive directors' remuneration

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

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

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

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

7 Income tax expense

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

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

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

[2] Exempt income consists of tax-free allowances received.

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

8 Earnings per share

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

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

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

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

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

	Group					
	2020		2019		2018	
	Cost R'000	Accumulated depreciation and impairment losses R'000	Cost R'000	Accumulated depreciation and impairment losses R'000	Cost R'000	Accumulated depreciation and impairment losses R'000
9 Property, plant and equipment						
Land	**25 809**	**–**	25 809	–	25 809	–
Buildings	**568 554**	**68 650**	560 059	64 376	518 511	58 041
Computer equipment	**579 299**	**388 564**	552 428	370 308	496 298	329 100
Equipment	**413 379**	**237 750**	385 620	227 908	335 736	196 273
Furniture and fittings	**2 640 650**	**1 435 058**	2 500 992	1 321 930	2 122 936	1 100 554
Motor vehicles	**53 324**	**30 319**	52 117	25 467	52 309	24 229
	4 281 015	**2 160 341**	4 077 025	2 009 989	3 551 599	1 708 197

All group property is owner-occupied.

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

	Land R'000	Buildings R'000	Computer equipment R'000	Equipment R'000	Furniture and fittings R'000	Motor vehicles R'000	Total R'000
Carrying amount at 1 September 2018	25 809	460 470	167 198	139 463	1 022 382	28 080	1 843 402
Additions	–	41 565	80 111	56 430	385 315	6 082	569 503
Disposals	–	(16)	(196)	(43)	(893)	(1 348)	(2 496)
Depreciation	–	(6 336)	(64 993)	(38 138)	(227 742)	(6 164)	(343 373)
Carrying amount at 31 August 2019	**25 809**	**495 683**	**182 120**	**157 712**	**1 179 062**	**26 650**	**2 067 036**
Additions	**–**	**8 880**	**85 512**	**66 123**	**298 659**	**3 441**	**462 615**
Disposals	**–**	**–**	**(440)**	**(247)**	**(8 095)**	**(516)**	**(9 298)**
Depreciation	**–**	**(4 659)**	**(76 457)**	**(47 959)**	**(264 034)**	**(6 570)**	**(399 679)**
Carrying amount at 31 August 2020	**25 809**	**499 904**	**190 735**	**175 629**	**1 205 592**	**23 005**	**2 120 674**

	Group					
	2020		2019		2018	
	Cost R'000	Accumulated amortisation and impairment losses R'000	Cost R'000	Accumulated amortisation and impairment losses R'000	Cost R'000	Accumulated amortisation and impairment losses R'000
10 Intangible assets						
Clicks trademark (see note 10.1)	**272 000**	**–**	272 000	–	272 000	–
Link trademark	**6 000**	**6 000**	6 000	6 000	6 000	6 000
Other trademarks	**1 217**	**1 005**	1 217	842	1 116	693
Capitalised and purchased computer software development	**535 809**	**246 256**	429 357	212 545	385 973	187 255
Contractual rights (see note 10.2)	**33 858**	**26 923**	30 909	23 018	25 633	20 013
	848 884	**280 184**	739 483	242 405	690 722	213 961

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

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

Assessment of impairment of intangible assets

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

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

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

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

(i) A forecast horizon of three years was used. The forecast horizon comprises the three-year plan drafted in the last quarter of the 2020 financial year, whereafter a perpetuity growth rate of 7.0% (2019: 7.0%) is used.

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

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

(iv) A discount rate of 12.5% (2019: 13.2%) per annum, being the group's pre-tax weighted average cost of capital, was used. The group's pre-tax weighted average cost of capital is deemed appropriate as, together with the Distribution business, both businesses largely operate within South Africa and are subject to similar market risks.

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

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

	Group	
	2020 R'000	2019 R'000
11 Goodwill		
Goodwill	**102 806**	102 806
Goodwill comprises:		
United Pharmaceutical Distributors Proprietary Limited (UPD) (see note 11.1)	**96 277**	96 277
Amalgamated Pharmacy Group Proprietary Limited (Amalgamated Pharmacy Group) (see note 11.2)	**6 529**	6 529

Assessment of impairment of goodwill

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

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

(i) A forecast horizon of three years was used. The forecast horizon comprises the three-year plan drafted in the last quarter of the 2020 financial year, whereafter a perpetuity growth rate of 6.5% (2019: 6.5%) is used.

