Dis-Chem
PHARMACIES

Group and Company audited annual financial statements

for the financial year ended 29 February

2020

Dis-Chem Pharmacies Limited
Registration number 2005/0097/66/06

STATEMENT OF DIRECTORS' RESPONSIBILITIES AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the Group and company's audited annual financial statements of Dis-Chem Pharmacies Limited, comprising the statements of financial position at 29 February 2020, and the statements of comprehensive income, changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations issued by the IFRS Interpretations Committee (IFRIC), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council (FRSC), the JSE Listings Requirements and the Companies Act of South Africa. The annual financial statements are therefore based upon appropriate accounting policies that present fairly the financial position, financial performance and cash flows of the Group and company, consistently applied and supported by reasonable and prudent judgements and estimates.

The directors are required by the Companies Act of South Africa, to maintain adequate accounting records and are responsible for the content and integrity of the Group and company annual financial statements and related financial information included in this report. It is their responsibility to ensure that the Group and company annual financial statements fairly present the state of affairs of the Group and company as at the end of the financial year and the results of its operations and cash flows for the period then ended.

The directors acknowledge that they are ultimately responsible for the system of internal financial controls established by the Group and company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal controls aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and company and all employees are required to maintain the highest ethical standards in ensuring the Group and company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Group and company is on identifying, assessing, managing and monitoring all known forms of risk across the Group and company. While operating risk cannot be fully eliminated, the Group and company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management that the system of internal controls provides reasonable assurance that the financial records may be relied on for the preparation of the Group and company annual financial statements. However, any system of internal financial controls can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the Group and company's cash flow forecast for the year to 28 February 2021 and beyond, and other appropriate information. The directors have also considered forecasts and budgets for a 12-month period from the approval of these financial statements. In the light of this review and the current financial position, they are satisfied that the Group and company have access to adequate resources to continue in operational existence for the foreseeable future, and are thus considered it to be a going-concern. The external auditors are responsible for independently auditing and reporting on the Group and company annual financial statements. The Group and company annual financial statements have been audited by the company's external auditors and their report is presented on pages 12 to 17 and 98 to 103.

The annual financial statements set out on pages 18 to 97 and 104 to 160, were approved by the Board of Directors on 26 June 2020 and were signed on its behalf by:

Ivan Leon Saltzman	**Rui Manuel Morais**
Chief Executive Officer	*Chief Financial Officer*

The annual financial statements have been prepared under the supervision of Mr Rui Morais CA(SA), the Chief Financial Officer of the Group and company.

COMPANY SECRETARY CERTIFICATION

In terms of section 88(e) of the Companies Act of South Africa, No.71 of 2008 (the Act), as amended, I, Whitney Green, in my capacity as Company Secretary of Dis-Chem Pharmacies Limited, confirm that, to the best of my knowledge and belief, in respect of the year under review, Dis-Chem Pharmacies Limited has filed with the Companies and Intellectual Property Commission all such returns and notices as are required of a public company.

Whitney Green
Company Secretary

Date: 26 June 2020

REPORT OF THE DIRECTORS

for the year ended 29 February 2020

Review of activities

Main business and operations

The Group and company is engaged in the retailing and wholesale of affordable healthcare products and pharmaceuticals.

The operating results and state of affairs of the Group and company are fully set out in the attached annual financial statements and do not, in our opinion, require further comments. Additional information is also available in the integrated report on the Dis-Chem website.

Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The directors have reviewed and considered all relevant information to support their view that the Group and company is a going concern, and will continue to operate as such in the foreseeable future.

Authorised and issued share capital

During the current and prior year there has been no change to the issued or authorised share capital.

Refer to note 18 for the share capital analysis.

Dividends

In the current year, an interim dividend of 12.79404 cents per share or R110 million was paid on 2 December 2019. With the on-going Covid-19 pandemic and the uncertainty around how quickly South Africa will transition through the new stage-based plan announced by the government, it has been decided to preserve cash resources. The final dividend payment will be deferred until the next dividend cycle once the Group better understands normalised trading conditions and considers the funding sources for the Baby City transaction.

In the prior year, an interim dividend of 20.69678 cents per share or R178 million was paid on 5 November 2018. A final dividend of 13.47250 cents per share or R116 million was approved by the directors on 15 May 2019 and paid on 10 June 2019.

Refer to note 20 for the dividend per share analysis (note 16 in the company annual financial statements).

Events after reporting period

The directors are not aware of any additional material matter or circumstance arising since the end of the financial year up to the date of this report that would require amendment or additional disclosure in these annual financial statements, except that disclosed in note 32 (note 29 in the company annual financial statements).

Special resolutions

Special resolutions passed during the current year:
Special resolution 1: Authorisation of non-executive directors' fees
Special resolution 2: Authorisation of direct or indirect financial assistance in regards to section 44 and 45 of the Companies Act.

Special resolutions passed during the prior year:
Special resolution 1: Authorisation of non-executive directors' fees
Special resolution 2: Authorisation of direct or indirect financial assistance in regards to section 44 and 45 of the Companies Act.

Borrowing limitations

In terms of the Memorandum of Incorporation of the companies within the Group, the directors may exercise all the powers of the Group to borrow money, as they consider appropriate.

Subsidiary companies/Group structure

Refer to note 4 in the annual financial statements.

Directors

Independent non-executive directors

LM Nestadt	(South African)
MJ Bowman	(South African)
A Coovadia	(South African)
JS Mthimunye	(South African)
MSI Gani	(South African)

Executive directors

IL Saltzman	(South African)
LF Saltzman	(South African)
RM Morais	(South African)
SE Saltzman (Alternate for LF Saltzman)	(South African)

Directors' and prescribed officers' interest in shares and contracts

There are no material contracts involving directors' interests except the items disclosed in note 28, Related party transactions. Direct and indirect shares held by the directors as at 29 February 2020 are as follows:

	2020		2019	
	Direct interest	Indirect interest	Direct interest	Indirect interest
LM Nestadt	-	500 000	-	1 500 000
MJ Bowman	81 081	-	81 081	-
A Coovadia	-	162 162	-	162 162
JS Mthimunye	-	81 162	-	81 162
MSI Gani	-	-	-	-
IL Saltzman and LF Saltzman	-	453 041 396	-	453 041 396
RM Morais (1)	-	8 490 374	-	8 490 374
SE Saltzman	-	6 734 781	-	6 734 781
SRN Goetsch (1)	-	47 090 995	-	50 020 121
BI Epstein	-	11 890 063	-	11 890 063
KS Sterling	-	11 644 246	-	11 644 246
CJ Williams	-	14 915 147	-	14 915 147

(1) 4 181 818 of RM Morais shares and 1 818 812 of SRN Goetsch shares are part of an off-market collar hedge

During the current year, LM Nestadt sold 1 000 000 shares on 5 August 2019 for R22 424 600. SRN Goetsch sold 1 409 738 shares on 9 December 2019 for R36 653 188; 960 657 shares on 11 December 2019 for R24 833 080; 397 981 shares on 22 January 2020 for R10 994 305 and 160 750 shares on 23 January 2020 for R4 420 963.

During the prior year, SE Saltzman bought 62 589 shares for R1 977 402.75 on 7 May 2018. RM Morais bought 1 818 182 shares for R49 109 095.82 on 15 June 2018 and took out an off-market collar hedge over 4 181 818 shares.

There have been no changes to the directors' interests between the end of the 2020 financial year and the date of approval of the annual financial statements.

Secretary
WT Green

Registered office
23 Stag Road
Midrand
1685

AUDIT AND RISK COMMITTEE REPORT

The Audit and Risk Committee is constituted as a committee of the Dis-Chem Board in accordance with the company's Memorandum of Incorporation, and section 84(4)(c) of the Companies Act, 2008. The committee has a documented terms of reference under which it operates and which has been approved by the Board. This report is presented to shareholders in compliance with the requirements of the Companies Act and the King Code of Governance Principles.

Composition

The committee comprises of four directors, with suitable qualifications, all of whom are independent non-executive directors of the company. The following independent non-executive directors served on the committee during the financial year under review:

- JS Mthimunye (Chairman)
- MJ Bowman
- A Coovadia
- MSI Gani

The executive directors, external audit, internal audit and senior management have a standing invitation to attend meetings of the committee. The committee also meets separately with the external auditors, internal auditors and senior management as required.

At each annual general meeting the Board shall present the shareholders with at least three suitable candidates from amongst the independent non-executive directors, on recommendation by the Nomination Committee, for election as committee members. The Board shall have the power at all times to appoint, remove and replace any member from the committee.

Role and responsibilities of the committee

The committee has the following specific responsibilities:

Integrated reporting

The committee oversees integrated reporting, and in particular the committee must:

- have regard to all factors and risks that may impact on the integrity of the integrated report;
- review the annual financial statements, interim reports, preliminary or provisional result announcements, summarised integrated information, any other intended release of price-sensitive information, circulars and prospectuses, trading statements and similar documents;
- comment in the annual financial statements on the financial statements, the accounting practices and the effectiveness of the internal financial controls of the company;
- consider the frequency for issuing interim results and whether the external auditors should perform assurance procedures on the interim results;
- review the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information;
- recommend to the Board the engagement of an external assurance provider on material sustainability issues; and
- recommend the integrated report for approval by the Board.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

Combined assurance

The committee ensures that a combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular the committee should:

- ensure that the combined assurance received is appropriate to address all the significant risks facing the company via suitable mitigating controls;
- provide an effective counterbalance to executive management, thereby upholding the independence of internal and external assurance providers, to enhance effectiveness; and
- monitor the relationship between the external assurance providers and the company.

Finance function and financial director

The committee:

- reviews the expertise, resources and experience of the company's finance function, and disclose the results of the review in the integrated report; and
- considers and satisfies itself as to the suitability of the expertise and experience of the financial director every year and confirm this in the integrated report.

External audit

The committee is responsible for recommending the appointment of the external auditor and to oversee the external audit process and in this regard the committee:

- nominates the external auditor (a registered auditor), who in the opinion of the committee, is independent of the company, for appointment by the shareholders;
- approves the terms of engagement and remuneration for the external audit engagement;
- monitors and report on the independence of the external auditor in the annual financial statements;
- ensures that the appointment of the auditor complies with the provisions of the Act and any other legislation relating to the appointment of auditors;
- defines a policy for non-audit services and pre-approve the contracts for non-audit services to be rendered by the external auditor;
- ensures that there is a process for the committee to be informed of any issues identified and reported by the external auditor; and
- reviews the quality and effectiveness of the external audit process.

Internal audit

The committee is responsible for overseeing the internal audit function, and in particular the committee:

- is responsible for the appointment, performance assessment and/or dismissal of the head of internal audit or the outsourced service provider;
- reviews and approves the internal audit plan;
- annually reviews and approves the internal audit charter;
- receive and deal appropriately with concerns or complaints, including those on its initiative relating to the accounting practices and internal audit of the company; the content or auditing of the company's financial statements; the internal financial controls of the company or any related matter;
- review and confirm the independence of the internal audit function on an annual basis; and
- ensure that the internal audit function is subject to an independent quality review, as and when the committee determines it appropriate.

Risk management

The committee is an integral component of the risk management process and specifically the committee must oversee financial reporting risks; internal financial controls; fraud risks as it relates to financial reporting; and IT risks as it relates to financial reporting. The committee performs all the functions necessary to fulfil its risk management role including the following:

- ensuring the establishment of an independent risk function at a Group level;
- overseeing the development and annual review of a policy and plan for risk management to recommend for approval to the Board;
- monitoring implementation of the policy and plan for risk management taking place by means of risk management systems and processes;
- making recommendations to the Board concerning the levels of tolerance and appetite and monitoring that risks are managed within the levels of tolerance and appetite as approved by the Board;
- ensures that risk management assessments are performed on a continuous basis and at least once a year;
- ensures that management considers and implements appropriate risk responses;
- ensures that continuous risk monitoring by management takes place;
- expresses the committee's formal opinion to the Board on the effectiveness of the system and process of risk management;
- reviews reporting concerning risk management that is to be included in the integrated report for it being timely, comprehensive and relevant; and
- ensures that a risk register is maintained by management and provided to the Board regularly.

Financial reporting and financial control

The committee:

- evaluates the adequacy and effectiveness of the accounting policies adopted by the company in terms of IFRS, JSE Listings Requirements and other legal requirements;
- considers the adequacy and clarity of disclosures in the financial statements;
- reviews the effectiveness of financial management and the quality of internal accounting control systems and reports produced by financial management;
- concludes and reports annually to stakeholders and the Board on the effectiveness of internal financial controls;
- reviews the impact of new financial systems, tax and litigation matters on financial reporting;
- reviews the company's interim and audited annual financial statements, summarised financial information, interim and preliminary announcements, dividend announcements, and all financial information, including non-financial information in the integrated report, for distribution to shareholders and the general public, prior to submission to the Board or publication and confirm that the annual financial statements present a balanced and understandable assessment of the company's position, performance and prospects; and
- reviews the basis on which the company has been determined a going concern and make a recommendation to the Board.

Evaluation of Chief Financial Officer and finance function

The committee is satisfied as to the expertise, resources and experience of the company's finance division and the appropriateness of the experience and expertise of the Chief Financial Officer. It is satisfied that the composition of the finance function meets the Group's requirements.

Independence of external auditors

The committee appraised the independence, quality and effectiveness of the external audit function. Part of this process was to obtain confirmation from the external auditors that the firm, partner and staff responsible for the audit comply with all legal and professional requirements in regard to independence. The committee also approved the fees paid to the external auditors.

The committee confirmed its satisfaction with the independence and level of service rendered by the external auditor, Ernst & Young Inc., for the 2020 financial year.

Policy on non-audit services

The committee has formulated a policy to manage and approve non-audit services. Non-audit services provided by the external auditors in the current financial year amounted to R0.4 million (2019: R0.2 million).

Execution of functions of the Audit Committee

The committee is satisfied that, in respect of the period under review, it has conducted its affairs and discharged its duties and responsibilities in accordance with its terms of reference, the Companies Act and King Code of Governance Principles.

Covid-19

The Group has seen disruption in trading conditions with its revenue being higher than expected in March (pre-lock down) across all categories but especially in the pharmacy, healthcare and nutrition category. This trading pattern was then reversed during the lock down (27 March to 30 April 2020), when only essential products could be sold. Since level 4 and 3 came into effect the Group has seen a recovery in revenue.

The Group has taken several steps to strengthen its financial position and maintain financial liquidity, which include: reducing unnecessary variable cost spend, reducing capital expenditure and deferring the final dividend. The Group's financial position has also been assisted by the lowering of interest rates thus reducing interest payable on its long term loan.

The Group is not exposed to significant credit risk in its wholesale business as a result of COVID-19 due to the majority of its customers continuing to trade as a result of their essential services status. No significant impairments of the Group's assets are expected to arise and there has been no significant impact on the net realisable value of inventory as a result of the crisis.

The ultimate impact on trade in the 2021 financial year is currently unknown, as it will depend heavily on the duration of the lock down levels and the normalisation of retail trade. The Group believes the adaptation of the business to a focussed Return on Invested Capital ("ROIC") approach positions it well to fast changing trading patterns.

J Mthimunye
Audit and Risk Committee Chairman

26 June 2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Dis-Chem Pharmacies Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Dis-Chem Pharmacies Limited and its subsidiaries ('the group') set out on pages 18 to 97, which comprise the consolidated statement of financial position as at 29 February 2020, and the consolidated group statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the group as at 29 February 2020, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements of the group and in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits of the group and in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA code) and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

Key audit matter	How the matter was addressed in the audit
Rebate agreements with vendors: included in note 3.6 and note 15 to the financial statements As described in note 3.6 and note 15 to the financial statements, the Group recognises a reduction in cost of sales as a result of amounts receivable from suppliers in regards to rebate agreements. The reduction primarily comprises of contributions received in relation to promotions in the Retail business, annual volume-based rebates, Wholesale logistic rebates and other general rebates. There are also various types of rebate agreements which differ in their targets, percentages applied and relate to different periods, for each supplier. The majority of these contributions tend to be small in unit value but high in volume. The agreements include those which span relatively short periods of time, and to a lessor extent, annual agreements whose timing does not coincide with the Group's year-end and are re-negotiated/re-entered into on an ongoing basis. The calculation of these accruals are managed centrally and calculated manually. Due to the large volume of trade term agreements we consider the recognition of supplier rebates to be significant to the audit. Significant audit time is therefore required to assess the completeness and accuracy of the source data and to obtain the evidence of all agreements in place at year-end. Accordingly, rebate agreements with vendors continue to be a key audit matter due to the changes in the contracts year to year.	Our audit procedures included, amongst others, the following: In respect of the accrued supplier income for rebate agreements: • On a sample basis we inspected the rebate terms in the agreements and agreed them to inputs used in the rebate income calculation; • On a sample basis we vouched the purchased volumes to those per the accounting records and considered whether the amounts being used related to the correct period per the agreement; • We tested the arithmetical accuracy of the calculation and agreed the amount calculated to the amount recognised in the financial statements; • On a sample basis we selected invoices and debit notes raised post year-end to test the completeness of accrued supplier income at 29 February 2020; • We performed an independent recalculation of the rebate accruals for all material trade term categories; • We tested the recoverability of the amounts due at the year-end by agreeing the amounts to subsequent settlement from suppliers; and • We tested the recognition criteria of 'genuine/specific' rebates which are recognised at a point in time *versus* rebates which are general in nature that form part of the deferred unearned rebate calculation. We tested the following regarding the unearned rebate calculation: • All relevant supplier rebates were included in the calculation; and • The assumptions used in the calculation are in accordance with the supplier terms.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Key audit matter	How the matter was addressed in the audit

Adoption of IFRS 16 - Leases; included in note 12, note 21 and note 31 to the financial statements.
 	
The new lease accounting standard IFRS 16, became effective during the 2020 financial year.
 	
In adopting the standard using the full retrospective approach, the Group recognised an additional right of use (ROU) asset of R1 624.4 million and an additional lease liability of R2 109.2 million at the beginning of the financial year. The disclosures required by the standard for these balances are contained in note 12, note 21 and note 31.
 	
The standard required management to assess each contract to identify whether they are or contains a lease. Once identified the lease and non-lease components are separated and the lease term, including the commencement date of the lease, initial recognition of the lease and subsequent measurement of the lease is determined in terms of the requirements of the standard including the assessment of the incremental borrowing rate (IBR).
 	
We focused on this area due to the number of property and non-property contracts in the Group, the values associated to the respective rentals and the level of judgement required in assessing the accounting for various lease terms (such as beneficial occupation date and end date), the complexity of subsequent modifications to leases and the restatement of comparative information required as a result of the fully retrospective adoption of the standard.
 	
Therefore, given the volume of different lease agreements and the significance of differences between these agreements, there was significant audit effort required to inspect the agreements, consider the appropriateness of the discount rate for each lease and to consider management's assessment of subsequent modifications.
 	
Accordingly, the adoption of IFRS 16 Leases was a key audit matter.
	Our audit procedures included, amongst others, the following:
	
	• We evaluated management's productive policies, processes and controls put in place to capture and process the respective active leases across the Group in light of the requirements of the accounting standard;
	• We obtained a list of recurring vendor payments at adoption and during the audit period, and for a sample of the payments we evaluated the underlying contract to determine whether the contract was a lease or contained a lease component. Furthermore we considered whether it was consequently captured and processed as part of the adoption of the accounting standard;
	• We assessed the completeness of management's capturing and processing of active leases through the inspection of minutes of the meetings of relevant committees for evidence of new contracts or modifications to existing contracts that might be leases or contain leases or modifications of existing leases;
	
	For a sample of leases selected:
	
	  • We reviewed the terms and conditions of the underlying contract and evaluated management's identification of relevant leases to determine whether the leases were correctly considered for adoption as required by the standard; and
	  • We recalculated and agreed the contract consideration (e.g. fixed payments, variable payments based on a rate where applicable) in light of the underlying contract to determine whether management has appropriately identified and applied the respective contract consideration
	
	• We obtained management's calculation of the lease liability and ROU asset and performed the following procedures to assess the inputs into the lease application used;
	  • We determined the completeness and accuracy of the lease payments and incremental borrowing rate used to calculate the lease liability by agreeing them to the underlying contractual terms; and
	  • We agreed the amounts calculated by management and assessed by us to the respective general ledger accounts.
	• We evaluated the completeness and accuracy of disclosure to confirm compliance with the requirements of IFRS 16: Leases.

Other information

The directors are responsible for the other information. The other information comprises the information included in the 160 - page document titled Group and Company Audited annual financial statements for the year ended 29 February 2020, which includes the Directors' Report, the Audit Committee's Report, Statement of directors' responsibilities and approval of the annual financial statements and the Company Secretary's Certificate as required by the Companies Act of South Africa. The other information does not include the consolidated financial statements or the separate financial statements and our auditor's reports thereon.

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

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

Responsibilities of the Directors for the Consolidated Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

INDEPENDENT AUDITOR'S REPORT CONTINUED

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc has been the auditor of Dis-Chem Pharmacies Limited for 14 years.

Ernst & Young Inc.