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

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

(iv) A discount rate of 12.5% (2019: 13.2%) per annum, being the group's pre-tax weighted average cost of capital, was used. The group's pre-tax weighted average cost of capital is deemed appropriate as, together with the Clicks business, both businesses largely operate within South Africa and are subject to similar market risks.

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

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

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

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

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

(i) A forecast horizon of three years was used. The forecast horizon comprises the three-year plan drafted in the last quarter of the 2020 financial year, whereafter a perpetuity growth rate of 7.0% (2019: 7.0%) is used.

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

11. Goodwill (continued)

Assessment of impairment of goodwill (continued)

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

(iv) A discount rate of 12.5% (2019: 13.2%) per annum, being the group's pre-tax weighted average cost of capital, was used. The group's pre-tax weighted average cost of capital is deemed appropriate as, together with the Clicks business, both businesses largely operate within South Africa and are subject to similar market risks.

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

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

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

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

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

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

In respect of the deferred tax asset recognised by one (2019: one) subsidiary company, the directors consider that sufficient future taxable income will be generated by that subsidiary company to utilise the deferred tax assets recognised.

13 Investment in an associate

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

Sorbet Brands holds all the trademark rights of the Sorbet brand in South Africa.

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

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

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

14 Loans receivable

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

14 Loans receivable (continued)

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

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

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

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

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

15.1 The investment in Guardrisk Insurance Company Limited is the net investment in the group's insurance cell captive which is not deemed to be in the group's control in accordance with IFRS 10 – Consolidated Financial Statements.

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

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

Equity derivative hedge
European call options have been purchased to hedge the cash-settled share-based payment obligation relating to tranches 12, 13 and 14 of the total shareholder return long-term incentive scheme (refer to note 23.1). The expiration date of these hedging instruments and the vesting dates of the hedged items coincide on 31 August 2020, 2021 and 2022 respectively.

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

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

Forward exchange contracts
For currency derivatives, fair values are calculated using standard market calculation conventions with reference to the relevant closing market spot rates, forward foreign exchange and interest rates. The notional principal amounts of the outstanding forward foreign exchange contracts at 31 August 2020 was R779 million (2019: R634.4 million). Refer to note 21 detailing the foreign exchange hedging impact on profit or loss and other comprehensive income.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20 Share option reserve

Equity-settled share-based payment
Options issued in terms of the Employee Share Ownership Programme (ESOP)
In October 2010 Clicks Group Limited announced an employee share ownership programme.

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

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

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

Details of share option allocations

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

20 Share option reserve (continued)

Fair value of share-based payments in respect of options

Options granted were valued using the Monte Carlo option pricing model by an independent, external valuator. The fair value of the options determined at the grant date was amortised over the vesting period to the extent that the options were ultimately exercised.

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

	Share price at grant date	Risk-free rate (%)	Expected dividend yield (%)	Expected volatility (%)	Expected forfeiture rate (%)
February 2011 – seven-year vesting period	R41.54	8.45	3.89	24.56	15.33
February 2011 – eight-year vesting period	R41.54	8.60	4.11	24.56	15.33
February 2012 – six-year vesting period	R41.11	7.38	2.80	27.00	14.20
February 2012 – seven-year vesting period	R41.11	7.38	2.80	27.00	14.20
February 2013 – five-year vesting period	R60.00	7.17	2.70	24.00	14.20
February 2013 – six-year vesting period	R60.00	7.17	2.70	24.00	14.20
February 2014 – four-year vesting period	R56.78	8.55	2.50	23.00	11.00
February 2014 – five-year vesting period	R56.78	8.55	2.50	23.00	11.00
February 2015 – three-year vesting period	R90.32	6.46	2.40	23.00	11.00
February 2015 – four-year vesting period	R90.32	6.46	2.40	23.00	11.00
February 2016 – two-year vesting period	R86.75	7.85	2.00	25.00	10.00
February 2016 – three-year vesting period	R86.75	7.85	2.00	25.00	10.00
February 2017 – one-year vesting period	R120.29	7.36	2.00	24.00	9.00
February 2017 – two-year vesting period	R120.29	7.36	2.00	24.00	9.00

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

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

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

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

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

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

	Group 2020 R'000	Group 2019 R'000
21 Cash flow hedge reserve		
The cash flow hedge reserve represents the effective portion of fair value gains or losses in respect of cash flow hedges.		
Reconciliation of cash flow hedging reserve		
Balance at the beginning of the year	**23 195**	73 536
Movement relating to forward exchange contracts, net of deferred tax	**(18 143)**	(6 641)
Total gain for the year recognised in other comprehensive income	**53 827**	29 823
Gains reclassified to inventories directly from the statement of changes in equity	**(71 970)**	(36 464)
Movement relating to the equity derivative hedge, net of deferred tax	**6 634**	(43 700)
Total gain/(loss) for the year in other comprehensive income	**53 275**	(50 096)
(Gains)/losses reclassified to employment costs through other comprehensive income	**(46 641)**	6 396
Balance at the end of the year	**11 686**	23 195

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

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

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

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

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

Long-term cash-settled share-based payment liability	Long-term incentive scheme – TSR (note 23.1) R'000
Balance at 31 August 2018	108 167
Expense from cash-settled share-based payment	20 353
Reclassification to short-term benefits	(64 543)
Balance at 31 August 2019	**63 977**
Expense from cash-settled share-based payment	**103 000**
Early settlement	**(22 946)**
Actuarial gain on early settlement	**(477)**
Reclassification to short-term benefits	**(96 691)**
Balance at 31 August 2020	**46 863**

23 Employee benefits (continued)

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

During 2020 the group issued 0.6 million (2019: 0.5 million) cash-settled appreciation rights to management. The value of these appreciation rights are linked to the TSR (capital gain plus dividends) over a three-year vesting period. These appreciation rights are classified as cash-settled share-based payment benefits and the liability has been valued using the Monte Carlo option pricing model by an independent, external valuator.

The September 2016 options were settled during the year.

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

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

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

Details of share option allocations – 2020

	Option price	Balance at the beginning of the year	Granted during the year	Delivered during the year*	Forfeited during the year	Balance at the end of the year
September 2016 options	**–**	**741 300**	**–**	**(741 300)**	**–**	**–**
September 2017 options	**R183.34**	**750 537**	**–**	**(216 838)**	**(3 723)**	**529 976**
September 2018 options	**R89.75**	**455 072**	**–**	**–**	**(2 482)**	**452 590**
September 2019 options	**R124.05**	**–**	**557 019**	**–**	**–**	**557 019**

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

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

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

Details of share option allocations – 2019

	Option price	Balance at the beginning of the year	Granted during the year	Delivered during the year*	Forfeited during the year	Balance at the end of the year
September 2015 options	–	910 021	–	(910 021)	–	–
September 2016 options	R109.61	782 254	–	–	(40 954)	741 300
September 2017 options	R110.45	808 531	–	–	(57 994)	750 537
September 2018 options	R82.46	–	477 695	–	(22 623)	455 072

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

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

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

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

The dividend yield is the 12-month trailing yield (nominal annual and compounded annuity).

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

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

23 Employee benefits (continued)

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

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

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

During 2020 the group issued 1.4 million (2019: 1.3 million) cash-settled appreciation rights to management. The value of these appreciation rights are linked to the performance of diluted HEPS over a three-year period. The amount to be provided in the current year is based on a three-year projection of diluted HEPS.

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

The exercise price of each appreciation right was determined as R79.63 (2019: R68.10, adjusted from R69.36 for the adoption of IFRS 16 – Leases) per right ("base value"). In order to determine the amount to be provided a fixed factor of 12 is applied to the HEPS at the end of the three-year period. The difference between the factor multiplied by HEPS and the base value is the amount that will be paid out per right.