Derek Engelbrecht
Director

Registered Auditor

102 Rivonia Road
Johannesburg
Gauteng
South Africa
2146

26 June 2020

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 29 February 2020

	Notes	2020 R'000	Restated* 2019 R'000
Revenue from contracts with customers	7	**23 984 296**	21 420 023
Cost of sales	15	**(18 428 773)**	(16 197 190)
Gross profit		**5 555 523**	5 222 833
Other income	8	**1 290 082**	1 010 258
Total income		**6 845 605**	6 233 091
Other expenses	8	**(5 597 204)**	(4 857 179)
Operating profit		**1 248 401**	1 375 912
Net financing costs	9	**(379 752)**	(344 787)
– Finance income		**22 297**	20 183
– Finance costs		**(402 049)**	(364 970)
Profit from associates and joint ventures		**195**	–
Profit before taxation		**868 844**	1 031 125
Taxation	10	**(240 647)**	(284 185)
Total comprehensive income for the year, net of tax		**628 197**	746 940
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
– Exchange differences on translating foreign subsidiaries		**73**	44
Other comprehensive income for the year, net of tax		**73**	44
Total comprehensive income for the year		**628 270**	746 984
Profit attributable to:			
– Equity holders of the parent		**598 225**	718 723
– Non-controlling interests		**29 972**	28 217
Total comprehensive income attributable to:			
– Equity holders of the parent		**598 298**	718 767
– Non-controlling interests		**29 972**	28 217
Earning per share (cents)	11		
– Basic		**69.6**	83.6
– Diluted		**69.6**	83.6

**Restated due to adoption of IFRS 16 Leases – refer to note 31*

GROUP STATEMENT OF FINANCIAL POSITION

for the year ended 29 February 2020

	Notes	2020 R'000	Restated* 2019 R'000	Restated* 2018 R'000
ASSETS				
Non-current assets		**3 754 625**	3 672 379	3 351 276
Property, plant and equipment (including right-of-use asset)	12	**3 095 352**	2 994 756	2 815 059
Intangible assets	13	**456 263**	447 112	300 461
Investment in associates and joint ventures		**13 703**	–	–
Deferred taxation	14	**189 307**	230 511	235 756
Current assets		**6 832 006**	6 849 048	5 470 665
Inventories	15	**4 506 760**	5 115 579	3 947 937
Trade and other receivables	16	**1 655 782**	1 354 016	1 118 855
Loans receivable	17	**213 338**	198 317	113 876
Taxation receivable	27.3	**4 282**	3 704	9 998
Cash and cash equivalents	27.4	**451 844**	177 432	279 999
Total assets		**10 586 631**	10 521 427	8 821 941
EQUITY AND LIABILITIES				
Equity and reserves		**2 253 379**	1 885 604	1 496 416
Share capital	18	**6 155 554**	6 155 554	6 155 554
Retained profit/(loss)		**717 816**	344 888	(37 095)
Other reserves		**(4 619 991)**	(4 614 838)	(4 622 043)
Non-controlling interest		**60 814**	64 125	51 095
Total equity		**2 314 193**	1 949 729	1 547 511
Non-current liabilities		**3 109 234**	2 852 220	2 992 681
Lease liability	21	**2 374 961**	2 443 204	2 438 576
Loans payable	22	**679 450**	346 000	499 605
Contingent consideration	23	**19 494**	40 797	54 500
Deferred taxation	14	**35 329**	22 219	–
Current liabilities		**5 163 204**	5 719 478	4 281 749
Trade and other payables	24	**4 258 659**	4 294 456	3 237 897
Lease liability	21	**350 721**	309 317	255 695
Loans payable	22	**142 432**	170 989	198 798
Employee-related obligations	25	**190 015**	163 933	146 014
Deferred revenue (contract liability)	26	**36 323**	43 798	81 292
Contingent consideration	23	**25 627**	23 548	21 749
Taxation payable	27.3	**7 860**	54 967	32 790
Bank overdraft	27.4	**151 567**	658 470	307 514
Total equity and liabilities		**10 586 631**	10 521 427	8 821 941
Net asset value per share (WANOS)	(cents)	**269.2**	226.7	179.9
Net asset value per share (actual shares at year-end)	(cents)	**269.1**	226.7	179.9

**Restated due to adoption of IFRS 16 Leases – refer to note 31*

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 29 February 2020

As previously reported
Adjustment for IFRS 16
Restated balance at 28 February 2018*
Profit/total comprehensive income for the year
Profit for the year, net of taxation
Other comprehensive income for the year, net of taxation
Change in ownership interest in subsidiary and acquisitions
Share-based payment expense
Dividends paid
Restated balance at 28 February 2019*
Profit/total comprehensive income for the year
Profit for the year, net of taxation
Other comprehensive income for the year, net of taxation
Change in ownership interest in subsidiary and acquisitions
Share-based payment expense
Treasury shares acquired
Dividends paid
Balance at 29 February 2020

(1) Other reserves consists of common control reserve, share-based payments, treasury shares and shares repurchased.

* *Restated due to adoption of IFRS 16 Leases – refer to note 31*

Notes	(Note 18) Share capital R'000	Retained profit/(loss) R'000	Other reserves (1) R'000	Non-controlling interest R'000	Total R'000
	6 155 554	97 481	(4 622 043)	55 147	1 686 139
	–	(134 576)	–	(4 052)	(138 628)
	6 155 554	(37 095)	(4 622 043)	51 095	1 547 511
	–	718 723	44	28 217	746 984
	–	718 723	–	28 217	746 940
	–	–	44	–	44
4	–	(49 190)	–	(1 038)	(50 228)
19	–	–	7 161	–	7 161
20	–	(287 550)	–	(14 149)	(301 699)
	6 155 554	**344 888**	**(4 614 838)**	**64 125**	**1 949 729**
	–	**598 225**	**73**	**29 972**	**628 270**
	–	**598 225**	**–**	**29 972**	**628 197**
	–	**–**	**73**	**–**	**73**
4	**–**	**617**	**–**	**7 191**	**7 808**
19	**–**	**–**	**7 926**	**–**	**7 926**
	–	**–**	**(13 152)**	**–**	**(13 152)**
20	**–**	**(225 914)**	**–**	**(40 474)**	**(266 388)**
	6 155 554	**717 816**	**(4 619 991)**	**60 814**	**2 314 193**

GROUP STATEMENT OF CASH FLOWS

for the year ended 29 February 2020

	Notes	2020 R'000	Restated * 2019 R'000
Cash flow from operating activities		**1 256 978**	585 716
Cash inflow from trading operations	27.1	**1 851 142**	1 860 725
Movement in working capital	27.2	**265 680**	(403 526)
Finance income received		**22 297**	20 183
Finance costs paid		**(383 925)**	(349 979)
Taxation paid	27.3	**(231 828)**	(239 988)
Dividends paid		**(266 388)**	(301 699)
Cash flow from investing activities		**(413 218)**	(549 721)
Additions to property, plant and equipment and intangible assets			
– To maintain operations	12/13	**(139 737)**	(147 850)
– To expand operations	12/13	**(223 617)**	(246 659)
Proceeds on disposal of property, plant and equipment and intangible assets		**10 058**	9 313
Acquisition in business combination and subsidiaries, net of cash acquired	5	**(43 922)**	(164 525)
Investment in joint ventures		**(16 000)**	–
Cash flow from financing activities		**(61 436)**	(489 663)
Purchase of treasury shares		**(13 152)**	–
Contingent consideration repayment	27.5	**(29 672)**	(23 133)
Change in ownership interest in subsidiary		**(536)**	(50 439)
Long-term loans repaid	27.5	**(593 750)**	(150 000)
Receipt of long-term loans	27.5	**900 000**	–
Lease liability repayment	27.5	**(324 326)**	(266 091)
Net decrease in cash and cash equivalents		**782 324**	(453 668)
Foreign currency		**(1 009)**	145
Cash and cash equivalents at beginning of year		**(481 038)**	(27 515)
Cash and cash equivalents at end of year	27.4	**300 277**	(481 038)

* *Restated due to adoption of IFRS 16 Leases – refer to note 31*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 29 February 2020

1. Corporate information

Dis-Chem Pharmacies Limited is incorporated in South Africa. The Group annual financial statements as at 29 February 2020 comprises the company and its subsidiaries (collectively referred to as "the Group").

2. Basis of preparation

The Group and company annual financial statements set out on pages 18 to 97 and 104 to 160 are prepared on the historical cost basis as modified by fair value adjustments, and incorporate the following principal accounting policies, which conform with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations issued by the IFRS Interpretations Committee (IFRIC), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the Companies Act of South Africa.

The Group and company annual financial statements are presented in South African Rands and are rounded to the nearest thousand, except where otherwise indicated.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the annual financial statements are set out in the relevant supporting note, unless no supporting note is presented or it impacts multiple line items. In the latter case they are presented under 3.1 below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of consolidation

The Group annual consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 29 February 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

3. Summary of significant accounting policies continued

3.1 Basis of consolidation continued

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated annual financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any investment retained is recognised at fair value. The resultant gain or loss is recognised in profit or loss in the period that control is lost.

3.2 Business combinations and goodwill

Business combinations, other than those under common control, are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in other expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument is measured at fair value with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the fair value of the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss in the year of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

3.3 Impairment of non-financial assets

At each reporting date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows per the management accounts for the next five years are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

3. Summary of significant accounting policies continued

3.3 Impairment of non-financial assets continued

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately in profit or loss.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the asset's or CGU's recoverable amount is estimated.

Where an impairment loss subsequently reverses, the carrying amount of an asset (or CGU) is increased to the revised estimate of its recoverable amount. This is done so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss. For goodwill and intangible assets that have an indefinite useful life, the recoverable amount is estimated at each reporting date. Whenever the carrying amount of an asset or its CGU exceeds its recoverable amount, an impairment loss is recognised in profit or loss. As goodwill is not capable of generating cash flows independently of other assets, in assessing the recoverable amount of goodwill, it is allocated to CGUs on a reasonable and consistent basis. The recoverable amount of the CGU (including an allocation of goodwill) is assessed with reference to the future cash flows of the CGU. Where an impairment is identified for a CGU, the impairment is applied first to the goodwill allocated to the CGU and then to other assets on a *pro rata* basis comprising the CGU, provided that each identifiable asset is not reduced to below its recoverable amount.

3.4 Common control reserve

Common control transactions are accounted for using the pooling of interest method with the difference between the carrying amount and consideration recognised in a separate reserve in equity.

3.5 Other reserves

Other reserves relates to equity that is non-operating in nature, for example repurchase of shares.

3.6 Significant accounting estimates, judgements and assumptions

The presentation of the results of operations, financial position and cash flows in these annual financial statements of the Group is dependent upon and sensitive to the accounting policies, assumptions and estimates that are used as a basis for the preparation of these financial statements. Management has made certain judgements in the process of applying the Group's accounting policies. These, together with the key assumptions concerning the future, and other key sources of the estimation uncertainty at the reporting date, are discussed below:

Advertising agreements

The Group enters into cooperative advertising agreements with its suppliers. A cooperative advertising agreement provides that the manufacturer will participate in the advertising cost of the Group. Significant judgement is required to determine whether the reimbursement of advertising costs received by the Group from the manufacturer should be accounted for as other income or as a reduction against cost of sales. The Group accounts for the reimbursement as part of 'other income' when both of the following criteria are met:

- The manufacturer receives, or will receive, an identifiable advertising service in exchange for the reimbursement. In order to meet this condition, the advertising service must be sufficiently separable from the Group's purchase of the manufacturer's products such that the manufacturer could have entered into an exchange transaction with a party other than a purchaser of its products or services in order to receive that advertising service.
- The Group can reasonably estimate the fair value of the advertising services. If the amount of reimbursement paid by the manufacturer exceeds the estimated fair value of the advertisement services, that excess amount is characterised as a reduction of cost of sales when recognised in the Group's income statement.

Loyalty benefit point scheme

The two key inputs in determining the customer loyalty point liability are the allocation of the transaction price and the redemption rate. The transaction price is allocated to the loyalty points with reference to the Rand value of the points. In terms of the redemption rate, loyalty benefit points are redeemed through additional sales to customers. Historical redemption rates of the points are used to determine the extent to which the points which are accrued by customers are likely to be redeemed and therefore the extent they are provided for. The Group experiences low levels of unredeemed loyalty points due to the ease with which customers can redeem them at point of sale. The points are derecognised upon redemption by the customers.

3. Summary of significant accounting policies continued

3.6 Significant accounting estimates, judgements and assumptions continued

Ownership of Oncology

The group owns 50% of the share capital of Oncology Proprietary Limited but due to the ability to appoint the majority of directors and control the operations of Oncology, the company is still consolidated by the Group.

3.7 New and amended standards and interpretations effective for the period ended 29 February 2020

The following new or revised standards became effective in the current period but had no significant impact on the financial position or performance of the Group:

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

The following new standard became effective in the current period and had an impact on the financial position and performance of the Group:

- IFRS 16 Leases – refer to note 31 (note 28 in Company) for the impact of the new standard.

3.8 International Financial Reporting Standards issued; not yet effective

The Group has not applied various IFRS and IFRIC interpretations that have been issued, but which are not yet effective, and does not plan on early adoption (unless otherwise stated). These are as follows:

Standard	Scope	Effective date
Amendment to IFRS 3 Definition of a business	The amendment is to help entities determine whether an acquired set of activities and assets is a business combination or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce as optional fair value concentration test. This amendment is not expected to materially impact the Group or Company.	1 January 2020
Amendment to IAS 1 and IAS 8 Definition of Material	The amendment clarifies that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. This amendment is not expected to materially impact the Group or Company.	1 January 2020

3. Summary of significant accounting policies continued

3.8 International Financial Reporting Standards issued; not yet effective continued

Standard	Scope	Effective date
The Conceptual Framework for Financial Reporting	The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. This amendment is not expected to materially impact the Group or Company.	1 January 2020
Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7	The amendments include a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. This amendment is not expected to materially impact the Group or Company.	1 January 2020

4. Group information

Majority shareholder

The majority shareholder of the Group is Ivlyn No4 Proprietary Limited that holds 52.7% (2019: 52.7%) of the shares.

Information about subsidiaries

The consolidated financial statements of the Group include:

(All companies are incorporated in South Africa except for Dis-Chem Swakopmund Proprietary Limited, Dis-Chem Walvis Bay Proprietary Limited and Dis-Chem Wernhill Proprietary Limited that are incorporated in Namibia and Dis-Chem Airport Junction Proprietary Limited that is incorporated in Botswana)

	% equity interest	
Name	**2020**	**2019**
Pharmaceutical retailer		
Dis-Chem Riverside Lifestyle Mall Proprietary Limited (1)	**100.0**	100.0
Dis-Chem Hemmingways Proprietary Limited (1)	**100.0**	100.0
Dis-Chem Cape Road Proprietary Limited (1)	**100.0**	100.0
Dis-Chem Garden Route Mall Proprietary Limited (1)	**100.0**	100.0
Dis-Chem Mooi River Mall Proprietary Limited (1)	**100.0**	100.0
Dis-Chem Ballito Junction Proprietary Limited	**75.0**	75.0
Dis-Chem Krugersdorp Proprietary Limited	**51.0**	51.0
Dis-Chem Brooklyn Mall Proprietary Limited (1)	**100.0**	100.0
Dis-Chem Woodlands Boulevard Proprietary Limited (1)	**100.0**	100.0
Dis-Chem Savannah Mall Proprietary Limited (1)	**100.0**	100.0
Dis-Chem Three Rivers Proprietary Limited	**75.0**	75.0
Dis-Chem Bayside Proprietary Limited (1)	**100.0**	100.0
Dis-Chem The Galleria Amanzimtoti Proprietary Limited	**85.0**	80.0
Dis-Chem Glen Fair Proprietary Limited	**75.5**	75.5
Dis-Chem Jeffrey's Bay Proprietary Limited (1)	**100.0**	100.0
Dis-Chem Flamewood Value Centre Proprietary Limited	**66.7**	66.7
Dis-Chem Nicolway Proprietary Limited (1)	**100.0**	100.0
Dis-Chem Glenacres Proprietary Limited (1)	**100.0**	100.0
Dis-Chem Festival Mall Proprietary Limited	**100.0**	100.0
Dis-Chem Secunda Proprietary Limited (1)	**100.0**	100.0
Dis-Chem Park Station Proprietary Limited	**89.6**	89.6
Dis-Chem Worcester Proprietary Limited	**95.0**	95.0
Dis-Chem North Cape Mall Proprietary Limited (1)	**100.0**	100.0
Dis-Chem Highveld Mall Proprietary Limited (1)	**100.0**	100.0
The Local Choice Proprietary Limited	**100.0**	100.0
Pharma-Logistical Solutions Proprietary Limited	**100.0**	100.0

4. Group information continued

Name	% equity interest 2020	2019
Oncology Proprietary Limited	**50.0**	50.0
Platinum Park Proprietary Limited (1)	**100.0**	100.0
Rynfield Terrace Proprietary Limited	**80.0**	80.0
Dis-Chem Swakopmund Proprietary Limited	**100.0**	100.0
Dis-Chem Walvis Bay Proprietary Limited	**100.0**	100.0
Dis-Chem Maponya Proprietary Limited	**90.0**	90.0
Dis-Chem Jubilee Proprietary Limited	**90.0**	90.0
Dis-Chem Ballito Lifestyle Proprietary Limited	**75.0**	75.0
Dis-Chem Mega Mall Proprietary Limited	**100.0**	100.0
Dis-Chem Goodwood Proprietary Limited	**85.0**	100.0
Dis-Chem Mams Mall Proprietary Limited	**100.0**	100.0
Dis-Chem TLC De Wiekus Proprietary Limited	**70.0**	70.0
A. Retief Proprietary Limited (trading as York Street)	**100.0**	100.0
Dis-Chem Airport Junction Proprietary Limited	**85.0**	90.9
Dis-Chem Wernhill Proprietary Limited	**100.0**	100.0
Dis-Chem Ferndale Proprietary Limited*	**100.0**	n/a
Mundel Gien Proprietary Limited (trading as Springbok Pharmacy)	**65.0**	n/a
Differenza Proprietary Limited	**51.0**	n/a
TLC Medipark Proprietary Limited	**100.0**	n/a
Culemborg Pharmacy Proprietary Limited	**100.0**	n/a
Wholesaler of pharmaceutical products and supporting services		
Dis-Chem Distribution Proprietary Limited	**100.0**	100.0
CJ Pharmaceutical Enterprises Limited	**100.0**	100.0
Evening Star Trading Proprietary Limited (t/a Nelspruit Pharmaceutical Wholesaler)	**51.3**	51.3
CJ Marketing Proprietary Limited	**100.0**	100.0
The Pharmacy Development Academy Proprietary Limited	**70.0**	70.0
Bemax Proprietary Limited	**100.0**	100.0
Quenets Proprietary Limited	**100.0**	100.0
Brandwacht Proprietary Limited	**100.0**	100.0
Finamics Proprietary Limited*	**100.0**	n/a

* *During the current and prior period, the company opened new stores which exist within a statutory entity or a new statutory entity. These entities were not acquired from a third party and therefore were not treated as business combinations*

(1) *In a process of rationalising the number of legal entities within the Group, these entities were deregistered. This did not result in any stores being closed.*

During the current year, the Group acquired an additional 5% interest in Dis-Chem Amanzimtoti and sold 15% interest in Dis-Chem Goodwood and 5.9% in Dis-Chem Airport Junction Proprietary Limited.

During the prior year, the Group sold 10% of their interest in Dis-Chem Jubilee Proprietary Limited and 25% of their interest in Dis-Chem Ballito Lifestyle Proprietary Limited. The Group also acquired an additional 5% interest in Dis-Chem Ballito Junction Proprietary Limited and an additional 24.5% interest in Dis-Chem Glen Fair Proprietary Limited.

The effect on equity from the change in ownership is as follows:

	Retained profit/ (loss) R'000	Non-controlling interest R'000
2020		
Goodwood	**1 451**	**(165)**
Amanzimtoti	**(1 629)**	**(913)**
Airport Junction	**795**	**(76)**
	617	**(1 154)**
2019		
Jubilee	1 562	(229)
Ballito Lifestyle	–	2 739
Glen Fair	(39 385)	(3 208)
Ballito Junction	(11 367)	(545)
	(49 190)	(1 243)

There were no material non-controlling interests identified within the Group in the current and prior financial period. The Group assesses the share of non-controlling interest in profit after tax to be material if the interest is higher that 10% (2019: 10%) of consolidated profit after tax.

Associates and joint ventures

The Group's investment in its associates and joint ventures is accounted for using the equity method.

(all companies are incorporated in South Africa)

	2020	2019
Dis-Chem Bothomed Proprietary Limited	**40.00**	40.00
Geniob Group (which owns 100% of Origin Brands Proprietary Limited)	**50.00**	50.00
Health Window Proprietary Limited	**50.00**	n/a
Vexall Proprietary Limited	**35.00**	n/a

Health Window has an accumulated profit of R6.9 million. Bothomed, Geniob and Vexall have accumulated losses of R2.5 million (2019: R2.5 million), R65 million (2019: R18 million) and R10 million respectively.

for the year ended 29 February 2020

5. Acquisitions

Acquisitions in 2020	Principal activity	Date of acquisition
Mundel Gien Proprietary Limited (trading as Springbok Pharmacy)	Retail pharmacy	1 April 2019
Differenza and Health Window Proprietary Limited	Adherence business	31 May 2019
Culemborg Proprietary Limited	Retail pharmacy	1 March 2019
TLC Medipark Proprietary Limited	Retail pharmacy	1 September 2019

During the year the Group acquired the following companies:

- The acquisition of 65% of Mundel Gien Proprietary Limited (trading as Springbok Pharmacy), a pharmacy in Alberton, for R32.5 million on 1 April 2019.
- The acquisition of 50% of Health Window Proprietary Limited and 51% of Differenza Proprietary Limited, pharmaceutical adherence businesses for R17.5 million, on 31 May 2019.
- The acquisition of 100% of Culemborg Pharmacy Proprietary Limited, a pharmacy in Cape Town, for R1 million on 1 March 2019.
- The acquisition of 100% of TLC Medipark Proprietary Limited, a pharmacy in Gauteng, for R9.5 million on 1 September 2019.

Assets acquired and liabilities assumed

The provisional fair values of the identifiable assets and liabilities of the companies as at the date of acquisition were:

	Spring-bok R'000	Differ-enza R'000	Culem-borg R'000	TLC Medi-park R'000	Total R'000
ASSETS					
Property, plant and equipment	1 461	-	-	176	1 637
Right-of-use asset	24 726	-	-	3 644	28 370
Other intangibles (2)	2 890	-	-	2 338	5 228
Trade and other receivables (1)	2 815	279	116	1 315	4 525
Inventories	34 332	-	503	4 497	39 332
Bank	-	359	291	1 604	2 254
Tax receivable	1 241	52	-	1 206	2 499
Deferred tax	366	11	-	-	377
LIABILITIES					
Lease liability	(24 726)	-	-	(3 644)	(28 370)
Loans	(2 379)	-	-	-	(2 379)
Bank overdraft	(1 646)	-	-	-	(1 646)
Deferred tax	-	-	-	(655)	(655)
Trade and other payables	(15 989)	(175)	(878)	(5 182)	(22 224)

	Spring-bok R'000	Differ-enza R'000	Culem-borg R'000	TLC Medi-park R'000	Total R'000
Total identifiable net assets at fair value	23 091	526	32	5 299	28 948
Non-controlling interest at proportionate interest	(8 082)	(263)	-	-	(8 345)
Goodwill arising on acquisition	17 491	1 267	968	4 201	23 927
Purchase consideration transferred	32 500	1 530	1 000	9 500	44 530

(1) The carrying amount reflects the gross contractual amounts receivable and we expected to receive the full amount at date of acquisition.

(2) Other intangibles consists of customer lists.

The goodwill comprises the value of expected synergies arising from the acquisition which is not separately recognised.

	R'000	R'000	R'000	R'000	Total R'000
Net cash acquired with the subsidiary	(1 646)	359	291	1 604	608
Cash paid	(32 500)	(1 530)	(1 000)	(9 500)	(44 530)
Net cash flow on acquisition	(34 146)	(1 171)	(709)	(7 896)	(43 922)

From the date of acquisition, the following revenue and profit before tax was contributed to the Group:

	R'000	R'000	R'000	R'000	Total R'000
Revenue	165 476	3 679	23 343	24 444	216 942
Profit before tax	(4 031)	894	(4 038)	1 247	(5 928)

If the acquisitions had taken place at the beginning of the year, the following revenue and profit before tax would have been contributed to the Group:

	R'000	R'000	R'000	R'000	Total R'000
Revenue	181 436	4 718	23 343	52 418	261 915
Profit before tax	(2 321)	1 067	(4 038)	1 573	(3 719)

5. Acquisitions continued

Acquisitions in 2019	Principal activity	Date of acquisition
Bemax Proprietary Limited	Wholesaler of pharmaceutical products	1 June 2018
Quenets and Brandwacht Proprietary Limited	Wholesaler of pharmaceutical products	1 November 2018
A. Retief Proprietary Limited	Retail pharmacy	1 January 2019
Dis-Chem TLC De Wiekus Proprietary Limited	Retail pharmacy	1 November 2018

During the prior year the Group acquired the following companies:

- 100% of the shares of Bemax Proprietary Limited, an import company of retail products. The main shareholder of this company is a related party to key management personnel of Dis-Chem Pharmacies Limited and received 80% of the purchase consideration transferred.
- 100% of the shares of Quenets Proprietary Limited, a wholesale company in Worcester, Cape Town.
- 100% of the shares of A Retief Proprietary Limited, a pharmacy in George.
- 70% of certain assets and liabilities of TLC De-Wiekus, a pharmacy in Gauteng.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of the companies as at the date of acquisition were:

	Bemax R'000	Quenets and Brandwacht R'000	A Retief R'000	De-Wiekus R'000	Total R'000
ASSETS					
Property, plant and equipment	112	599	163	3 136	4 010
Trade and other receivables (1)	11 952	56 242	1 074	492	69 760
Inventories	17 091	34 535	2 627	1 813	56 066
Bank	-	2	4 087	-	4 089
Other intangibles (2)	15 623	7 770	5 206	-	28 599
LIABILITIES					
Trade and other payables	(5 586)	(40 581)	(6 105)	(4 759)	(57 031)
Bank overdraft	(376)	(7 206)	-	-	(7 582)
Taxation owing	(2 462)	(988)	(315)	-	(3 765)
Deferred tax	(4 374)	(2 175)	(1 459)	-	(8 008)

	Bemax R'000	Quenets and Brandwacht R'000	A Retief R'000	De-Wiekus R'000	Total R'000
Total identifiable net assets at fair value	31 980	48 198	5 278	682	86 138
Non-controlling interest at proportionate interest	-	-	-	(205)	(205)
Goodwill arising on acquisition	37 370	15 206	21 500	1 023	75 099
Purchase consideration transferred	69 350	63 404	26 778	1 500	161 032

(1) *The carrying amount reflects the gross contractual amounts receivable and we expected to receive the full amount at date of acquisition.*

(2) *Other intangibles consists of the customer list valued at R13 million and distribution rights valued at R16 million.*

The goodwill comprises the value of expected synergies arising from the acquisition which is not separately recognised. The previous owners of Bemax will also be entitled to an additional payment of the net profit after tax of Bemax as long as they are still employed by Dis-Chem (refer note 25).

	Bemax R'000	Quenets and Brandwacht R'000	A Retief R'000	De-Wiekus R'000	Total R'000
Net cash acquired with the subsidiary	(376)	(7 204)	4 087	-	(3 493)
Cash paid	(69 350)	(63 404)	(26 778)	(1 500)	(161 032)
Net cash flow on acquisition	(69 726)	(70 608)	(22 691)	(1 500)	(164 525)

From the date of acquisition, the following revenue and profit before tax was contributed to the Group:

	Bemax R'000	Quenets and Brandwacht R'000	A Retief R'000	De-Wiekus R'000	Total R'000
Revenue	73 631	96 676	7 363	23 082	200 752
Profit before tax	11 680	1 339	1 400	(933)	13 486

If the acquisitions had taken place at the beginning of the year, the following revenue and profit before tax would have been contributed to the Group:

	Bemax R'000	Quenets and Brandwacht R'000	A Retief R'000	(Estimated) De-Wiekus R'000	Total R'000
Revenue	104 932	288 118	39 576	57 875	490 501
Profit before tax	20 604	8 113	2 746	955	32 418

6. Segmental information

An operating segment is defined as a component of an entity that engages in business activities from which it may earn revenues and incur expenses whose operating results are regularly reviewed by the entity's chief operating decision-maker in order to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

The Group has identified two reportable segments. The following describes the operations in each of the reportable segments:

Retail

Retail consists of the Dis-Chem stores, retailers of pharmaceutical and a variety of health and beauty products, as well as pharma-logistic services and oncology and retailers of pharmaceutical products. All retail stores have been aggregated into one segment as they have similar economic characteristics, products and services, type of customer and distribution methods.

Wholesale

Wholesale consists of the CJ Wholesale, Quenets and Dis-Chem Distribution businesses, wholesalers of pharmaceutical and a variety of health and beauty products. The wholesale subsidiaries have been aggregated into one segment as they have similar economic characteristics, products and services, type of customer and distribution methods.

There are no external customers that account for more than 10% of the Group's revenue in the current and prior financial year.

Geographic information

With the exception of three stores in Namibia and one store in Botswana, the Group operates in one principal geographical area, that being South Africa.

	Retail R'000	Whole-sale R'000	Inter-group/ consol-idation R'000	Total R'000
2020				
External customers	21 794 968	2 189 328	–	23 984 296
Inter-segment	–	14 372 136	(14 372 136)	–
Revenue from contracts with customers	21 794 968	16 561 464	(14 372 136)	23 984 296
Cost of sales	(17 063 709)	(15 273 055)	13 907 991	(18 428 773)
Gross profit	4 731 259	1 288 409	(464 145)	5 555 523
Other income	1 314 528	47 992	(72 438)	1 290 082
Total income	6 045 787	1 336 401	(536 583)	6 845 605
Other expenses (excluding depreciation and amortisation)	(4 261 667)	(1 285 083)	525 306	(5 021 444)
Depreciation and amortisation	(470 945)	(104 815)	–	(575 760)
Operating profit	1 313 175	(53 497)	(11 277)	1 248 401
Net finance costs	(283 585)	(96 167)	–	(379 752)
Share of profit from associate and joint ventures	195	–	–	195
Profit before tax	1 029 785	(149 664)	(11 277)	868 844
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1 784 315	51 318	(11 277)	1 824 356
Capital expenditure	(311 339)	(52 015)	–	(363 354)
Total assets	8 116 537	5 598 149	(3 128 055)	10 586 631
Total liabilities	5 379 153	4 372 156	(1 478 871)	8 272 438
Total income margin	27.7%	8.1%		28.5%
EBITDA margin	8.2%	0.3%		7.6%
Operating margin	6.0%	(0.3%)		5.2%

6. Segmental information continued

	Retail R'000	Whole-sale R'000	Inter-group/ consol-idation R'000	Total R'000
2019				
External customers	19 643 739	1 776 284	–	21 420 023
Inter-segment	–	12 745 625	(12 745 625)	–
Revenue from contracts with customers	19 643 739	14 521 909	(12 745 625)	21 420 023
Cost of sales	(15 051 513)	(13 307 293)	12 161 616	(16 197 190)
Gross profit	4 592 226	1 214 616	(584 009)	5 222 833
Other income	1 034 346	47 942	(72 030)	1 010 258
Total income	5 626 572	1 262 558	(656 039)	6 233 091
Other expenses (excluding depreciation and amortisation)	(3 725 449)	(1 265 479)	624 666	(4 366 262)
Depreciation and amortisation	(409 707)	(81 210)	–	(490 917)
Operating profit	1 491 416	(84 131)	(31 373)	1 375 912
Net finance costs	(251 519)	(93 268)	–	(344 787)
Profit before tax	1 239 897	(177 399)	(31 373)	1 031 125
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1 901 123	(2 921)	(31 373)	1 866 829
Capital expenditure	(303 548)	(90 961)	–	(394 509)
Total assets	7 585 905	5 262 217	(2 326 695)	10 521 427
Total liabilities	5 083 895	4 236 282	(748 479)	8 571 698
Total income margin	28.6%	8.7%		29.1%
EBITDA margin	9.7%	0.0%		8.7%
Operating margin	7.6%	(0.6%)		6.4%

7. Revenue from contracts with customers

Revenue from contracts with customers is predominantly derived from the sale of products through our retail stores and warehouse channels.

Sale of goods – wholesale: The Group sells a range of pharmaceutical, health and front shop products in the wholesale market. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the products have been delivered to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. A right to return liability (included in trade and other payables) and related asset (included in trade and other receivables) are recognised for any expected returns that may take place within the Group's return policy in relation to sales made until the end of the reporting period. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). No element of financing is deemed present as the sales are made with a credit term of 30 to 60 days, which is consistent with market practice.

Sale of goods – retail: The Group operates a chain of retail stores selling pharmaceutical, health and front shop products. Revenue from the sale of goods is recognised when products are sold to the customer. Payment of the transaction price is due immediately when the customer purchases the products and takes delivery in store. It is the Group's policy to sell certain of its products to the customer with a right of return of between 10 to 30 days depending on the specific product. Therefore, a right to return liability (included in trade and other payables) and related asset (included in trade and other receivables) are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method).

Customer loyalty programme: The Group operates a loyalty scheme which allows retail customers to accumulate points that entitle them, subject to certain criteria, to use these points in the future in any store in exchange for goods or services. A contract liability for the award points is recognised at the time of the sale and revenue is recognised when the points are redeemed.

Third-party vouchers/coupons: The Group redeems third-party coupons/vouchers that have been issued by suppliers. The coupon/voucher value is paid to the Group by the supplier instead of the customer and this consideration paid is reflected in revenue when the coupon/voucher is redeemed.

	2020 R'000	2019 R'000
Revenue from contracts with customers	**23 984 296**	21 420 023

Revenue from contracts with customers can be further disaggregated between the following retail categories:

	2020 %	2019 %
Dispensary	**36**	36
Personal care and beauty	**28**	28
Healthcare and nutrition	**20**	20
Baby care	**6**	6
Other	**10**	10
	100	100

8. Profit before taxation

Profit before taxation has been determined after taking into account the following:

	Notes	2020 R'000	2019 R'000
Other income			
Advertising income and marketing		**678 409**	573 420
Commission income		**40 281**	39 655
Franchisee income		**24 630**	16 526
Data and administration fees		**457 277**	285 970
Insurance refund received		**3 548**	6 474
Payroll-related recovery		**14 476**	15 942
Other expenses			
Depreciation of tangible assets	12	**537 509**	463 624
Amortisation of intangible assets	13	**38 251**	27 293
Computer expenses		**209 888**	175 140
Advertising expenses		**344 715**	369 543
Commission		**127 684**	108 286
Bank charges		**56 182**	52 604
Donations		**25 730**	18 130
Security		**131 094**	100 144
Occupancy costs		**299 410**	239 171
– Lease payments (1)		**42 459**	22 598
– Other (including electricity and rates)		**256 951**	216 573

(1) Lease payments relate to variable lease payments of R5 million not included in the measurement of lease liabilities (for example, turnover based rental) and R37 million relating to short-term leases. There was no expense in the current or prior period relating to low-value assets.

	2020 R'000	2019 R'000
Employee benefits	**3 280 491**	2 825 350
– Salaries and wages	**2 832 837**	2 488 034
– Pension costs	**115 542**	99 308
– Medical aid	**69 010**	48 508
– Leave pay	**18 719**	7 210
– Share-based payment	**7 957**	7 130
– Other (including bonuses, UIF and SDL)	**236 426**	175 160

For details on directors' emoluments and key management personnel refer to note 28.

9. Net financing costs

Finance income

Finance income is recognised utilising the effective interest method, being the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in profit or loss.

Finance costs

All borrowing costs are recognised in profit or loss using the effective interest method, unless the borrowing costs are directly attributable to the acquisition, construction or production of qualifying assets, in which case the directly attributable costs are capitalised.

	2020 R'000	2019 R'000
– Bank accounts	**13 566**	15 903
– Loans	**8 634**	3 249
– SARS	**29**	648
– Other	**68**	383
Finance income	**22 297**	20 183
– Bank overdraft	**78 945**	58 615
– Bank loan	**72 250**	53 202
– Lease liability	**242 371**	243 120
– SARS	**143**	1 093
– Loans	**–**	586
– Other	**1 265**	766
Interest expense	**394 974**	357 382
– Contingent consideration	**7 075**	7 588
Finance costs	**402 049**	364 970
Net financing costs	**379 752**	344 787

10. Taxation

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns where applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred taxation is provided using the liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax credits, and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

	2020 R'000	2019 R'000
South African normal tax		
Current income tax		
– Current year	**224 158**	258 433
– Prior year (over)/under provision	**(37 516)**	6 261
Deferred tax		
– Attributable to temporary differences	**12 118**	22 707
– Prior year under/(over) provision	**41 887**	(3 216)
	240 647	284 185
Reconciliation of tax rate	**%**	**%**
Standard tax rate	**28.00**	28.00
Prior year net (over)/under provision	**0.60**	0.32
Adjusted for permanent differences:		
Non-taxable:		
ETI and leadership	**(1.20)**	(1.05)
Tenant allowance	**(0.23)**	(0.26)
Non-deductible:		
Legal fees	**0.05**	0.10
SARS interest and penalties	**0.25**	0.03
Unwinding of contingent consideration	**0.23**	0.20
Contingent consideration	**0.11**	0.10
Expenditure	**–**	0.04
Share-based payments	**0.07**	0.10
Other	**(0.18)**	(0.02)
Effective tax rate	**27.70**	27.56

With regards to IFRIC 23 Uncertain tax positions, which became effective for the Group on 1 March 2019, the Group determined whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies judgement in identifying uncertainties over income tax treatments. Since the Group does not operate in a complex multinational environment, it assessed and concluded that the interpretation did not have an impact on its financial statements.

11. Earnings per share

Earnings per share

Earnings per share is calculated using the weighted average number of ordinary shares in issue during the period and is based on the profit after tax attributable to equity holders of the parent.

Headline earnings per share

Headline earnings per share (HEPS) is determined as per the JSE Listings Requirements as set out in the HEPS circular.

Adjusted headline earnings per share

Adjusted Headline earnings per share is a performance measure derived from HEPS for three categories of items:

1 Items deemed to relate to capital structure of the Group – these items are removed from HEPS as management believes it relates to the capital structure of the Group but is not explicitly provided for in the HEPS circular.

2 Items related to neither Retail nor Wholesale general operations – these items represent income and expenses that arise outside of the Group's core retail and wholesale business.

3 Items not expected to reoccur – these items are income and expenses that management does not expect to reoccur in the foreseeable future.

No adjusted HEPS has been calculated in the current or prior period.

The calculation of headline earnings per share is based on the weighted average number of ordinary shares.

The calculation is reconciled as follows:

	2020 R'000	2019 R'000
Profit attributable to equity holders of the parent	**598 225**	718 723
Net profit on disposal of property, plant and equipment and intangible assets	**(153)**	(15)
Taxation	**43**	4
Headline earnings	**598 115**	718 712
Earnings per share (cents)		
– Basic	**69.6**	83.6
– Diluted	**69.6**	83.6
Headline earnings per share (cents)		
– Basic	**69.6**	83.6
– Diluted	**69.6**	83.6

	2020 '000	2019 '000
Reconciliation of shares in issues to weighted average number of shares in issue		
Total number of shares in issue at beginning of the year	**860 084 483**	860 084 483
Treasury shares/ shares issued during the year weighted for the period outstanding	**(343 672)**	–
Total weighted number of shares in issue at the end of the period	**859 740 811**	860 084 483
Share options	**-**	6 115
Total weighted number of shares in issue at the end of the year	**859 740 811**	860 090 598

12. Property, plant and equipment

Property plant and equipment are stated at cost less accumulated depreciation and accumulated impairment. Property plant and equipment are depreciated on the straight-line basis at rates estimated to write each asset down to their residual value over the term of its useful life.

Initial and subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

All assets are depreciated from the date they are available-for-use, on a straight-line basis, to allocate their cost to their residual value over their estimated useful life. Depreciation ceases at the earlier of either the date the asset is classified as held for sale or the date the asset is derecognised.

The right-of-use (ROU) asset is measured based on the present value of the lease payments, initial direct costs incurred when entering in the lease less any lease incentives received. The ROU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset. An impairment review is undertaken for any ROU asset that shows indicators of impairment and an impairment loss recognised against any ROU lease assets that are impaired.

The estimated useful lives are as follows:

– Computer hardware	Three to five years
– Office equipment	Four to eight years
– Improvements to leased premises	Remaining lease term or 10 years
– Motor vehicles	Three to five years
– Furniture and fittings	Four to eight years
– Land and buildings	Lease term

The residual values, useful lives and depreciation methods of property, plant and equipment are reviewed at each reporting date and adjusted if appropriate. At each reporting date it is assessed whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount is estimated.

Where carrying values exceed the estimated recoverable amounts, tangible assets are written down to their recoverable amounts and the impairment is recognised in profit or loss immediately.

Please refer to note 3.3 on impairment of non-financial assets, where the recoverable amount is discussed.

An asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount. These gains or losses are included in profit or loss in the period of derecognition.

	OWNED					RIGHT-OF-USE		
	Computer hardware R'000	Office equip-ment* R'000	Leasehold improve-ments R'000	Furniture and fixtures# R'000	Motor vehicles R'000	Land and buildings R'000	Motor vehicles R'000	Total R'000
2020								
Cost	417 300	222 883	458 714	613 607	35 700	3 817 433	70 335	5 635 972
Opening balance	345 744	193 182	463 527	491 086	31 790	3 554 498	50 938	5 130 765
Additions	88 019	49 903	62 784	143 030	1 925	293 732	26 999	666 392
Disposals	(17 331)	(20 317)	(67 815)	(22 011)	(3 190)	(17 467)	(2 954)	(151 085)
Acquisitions	-	78	-	1 032	527	28 370	-	30 007
Transfer	-	-	-	-	4 648	-	(4 648)	-
Modification to lease terms	-	-	-	-	-	(44 390)	-	(44 390)
Foreign exchange	868	37	218	470	-	2 690	-	4 283
Accumulated depreciation	(231 653)	(98 905)	(254 586)	(225 002)	(27 558)	(1 682 817)	(20 099)	(2 540 620)
Opening balance	(191 132)	(93 029)	(297 569)	(172 024)	(26 725)	(1 343 905)	(11 625)	(2 136 009)
Current charge	(56 371)	(25 539)	(24 356)	(67 533)	(2 014)	(350 137)	(11 559)	(537 509)
Disposals	16 118	19 672	67 364	14 640	3 071	11 527	1 195	133 587
Transfer	-	-	-	-	(1 890)	-	1 890	-
Foreign exchange	(268)	(9)	(25)	(85)	-	(302)	-	(689)
Net carrying amount	185 647	123 978	204 128	388 605	8 142	2 134 616	50 236	3 095 352

12. Property, plant and equipment continued

	OWNED					RIGHT-OF-USE		
	Computer hardware	Office equipment*	Leasehold improvements	Furniture and fixtures#	Motor vehicles	Land and buildings	Motor vehicles	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
2019								
Cost	345 744	193 182	463 527	491 086	31 790	3 554 498	50 938	5 130 765
Opening balance	231 398	138 134	466 743	437 868	35 825	3 258 398	22 692	4 591 058
Additions	116 936	57 873	56 993	90 754	1 707	296 100	28 246	648 609
Disposals	(2 793)	(2 825)	(60 209)	(40 779)	(6 306)	-	-	(112 912)
Acquisitions	203	-	-	3 243	564	-	-	4 010
Accumulated depreciation	(191 132)	(93 029)	(297 569)	(172 024)	(26 725)	(1 343 905)	(11 625)	(2 136 009)
Opening balance	(148 028)	(76 614)	(339 839)	(155 316)	(23 914)	(1 024 985)	(7 303)	(1 775 999)
Current charge	(43 687)	(17 299)	(17 475)	(57 221)	(4 700)	(318 920)	(4 322)	(463 624)
Disposals	583	884	59 745	40 513	1 889	-	-	103 614
Net carrying amount	154 612	100 153	165 958	319 062	5 065	2 210 593	39 313	2 994 756

* *Includes air conditioners, security equipment, medical and clinic equipment, office equipment, PABX, media equipment and machinery and equipment.*

\# *Includes salon equipment, fixtures and fittings, shop equipment, signs and furniture.*

Motor vehicles held under lease liabilities are held as security for the lease liabilities (refer to note 21).

13. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible assets. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The estimated useful lives are as follows:

– Computer software	Two to four years
– Distribution right	15 years
– Customer list	7 years
– Licences	Indefinite

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

13. Intangible assets continued

	Computer software R'000	Licences with indefinite useful life R'000	Goodwill R'000	Customer list R'000	Distribution right R'000	Total R'000
2020						
Cost	161 801	3 181	227 330	46 340	120 759	559 411
Opening balance	146 729	3 181	203 403	41 112	120 759	515 184
Additions	18 243	-	-	-	-	18 243
Acquisitions	-	-	23 927	5 228	-	29 155
Disposals	(3 176)	-	-	-	-	(3 176)
Foreign exchange	5	-	-	-	-	5
Accumulated amortisation	(66 592)	-	-	(13 612)	(22 944)	(103 148)
Opening balance	(46 906)	-	-	(7 193)	(13 973)	(68 072)
Current charge	(22 861)	-	-	(6 419)	(8 971)	(38 251)
Disposals	3 176	-	-	-	-	3 176
Foreign exchange	(1)	-	-	-	-	(1)
Net carrying amount	95 209	3 181	227 330	32 728	97 815	456 263

	Computer software R'000	Licences with indefinite useful life R'000	Goodwill R'000	Customer list R'000	Distribution right R'000	Total R'000
2019						
Cost	146 729	3 181	203 403	41 112	120 759	515 184
Opening balance	89 689	3 181	128 304	28 136	93 137	342 447
Additions	58 247	–	–	–	11 999	70 246
Acquisitions	–	–	75 099	12 976	15 623	103 698
Disposals	(1 207)	–	–	–	–	(1 207)
Accumulated amortisation	(46 906)	–	–	(7 193)	(13 973)	(68 072)
Opening balance	(33 615)	–	–	(2 679)	(5 692)	(41 986)
Current charge	(14 498)	–	–	(4 514)	(8 281)	(27 293)
Disposals	1 207	–	–	–	–	1 207
Net carrying amount	99 823	3 181	203 403	33 919	106 786	447 112

13. Intangible assets continued

Carrying amount of goodwill and licences allocated to each of the CGUs:

	2020 R'000	2019 R'000
Goodwill		
Wholesale		
CJ Pharmaceutical Enterprises Limited	**19 327**	19 327
CJ Marketing Proprietary Limited	**1 087**	1 087
Evening Star Trading Proprietary Limited	**274**	274
The Pharmacy Development Academy Proprietary Limited	**565**	565
Bemax Proprietary Limited	**37 370**	37 370
Quenets Proprietary Limited	**15 206**	15 206
Retail		
Dis-Chem Platinum Park Proprietary Limited	**7 670**	7 670
TLC – Market Street	**3 670**	3 670
TLC – Heidelberg	**2 750**	2 750
Pharma Logistical Services Proprietary Limited	**92 961**	92 961
A Retief Proprietary Limited	**21 500**	21 500
Dis-Chem TLC De Wiekus Proprietary Limited	**1 023**	1 023
Mundel Gien Proprietary Limited	**17 491**	–
Differenza Proprietary Limited	**1 267**	–
Culemborg Pharmacy Proprietary Limited	**968**	–
TLC Medipark Proprietary Limited	**4 201**	–
	227 330	203 403
Licences		
Retail		
Dis-Chem Pharmacies Limited	**2 781**	2 781
Dis-Chem Cape Road Proprietary Limited	**400**	400
	3 181	3 181

The licences relate to the trading of Dis-Chem Pharmacies and Dis-Chem Cape Road. As there is no foreseeable limit to the period over which these companies will trade, the licence is considered to have an indefinite useful life. This assumption is re-assessed each period and no impairment is required in the current or prior period.