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

23 Employee benefits (continued)

23.4 Post-retirement medical obligations

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

An actuarial valuation of the Clicks post-retirement medical aid scheme has determined that the unfunded liability in respect of pensioner post-retirement medical benefits amounts to R52.9 million (2019: R61.7 million). Provision has been made for the full unfunded liability.

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

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

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

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

(iv) husbands are on average four (2019: four) years older than their spouses;

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

(vi) mortality of in-service members determined in accordance with SA 85-90 ultimate table.

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

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

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

23 Employee benefits (continued)

23.4 Post-retirement medical obligations (continued)

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

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

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

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

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

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

23 Employee benefits (continued)

23.8 Pension and provident funds

Three funds, which are registered and governed in terms of the Pension Funds Act No. 24 of 1956, are operated by the group. These funds are:

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

All permanent full-time staff members in South Africa, Lesotho and Eswatini are obliged to join one of the funds.

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

The funds are all defined contribution schemes and the group carries no liability in relation to these funds. All funds provide death and disability cover, while the negotiated funds also include a funeral benefit. Combined membership across the funds was 15 226 (2019: 14 893) at year-end.

23.9 Medical aid funds

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

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

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

At year-end 78.7% (2019: 77.8%) of the permanent full-time employees were members of a medical aid scheme. Increasing the health benefits available to employees will be a focus area for the group in the years ahead.

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

24 Leases

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

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

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

24 Leases (continued)

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

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

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

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

Maturity of lease commitments

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

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

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

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

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

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

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

Based on the historic redemption rate, it is assumed that 91% of all points in issue are ultimately redeemed.

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

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

26 Dividends paid to shareholders

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

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

The source of such a dividend will be from distributable reserves and paid in cash and will be recognised in the statement of changes in equity in 2021.

Dividend payout ratio
The dividend payout ratio is 60%.

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

27 Financial risk management

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

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

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

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

Market risk

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

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

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

Currency risk

The group is exposed to foreign exchange risk through its imports of merchandise. The currencies in which these transactions are primarily denominated are USD, EUR, GBP and CNY. The group's treasury risk management policy is to take out forward exchange contracts, to cover both committed and anticipated exposures.

The impact of a 10% strengthening or weakening of the currency against the USD, EUR, GBP and CNY with all other variables held constant is disclosed in note 28.2. The effect of this movement is based on the outstanding forward foreign exchange contracts held by the group at year-end.

Interest rate risk

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

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

Price risk

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

Credit risk

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

Trade and other receivables

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

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

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

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

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

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

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

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

27 Financial risk management (continued)

Liquidity risk

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

The group's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the group's reputation. Due to the dynamic nature of the underlying businesses, group treasury maintains flexibility in funding by holding availability through credit lines. At year-end the group's total uncommitted facilities available was R2 439 million and USD51 million (2019: R2 594 million and USD44 million) of which the full balance remained undrawn (2019: Rnil drawn down).

See note 28.5 for details for maturity analysis of the group's financial liabilities.

Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

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

In 2020 the shareholders' interest to total assets was 37.8% (2019: 37.0%).

28 Financial instruments

Market risk

28.1 Treasury risk management

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

28.2 Foreign exchange risk management

The group is exposed to foreign currency risk as it imports merchandise. This risk is mitigated by entering into forward exchange contracts. These contracts are matched with anticipated future cash flows in foreign currencies. The maturity of the contracts is up to six months after year-end.

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

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

	31 August 2020				31 August 2019			
Exposure to currency risk – foreign exchange contracts	**USD '000**	**GBP '000**	**EUR '000**	**CNY '000**	USD '000	GBP '000	EUR '000	CNY '000
Forecast purchases and payables due at the end of the year	**21 833**	**6 118**	**11 519**	**90 151**	23 077	7 396	6 689	98 816
Forward exchange contracts subject to cash flow hedging	**23 279**	**2 384**	**5 535**	**93 395**	19 144	3 543	4 624	102 823
Net exposure	**(1 446)**	**3 734**	**5 984**	**(3 244)**	3 933	3 853	2 065	(4 007)

The following exchange rates applied during the year:

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

28 Financial instruments (continued)

28.2 Foreign exchange risk management (continued)

Foreign exchange rate sensitivity analysis

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

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

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

28.3 Fair values of financial instruments

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

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

28 Financial instruments (continued)

28.3 Fair values of financial instruments (continued)

Basis for determining fair values

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

Derivatives

Fair values of currency and equity derivatives are calculated using standard market calculation conventions with reference to the relevant closing market spot rates, forward foreign exchange, interest rates and share price (see note 16).