The CGUs are based on the relevant statutory entities except for the TLC stores which are based on the underlying cost centre. The recoverable amount of the above CGUs as at the reporting date, has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 14.2% (2019: 13.4%) for wholesale companies, 11.3% (2019: 13.4%) for the retail pharmacies and 13.2% (2019: 12.9%) for Pharma Logistical Services. Cash flows beyond the five-year period are extrapolated using a 4% (2019: 4%) growth rate. As a result of the analysis, management did not identify an impairment in the current or prior financial period.

The full impact of Covid-19 is still unknown and will depend on the duration of the lockdown levels and the normalisation of trade. However, management currently does not believe that an impairment loss will need to be recognised in the near future.

14. Deferred tax

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Deferred tax assets and liabilities are only offset if there is a legally enforceable right to offset current tax and the asset or liability relates to the same taxation authority and the same taxable entity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Tax relating to items recognised directly in equity are also recognised directly in equity and not in the statement of comprehensive income.

Also refer to accounting policy under note 10.

	2020 R'000	2019 R'000
Deferred taxation		
Balance at the beginning of the year	**208 292**	235 756
Movements during the year		
– Charge to income statement	**(54 005)**	(19 487)
– Charged to equity	**(31)**	31
– Acquisition	**(278)**	(8 008)
Balance at end of year	**153 978**	208 292
Representing:		
– Deferred tax asset	**189 307**	230 511
– Deferred tax liability	**(35 329)**	(22 219)
	153 978	208 292
The deferred tax balance is made up as follows:		
Employee-related obligations	**36 263**	31 642
Deferred revenue and S24C allowance	**10 284**	14 639
Lease liability	**154 833**	144 535
Prepayment	**(525)**	(263)
Tax losses	**85 849**	65 788
Inventory	**(7 299)**	(2 208)
Property, plant and equipment	**(91 744)**	(8 341)
Intangible assets	**(35 913)**	(39 588)
Share-based payment	**–**	799
Other	**2 230**	1 289
	153 978	208 292

15. Inventories

Inventories comprise merchandise for resale and are valued at the lower of cost determined on a weighted average moving cost basis and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. The cost of merchandise sold includes normal shrinkage, wastage, inventory losses, trade discounts, rebates and other similar items. Obsolete and slow moving inventories are identified and written down to their net realisable value. The carrying amount of inventory is recognised as an expense in the period in which the related revenue is recognised.

The Group enters into various rebate agreements with its vendors in regards to the purchasing of inventory. These rebate are recorded as a reduction to the cost of the related inventory to the extent that the inventories have been sold. Certain of these agreements are based on the achievement of specific volumes of purchases over a specified period, including escalating rebates as certain pre-defined hurdles are met. The Group accrues these growth rebates at the point when it is probable that the hurdles will be met.

	2020 R'000	**2019 R'000**
Finished goods	**4 506 760**	5 115 579
Cost of inventories recognised as cost of sales	**18 428 773**	16 197 190

16. Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services rendered in the ordinary course of business and are accounted for as loans and receivables in accordance with the accounting policy disclosed in note 29. Prepayments and other receivables are stated at their nominal values.

	2020 R'000	2019 R'000
Trade receivables	**623 852**	528 959
Allowance for expected credit loss	**(7 471)**	(7 820)
Net trade receivables	**616 381**	521 139
Other receivables	**864 236**	735 633
Right of return asset	**7 315**	6 632
Related parties (note 28)	**35 716**	5 073
Prepayments	**132 134**	85 539
	1 655 782	1 354 016
Allowance for expected credit loss		
Opening balance	**(7 820)**	(3 859)
Allowance utilised/(raised)	**349**	(3 961)
Closing balance	**(7 471)**	(7 820)

Trade receivables are non-interest-bearing and are generally on terms of seven to 60 days.

Other receivables are non-interest-bearing and generally on terms of 30 to 60 days. Other receivables consist of rebates, advertising and logistic fee receivables as well as other sundry receivables.

16. Trade and other receivables continued

As at 29 February, the age analysis of trade receivables is as follows:

			Days past due				
	Total R'000	Current R'000	<30 days R'000	30 to 60 days R'000	60 to 90 days R'000	90 to 120 days R'000	>120 days R'000
2020							
Expected credit loss rate	**1.2%**	**0.0%**	**0.0%**	**0.0%**	**8.6%**	**10.6%**	**14.3%**
Estimated gross carrying amount at default	**623 852**	**502 547**	**53 213**	**12 408**	**6 650**	**3 537**	**45 497**
Expected credit loss	**7 471**	**–**	**–**	**–**	**573**	**374**	**6 524**
2019							
Expected credit loss rate	1.5%	0.1%	0.0%	0.0%	0.0%	0.0%	44.1%
Estimated gross carrying amount at default	528 959	426 157	57 942	13 204	14 319	763	16 574
Expected credit loss	7 820	509	–	–	–	–	7 311

Trade receivables over 120 days in the current and prior year are mainly on payment plans and have been meeting the payment requirements and therefore not 100% provided for at year-end.

As at 29 February, the age analysis of other receivables is as follows:

			Days past due				
	Total R'000	Current R'000	<30 days R'000	30 to 60 days R'000	60 to 90 days R'000	90 to 120 days R'000	>120 days R'000
2020	**864 236**	**727 009**	**51 903**	**47 837**	**10 241**	**12 134**	**15 112**
2019	735 633	577 946	34 703	35 510	29 612	18 974	38 888

Refer to note 29 on credit risk management of trade and other receivables.

Trade and other receivables relating to CJ Pharmaceutical Enterprises Limited amounting to R485 million (2019: R445 million) were pledged as security for the overdraft facilities with Nedbank.

17. Loans receivable

Loans are accounted for as financial assets in accordance with the accounting policy disclosed in note 29.

	2020 R'000	2019 R'000
NCI shareholders loans	**20 718**	18 387
Related parties (note 28)	**143 458**	119 706
Other loans	**49 162**	60 224
	213 338	198 317

Other loans in the current and prior year mainly relate to loans given to ASU, Stemm Cell and Gamma Knife which are companies within the pharmaceutical industry.

Refer to note 29 on credit risk management of loans receivable.

18. Share capital

Ordinary share capital represents the par value of ordinary shares issued.

	2020 R'000	2019 R'000
Authorised		
1 500 000 000 (2019: 1 500 000 000) ordinary no par value shares	**-**	-
Issued and fully paid		
860 084 483 (2019: 860 084 483) ordinary no par value shares	**6 155 554**	6 155 554
Reconciliation of shares issued		
Opening balance	**6 155 554**	6 140 554
Shares issued during the period	**-**	-
Closing balance	**6 155 554**	6 155 554

19. Other reserves

Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given below.

The cost is recognised in other expenses as part of employee benefits, together with a corresponding increase in equity (other reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (refer to note 11).

Forfeitable Share Plan (FSP) – bonus shares

Under the FSP fully-paid shares (bonus shares) of Dis-Chem Pharmacies Limited are granted to regional managers. As the grants are in Dis-Chem's own shares they are treated as equity-settled share-based payments.

The shares are registered in employees' names on the grant date and held in a brokerage account on behalf of the employees until vesting, as long as they are still employed by the Company. Employees receive dividends and voting rights on these shares during the vesting period. Exercise of the shares takes place on the vesting date.

The fair value of the shares is the fair market value on the grant date due to the fact that the employees have full rights to all the dividends declared before the end of the vesting period.

Share Appreciation Rights (SAR)

Under the SAR plan employees share in the growth in the share price between the award price and exercise price, and receive shares to the value of that appreciation.

Vesting of the share options is dependent on the Group's achievement of forward-looking performance conditions, being growth in headline earnings per share and continued employment. The share options can be exercised up to three years after the vesting period.

The fair value of share options granted is estimated at the date of grant by using a Binomial Tree approach, taking into account the terms and conditions on which the share options were granted. The model takes into account dividend yield, share price volatility and risk-free rate.

The exercise price of the share options is equal to the market price of the underlying shares on the date of the grant.

Options/shares not yet exercised by 29 February 2020

FSP

Offer date	Expiry date	Number of shares Feb 2019	Number of shares forfeited	Number of shares exercised	Number of shares Feb 2020
1 June 2018	31 May 2020	276 269	–	–	**276 269**
1 February 2019	31 July 2021	255 588	–	–	**255 588**

SAR

Offer date	Expiry date	Number of options Feb 2019	Number of options forfeited	Number of options exercised	Number of options Feb 2020
1 June 2018	31 May 2023	1 150 034	(644 410)	–	**505 624**
1 February 2019	31 July 2024	1 143 929	(521 167)	–	**622 762**

19. Other reserves continued

Options/shares not yet exercised by 28 February 2019

FSP

Offer date	Expiry date	Number of shares granted	Number of shares forfeited	Number of shares exercised	Number of shares Feb 2019
1 June 2018	31 May 2020	276 269	–	–	276 269
1 February 2019	31 July 2021	255 588	–	–	255 588

SAR

Offer date	Expiry date	Number of options granted	Number of options forfeited	Number of options exercised	Number of options Feb 2019
1 June 2018	31 May 2023	1 325 970	(175 936)	–	1 150 034
1 February 2019	31 July 2024	1 143 929	–	–	1 143 929

The expense recognised for employee services during the year is shown in the following table:

	2020 R'000	2019 R'000
Expense arising from FSP	**5 964**	2 934
Expense arising from SAR	**1 993**	4 196
	7 957	7 130

There were no modifications to the grants in 2020.

Movements during the year

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, shares during the year:

FSP	2020 Number	2020 WAEP	2019 Number	2019 WAEP
Outstanding at 1 March	**531 856**	**24.8**	–	–
Granted during the year	**-**	**-**	531 856	24.8
Forfeited during the year	**-**	**-**	–	–
Exercised during the year	**-**	**-**	–	–
Expired during the year	**-**	**-**	–	–
Outstanding at 29 February	**531 856**	**24.8**	531 856	24.8
Exercisable at 29 February	**-**		–	

The weighted average remaining contractual life for the shares outstanding as at 29 February 2020 was 0.8 years (2019: 1.8 years). The weighted average fair value of shares granted during the year was Rnil (2019: R24.83).

SAR	2020 Number	2020 WAEP	2019 Number	2019 WAEP
Outstanding at 1 March	**2 293 963**	**8.1**	–	–
Granted during the year	**-**	**-**	2 469 899	8.2
Forfeited during the year	**(1 165 577)**	**8.2**	(175 936)	9.2
Exercised during the year	**-**	**-**	–	–
Expired during the year	**-**	**-**	–	–
Outstanding at 29 February	**1 128 386**	**8.0**	2 293 963	8.1
Exercisable at 29 February	**-**		–	

The weighted average remaining contractual life for the shares outstanding as at 29 February 2020 was 0.8 years (2019: 1.8 years). The weighted average fair value of shares granted during the year was Rnil (2019: R8.83).

The following table lists the inputs to the models used:

	2019 FSP June	2019 FSP February	2019 SAR June	2019 SAR February
Spot price	29.69	25.70	29.69	25.70
Strike price	N/A	N/A	28.48	28.96
Volatility	N/A	N/A	27.0%	30.0%
Dividend yield	1.2%	1.2%	1.2%	1.2%
Risk-free rate	N/A	N/A	7.27%	7.48%
Attrition rate	5.0%	5.0%	5.0%	5.0%
Vesting date	31 May 2020	31 July 2021	31 May 2020	31 July 2021
Maturity date	31 May 2020	31 July 2021	31 May 2023	31 July 2024

The expected life of the FSPs and SARs is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

20. Dividends to shareholders

	2020 R'000	2019 R'000
April 2019	**115 875**	–
December 2019	**110 039**	–
May 2018	**-**	109 540
November 2018	**-**	178 010
	225 914	287 550

Dividends per share	**Cents**	**Cents**
Interim paid (December 2019/ November 2018)	**12.8**	20.7
Final declared/paid (May 2020/ April 2019)	**-**	13.5

21. Lease liability

At inception, the Group assesses whether a contract is or contains a lease. The Group recognises a right-of-use (ROU) asset and lease liability at the commencement date of the lease.

The lease liability is measured at the present value of the lease payments net of cash lease incentives that are not paid at the balance date. Lease payments are apportioned between the finance charges and reduction of the lease liability using the incremental borrowing rate implicit in the lease to achieve a constant rate of interest on the remaining balance of the liability. Lease payments for buildings exclude service fees and other costs.

	2020 R'000	2019 R'000
Minimum payments due		
– Within one year	**575 525**	540 900
– Within five years	**1 876 660**	1 833 018
– Over five years	**1 708 218**	1 964 918
	4 160 403	4 338 836
Less: future finance charges	**(1 434 721)**	(1 586 315)
Present value of minimum payments	**2 725 682**	2 752 521
Present value of minimum payment due:		
– Within one year	**350 721**	309 317
– Within five years	**1 269 593**	1 174 924
– Over five years	**1 105 368**	1 268 280
	2 725 682	2 752 521
Non-current liabilities	**2 374 961**	2 443 204
Current liabilities	**350 721**	309 317
	2 725 682	2 752 521

The lease liability relates to land and buildings and motor vehicles. The capitalised lease liability relating to motor vehicles are secured by the motor vehicles (refer to note 12). There are no leases with residual value guarantees.

Many of the store and warehouse leases across the Group contain extension options. In many cases these terms are not reflected in measuring the lease liabilities until management is reasonably certain they will be exercised. The Group considers all relevant facts and circumstances that create an economic incentive to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.

Future cash flow in the 2021 financial year relating to variable lease payments is expected to be approximately R3 million.

22. Loans payable

Loans payable are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 29.

	2020 R'000	2019 R'000
Non-current loans		
Absa Bank	**679 450**	346 000
	679 450	346 000
Current loans		
Absa Bank	**125 000**	150 000
NCI shareholders loans	**11 748**	11 530
Related parties (note 28)	**84**	2 081
Other	**5 600**	7 378
	142 432	170 989

The Absa loan was renegotiated on 1 March 2019 and consists of two parts:

- The first part of the term loan is for R500 million repayable over four years at a variable interest rate linked to JIBAR.
- The second part of the term loan is for R400 million repayable at the end of four years at a variable interest rate linked to JIBAR.

Before the loan was renegotiated on 1 March 2019, the terms were as follows:

- The first part of the term loan is for R600 million repayable quarterly over four years at a variable interest rate linked to JIBAR.
- The second part of the term loan is for R200 million repayable at the end of four years at a variable interest rate linked to JIBAR.
- The loan is secured by the cession of the book debts in and general notarial bond over movable assets of Dis-Chem Pharmacies Limited.

Related party and NCI shareholders loans are considered to be short-term in nature as they are payable on demand.

23. Contingent consideration

The contingent consideration is measured at fair value through profit and loss with any fair value gains and losses recognised in other costs.

	2020 R'000	2019 R'000
Non-current liabilities	**19 494**	40 797
Current liabilities	**25 627**	23 548
	45 121	64 345

The contingent consideration relates to acquisition of the non-controlling shareholders and is based on the future performance of each respective partner store, times the respective minority interests each year for five years to be paid in cash if performance targets are met. The performance targets will be agreed on an annual basis with each selling non-controlling shareholder.

It is currently assumed that the majority of the partner stores will meet the performance targets in all five years and that the selling non-controlling shareholders will therefore be entitled to the contingent consideration. The present value of estimated contingent consideration is recognised as a liability which will be unwound over the remaining two-year period (2019: three-year period). The current period interest amounted to R7.1 million (2019: R7.6 million). Refer to note 29 for fair value disclosure and reconciliation of the movement in the balance.

24. Trade and other payables

Trade payables, sundry creditors and accrued expenses are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 29.

Expenses and assets are recognised net of VAT, except:

- when the VAT incurred on a purchase of assets or services is not recoverable from SARS, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- receivables and payables which are stated inclusive of VAT. The net amount of sales tax recoverable from, or payable to, SARS is included as part of receivables or payables in the statement of financial position.

	2020 R'000	2019 R'000
Trade payables	**3 989 604**	4 130 891
Other payables	**109 495**	93 562
Related parties (note 28)	**27 939**	9 476
VAT	**122 231**	52 062
Right of return liability	**9 390**	8 465
	4 258 659	4 294 456

Trade and other payables are non-interest-bearing and are generally on terms of seven to 90 days.

Other payables consist of payables relating to payroll as well as general accruals.

Refer to note 29 on liquidity risk management.

25. Employee-related obligations

Short-term employee obligations are measured at the undiscounted amount required to settle the present obligation at the reporting date. Included in short-term employee obligations are bonus and leave pay.

The expected cost of short-term employee benefits are recognised in the form of paid absences as follows:

- in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences; and
- in the case of non-accumulating paid absences, when the absences occur.

The expected cost of profit-sharing and bonus payments are recognised when, and only when:

- there is a present legal or constructive obligation to make such payments as a result of past events; and
- a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, there is no realistic alternative but to make the payments.

When an employee has rendered service to the Group during a period, the Group shall recognise the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. The expense is recognised in profit or loss.

	2020 R'000	2019 R'000
Leave pay	**134 410**	114 838
Bonus	**54 537**	48 315
Employee Benefit Fund	**1 068**	780
	190 015	163 933

The bonus is dependent on the Group performance as well as individual ratings.

26. Deferred revenue

Deferred revenue liability is recognised for expected loyalty benefit points and gift vouchers redeemed by customers for purchases made by participating customers for the loyalty points and gift vouchers purchased for cash during the last three years, based on past experience of the level of redemptions. It is expected that a majority of these will be redeemed in the next financial year and all will have been redeemed within two years of the reporting date. Assumptions used to calculate the liability are based on current redemption rates at existing stores which are between 90% and 100% (2019: 80% and 90%).

Loyalty benefit point scheme

The Group operates a loyalty scheme which allows retail customers to accumulate points that entitle them, subject to certain criteria, to use these points in the future in any store in exchange for goods or services. The transaction price is allocated to the loyalty points with reference to the Rand value of the points and is deferred as a liability and recognised as revenue on redemption of the points by customers. The Group experiences low levels of unredeemed loyalty points due to the ease with which customers can redeem them at point of sale.

Gift vouchers

The fair value of gift vouchers which includes the expected redemption rate attributed to the vouchers, is deferred as a liability and recognised as revenue on redemption of the gift vouchers by customers.

	2020 R'000	2019 R'000
Loyalty benefit points scheme	**24 681**	32 650
Gift vouchers	**11 642**	11 148
	36 323	43 798
Loyalty points		
Opening balance	**32 650**	52 497
Points issued*	**178 662**	156 445
Revenue recognised	**(186 631)**	(176 292)
Closing balance	**24 681**	32 650
Gift vouchers		
Opening balance	**11 148**	28 795
Vouchers issued*	**114 650**	103 891
Revenue recognised	**(114 156)**	(121 538)
Closing balance	**11 642**	11 148

* *approximately 90% of the opening balance has recognised as revenue in the current and prior year.*

27. Notes to the statement of cash flows

Cash and cash equivalents are accounted for as financial assets at amortised cost and bank overdrafts are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 29.

Cash and cash equivalents comprise cash on hand and deposits held on call, all of which are available-for-use by the Group.

	2020 R'000	2019 R'000
27.1 Cash generated by operations		
Profit before tax	**868 844**	1 031 125
Adjustments for:		
– Depreciation and amortisation	**575 760**	490 917
– Finance costs	**402 049**	364 970
– Finance income	**(22 297)**	(20 183)
– Increase in employee obligations	**26 082**	17 919
– Decrease in deferred revenue	**(7 475)**	(37 494)
– Increase in net returns provision	**242**	353
– Profit on sale of tangible and intangible assets	**(260)**	(15)
– (Decrease)/Increase in allowance for expected credit loss	**(349)**	3 961
– Contingent consideration	**3 373**	3 641
– Share scheme expense	**7 957**	7 130
– Unrealised foreign exchange loss	**928**	(99)
– Fair value loss relating to non-hedging derivatives	**-**	(1 500)
– Gain on lease liability	**(3 517)**	–
– Profit from associates and joint ventures	**(195)**	-
	1 851 142	1 860 725
27.2 Movement in working capital		
Increase in loans receivable	**(15 022)**	(84 441)
Decrease in loans payable	**(3 737)**	(27 809)
Decrease/(Increase) in inventories	**648 151**	(1 111 576)
Increase in trade and other receivables	**(296 210)**	(168 272)
(Decrease)/Increase in trade and other payables	**(67 502)**	988 572
	265 680	(403 526)

27. Notes to the statement of cash flows continued

	2020 R'000	2019 R'000
27.3 Taxation paid		
Net amount payable at beginning of the year	**(51 263)**	(22 792)
Amount charged excluding deferred tax	**(186 642)**	(264 694)
Amount on acquisition of entities	**2 499**	(3 765)
Net amount payable at end of the year	**3 578**	51 263
	(231 828)	(239 988)
Cash and cash equivalents comprise the following:		
27.4 Cash and cash equivalents		
Cash on hand and balances with banks	**451 844**	177 432
Bank overdrafts	**(151 567)**	(658 470)
	300 277	(481 038)

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Trade and other receivables relating to CJ Pharmaceutical Enterprises Limited amounting to R485 million (2019: R445 million) were pledged as security for the overdraft facility with Nedbank.

27.5 Changes in financing activities

			Non-cash changes				
	2019	Cash flows	New leases/ transaction	Acquisitions	Release/ fair value changes	Present value interest unwinding	2020
Long-term loans	502 590	306 250	–	–	–	–	**808 840**
Contingent consideration	64 345	(29 672)	–	–	3 373	7 075	**45 121**
Lease liability	2 752 521	(324 326)	314 790	28 370	(45 673)	–	**2 725 682**

			Non-cash changes				
	2018	Cash flows	New leases/ transaction	Acquisitions	Release/ fair value changes	Present value interest unwinding	2019
Long-term loans	652 590	(150 000)	–	–	–	–	502 590
Contingent consideration	76 249	(23 133)	–	–	3 641	7 588	64 345
Lease liability	2 694 271	(266 091)	324 341	–	–	–	2 752 521

28. Related party transactions

Related party transactions constitute the transfer of resources, services or obligations between the Group and a party related to the Group. For the purposes of defining related party transactions with key management, key management has been defined as directors and includes close members of their families and entities controlled or jointly controlled by these individuals.

The majority shareholder of the Group is Ivlyn No4 Proprietary Limited that holds 52.7% (2019: 52.7%) of the shares.

Directors' direct and indirect holdings of shares in the company is disclosed in the Directors Report.

2020

Related party transactions with a company that is controlled/jointly controlled by a person that has significant influence over the Dis-Chem Group:

Related party	Loan receivable/ (payable) R'000	Lease liability R'000	Accounts receivable/ (payable) R'000	Interest income/ (expense) R'000	Sales/ (purchases) R'000	Services received R'000
Columbia Falls Property 7 Pty Ltd	-	(602 789)	-	(58 100)	-	-
Josneo Pty Ltd	-	(87 786)	-	(10 349)	-	-
Eleador Pty Ltd	-	(10 518)	-	(1 164)	-	-
MSDS No 3 Pty Ltd	-	(140 721)	-	(13 403)	-	-
Minlou Pty Ltd	7	-	-	-	-	-
Mathimba Pty Ltd	24 425	(3 927)	-	1 516/(401)	-	-
Dis-Chem Bothamed Pty Ltd	3 028	-	(538)	-	-	-
Dis-Chem Namibia Pty Ltd	5 969	-	29 042	-	(80 194)	-
Platz Am Meer Pharmacy Pty Ltd	1 294	-	3 794	-	167/(2 232)	-
Walvis Bay Pharmacy Pty Ltd	12 398	-	534	-	47/(306)	-
Wernhill Pharmacy Pty Ltd	1 172	-	2 346	-	82/(516)	-
Origin Brands Pty Ltd	11 057	-	(390)	1 057	(36 201)	-
Geniob Pty Ltd	81 865	-	(22 738)	5 406	195 937/(2 055)	-
Dis-Chem Pty Ltd	2 243	-	-	-	-	-
Vexhall Pty Ltd	(84)	-	(454)	-	-	(20 760)
Health Window Pty Ltd	-	-	-	-	-	(15 791)
Bene Pty Ltd	-	-	(3 819)	-	(21 555)	-
Various property companies (1)	-	(186 293)	-	(12 994)	-	-

(1) Relates to retail space that is owned/partially owned by the directors.

28. Related party transactions continued

2019

Related party transactions with a company that is controlled/jointly controlled by a person that has significant influence over Dis-Chem Group:

Related party	Loan receivable/ (payable) R'000	Lease liability R'000	Accounts receivable/ (payable) R'000	Interest income/ (expense) R'000	Sales/ (purchases) R'000
Columbia Falls Property 7 Pty Ltd	–	(613 948)	–	(58 852)	–
Josneo Pty Ltd	–	(137 326)	–	(13 212)	–
Eleador Pty Ltd	3 416	(14 775)	–	(1 515)	–
Minlou Pty Ltd	(2 081)	–	–	–	–
MSDS No 3 Pty Ltd	–	(147 420)	–	(13 945)	–
Dis-Chem Bothamed Pty Ltd	9 445	–	–	–	–
Dis-Chem Namibia Pty Ltd	5 857	–	4 883	–	(72 784)
Walvis Bay Pharmacy Pty Ltd	10 366	–	190	–	–
Mathimba Pty Ltd	22 470	(5 167)	–	987/(501)	–
Origin Brands Pty Ltd	10 000	–	(5 932)	–	(17 486)
Geniob Pty Ltd	56 538	–	–	–	137 064
Dis-Chem Pty Ltd	1 614	–	–	–	–
Bene Pty Ltd	–	–	(3 544)	–	(18 193)
Various property companies	–	(148 191)	–	(13 861)	–

For further information in regards to loans receivable, loans payable, trade receivables, trade payables and lease liability refer to note 17, 22, 16, 24 and 21 respectively.

	2020 R'000	2019 R'000
Compensation of key management		
Short-term employee benefits (1)	55 347	33 744
Post-employment benefits (1)	576	288
Other long-term benefits	-	-
Termination benefits	-	-
Non-executive directors' fees	5 199	4 875
	61 122	38 907

(1) Including prescribed officers in the current period

Executive and non-executive emoluments to directors

2020	Services as director R'000	Salary and allowances R'000	Bonuses(1) R'000	Retirement and related benefits R'000	Other benefits R'000	Total R'000
Non-executive directors						
LM Nestadt	2 830	-	-	-	-	2 830
MJ Bowman	607	-	-	-	-	607
A Coovadia	535	-	-	-	-	535
JS Mthimunye	647	-	-	-	-	647
MSI Gani	580	-	-	-	-	580
Executive directors						
IL Saltzman	-	12 883	-	72	271	13 226
LF Saltzman	-	10 561	-	72	111	10 744
RM Morais	-	5 532	-	72	339	5 943
SE Saltzman (alternate)	-	5 020	-	72	414	5 506
Prescribed officers						
SRN Goetsch	-	5 221		72	148	5 441
BI Epstein	-	5 223		72	165	5 460
KS Sterling	-	5 221		72	133	5 426
CJ Williams	-	3 969		72	136	4 177

28. Related party transactions continued

Executive and non-executive emoluments to directors continued

2019	Services as director R'000	Salary and allowances R'000	Bonuses(1) R'000	Retirement and related benefits R'000	Other benefits R'000	Total R'000
Non-executive directors						
LM Nestadt	2 830	–	–	–	–	2 830
MJ Bowman	566	–	–	–	–	566
A Coovadia	362	–	–	–	–	362
JS Mthimunye	666	–	–	–	–	666
MSI Gani	451	–	–	–	–	451
Executive directors						
IL Saltzman	–	12 478	–	72	286	12 836
LF Saltzman	–	10 245	–	72	117	10 434
RM Morais	–	5 224	–	72	130	5 426
SE Saltzman (alternate)	–	5 021	–	72	243	5 336

(1) Bonuses relate to amounts physically paid in the period

No options have yet been granted to executive or non-executive directors on the share schemes.

Options balance to prescribed officers on the share appreciation rights scheme at 29 February 2020:

	SRN Goetsch	BI Epstein	KS Sterling	CJ Williams	Total options
Offer date: 1 June 2018					
Opening balance	**118 195**	**118 321**	**118 165**	**83 146**	**437 827**
Forfeited	**(59 259)**	**(59 322)**	**(59 244)**	**(41 687)**	**(219 512)**
Exercised	**-**	**-**	**-**	**-**	**-**
Closing balance	**58 936**	**58 999**	**58 921**	**41 459**	**218 315**
Offer date: 1 February 2019					
Opening balance	**109 890**	**110 143**	**109 647**	**81 986**	**411 666**
Forfeited	**(44 149)**	**(44 250)**	**(44 051)**	**(32 938)**	**(165 388)**
Exercised	**-**	**-**	**-**	**-**	**-**
Closing balance	**65 741**	**65 893**	**65 596**	**49 048**	**246 278**

29. Financial risk management objectives and policies

Financial assets

Financial assets recognised on the statement of financial position include cash and cash equivalents, trade and other receivables and loans receivable. These financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

Initial recognition

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

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

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Financial assets are subsequently classified as financial assets at amortised cost if both of the following conditions are met:

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

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

29. Financial risk management objectives and policies continued

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

For trade receivables the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. An allowance for expected credit losses is made when the Group considers a financial asset in default (such as default or delinquency in payments, the probability of insolvency or significant financial difficulties of the debtor or group of debtors) that all of the amounts due under the original terms of the invoice/agreement will not be collected. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

For other receivables and loan receivables the Group applies the general approach in calculating ECLs. At each reporting date, the Group recognises a loss allowance based on either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that results from default events (such as the probability of insolvency or significant financial difficulties of the debtor/borrower) that are possible within the next 12 months. For credit exposures for which there has been a significant increase in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for credit losses expected over the remaining life of the exposure.

Factors that are considered to indicate that a receivable has experienced a significant increase in credit risk and will be measured in stage 2, lifetime ECL, include: an actual or expected significant change in the operating results of the borrower; significant increase in credit risk on other financial instruments of the borrower; or significant changes in the expected performance and behaviour of the borrower. The Group does not measure a receivable in stage 2 when it is 30 days or more past due, due to the nature of the receivables as often the debtor/borrower is also a creditor to the Group and the net position is a creditor.

The Group considers a financial asset to be credit impaired (stage 3) when one or more event occurs that has a detrimental impact on estimated future cash flows of the financial asset (for example, significant financial difficulty of the borrower; it is probable that the borrower will enter bankrupcy or the disappearance of an active market for the financial asset). The Group considers a financial asset as 'cured' and therefore re-classified out of stage 3 when the default criteria have been remedied for at least 6 months.

Financial liabilities

Financial liabilities recognised on the statement of financial position include bank overdraft, trade and other payables, loans payable and contingent consideration. These financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables, as appropriate.

Initial recognition

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss:
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

29. Financial risk management objectives and policies continued

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings:
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Fair value measurement

In addition to the financial instruments carried at fair value (available for sale financial instruments), the fair values of financial instruments measured at amortised cost are disclosed should it be determined that the carrying value of these instruments does not reasonably approximate their fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The valuation techniques that are used to measure fair value are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the annual consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the annual consolidated financial statements at fair value, or for which the fair value is disclosed, on a recurring basis, it is determined whether transfers have occurred between the levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

29. Financial risk management objectives and policies continued

The main risks arising from the company's financial instruments are interest rate risk, liquidity risk, and credit risk. The Group has immaterial foreign exchange risk. The board reviews and agrees policies for managing each of these risks, which are summarised below:

2020	Financial instrument R'000	At fair value R'000	Financial liability at amortised cost R'000	Financial asset at amortised cost R'000	Non- financial instruments and leases R'000
Assets					
Property, plant and equipment	-	-	-	-	3 095 352
Intangible assets	-	-	-	-	456 263
Investment in associates and joint ventures	-	-	-	-	13 703
Deferred taxation	-	-	-	-	189 307
Inventories	-	-	-	-	4 506 760
Trade and other receivables	1 516 333	-	-	1 516 333	139 449
Loans receivable	213 338	-	-	213 338	-
Taxation receivable	-	-	-	-	4 282
Cash and cash equivalents	451 844	-	-	451 844	-
Liabilities					
Lease liability	-	-	-	-	2 725 682
Contingent consideration	45 121	45 121	-	-	-
Loans payable	821 882	-	821 882	-	-
Deferred taxation	-	-	-	-	35 329
Trade and other payables	4 127 038	-	4 127 038	-	131 621
Employee-related obligations	-	-	-	-	190 015
Deferred revenue	-	-	-	-	36 323
Taxation payable	-	-	-	-	7 860
Bank overdraft	151 567	-	151 567	-	-

2019	Financial instrument R'000	At fair value R'000	Financial liability at amortised cost R'000	Financial asset – loans and receivables R'000	Non-financial instruments and leases R'000
Assets					
Property, plant and equipment	–	–	–	–	2 994 756
Intangible assets	–	–	–	–	447 112
Deferred taxation	–	–	–	–	230 511
Inventories	–	–	–	–	5 115 579
Trade and other receivables	1 261 845	–	–	1 261 845	92 171
Loans receivable	198 317	–	–	198 317	–
Taxation receivable	–	–	–	–	3 704
Cash and cash equivalents	177 432	–	–	177 432	–
Liabilities					
Lease liability	–	–	–	–	2 752 521
Contingent consideration	64 345	64 345	–	–	–
Loans payable	516 989	–	516 989	–	–
Deferred taxation	–	–	–	–	22 219
Trade and other payables	4 233 929	–	4 233 929	–	60 527
Employee-related obligations	–	–	–	–	163 933
Deferred revenue	–	–	–	–	43 798
Taxation payable	–	–	–	–	54 967
Bank overdraft	658 470	–	658 470	–	–

29. Financial risk management objectives and policies continued

Credit risk

The carrying amount of financial assets represents the maximum credit exposure which relates to trade and other receivables, loans receivables and positive cash and cash equivalents.

Trade and other receivables

The Group and company are exposed to credit risk in relation to trade and other receivables from its retail and wholesale business.

	2020 R'000	2019 R'000
The maximum exposure to credit risk for trade receivables is as follows:		
Retail	**195 801**	168 147
Wholesale	**420 580**	352 992
The maximum exposure to credit risk for other receivables is as follows:		
Retail	**644 792**	495 726
Wholesale	**219 444**	239 907

In relation to the retail business, trade receivables primarily relate to amounts recoverable from medical aids. These receivables are deemed to be low credit risk as medical schemes pay within 14 days and all amounts are neither past due nor impaired.

The majority of other receivables in retail and wholesale relate to rebates and advertising receivables from suppliers and are deemed to be low credit risk as the net position with the supplier is a creditor. For other receivables the Group applies the general approach in calculating expected credit losses. All of these receivables are currently measured in stage 1 based on 12-month ECL's.

In wholesale, customers are primarily independent pharmacies and other pharmaceutical companies. The risk is managed through formal procedures for granting of credit to trade debtors. Credit quality of underlying wholesale customers is assessed before credit is granted and re-assessed on a regular basis. The Group determines the provision for doubtful debt by means of applying a percentage that reflects the best estimate of expected credit losses at the reporting date determined with reference to past history to the relevant age buckets of the trade debtors adjusted for forward-looking information (i.e. current and future pharmaceutical market and legislation as it relates to Single Exit Price (SEP) pricing). The process for managing wholesale credit risk is to allow 10 days after payment is due, for customers to pay. If payment is not subsequently made after following up with the customer, the customer's account will be suspended until payment is received or a payment plan is implemented.

Cash and cash equivalents

With respect to the credit risk arising from cash resources, the Group's exposure to credit risk arises from the default of the counterparty with the maximum exposure equal to the carrying amount of these resources.

The Group manages and monitors daily funding requirements and has limited foreign currency exposure. Surplus funds are invested with banking institutions of a high credit standing.

Loans

The Group is exposed to credit risk in relation to loans with related and other parties. The risk is managed through formal procedures for granting of the loans and the recoverability thereof is assessed annually.

NCI shareholders loans

NCI shareholder loans are full recourse loans that are receivable from individuals that have non-controlling interests in subsidiary companies of the Group. The dividends they receive from the subsidiary companies must, in accordance with the loan agreement, be used to repay the loans and therefore based on the expected profitability and dividend policy there is no expectation that the loans will not be recovered.

Related party loans

Related party loans consist of loans to Mathimba Proprietary Limited, Namibian franchise stores as well as associates to the Group (Geniob, Origin Brands and Bothomed Proprietary Limited).

Mathimba Proprietary Limited and the Namibian franchise stores are in a forecasted profitable position and have sufficient assets in order to repay the loans and therefore deemed to be a low credit risk.

Bothomed Proprietary Limited has a working capital loan and R6.4 million of the loan was repaid in the current financial year. Based on the budgets of the company we expect the remaining portion of the loan (R3 million) to be paid in the 2021 financial period.

The loan to the Geniob group (consisting of Geniob Proprietary Limited and Origin Brands Proprietary Limited) amounts to R93 million at 29 February 2020. Dis-Chem Pharmacies and Distribution has a net R23 million owing to the Geniob group which can be used to partly settle the loan owing. The Geniob group was in an accumulated loss position at 29 February 2020 but has started to make a profit in the 2021 financial year. The probability of default is expected to be low and therefore there is no expected credit loss however management will continue monitoring this loan.

Other loans

Other loans mainly relate to loans given to companies within the pharmaceutical industry and are repayable on demand. The companies are in a profitable position and have sufficient liquid assets in order to repay the loans and therefore deemed to be a low credit risk.

29. Financial risk management objectives and policies continued

For loans receivables the Group applies the general approach in calculating expected credit losses. The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system:

	12-month Stage 1	Lifetime Stage 2	Credit impaired Stage 3
2020			
Opening gross carrying amount of loans	**198 317**	**-**	**-**
New loans receivable	**30 004**	**-**	**-**
Loans repaid	**(21 446)**	**-**	**-**
Interest	**6 463**	**-**	**-**
	213 338	**-**	**-**
2019			
Opening gross carrying amount of loans	113 876	–	–
New loans receivable	108 245	–	–
Loans repaid	(23 804)	–	–
	198 317	–	–

Currency risk

The Group is not exposed to significant currency risk.

Interest rate risk

The Group and company's exposure to the risk of changes in market interest rates relates primarily to the Absa loan with a floating interest rate linked to JIBAR as well as interest incurred on overdraft facilities (note 9).

As part of the process of managing the Group's interest rate risk, interest rate characteristics of new borrowings and refinancing of existing borrowings are positioned according to anticipated movements in interest rates. Funds on call earn interest at prevailing market call rates. Interest payable on bank borrowings fluctuates in accordance with prime bank lending rates while the Absa loan fluctuates with the JIBAR rate.

If the interest rate, with all other variables held constant, increased or decreased by 200 average basis points (2019: 50) at year-end, the impact of the Group's profit before tax would be approximately R27.1 million (2019: R7.5 million). The sensitivity analysis for both periods presented was based on the average balance of the funds during the period on the bank borrowings, Absa loan and other loans.

Liquidity risk

During the current and prior year, Dis-Chem had a general banking facility of R100 million with Nedbank, an Absa loan of R804 million (2019: R496 million), NCI shareholders and related party loans of R12 million (2019: R14 million), other loans of R6 million (2019: R7 million) as well as an overdraft prime lending facility of up to R1.2 billion. CJ Pharmaceutical has a revolving credit facility of R10 million to be used by way of vehicle and asset finance and general banking facility of R200 million with Nedbank.

Dis-Chem Pharmacies has entered into a guarantee and indemnity agreement in favour of The Standard Bank of South Africa Limited in terms of any obligation or indebtedness arising of Vexall Proprietary Limited to them but limited to R20 million.

The table below summarises the maturity profile of the Group's financial liabilities at year-end, based on contractual and undiscounted payments.

	On demand R'000	Less than 12 months R'000	Greater than 12 months R'000	Total R'000
2020				
Trade and other payables	**–**	**4 127 038**	**–**	**4 127 038**
Loans payable excluding Absa loan	**13 741**	**3 977**	**–**	**17 718**
Bank overdraft	**–**	**151 567**	**–**	**151 567**
Contingent consideration	**–**	**26 219**	**22 371**	**48 590**
Absa loan linked to JIBAR	**–**	**177 071**	**772 643**	**949 714**
Undiscounted payments	**13 741**	**4 485 872**	**795 014**	**5 294 627**
Less: future finance charges	**–**	**(52 949)**	**(96 070)**	**(149 019)**
	13 741	**4 432 923**	**698 944**	**5 145 608**
2019				
Trade and other payables	–	4 233 929	–	4 233 929
Loans payable excluding Absa loan	13 611	8 131	–	21 742
Bank overdraft	–	658 470	–	658 470
Contingent consideration	–	24 765	51 044	75 809
Absa loan linked to JIBAR	–	191 964	378 137	570 101
Undiscounted payments	13 611	5 117 259	429 181	5 560 051
Less: future finance charges	–	(43 934)	(42 384)	(86 318)
	13 611	5 073 325	386 797	5 473 733

Refer to note 21 for the liquidity analysis for the lease liability.

29. Financial risk management objectives and policies continued

Fair value

The information below analyses financial assets and liabilities that are carried at fair value or financial assets and liabilities that have carrying amounts that differ from their fair values:

	Level 1 R'000	Level 2 R'000	Level 3 R'000
2020			
Financial liabilities at fair value through profit and loss			
– Contingent consideration	**–**	**–**	**45 121**
2019			
Financial liabilities at fair value through profit and loss			
– Contingent consideration	–	–	64 345

The fair value of the contingent consideration payable is measured with reference to the performance forecasts which can be used to estimate future cash flows. The key inputs into this valuation are the estimated future cash flows and the average discount rate of 10.1% (2019: 11.4%) used to determine the present value of the future cash flows.

	2020 R'000	2019 R'000
Reconciliation of recurring Level 3 fair value movements:		
Opening balance	**64 345**	76 249
Payment	**(29 672)**	(23 133)
Interest	**7 075**	7 588
Fair value adjustment	**3 373**	3 641
Closing balance	**45 121**	64 345

A reasonable movement in the unobservable inputs would not significantly impact the fair value of the contingent consideration as at the end of the reporting period and therefore not significantly impact profit after tax or equity.

There were no transfers of financial instruments between Level 1, Level 2 and Level 3 fair value measurements during the year ended February 2020 and 2019.

30. Capital management

The primary objective of the company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group considers share capital and retained income as capital. The board of directors considers capital requirements from time to time and makes adjustments accordingly.

No changes were made in the objectives, policies and processes for managing capital during the years ended 29 February 2020 and 28 February 2019.

31. Restatement of comparative figures due to IFRS 16

The Group adopted IFRS 16, "Leases" in the current financial period and elected to apply the standard on the full retrospective approach whereby the cumulative effect of the retrospective application is recognised by adjusting the opening retained profits for the earliest comparative period presented (which for the Group is the comparative period beginning on 1 March 2018). The Group has used the expedient where the Group is not required to reassess whether a contract is, or contains a lease.

The impact of adopting IFRS 16 resulted in most of our leases being brought onto the statement of financial position as a lease liability with a corresponding right-of-use asset (reflected in property, plant and equipment). The current operating lease costs in the Statement of Comprehensive Income have been replaced by depreciation of the right-of-use asset and finance costs in relation to the lease liability. The operating lease obligation in the Statement of Financial Position was reduced to Rnil.