Non-derivative financial assets and liabilities

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

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

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

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

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

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

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

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

28 Financial instruments (continued)

28.3 Fair values of financial instruments (continued)

Financial assets and financial liabilities measured at fair value

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

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

28.4 Credit risk management

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

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

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

28 Financial instruments (continued)

28.4 Credit risk management (continued)

Trade receivables

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

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

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

Expected credit loss model

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

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

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

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

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

Retail customers

The ageing of trade receivables at the reporting date was:

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

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

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

28 Financial instruments (continued)

28.4 Credit risk management (continued)

Distribution customers

The ageing of trade receivables at the reporting date was:

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

Distribution customers are primarily hospitals and independent pharmacists. The Distribution business minimises its exposure to credit risk by insuring debtors with balances greater than a predetermined amount. There is an excess (which varies between hospitals and independent pharmacists) that is carried by the Distribution business with the balance being covered by Credit Guarantee Insurance Corporation of Africa Limited.

The split between insured and uninsured debtors is as follows:

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

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

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

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

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

28 Financial instruments (continued)

28.5 Liquidity risk management

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

Liquidity and interest risk tables

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

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

29 Capital commitments

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

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

30 Financial guarantees

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

31 Related party transactions

31.1 Group

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

Transactions between group subsidiary companies

During the year, in the ordinary course of business, certain companies within the group entered into transactions with one another. These intragroup transactions have been eliminated on consolidation. For a list of the group's subsidiary companies, see page 73.

Related party transactions include:

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

Directors and key management

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

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

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

Shares held by directors and their related entities

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

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

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

Contributions to pension and provident funds

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

31 Related party transactions (continued)

31.2 Company

The company has the following related party transactions:

	Company 2020 R'000	Company 2019 R'000
31.2.1 Dividends received		
New Clicks South Africa Proprietary Limited	**5 310 752**	1 109 258
Total dividends received from related parties	**5 310 752**	1 109 258
31.2.2 Dividends paid		
New Clicks South Africa Proprietary Limited	**34 528**	26 440
Clicks Group Employee Share Ownership Trust	**–**	5 539
Total dividends paid to related parties	**34 528**	31 979
31.2.3 Loans to subsidiary companies		
New Clicks South Africa Proprietary Limited	**3 944 621**	2 857 886
Clicks Centurion Proprietary Limited	**9 000**	9 000
	3 953 621	2 866 886

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

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

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

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

32 Borrowing powers

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

33 Operating segments

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

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

Retail

Retail comprises Clicks, a specialist health, beauty and homeware retailer; Claire's, a speciality retailer of fashionable jewellery and accessories at affordable prices; GNC, a speciality retailer of health and wellness products; Musica, a retailer of entertainment-related merchandise; and The Body Shop, which specialises in naturally inspired luxury toiletries, cosmetics, gifting and grooming, with stores in the Republic of South Africa, Namibia, Eswatini, Botswana and Lesotho. The revenue, assets and liabilities recognised in countries outside of South Africa are not significant in relation to those recognised locally.

Distribution

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

The information regarding the results of each reportable segment is included on pages 16 and 17. Performance is measured based on segment operating profit, as included in the internal management reports that are reviewed by the group's chief operating decision-makers. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment transactions are on an arm's length basis.

Major customers

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

34 Comparative information restated

Adoption of new accounting policies

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

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

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

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

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

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

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

34 Comparative information restated (continued)

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

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

34 Comparative information restated (continued)

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

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

35 Ongoing financial impact of Covid-19

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

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

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

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

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

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

35.1 Going concern

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

35.2 Significant estimates and judgements

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

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

35 Ongoing financial impact of Covid-19 (continued)

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

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

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

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

36 Events after the reporting period

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