The impact of the standard is shown below:

	IFRS 16 R'000	February 2020 R'000
Statement of Financial Position		
Non-current assets		
Property, plant and equipment	1 571 395	3 095 352
Deferred taxation	65 113	189 307
Equity and reserves		
Retained earnings	(163 737)	717 816
Non-controlling interest	(3 652)	60 814
Other reserves – Foreign Currency Translation Reserve	(45)	(4 619 991)
Non-current liabilities		
Lease liability	1 765 221	2 374 961
Operating lease obligation	(245 308)	–
Current liabilities		
Lease liability	315 664	350 721
Trade and other payables (current portion of operating lease obligation)	(31 635)	4 258 659

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 29 February 2020

31. Restatement of comparative figures due to IFRS 16 continued

	IFRS 16 R'000	February 2020 R'000
Statement of Comprehensive Income		
Other expenses	165 802	(5 597 204)
– Occupancy costs	492 566	
– Depreciation	(326 764)	
Net financing costs	(181 269)	(379 752)
– Finance income	–	
– Finance costs	(181 269)	
Taxation	4 331	(240 647)
	(11 136)	(6 217 603)
Earnings per share (cents) – basic and diluted	(1.3)	69.6
Statement of Cash Flows		
Cash flow from operating activities		
Cash inflow from trading operations	479 869	1 851 142
Finance costs paid	(181 269)	(383 925)
Cash flow from financing activities		
Lease liability repayment	(298 600)	(324 326)

	February 2019 (previously stated) R'000	IFRS 16 impact R'000	February 2019 restated R'000
Statement of Financial Position			
Non-current assets			
Property, plant and equipment	1 370 310	1 624 446	2 994 756
Deferred taxation	169 745	60 766	230 511
Equity and reserves			
Retained earnings	497 165	(152 277)	344 888
Non-controlling interest	68 101	(3 976)	64 125
Other reserves – Foreign Currency Translation Reserve	(4 614 836)	(2)	(4 614 838)
Non-current liabilities			
Lease liability	620 724	1 822 480	2 443 204
Operating lease obligation	236 375	(236 375)	–
Current liabilities			
Lease liability	22 593	286 724	309 317
Trade and other payables (current portion of operating lease obligation)	4 325 818	(31 362)	4 294 456

	February 2019 (previously stated) R'000	IFRS 16 impact R'000	February 2019 restated R'000
Statement of Comprehensive Income			
Other expenses	(5 015 225)	158 046	(4 857 179)
– Occupancy costs		462 365	
– Depreciation		(304 319)	
Net financing costs	(162 254)	(182 533)	(344 787)
– Finance income		–	
– Finance costs		(182 533)	
Taxation	(291 040)	6 855	(284 185)
	(5 468 519)	(17 632)	(5 486 151)
Earnings per share (cents) – basic and diluted	85.4	(1.8)	83.6
Statement of Cash Flows			
Cash flow from operating activities			
Cash inflow from trading operations	1 428 516	432 209	1 860 725
Finance costs paid	(167 446)	(182 533)	(349 979)
Cash flow from financing activities			
Finance lease repayment	(16 415)	(249 676)	(266 091)

	February 2018 (previously stated) R'000	IFRS 16 impact R'000	February 2018 restated R'000
Statement of Financial Position			
Non-current assets			
Property, plant and equipment	1 182 394	1 632 665	2 815 059
Deferred taxation	181 845	53 911	235 756
Equity and reserves			
Retained earnings	97 481	(134 576)	(37 095)
Non-controlling interest	55 147	(4 052)	51 095
Non-current liabilities			
Lease liability	621 543	1 817 033	2 438 576
Operating lease obligation	213 198	(213 198)	–
Current liabilities			
Lease liability	9 943	245 752	255 695
Trade and other payables (current portion of operating lease obligation)	3 262 280	(24 383)	3 237 897

31. Restatement of comparative figures due to IFRS 16 continued

	February 2018 (previously stated) R'000	IFRS 16 impact R'000	February 2018 restated R'000
Statement of Comprehensive Income			
Other expenses	(4 330 728)	135 430	(4 195 298)
– Occupancy costs		404 665	
– Depreciation		(269 235)	
Net financing costs	(160 082)	(173 127)	(333 209)
– Finance income		–	
– Finance costs		(173 127)	
Taxation	(266 696)	10 556	(256 140)
	(4 757 506)	(27 141)	(4 784 647)
Earnings per share (cents) – basic and diluted	79.6	(3.1)	76.5
Statement of Cash Flows			
Cash flow from operating activities			
Cash inflow from trading operations	1 323 624	363 878	1 687 502
Finance costs paid	(164 424)	(173 127)	(337 551)
Cash flow from financing activities			
Finance lease repayment	(6 226)	(190 751)	(196 977)

32. Events after the reporting period

Baby City acquisition

The Group is pleased to announce that on 11 May 2020 it entered into inter-conditional agreements in terms of which it will acquire 100% of the issued share capital in and shareholder claims of the well-known baby care products retailer Baby City ("Baby City"), from the Baby City's founder shareholders, the Aronoff family ("the Transaction"). Michel Aronoff, who conceptualised and strategised Baby City's direction, will continue to serve as managing director of Baby City following closure of the Transaction and current staff will be retained. The Group will pay a purchase consideration of R430 million upon closure. The Transaction contains both a shareholder loan and a net working capital guarantee which ensures that Baby City's position upon closure resembles the pre-COVID-19 level, while incremental earnings accrue to Dis-Chem. The Transaction remains subject to suspensive conditions, including approval from competition authorities.

For the 12-month period to February 2020, Baby City generated revenue of R855 million. It has continued to trade well relative to the COVID-19 lockdown environment demonstrating both the resilient nature of the industry and the inherent brand equity of the retailer.

The Group's current offering is very focused on the FMCG and basic essentials categories which are extremely sensitive to price and promotion. In order to both deliver a destination baby experience to the first-time parent and allow growth into the more specialised baby categories such as Baby Gear (prams, car seats, swings, bouncers and other nursery equipment), clothing, developmental toys, amongst other categories, the Group requires a stand-alone baby destination store network whose brand positioning aligns with its own brand.

The transaction is subject to the fulfilment of the suspensive conditions by 31 October 2020.

COVID-19

During the lockdown and as required by the state to ensure that all South African corporate citizens assist in flattening the curve, the Group has taken and continues to take every possible step to safeguard the well-being of its employees, customers and patients. The Group has put a number of very strict protocols in place and will continue to update these as any new risk is identified or in accordance to regulatory changes. The number of staff and employees in store have been limited in line with social distancing requirements, all employees in stores have been issued with masks which are compulsory to wear and daily screening of all employees is facilitated on their arrival to work. As a result of being in the front line of the pandemic and assisting the sickly – there have been and will continue to be employees who test positive in our stores. In these instances Department of Health protocol is followed prior to the reopening of the store.

The Group recognises the part its employees are playing to continue to provide an essential service to South Africans. The Group is making every effort to avoid retrenchments and has given every Dis-Chem staff member a R1 500 food and healthcare voucher, at a total value of R28 million, to demonstrate its gratitude to their commitment to the front-line fight against the virus. In addition the Group accepts its corporate responsibility to contribute to the Solidarity fund, so as to help South Africans in need. The Group has contributed R2 million to date and it is encouraging its Benefit Card members to convert their points to grow the contribution, where it will furthermore match consumer donations rand for rand.

After health and safety, business continuity is of utmost importance and ensuring the Group retains a healthy statement of financial position to continue as a going concern.

The Group has seen disruption in trading conditions with its retail store revenue. During March, before the lockdown came into effect on 27 March 2020, retail stores experienced a substantial increase in revenue compared to the corresponding period of 45.6% as customers stocked up on products. Increased revenue was seen across all categories but especially in the pharmacy, healthcare and nutrition category. This trading pattern was then reversed during the lockdown (27 March to 30 April 2020), when only essential products could be sold, and retail revenue decreased by 20.9% compared to the corresponding period.

32. Events after the reporting period continued

Since level 4 and then level 3 came into effect the Group has started to see a recovery in revenue with retail revenue increasing slightly when compared to the corresponding period.

The Group has taken several steps to strengthen its financial position and maintain financial liquidity, which include: operating cost reductions driven by a focus on reducing unnecessary variable cost spend, suspending direct marketing expenditure, reducing capital expenditure and deferring the final dividend. The Group's financial position has also been assisted by the lowering of interest rates thus reducing interest payable on its long-term loan. The Group has engaged with financial institutions to ensure the availability of additional liquidity to the value of R850 million (currently unutilised) should this be needed for working capital management as it understands the trading cycles over this pandemic period, the Group believes the adaptation of the business to a focussed Return on Invested Capital ("ROIC") approach positions it well to fast changing trading patterns.

The wholesale division is not exposed to significant credit risk as a result of COVID-19 due to the majority of its customers continuing to trade as a result of their essential services status – no significant change in credit risk has been noted, however, this will continue to be actively monitored. No significant impairments of the Group's assets are expected to arise and there has been no significant impact on the net realisable value of inventory as a result of the crisis. To date, the Group has not had to seek relief from the government or other suppliers in the face of COVID-19. The Group has continued to pay its creditors with no extension on payment terms being required. The Group has paid 83% of April rentals, representing the essential portion of the rental amount, and full payments continued from May.

The ultimate impact on trade in the 2021 financial year is currently unknown, as it will depend heavily on the duration of the lockdown levels and the normalisation of retail trade. The Group is continuing to adapt quickly to the current environment, with a focus on mitigating the near-term impact whilst positioning itself for success in the future.

Competition Commission

The Competition Commission ("Commission") alleged on 24 April 2020 that during February and March 2020 the Group engaged in excessive pricing of surgical masks under and in terms of the Competition Act, read with the Consumer and Customer Protection and National Disaster Management Regulations and Directions (the "Regulations").

The Group presented a legal response within the two-week period imposed by the Commission and tabled arguments on 4 and 6 May 2020. We presented three major arguments that our pricing behaviour for surgical masks does not comprise excessive pricing, under either the Competition Act or the Competition Act read with the Regulations.

The Commission indicated that it has no additional queries in terms of the original submission but has not yet communicated a ruling to the Tribunal. As this matter is still under review, the cost of the legal proceedings as well as the outcome cannot yet be determined.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Dis-Chem Pharmacies Limited

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Dis-Chem Pharmacies Limited ('the company') set out on pages 104 to 160, which comprise the separate statement of financial position as at 29 February 2020, and the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements present fairly, in all material respects, the separate financial position of the company as at 29 February 2020, and its separate financial performance and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements of the company and in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits of the company and in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA code) and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

Key audit matter	How the matter was addressed in the audit
Rebate agreements with vendors; included in note 3.6 and note 12 to the financial statements As described in note 3.6 and note 12 to the financial statements, the Company recognises a reduction in cost of sales as a result of amounts receivable from suppliers in regards to rebate agreements. The reduction primarily comprises contributions received in relation to promotions in the Retail business, annual volume-based rebates and other general rebates. There are also various types of rebate agreements which differ in their targets, percentages applied and relate to different periods, for each supplier. The majority of these contributions tend to be small in unit value but high in volume. The agreements include those which span relatively short periods of time, and to a lessor extend, annual agreements whose timing does not coincide with the Company's year-end and are re-negotiated/re-entered into on an ongoing basis. The calculation of these accruals are managed centrally and calculated manually. Due to the large volume of trade term agreements we consider the recognition of supplier rebates to be significant to the audit. Significant audit time is therefore required to assess the completeness and accuracy of the source data and to obtain the evidence of all agreements in place at year-end. Accordingly, rebate agreements with vendors continue to be a key audit matter due to the changes in contracts from year to year.	Our procedures included, amongst others, the following: In respect of the accrued supplier income for rebate agreements: • On a sample basis we inspected the rebate terms in the agreements and agreed them to inputs used in the rebate income calculation; • On a sample basis we vouched the purchased volumes to those per the accounting records and considered whether the amounts being used related to the correct period per the agreement; • We tested the arithmetical accuracy of the calculation and agreed the amount calculated to the amount recognised in the financial statements; • On a sample basis we selected invoices and debit notes raised post year-end to test the completeness of accrued supplier income at 29 February 2020; • We performed an independent recalculation of the rebate accruals for all material trade term categories; • We tested the recoverability of the amounts due at year-end by agreeing the amounts to subsequent settlement from suppliers; and • We tested the recognition criteria of 'genuine/specific' rebates which are recognised at a point in time versus rebates which are general in nature that form part of the deferred unearned rebate calculation. We tested the following regarding the unearned rebate calculation: • All relevant supplier rebates were included in the calculation; and • The assumptions used in the calculation are in accordance with the supplier terms.

Key audit matter	How the matter was addressed in the audit

Adoption of IFRS 16 – Leases; included in note 8, note 18 and note 28 to the financial statements
 	
The new lease accounting standard IFRS 16, became effective during the 2020 financial year.
 	
In adopting the standard using the full retrospective approach, the Company recognised an additional right of use (ROU) asset of R1 189 million and an additional lease liability of R1 574 million at the beginning of the financial year. The disclosures required by the standard for these balances are contained in note 8, note 18 and note 28.
 	
The standard required management to assess each contract to identify whether they are or contains a lease. Once identified the lease and non-lease components are separated and the lease term, including the commencement date of the lease, initial recognition of the lease and subsequent measurement of the lease is determined in terms of the requirements of the standard including the assessment of the incremental borrowing rate (IBR).
 	
We focused on this area due to the number of property and non-property contracts in the Company, values associated to the respective rentals and the level of judgement required in assessing the accounting for various lease terms (such as beneficial occupation date and end date), the complexity of subsequent modifications to leases and the restatement of comparative information required as a result of the fully retrospective adoption of the standard.
 	
Therefore, given the volume of different lease agreements and the significance of differences between these agreements, there was significant audit effort required to inspect the agreements, consider the appropriateness of the discount rate for each lease and to consider management's assessment of subsequent modifications.
 	
Accordingly, the adoption of IFRS 16 Leases was a key audit matter.
	Our audit procedures included, amongst others, the following:
	
	• We evaluated management's productive policies, processes and controls put in place to capture and process the respective active leases across the Company in light of the requirements of the accounting standard;
	• We obtained a list of recurring vendor payments at adoption and during the audit period, and for a sample of the payments we evaluated the underlying contract to determine whether the contract was a lease or contained a lease component. Furthermore we considered whether it was consequently captured and processed as part of the adoption of the accounting standard;
	• We assessed the completeness of management's capturing and processing of active leases through the inspection of minutes of the meetings of relevant committees for evidence of new contracts or modifications to existing contracts that might be leases or contain leases or modifications of existing leases;
	
	For a sample of leases selected:
	
	  • We reviewed the terms and conditions of the underlying contract and evaluated management's identification of relevant leases to determine whether the leases were correctly considered for adoption as required by the standard; and
	  • We recalculated and agreed the contract consideration (e.g. fixed payments, variable payments based on a rate where applicable) in light of the underlying contract to determine whether management has appropriately identified and applied the respective contract consideration
	
	• We obtained management's calculation of the lease liability and ROU asset and performed the following procedures to assess the inputs into the lease application used;
	  • We determined the completeness and accuracy of the lease payments and incremental borrowing rate used to calculate the lease liability by agreeing them to the underlying contractual terms; and
	  • We agreed the amounts calculated by management and assessed by us to the respective general ledger accounts.
	• We evaluated the completeness and accuracy of disclosure to confirm compliance with the requirements of IFRS 16: Leases.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the 160 - page document titled Company audited financial statements for the financial year ended 29 February 2020, which includes the Directors' Report, the Audit and Risk Committee's Report, Statement of directors' responsibilities and approval of the annual financial statements and the Company Secretary's Certificate as required by the Companies Act of South Africa. The other information does not include the separate financial statements or the consolidated financial statements and our auditor's reports thereon.

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

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

Responsibilities of the Directors for the Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

INDEPENDENT AUDITOR'S REPORT CONTINUED

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc has been the auditor of Dis-Chem Pharmacies Limited for 14 years.

Ernst & Young Inc.

Derek Engelbrecht
Director

Registered Auditor

102 Rivonia Road
Johannesburg
Gauteng
South Africa
2146

26 June 2020

COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 29 February 2020

	Notes	2020 R'000	Restated* 2019 R'000
Revenue from contracts with customers	4	**17 971 152**	16 549 090
Cost of sales		**(14 119 277)**	(12 827 733)
Gross profit		**3 851 875**	3 721 357
Other income	5	**1 291 318**	1 011 255
Total income		**5 143 193**	4 732 612
Other expenses	5	**(4 093 839)**	(3 649 814)
Operating profit	5	**1 049 354**	1 082 798
Net financing costs	6	**(286 204)**	(260 431)
– Finance income		**12 542**	3 929
– Finance costs		**(298 746)**	(264 360)
Profit before taxation		**763 150**	822 367
Taxation	7	**(203 554)**	(223 089)
Total comprehensive income for the year, net of tax		**559 596**	599 278

* *Restated due to adoption of IFRS 16 Leases – refer to note 28*

COMPANY STATEMENT OF FINANCIAL POSITION

for the year ended 29 February 2020

	Notes	2020 R'000	Restated* 2019 R'000	Restated* 2018 R'000
ASSETS				
Non-current assets		**3 836 537**	3 684 914	3 419 033
Property, plant and equipment (including right-of-use asset)	8	**1 856 357**	1 694 305	1 635 668
Intangible assets	9	**96 116**	99 077	54 266
Deferred taxation	10	**74 516**	145 056	155 195
Investments	11	**1 809 548**	1 746 476	1 573 904
Current assets		**3 561 519**	3 261 308	2 370 539
Inventories	12	**1 913 546**	1 935 048	1 578 549
Trade and other receivables	13	**889 034**	864 250	546 400
Loans receivable	14	**404 297**	369 994	245 590
Taxation receivable	24.3	**205**	–	–
Cash and cash equivalents	24.4	**354 437**	92 016	–
Total assets		**7 398 056**	6 946 222	5 789 572
EQUITY AND LIABILITIES				
Equity and reserves		**2 245 333**	1 916 877	1 597 988
Share capital	15	**6 155 554**	6 155 554	6 155 554
Other reserves		**(3 891 619)**	(3 886 393)	(3 893 554)
Retained loss		**(18 602)**	(352 284)	(664 012)
Non-current liabilities		**2 040 404**	1 731 912	1 917 733
Lease liability	18	**1 341 460**	1 345 115	1 367 234
Contingent consideration	19	**19 494**	40 797	54 499
Loans payable	20	**679 450**	346 000	496 000
Current liabilities		**3 112 319**	3 297 433	2 273 851
Trade and other payables	21	**1 789 917**	1 818 664	1 412 566
Lease liability	18	**263 424**	236 925	211 033
Loans payable	20	**813 947**	376 704	275 326
Employee-related obligations	22	**162 502**	135 236	129 051
Deferred revenue (contract liability)	23	**47 162**	49 949	84 344
Contingent consideration	19	**25 627**	23 548	21 750
Taxation payable	24.3	**-**	53 494	31 465
Bank overdraft	24.4	**9 740**	602 913	108 316
Total equity and liabilities		**7 398 056**	6 946 222	5 789 572

* *Restated due to adoption of IFRS 16 Leases – refer to note 28*

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 29 February 2020

As previously reported
Adjustment for IFRS 16
Restated balance at 28 February 2018*
Total comprehensive income for the year
Share-based payment expense
Dividends paid
Restated balance at 28 February 2019*
Total comprehensive income for the year
Share-based payment expense
Treasury shares acquired
Dividends paid
Balance at 29 February 2020

(1) Other reserves consists of common control reserve, share-based payments, treasury shares and shares repurchased.

* *Restated due to adoption of IFRS 16 Leases – refer to note 28*

Notes	(Note 15) Share capital R'000	Retained loss R'000	Other reserves (1) R'000	Total R'000
	6 155 554	(551 782)	(3 893 554)	1 710 218
	–	(112 230)	–	(112 230)
	6 155 554	(664 012)	(3 893 554)	1 597 988
	–	599 278	–	599 278
17	–	–	7 161	7 161
16	–	(287 550)	–	(287 550)
	6 155 554	**(352 284)**	**(3 886 393)**	**1 916 877**
	–	**559 596**	**–**	**559 596**
17	**–**	**–**	**7 926**	**7 926**
	–	**–**	**(13 152)**	**(13 152)**
16	**–**	**(225 914)**	**–**	**(225 914)**
	6 155 554	**(18 602)**	**(3 891 619)**	**2 245 333**

COMPANY STATEMENT OF CASH FLOWS

for the year ended 29 February 2020

	Notes	2020 R'000	Restated* 2019 R'000
Cash flow from operating activities		**1 177 520**	390 215
Cash inflow from trading operations	24.1	**1 443 026**	1 389 934
Movement in working capital	24.2	**385 005**	(298 021)
Finance income received		**12 542**	3 929
Finance costs paid		**(280 621)**	(249 369)
Taxation paid	24.3	**(186 744)**	(190 890)
Dividends paid		**(225 914)**	(287 550)
Dividends received	5	**30 226**	22 182
Cash flow from investing activities		**(346 970)**	(406 299)
Additions to property, plant and equipment and intangible assets			
– To maintain operations	8/9	**(103 807)**	(20 722)
– To expand operations	8/9	**(187 684)**	(216 538)
Proceeds on disposal of property, plant and equipment and intangible assets		**7 593**	3 533
Increase in investments	11	**(63 072)**	(172 572)
Cash flow from financing activities		**25 044**	(386 497)
Long term loans repaid	24.5	**(591 550)**	(150 000)
Receipt of long term loans	24.5	**900 000**	–
Contingent consideration paid	24.5	**(29 672)**	(23 133)
Purchase of treasury shares		**(13 152)**	–
Lease liability repaid	24.5	**(240 582)**	(213 364)
Net decrease in cash and cash equivalents		**855 594**	(402 581)
Cash and cash equivalents at beginning of year		**(510 897)**	(108 316)
Cash and cash equivalents at end of year	24.4	**344 697**	(510 897)

* *Restated due to adoption of IFRS 16 Leases – refer to note 28*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 29 February 2020

4. Revenue from contracts with customers

Revenue from contracts with customers is predominantly derived from the sale of products through our retail stores.

Sale of goods – retail: The Company operates a chain of retail stores selling pharmaceutical, health and front shop products. Revenue from the sale of goods is recognised when products are sold to the customer. Payment of the transaction price is due immediately when the customer purchases the products and takes delivery in store. It is the Company's policy to sell certain of its products to the customer with a right of return of between 10 to 30 days depending on the specific product. Therefore, a right to return liability (included in trade and other payables) and related asset (included in trade and other receivables) are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method).

Customer loyalty programme: The Company operates a loyalty scheme which allows retail customers to accumulate points that entitle them, subject to certain criteria, to use these points in the future in any store in exchange for goods or services. A contract liability for the award points is recognised at the time of the sale and revenue is recognised when the points are redeemed.

Third-party vouchers/coupons: The Company redeems third-party coupons/vouchers that have been issued by suppliers. The coupon/voucher value is paid to the Company by the supplier instead of the customer and this consideration paid is reflected in revenue when the coupon/voucher is redeemed.

4. Revenue from contracts with customers continued

	2020 R'000	2019 R'000
Revenue from contracts with customers	**17 971 152**	16 549 090

Revenue from contracts with customers can be further disaggregated between the following retail categories:

	2020 %	2019 %
Dispensary	**36**	36
Personal care and beauty	**28**	28
Healthcare and nutrition	**20**	20
Baby care	**6**	6
Other	**10**	10
	100	100

5. Profit before taxation

Profit before taxation has been determined after taking into account the following:

	Notes	2020 R'000	2019 R'000
Other income			
Advertising income and marketing		**658 828**	566 602
Commission income		**38 317**	37 360
Dividend income		**30 226**	22 182
Franchisee income		**19 687**	26 698
Data and administration fees		**420 416**	255 595
Insurance refund received		**2 229**	5 421
Payroll-related recovery		**10 570**	10 508
Other expenses			
Depreciation of tangible assets	8	**372 157**	335 854
Amortisation of intangible assets	9	**19 670**	11 620
Computer expenses		**178 036**	150 046
Advertising expenses		**314 343**	361 103
Commission		**114 061**	98 471
Bank charges		**47 744**	46 272
Donations		**25 642**	18 011
Security		**98 647**	79 574
Occupancy costs		**243 659**	205 052
– Lease payments (1)		**49 849**	32 805
– Other (including electricity and rates)		**193 810**	172 247

(1) Lease payments relate to short-term leases. There is no expense in the current or prior period relating to low-value assets.

	2020 R'000	2019 R'000
Employee benefits	**2 428 175**	2 131 176
– Salaries and wages	**2 105 033**	1 876 861
– Pension costs	**92 499**	80 123
– Medical aid	**52 145**	41 433
– Leave pay	**17 248**	1 234
– Share-based payment	**7 957**	7 130
– Other (including bonuses, UIF and SDL)	**153 293**	124 395

For details on directors' emoluments and key management personnel refer to note 25.

6. Net financing costs

Finance income

Finance income is recognised utilising the effective interest method, being the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in profit or loss.

Finance costs

All borrowing costs are recognised in profit or loss using the effective interest method, unless the borrowing costs are directly attributable to the acquisition, construction or production of qualifying assets, in which case the directly attributable costs are capitalised.

	2020 R'000	2019 R'000
– Bank accounts	5 648	3 549
– Loans	6 863	–
– Other	31	380
Finance income	**12 542**	3 929
– Bank overdraft	83 991	67 327
– Bank loan	72 250	53 202
– SARS	149	576
– Lease liability	135 238	135 662
– Other	43	5
Interest expense	291 671	256 772
– Contingent consideration	7 075	7 588
Finance costs	**298 746**	264 360
Net financing costs	**286 204**	260 431

7. Taxation

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and laws used to compute the amount are those that are enacted, or substantially enacted at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns where applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred taxation is provided using the liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax credits, and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

	2020 R'000	2019 R'000
South African normal tax		
Current income tax		
– Current year	**170 729**	206 695
– Prior year (over)/under provision	**(37 684)**	6 224
Deferred tax		
– Attributable to temporary differences	**26 337**	10 170
– Prior year under provision	**44 172**	–
	203 554	223 089

7. Taxation continued

	2020 %	2019 %
Reconciliation of tax rate		
Standard tax rate	**28.00**	28.00
Prior year net under provision	**0.85**	0.76
Adjusted for permanent differences:		
Non-taxable:		
ETI and leadership	**(1.20)**	(1.21)
Tenant allowance	**(0.27)**	(0.31)
Dividends income	**(1.11)**	(0.76)
Non-deductible:		
Legal fees	**0.06**	0.12
SARS interest and penalties	**0.01**	0.02
Contingent consideration	**0.38**	0.38
Share-based payment	**0.09**	0.10
Other	**(0.14)**	0.03
Effective tax rate	**26.67**	27.13

With regards to IFRIC 23 Uncertain tax positions, which became effective for the company on 1 March 2019, the Company determined whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Company applies judgement in identifying uncertainties over income tax treatments. Since the Company does not operate in a complex multinational environment, it assessed and concluded that the interpretation did not have an impact on its financial statements.

8. Property, plant and equipment

Property plant and equipment are stated at cost less accumulated depreciation and accumulated impairment. Property plant and equipment are depreciated on the straight-line basis at rates estimated to write each asset down to their residual value over the term of its useful life.

Initial and subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

The right-of-use (ROU) asset is measured based on the present value of the lease payments, initial direct costs incurred when entering in the lease less any lease incentives received. The ROU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset. An impairment review is undertaken for any ROU asset that shows indicators of impairment and an impairment loss recognised against any ROU lease assets that are impaired.

All assets are depreciated from the date they are available-for-use, on a straight-line basis, to allocate their cost to their residual value over their estimated useful life. Depreciation ceases at the earlier of either the date the asset is classified as held for sale or the date the asset is derecognised.

The estimated useful lives are as follows:

– Computer hardware	Three to five years
– Office equipment	Four to eight years
– Improvements to leased premises	Remaining lease term or 10 years
– Motor vehicles	Three to five years
– Furniture and fittings	Four to eight years
– Land and buildings	Lease term

The residual values, useful lives and depreciation methods of property, plant and equipment are reviewed at each reporting date and adjusted if appropriate. At each reporting date it is assessed whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount is estimated.

Where carrying values exceed the estimated recoverable amounts, tangible assets are written down to their recoverable amounts and the impairment is recognised in profit or loss immediately.

An asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 29 February 2020

8. Property, plant and equipment continued

These gains or losses are included in profit or loss in the period of derecognition.

	Owned		
	Computer hardware R'000	Office equipment* R'000	Leasehold improvements R'000
2020			
Cost	**298 282**	**106 641**	**373 577**
Opening balance	**245 148**	**91 102**	**389 288**
Additions	**70 207**	**26 955**	**51 947**
Disposals	**(17 073)**	**(11 416)**	**(67 658)**
Accumulated depreciation	**(164 657)**	**(58 291)**	**(208 802)**
Opening balance	**(142 624)**	**(58 775)**	**(256 300)**
Current charge	**(38 095)**	**(10 653)**	**(19 730)**
Disposals	**16 062**	**11 137**	**67 228**
Net carrying amount	**133 625**	**48 350**	**164 775**

	Owned		
	Computer hardware R'000	Office equipment* R'000	Leasehold improvements R'000
2019			
Cost	245 148	91 102	389 288
Opening balance	169 776	75 302	404 300
Additions	80 236	17 780	44 878
Disposals	(4 864)	(1 980)	(59 890)
Accumulated depreciation	(142 624)	(58 775)	(256 300)
Opening balance	(111 982)	(51 978)	(301 786)
Current charge	(34 789)	(7 571)	(14 272)
Disposals	4 147	774	59 758
Net carrying amount	102 524	32 327	132 988

* *Includes air conditioners, security equipment, medical and clinic equipment, office equipment, PABX, media equipment and machinery and equipment.*

\# *Includes salon equipment, fixtures and fittings, shop equipment, signs and furniture.*

Motor vehicles held under lease liability are held as security for the lease liability (refer to note 18).

Furniture and fixtures# R'000	Motor vehicles R'000	Right-of-Use Land and buildings R'000	Right-of-Use Motor vehicles R'000	Total R'000
466 722	**18 744**	**2 566 694**	**16 731**	**3 847 391**
362 090	**18 623**	**2 315 602**	**12 124**	**3 433 977**
124 316	**1 311**	**268 559**	**4 607**	**547 902**
(19 684)	**(1 190)**	**(17 467)**	**–**	**(134 488)**
(171 102)	**(15 757)**	**(1 366 364)**	**(6 061)**	**(1 991 034)**
(136 653)	**(15 668)**	**(1 126 558)**	**(3 094)**	**(1 739 672)**
(48 470)	**(1 248)**	**(250 994)**	**(2 967)**	**(372 157)**
14 021	**1 159**	**11 188**	**–**	**120 795**
295 620	**2 987**	**1 200 330**	**10 670**	**1 856 357**

Furniture and fixtures# R'000	Motor vehicles R'000	Right-of-Use Land and buildings R'000	Right-of-Use Motor vehicles R'000	Total R'000
362 090	18 623	2 315 602	12 124	3 433 977
355 157	17 481	2 103 691	6 897	3 132 604
34 745	3 189	211 911	5 227	397 966
(27 812)	(2 047)	–	–	(96 593)
(136 653)	(15 668)	(1 126 558)	(3 094)	(1 739 672)
(125 735)	(13 431)	(889 393)	(2 631)	(1 496 936)
(38 730)	(2 864)	(237 165)	(463)	(335 854)
27 812	627	–	–	93 118
225 437	2 955	1 189 044	9 030	1 694 305

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 29 February 2020

9. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The estimated useful lives are as follows:

- Computer software: Two to four years
- Licences: Indefinite

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

	Computer software R'000	Licences with indefinite useful life R'000	Goodwill R'000	Total R'000
2020				
Cost	**140 018**	**3 181**	**7 670**	**150 869**
Opening balance	**126 358**	**3 181**	**7 670**	**137 209**
Additions	**16 755**	**-**	**-**	**16 755**
Disposals	**(3 095)**	**-**	**-**	**(3 095)**
Accumulated depreciation	**(54 753)**	**-**	**-**	**(54 753)**
Opening balance	**(38 132)**	**-**	**-**	**(38 132)**
Current charge	**(19 670)**	**-**	**-**	**(19 670)**
Disposals	**3 049**	**-**	**-**	**3 049**
Net carrying amount	**85 265**	**3 181**	**7 670**	**96 116**
2019				
Cost	126 358	3 181	7 670	137 209
Opening balance	71 277	3 181	7 670	82 128
Additions	56 431	-	-	56 431
Disposals	(1 350)	-	-	(1 350)
Accumulated depreciation	(38 132)	-	-	(38 132)
Opening balance	(27 862)	-	-	(27 862)
Current charge	(11 620)	-	-	(11 620)
Disposals	1 350	-	-	1 350
Net carrying amount	88 226	3 181	7 670	99 077

Carrying amount of goodwill allocated to each CGU:

	2020 R'000	2019 R'000
Goodwill		
Dis-Chem Platinum Park Proprietary Limited	**7 670**	7 670
	7 670	7 670

9. Intangible assets continued

The CGU is based on the relevant cost centre. The recoverable amount of the above CGU as at the reporting date, has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 9.9% (2019: 13.4%). Cash flows beyond the five-year period are extrapolated using a 4% (2019: 4%) growth rate. As a result of the analysis, management did not identify an impairment in the current or prior financial period.

No reasonably possible change in assumptions will result in an impairment loss being recognised in the current and prior financial year.

10. Deferred tax

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Deferred tax assets and liabilities are only offset if there is a legally enforceable right to offset current tax and the asset or liability relates to the same taxation authority and the same taxable entity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Tax relating to items recognised directly in equity are also recognised directly in equity and not in the statement of comprehensive income.

Also refer to accounting policy under note 7.

	2020 R'000	2019 R'000
Deferred taxation asset		
Balance at the beginning of the year	**145 056**	155 195
Movements during the year		
– Charge to income statement	**(70 509)**	(10 170)
– Charge to equity	**(31)**	31
Balance at end of year	**74 516**	145 056
The deferred tax asset balance is made up as follows:		
Employee-related obligations	**32 512**	27 572
Lease liability	**110 494**	107 785
Deferred revenue	**9 946**	13 986
Property, plant and equipment	**(79 036)**	(5 741)
Share scheme	**-**	799
Other	**600**	655
	74 516	145 056

11. Investments

The company holds the investment in subsidiaries, associates and joint ventures at cost.

	2020 R'000	2019 R'000
Investment in associates and joint ventures		
(Proprietary Limited unless stated otherwise)		
Dis-Chem Bothomed	**–**	–
Geniob	**–**	–
Health Window	**16 000**	–
Vexall	**–**	–
	16 000	–

The associates and joint ventures are not considered to be material to the Company.

	2020 R'000	2019 R'000
Investment in subsidiaries		
(Proprietary Limited unless stated otherwise)		
CJ Pharmaceutical Enterprises	**411 612**	411 612
CJ Marketing	**5 104**	5 104
Dis-Chem Distribution	**1 152 972**	1 152 972
Evening Star	**4 216**	4 216
Bemax	**69 350**	69 350
Quenets	**63 404**	63 404
A. Retief (trading as York Street)	**26 778**	26 778
De Wiekus	**1 500**	1 500
Ballito Junction	**11 540**	11 540
Amanzimtoti	**2 542**	–
Mundel Gien (trading as Springbok)	**32 500**	–
Culemborg	**1 000**	–
Differenza	**1 530**	–
TLC Medipark	**9 500**	–
	1 793 548	1 746 476

All other subsidiaries measured at cost in the financial statements are immaterial and therefore not shown above.

Total investment in subsidiaries, associates and joint ventures	**1 809 548**	1 746 476

12. Inventories

Inventories comprise merchandise for resale and are valued at the lower of cost determined on a weighted average moving cost basis and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. The cost of merchandise sold includes normal shrinkage, wastage, inventory losses, trade discounts, rebates and other similar items. Obsolete and slow moving inventories are identified and written down to their net realisable value. The carrying amount of inventory is recognised as an expense in the period in which the related revenue is recognised.

The Company enters into various rebate agreements with its vendors in regards to the purchasing of inventory. These rebate are recorded as a reduction to the cost of the related inventory to the extent that the inventories have been sold. Certain of these agreements are based on the achievement of specific volumes of purchases over a specified period, including escalating rebates as certain pre-defined hurdles are met. The Company accrues these growth rebates at the point when it is probable that the hurdles will be met.

	2020 R'000	**2019 R'000**
Finished goods	**1 913 546**	1 935 048
Cost of inventories recognised as cost of sales	**14 119 277**	12 827 733

13. Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services rendered in the ordinary course of business and are accounted for as loans and receivables in accordance with the accounting policy disclosed in note 26. Prepayments and other receivables are stated at their nominal values.

	2020 R'000	2019 R'000
Trade receivables	**134 270**	115 756
Allowance for bad debts	**(142)**	(509)
Net trade receivables	**134 128**	115 247
Other receivables	**599 625**	482 387
Related parties (note 25)	**41 620**	198 030
Prepayments	**106 416**	61 954
Right of return asset	**7 245**	6 632
	889 034	864 250
Allowance for bad debts		
Opening balance	**(509)**	(1 521)
Allowance utilised	**367**	1 012
Closing balance	**(142)**	(509)

Trade receivables are non-interest-bearing and are generally on terms of seven to 60 days.

Other receivables are non-interest-bearing and generally on terms of 30 to 60 days. Other receivables consist of rebates and advertising receivables as well as other sundry receivables.

As at 29 February, the age analysis of trade receivables is as follows:

	Total R'000	Current R'000	Days past due: <30 days R'000	30-60 days R'000	60-90 days R'000	90-120 days R'000	>120 days R'000
2020							
Expected credit loss rate	**0.1%**	**0.1%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Estimated gross carrying amount at default	**134 270**	**134 270**	**-**	**-**	**-**	**-**	**-**
Expected credit loss	**142**	**142**	**-**	**-**	**-**	**-**	**-**
2019							
Expected credit loss rate	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Estimated gross carrying amount at default	115 756	115 756	-	-	-	-	-
Expected credit loss	509	509	-	-	-	-	-

13. Trade and other receivables continued

As at 29 February, the age analysis of other receivables is as follows:

			Days past due				
	Total R'000	Current R'000	<30 days R'000	30-60 days R'000	60-90 days R'000	90-120 days R'000	>120 days R'000
2020	**599 625**	**520 723**	**33 843**	**30 041**	**3 581**	**7 924**	**3 513**
2019	482 387	392 784	13 102	21 417	20 261	12 560	22 263

Related party receivables are neither past due not impaired.

Refer to note 26 on credit risk management of trade and other receivables.

14. Loans receivable

Loans are accounted for as financial assets in accordance with the accounting policy disclosed in note 26.

	2020 R'000	2019 R'000
Related parties (note 25)	**396 733**	362 155
Other loans	**7 564**	7 839
	404 297	369 994

Refer to note 26 on credit risk management of loans receivable.

15. Share capital

Ordinary share capital represents the par value of ordinary shares issued.

	2020 R'000	2019 R'000
Authorised		
1 500 000 000 (2019:1 500 000 000) ordinary no par value shares		
Issued and fully paid		
860 084 483 (2019: 860 084 483) ordinary no par value shares	**6 155 554**	6 155 554
Reconciliation of shares issued		
Opening balance	**6 155 554**	6 155 554
Shares issued during the period	**-**	–
Closing balance	**6 155 554**	6 155 554

16. Dividends to shareholders

	2020 R'000	2019 R'000
April 2019	**115 875**	–
December 2019	**110 039**	–
May 2018	**-**	109 540
November 2018	**-**	178 010
	225 914	287 550

	2020 Cents	2019 Cents
Dividends per share		
Interim paid (December 2019/ November 2018)	**12.8**	20.7
Final declared/paid (May 2020/ April 2019)	**-**	13.5

17. Other reserves

Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given below.

The cost is recognised in other expenses as part of employee benefits, together with a corresponding increase in equity (other reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

Forfeitable Share Plan (FSP) – bonus shares
Under the FSP fully-paid shares (bonus shares) of Dis-Chem Pharmacies Limited are granted to regional managers. As the grants are in Dis-Chem's own shares they are treated as equity-settled share-based payments.

The shares are registered in employees' names on the grant date and held in a brokerage account on behalf of the employees until vesting, as long as they are still employed by the Company.

Employees receive dividends and voting rights on these shares during the vesting period. Exercise of the shares takes place on the vesting date.

The fair value of the shares is the fair market value on the grant date due to the fact that the employees have full rights to all the dividends declared before the end of the vesting period.

Share Appreciation Rights (SAR)
Under the SAR plan employees share in the growth in the share price between the award price and exercise price, and receive shares to the value of that appreciation.

Vesting of the share options is dependent on the Group's achievement of forward-looking performance conditions, being growth in headline earnings per share and continued employment. The share options can be exercised up to three years after the vesting period.

The fair value of share options granted is estimated at the date of grant by using a Binomial Tree approach, taking into account the terms and conditions on which the share options were granted. The model takes into account dividend yield, share price volatility and risk-free rate.

The exercise price of the share options is equal to the market price of the underlying shares on the date of the grant.

Options/shares not yet exercised by 29 February 2020:

FSP

Offer date	Expiry date	Number of shares Feb 2019	Number of shares forfeited	Number of shares exercised	Number of shares Feb 2020
1 June 2018	31 May 2020	**276 269**	-	-	**276 269**
1 February 2019	31 July 2021	**255 588**	-	-	**255 588**

SAR

Offer date	Expiry date	Number of options Feb 2019	Number of options forfeited	Number of options exercised	Number of options Feb 2020
1 June 2018	31 May 2023	**1 150 034**	**(644 410)**	-	**505 624**
1 February 2019	31 July 2024	**1 143 929**	**(521 167)**	-	**622 762**

17. Other reserves continued

Options/shares not yet exercised by 28 February 2019:

FSP

Offer date	Expiry date	Number of shares granted	Number of shares forfeited	Number of shares exercised	Number of shares Feb 2019
1 June 2018	31 May 2020	276 269	–	–	276 269
1 February 2019	31 July 2021	255 588	–	–	255 588

SAR

Offer date	Expiry date	Number of options granted	Number of options forfeited	Number of options exercised	Number of options Feb 2019
1 June 2018	31 May 2023	1 325 970	(175 936)	–	1 150 034
1 February 2019	31 July 2024	1 143 929	–	–	1 143 929

The expense recognised for employee services during the year is shown in the following table:

	2020 R'000	2019 R'000
Expense arising from FSP	**5 964**	2 934
Expense arising from SAR	**1 993**	4 196
	7 957	7 130

There were no modifications to the grants in 2020.

Movements during the year

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, shares during the year:

	2020 Number	2020 WAEP	2019 Number	2019 WAEP
FSP				
Outstanding at 1 March	**531 856**	24.8	–	–
Granted during the year	**-**	–	531 856	24.8
Forfeited during the year	**-**	–	–	–
Exercised during the year	**-**	–	–	–
Expired during the year	**-**	–	–	–
Outstanding at 29 February	**531 856**	24.8	531 856	24.8
Exercisable at 29 February	**-**		–	

The weighted average remaining contractual life for the shares outstanding as at 29 February 2020 was 0.8 years (2019: 1.8 years).

The weighted average fair value of shares granted during the year was Rnil (2019: R24.83).

	2020 Number	2020 WAEP	2019 Number	2019 WAEP
SAR				
Outstanding at 1 March	**2 293 963**	8.1	–	–
Granted during the year	**–**	–	2 469 899	8.2
Forfeited during the year	**(1 165 577)**	8.2	(175 936)	9.2
Exercised during the year	**–**	–	–	–
Expired during the year	**–**	–	–	–
Outstanding at 29 February	**1 128 386**	8.0	2 293 963	8.1
Exercisable at 29 February	**–**		–	

The weighted average remaining contractual life for the shares outstanding as at 29 February 2020 was 0.8 years (2019: 1.8 years).

The weighted average fair value of shares granted during the year was Rnil (2019: R8.83).

The following table lists the inputs to the models:

	2019 FSP – June	2019 FSP – February	2019 SAR – June	2019 SAR – February
Spot price	29.69	25.70	29.69	25.70
Strike price	N/A	N/A	28.48	28.96
Volatility	N/A	N/A	27.0%	30.0%
Dividend yield	1.2%	1.2%	1.2%	1.2%
Risk-free rate	N/A	N/A	7.27%	7.48%
Attrition rate	5.0%	5.0%	5.0%	5.0%
Vesting date	31 May 2020	31 July 2021	31 May 2020	31 July 2021
Maturity date	31 May 2020	31 July 2021	31 May 2023	31 July 2024

The expected life of the FSPs and SARs is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

18. Lease liability

At inception, the company assesses whether a contract is or contains a lease. The company recognises a ROU asset and lease liability at the commencement date of the lease.

The lease liability is measured at the present value of the lease payments net of cash lease incentives that are not paid at the balance date. Lease payments are apportioned between the finance charges and reduction of the lease liability using the incremental borrowing rate implicit in the lease to achieve a constant rate of interest on the remaining balance of the liability. Lease payments for buildings exclude service fees and other costs.

	2020 R'000	2019 R'000
Minimum payments due		
– Within one year	**389 883**	362 931
– Within five years	**1 247 029**	1 169 167
– Over five years	**449 379**	561 895
	2 086 291	2 093 993
Less: future finance charges	**(481 407)**	(511 953)
Present value of minimum payments	**1 604 884**	1 582 040
Present value of minimum payment due:		
– Within one year	**263 424**	236 925
– Within five years	**953 856**	859 905
– Over five years	**387 604**	485 210
	1 604 884	1 582 040
Non-current liabilities	**1 341 460**	1 345 115
Current liabilities	**263 424**	236 925
	1 604 884	1 582 040

The lease liability relates to land and buildings and motor vehicles. The capitalised lease liability relating to motor vehicles are secured by the motor vehicles (refer to note 8). There are no leases with residual value guarantees.

Many of the store leases contain extension options. In many cases these terms are not reflected in measuring the lease liabilities until management is reasonably certain they will be exercised. The Company considers all relevant facts and circumstances that create an economic incentive to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.

19. Contingent consideration

The contingent consideration is measured at fair value through profit and loss with any fair value gains and losses recognised in other costs.

	2020 R'000	2019 R'000
Non-current liabilities	**19 494**	40 797
Current liabilities	**25 627**	23 548
	45 121	64 345

The contingent consideration relates to acquisition of the non-controlling shareholders and is based on the future performance of each respective partner store, times the respective minority interests each year for annual basis with each selling non-controlling shareholder.

It is currently assumed that the majority of the partner stores will meet the performance targets in all five years and that the selling non-controlling shareholders will therefore be entitled to the deferred consideration.

The present value of estimated deferred consideration is recognised as a liability which will be unwound over the remaining two-year period (2019: three-year period). The current period interest amounted to R7.1 million (2019: R7.6 million).

Refer to note 26 for fair value disclosure and reconciliation of the movement in the balance.

20. Loans payable

Loans payable are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 26.

	2020 R'000	2019 R'000
Non-current loans		
Absa Bank	**679 450**	346 000
	679 450	346 000
Current loans		
Related parties (note 25)	**688 892**	226 650
Absa Bank	**125 000**	150 000
Other	**55**	54
	813 947	376 704

20. Loans payable continued

The Absa loan was renegotiated on 1 March 2019 and consists of two parts:

- The first part of the term loan is for R500 million repayable over four years at a variable interest rate linked to JIBAR.
- The second part of the term loan is for R400 million repayable at the end of four years at a variable interest rate linked to JIBAR.

Before the loan was renegotiated on 1 March 2019, the terms were as follows:

- The first part of the term loan is for R600 million repayable quarterly over four years at a variable interest rate linked to JIBAR.
- The second part of the term loan is for R200 million repayable at the end of four years at a variable interest rate linked to JIBAR.
- The loan is secured by the cession of the book debts in and general notarial bond over movable assets of Dis-Chem Pharmacies Limited.

Related party loans are considered to be short-term in nature as they are payable on demand.

21. Trade and other payables

Trade payables, sundry creditors and accrued expenses are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 26.

Expenses and assets are recognised net of VAT, except:

- when the VAT incurred on a purchase of assets or services is not recoverable from SARS, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- receivables and payables which are stated inclusive of VAT. The net amount of sales tax recoverable from, or payable to, SARS is included as part of receivables or payables in the statement of financial position.

	2020 R'000	2019 R'000
Trade payables	**828 497**	1 002 420
Related parties (note 25)	**742 239**	650 524
Other payables	**135 243**	86 768
VAT	**74 637**	70 487
Right of return liability	**9 301**	8 465
	1 789 917	1 818 664

Trade and other payables are non-interest-bearing and are generally on terms of seven to 90 days.

Other payables consist of payables relating to payroll as well as general accruals.

Refer to note 26 on liquidity risk management.

22. Employee-related obligations

Short-term employee obligations are measured at the undiscounted amount required to settle the present obligation at the reporting date. Included in short-term employee obligations are bonus and leave pay.

The expected cost of short-term employee benefits are recognised in the form of paid absences as follows:

- In the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.
- In the case of non-accumulating paid absences, when the absences occur.

The expected cost of profit-sharing and bonus payments are recognised when, and only when:

- there is a present legal or constructive obligation to make such payments as a result of past events; and
- a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, there is no realistic alternative but to make the payments.

When an employee has rendered service to the company during a period, the company shall recognise the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. The expense is recognised in profit or loss.

	2020 R'000	2019 R'000
Leave pay	**110 861**	93 648
Bonus	**50 574**	40 808
Employee Benefit Fund	**1 067**	780
	162 502	135 236

The bonus is dependent on the company performance as well as individual ratings.

23. Deferred revenue

Deferred revenue liability is recognised for expected loyalty benefit points and gift vouchers redeemed by customers for purchases made by participating customers for the loyalty points and gift vouchers purchased for cash during the last three years, based on past experience of the level of redemptions. It is expected that a majority of these will be redeemed in the next financial year and all will have been redeemed within two years of the reporting date. Assumptions used to calculate the liability are based on current redemption rates at existing stores which are between 80% and 90% (2019: 80% and 90%).

Loyalty benefit point scheme

The company operates a loyalty scheme which allows retail customers to accumulate points that entitle them, subject to certain criteria, to use these points in the future in any store in exchange for goods or services. The transaction price is allocated to the loyalty points with reference to the Rand value of the points and is deferred as a liability and recognised as revenue on redemption of the points by customers. The company experiences low levels of unredeemed loyalty points due to the ease with which customers can redeem them at point of sale.

Gift vouchers

The fair value of gift vouchers which includes the expected redemption rate attributed to the vouchers, is deferred as a liability and recognised as revenue on redemption of the gift vouchers by customers.

	2020 R'000	2019 R'000
Loyalty benefit points scheme	**35 520**	38 801
Gift vouchers	**11 642**	11 148
	47 162	49 949
Loyalty points		
Opening balance	**38 801**	55 548
Points issued*	**167 912**	144 918
Revenue recognised	**(171 193)**	(161 665)
Closing balance	**35 520**	38 801
Gift vouchers		
Opening balance	**11 148**	28 796
Vouchers issued*	**104 383**	94 762
Revenue recognised	**(103 889)**	(112 410)
Closing balance	**11 642**	11 148

* *approximately 90% of the opening balance has recognised as revenue in the current and prior year.*

24. Notes to the statement of cash flows

Cash and cash equivalents are accounted for as loans and receivables and bank overdrafts are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 26.

Cash and cash equivalents comprise cash on hand and deposits held on call, all of which are available-for-use by the company.

	2020 R'000	2019 R'000
24.1 Cash generated by operations		
Profit before tax	**763 150**	822 367
Adjustments for:		
– Depreciation and amortisation	**391 827**	347 474
– Finance costs	**298 746**	264 360
– Finance income	**(12 542)**	(3 929)
– Increase in employee obligations	**27 266**	6 185
– Increase in deferred revenue	**(2 787)**	(34 395)
– Increase in net returns provision	**223**	353
– Dividend income	**(30 226)**	(22 182)
– Profit on sale of tangible and intangible assets	**(133)**	(58)
– Decrease in provision for expected credit loss	**(367)**	(1 012)
– Contingent consideration	**3 373**	3 641
– Gain on lease liability	**(3 461)**	–
– Share scheme expense	**7 957**	7 130
	1 443 026	1 389 934

	2020 R'000	2019 R'000
24.2 Movement in working capital		
Increase in loans receivable	**(34 303)**	(124 404)
Increase in loans payable	**462 243**	101 378
Decrease/(Increase) in inventories	**21 502**	(356 499)
Increase in trade and other receivables	**(23 804)**	(315 745)
(Decrease)/Increase in trade and other payables	**(40 633)**	397 249
	385 005	(298 021)
24.3 Taxation paid		
Net amount payable at beginning of the year	**(53 494)**	(31 465)
Amount charged excluding deferred tax	**(133 045)**	(212 919)
Net amount (receivable)/payable at end of the year	**(205)**	53 494
	(186 744)	(190 890)
Cash and cash equivalents comprise the following:		
24.4 Cash and cash equivalents		
Cash on hand and balances with banks	**354 437**	92 016
Bank overdrafts	**(9 740)**	(602 913)
	344 697	(510 897)

Cash at bank earns interest at floating rates based on daily bank deposit rates.

24.5 Changes in financing activities

			Non-cash changes			
	2019	**Cash flows**	**New leases/ transaction**	**Release/ fair value changes**	**Present value interest unwinding**	**2020**
Bank loans	496 000	308 450	–	–	–	**804 450**
Contingent consideration	64 345	(29 672)	–	3 373	7 075	**45 121**
Lease liability	1 582 040	(240 582)	266 887	(3 461)	–	**1 604 884**
	2018					**2019**
Bank loans	646 000	(150 000)	–	–	–	496 000
Contingent consideration	76 249	(23 133)	–	3 641	7 588	64 345
Lease liability	1 578 267	(213 364)	217 137	–	–	1 582 040

25. Related party transactions

Related party transactions constitute the transfer of resources, services or obligations between the company and a party related to the company. For the purposes of defining related party transactions with key management, key management has been defined as directors and includes close members of their families and entities controlled or jointly controlled by these individuals.

Outstanding balances as at 29 February 2020 and 28 February 2019 are unsecured and settlement occurs in cash.

The ultimate controlling party of the company is Ivlyn No4 Proprietary Limited that holds 52.7% (2019: 52.7%) of the shares in Dis-Chem Pharmacies Limited.

Directors' direct and indirect holdings of shares in the company is disclosed in the Directors Report.

2020

Related party transactions with a company that is controlled/jointly controlled by a person that has significant influence over Dis-Chem:

Related party	Sales/ (Purchases) R'000	Loan receivable R'000	Loan payable R'000	Trade and other receivable R'000	Trade and other payable R'000	Lease liability R'000	Interest income/ (expense) R'000	Services received R'000
Dis-Chem Distribution	1 668/(10 314 911)	881	(11 037)	-	(720 465)	-	-	-
Dis-Chem Ballito	419/(696)	-	(50 786)	1 930	-	-	(984)	-
Dis-Chem Flamewood	470/(262)	-	(48 236)	1 082	-	-	(1 903)	-
Dis-Chem Krugersdorp	436/(758)	-	(38 817)	1 543	-	-	(892)	-
Dis-Chem Glen Fair	788/(524)	15 000	(25 739)	1 637	-	-	(548)	-
Dis-Chem Rynfield	217/(370)	15 000	(22 075)	1 172	-	-	(334)	-
Dis-Chem Three Rivers	578/(307)	-	(28 857)	1 462	-	-	(1 101)	-
Dis-Chem Amanzimtoti	733/(714)	13 882	(80 001)	2 077	-	-	(2 144)	-
Dis-Chem Oncology	748/(653)	-	(36 794)		(9 108)	-	-	-
Dis-Chem Festival Mall	279/(520)	10 132	(24 857)	1 128	-	-	(948)	-
Dis-Chem Worcester	517/(457)	-	(23 887)	955	-	-	(109)	-
Dis-Chem Park Station	502/(284)	-	(2 700)	628	-	-	-	-
Dis-Chem Maponya Mall	333/(348)	11 550	(32 685)	1 090	-	-	(819)	-
Dis-Chem Ballito Lifestyle	343/(455)	24 263	(74 273)	307	-	-	(3 361)	-
Dis-Chem Jubilee Mall	191/(268)	26 649	-	1 108	-	-	(1 495)	-
Pharma-Logistical Services	3 832/(2 452)	21 800	(128 748)	-	(1 701)	-	-	-
Dis-Chem Mega Mall	107/(169)	-	(7 133)	873	-	-	307	-
Dis-Chem Goodwood	387/(488)	8 573	(20 490)	448	-	-	103	-
Dis-Chem Mams Mall	277/(995)	7 413	-	695	-	-	-	-
The Local Choice	226/(414)	28 632	-	1 715	-	-	-	-
TLC De Wiekus	362/(272)	-	(6 281)	954	-	-	(144)	-

25. Related party transactions continued

Related party	Sales/ (Purchases) R'000	Loan receivable R'000	Loan payable R'000	Trade and other receivable R'000	Trade and other payable R'000	Lease liability R'000	Interest income/ (expense) R'000	Services received R'000
Dis-Chem Namibia	-	5 969	-	2 603	-	-	-	-
Dis-Chem Swakopmund	-	4 506	-	267	-	-	(40)	-
Dis-Chem Walvis Bay	-	2 328	-	3 667	-	-	-	-
Dis-Chem Wernhill	-	6 364	-	309	-	-	-	-
Dis-Chem Airport Junction	-	11 233	-	356	-	-	-	-
CJ Enterprises	-	87 683	-	-	-	-	-	-
Bemax International	(85 742)	868	-	-	(10 511)	-	-	-
A. Retief	796/(255)	-	(14 150)	795	-	-	-	-
Dis-Chem Ferndale	1 198/(347)	-	(11 262)	758	-	-	(59)	-
Springbok	-	1 085	-		-	-	-	-
Geniob	-	81 865	-	12 061	-	-	-	-
Origin Brands	-	11 057	-	-	-	-	-	-
Vexall	-	-	(84)	-	(454)	-	-	(20 760)
Health Window	-	-	-	-	-	-	-	(15 791)
Various property companies (1)	-	-	-	-	-	(160 157)	(10 859)	-

(1) Relates to retail space that is owned/partially owned by the directors.

2019

Related party transactions with a company that is controlled/jointly controlled by a person that has significant influence over Dis-Chem:

Related party	Sales/ (Purchases) R'000	Loan receivable R'000	Loan payable R'000	Trade and other receivable R'000	Trade and other payable R'000	Lease liability R'000	Interest income/ (expense) R'000
Dis-Chem Distribution	(8 651 328)	–	(11 037)	5 763	(641 019)	–	–
Dis-Chem Ballito	420/(525)	–	(2 655)	1 130	–	–	(1 735)
Dis-Chem Flamewood	287/(263)	–	(19 799)	8 658	–	–	(2 389)
Dis-Chem Krugersdorp	525/(818)	–	(8 458)	7 929	–	–	(1 070)
Dis-Chem Glen Fair	821/(373)	22 413	–	1 543	–	–	(3 341)
Dis-Chem Rynfield	286/(337)	16 311	–	958	–	–	–
Dis-Chem Three Rivers	415/(280)	2 538	(5 976)	839	–	–	(1 264)
Dis-Chem Amanzimtoti	697/(686)	8 133	(6 982)	1 141	–	–	(2 733)
Dis-Chem Oncology	437/(711)	–	(5 171)	–	(59)	–	–
Dis-Chem Festival Mall	290/(391)	10 132	(7 130)	879	–	–	–
Dis-Chem Worcester	343/(315)	556	–	6 668	–	–	–
Dis-Chem Park Station	513/(334)	–	(23 881)	33 753	–	–	–
Dis-Chem Maponya Mall	324/(436)	11 550	(7 176)	1 346	–	–	(1 224)
Dis-Chem Ballito Lifestyle	297/(359)	29 896	(38 596)	517	–	–	(1 071)
Dis-Chem Jubilee Mall	219/(370)	26 649	(17 248)	2 593	–	–	(1 901)
Pharma-Logistical Services	1 999/(2 477)	21 800	(2 126)	–	(957)	–	–
Dis-Chem Jeffreys Bay	–	–	(970)	–	–	–	–
Dis-Chem Mega Mall	263/(11)	5 464	–	4 526	–	–	–
Dis-Chem Goodwood	455/(155)	6 063	–	4 231	–	–	–
Dis-Chem Mams Mall	334/(140)	9 540	–	3 941	–	–	–
The Local Choice	281/(336)	–	(64 514)	84 958	–	–	–
TLC De Wiekus	232/(59)	–	(4 931)	–	–	–	–
Dis-Chem Namibia	–	5 857	–	11 427	–	–	–

25. Related party transactions continued

Related party	Sales/ (Purchases) R'000	Loan receivable R'000	Loan payable R'000	Trade and other receivable R'000	Trade and other payable R'000	Lease liability R'000	Interest income/ (expense) R'000
Dis-Chem Swakopmund	–	4 499	–	2 979	–	–	–
Dis-Chem Dunes Mall Pharmacy	–	2 033	–	3 896	–	–	–
Dis-Chem Wernhill	–	6 242	–	–	(613)	–	–
Dis-Chem Airport Junction	–	2 985	–	8 355	–	–	–
CJ Enterprises	(1 152 371)	88 462	–	–	–	–	–
MSDS No 3 Pty Ltd	–	–	–	–	–	–	–
Josneo Pty Ltd	–	–	–	–	–	–	–
Bemax International Pty Ltd	(16 591)	2 148	–	–	(4 209)	–	–
A. Retief Pty Ltd	–	2 001	–	–	–	–	–
Geniob Pty Ltd	–	56 538	–	–	–	–	–
Origin Brands Pty Ltd	(9 249)	10 000	–	–	(3 667)	–	–
Other Dis-Chem Group entities	–	10 345	–	–	–	–	–
Various property companies	–	–	–	–	–	(120 198)	(11 595)

For further information in regards to loans receivable/payable, trade receivables and trade payables refer to note 14, 20, 13 and 21 respectively.

The company received dividends of R30 million (2019: R22 million) from its subsidiaries during the period.

	2020 R'000	2019 R'000
Compensation of key management		
Short-term employee benefits (1)	**55 347**	33 744
Post-employment benefits (1)	**576**	288
Non-executive directors' fees	**5 199**	4 875
	61 122	38 907

(1) Including prescribed officers in the current year

Executive and non-executive emoluments to directors

2020	Services as director R'000	Salary and allowances R'000	Bonuses(1) R'000	Retirement and related benefits R'000	Other benefits R'000	Total R'000
Non-executive directors						
LM Nestadt	2 830	-	-	-	-	2 830
MJ Bowman	607	-	-	-	-	607
A Coovadia	535	-	-	-	-	535
JS Mthimunye	647	-	-	-	-	647
MSI Gani	580	-	-	-	-	580
Executive directors						
IL Saltzman	-	12 883	-	72	271	13 226
LF Saltzman	-	10 561	-	72	111	10 744
RM Morais	-	5 532	-	72	339	5 943
SE Saltzman (alternate)	-	5 020	-	72	414	5 506
Prescribed officers						
SRN Goetsch	-	5 221	-	72	148	5 441
BI Epstein	-	5 223	-	72	165	5 460
KS Sterling	-	5 221	-	72	133	5 426
CJ Williams	-	3 969	-	72	136	4 177

2019	Services as director R'000	Salary and allowances R'000	Bonuses(1) R'000	Retirement and related benefits R'000	Other benefits R'000	Total R'000
Non-executive directors						
LM Nestadt	2 830	-	-	-	-	2 830
MJ Bowman	566	-	-	-	-	566
A Coovadia	362	-	-	-	-	362
JS Mthimunye	666	-	-	-	-	666
MSI Gani	451	-	-	-	-	451

25. Related party transactions continued

2019	Services as director R'000	Salary and allowances R'000	Bonuses(1) R'000	Retirement and related benefits R'000	Other benefits R'000	Total R'000
Executive directors						
IL Saltzman	–	12 478	–	72	286	12 836
LF Saltzman	–	10 245	–	72	117	10 434
RM Morais	–	5 224	–	72	130	5 426
SE Saltzman (alternate)	–	5 021	–	72	243	5 336

(1) Bonuses relate to amounts physically paid in the period

No options have yet been granted to executive or non-executive directors on the share schemes.

Options balance to prescribed officers on the share appreciation rights scheme at 29 February 2020:

	SRN Goetsch	BI Epstein	KS Sterling	CJ Williams	Total options
Offer date: 1 June 2018					
Opening balance	**118 195**	**118 321**	**118 165**	**83 146**	**437 827**
Forfeited	**(59 259)**	**(59 322)**	**(59 244)**	**(41 687)**	**(219 512)**
Exercised	**-**	**-**	**-**	**-**	**-**
Closing balance	**58 936**	**58 999**	**58 921**	**41 459**	**218 315**
Offer date: 1 February 2019					
Opening balance	**109 890**	**110 143**	**109 647**	**81 986**	**411 666**
Forfeited	**(44 149)**	**(44 250)**	**(44 051)**	**(32 938)**	**(165 388)**
Exercised	**-**	**-**	**-**	**-**	**-**
Closing balance	**65 741**	**65 893**	**65 596**	**49 048**	**246 278**

26. Financial risk management objectives and policies

Financial assets

Financial assets recognised on the statement of financial position include cash and cash equivalents, trade and other receivables and loans receivable. These financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

Initial recognition

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

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

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Financial assets are subsequently classified as financial assets at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment.

Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

26. Financial risk management objectives and policies continued

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment

The company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

For trade receivables the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. An allowance for expected credit losses is made when the Company considers a financial asset in default (such as default or delinquency in payments, the probability of insolvency or significant financial difficulties of the debtor or group of debtors) that all of the amounts due under the original terms of the invoice/agreement will not be collected. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

For other receivables and loan receivables the Company applies the general approach in calculating ECLs. At each reporting date, the Company recognises a loss allowance based on either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that results from default events (such as the probability of insolvency or significant financial difficulties of the debtor/borrower) that are possible within the next 12 months. For credit exposures for which there has been a significant increase in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for credit losses expected over the remaining life of the exposure.

Factors that are considered to indicate that a receivable has experienced a significant increase in credit risk and will be measured in stage 2, lifetime ECL, include: an actual or expected significant change in the operating results of the borrower; significant increase in credit risk on other financial instruments of the borrower; or significant changes in the expected performance and behaviour of the borrower. The Company does not measure a receivable in stage 2 when it is 30 days or more past due, due to the nature of the receivables as often the debtor/borrower is also a creditor to the Company and the net position is a creditor.

The Company considers a financial asset to be credit impaired (stage 3) when one or more event occurs that has a detrimental impact on estimated future cash flows of the financial asset (for example, significant financial difficulty of the borrower; it is probable that the borrower will enter bankrupcy or the disappearance of an active market for the financial asset). The Company considers a financial asset as 'cured' and therefore re-classified out of stage 3 when the default criteria have been remedied for at least 6 months.

Financial liabilities

Financial liabilities recognised on the statement of financial position include bank overdraft, trade and other payables, loans payable and contingent consideration. These financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables, as appropriate.

Initial recognition

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss:

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings:

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially

26. Financial risk management objectives and policies continued

modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Fair value measurement

In addition to the financial instruments carried at fair value (available for sale financial instruments), the fair values of financial instruments measured at amortised cost are disclosed should it be determined that the carrying value of these instruments does not reasonably approximate their fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The valuation techniques that are used to measure fair value are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the annual consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the annual financial statements at fair value, or for which the fair value is disclosed, on a recurring basis, it is determined whether transfers have occurred between the levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The main risks arising from the company's financial instruments are interest rate risk, liquidity risk, and credit risk.

The board reviews and agrees policies for managing each of these risks, which are summarised below:

2020	Financial instrument R'000	At fair value R'000	Financial liability at amortised cost R'000	Financial asset at amortised cost R'000	Non-financial instruments and leases R'000
Assets					
Property, plant and equipment	-	-	-	-	1 856 357
Intangible assets	-	-	-	-	96 116
Deferred taxation	-	-	-	-	74 516
Investments	-	-	-	-	1 809 548
Inventories	-	-	-	-	1 913 546
Trade and other receivables	775 373	-	-	775 373	113 661
Loans receivable	404 297	-	-	404 297	-
Taxation receivable	-	-	-	-	205
Cash and cash equivalents	354 437	-	-	354 437	-
Liabilities					
Lease liability	-	-	-	-	1 604 884
Contingent consideration	45 121	45 121	-	-	-
Loans payable	1 493 397	-	1 493 397	-	-
Trade and other payables	1 705 979	-	1 705 979	-	83 938
Employee-related obligations	-	-	-	-	162 502
Deferred revenue	-	-	-	-	47 162
Taxation payable	-	-	-	-	-
Bank overdraft	9 740	-	9 740	-	-

26. Financial risk management objectives and policies continued

2019	Financial instrument R'000	At fair value R'000	Financial liability at amortised cost R'000	Financial asset – loans and receivables R'000	Non-financial instruments and leases R'000
Assets					
Property, plant and equipment	–	–	–	–	1 694 305
Intangible assets	–	–	–	–	99 077
Deferred taxation	–	–	–	–	145 056
Investments	–	–	–	–	1 746 476
Inventories	–	–	–	–	1 935 048
Trade and other receivables	795 664	–	–	795 664	68 586
Loans receivable	369 994	–	–	369 994	–
Cash and cash equivalents	92 016	–	–	92 016	–
Liabilities					
Lease liability	–	–	–	–	1 582 040
Contingent consideration	64 345	64 345	–	–	–
Loans payable	722 704	–	722 704	–	–
Trade and other payables	1 739 712	–	1 739 712	–	78 952
Employee-related obligations	–	–	–	–	135 236
Deferred revenue	–	–	–	–	49 949
Taxation payable	–	–	–	–	53 494
Bank overdraft	602 913	–	602 913	–	–

Credit risk

The carrying amount of financial assets represents the maximum credit exposure which relates to trade and other receivables, loans receivables and positive cash and cash equivalents.

Trade and other receivables

The company is exposed to credit risk in relation to trade and other receivables from its retail operations.

	2020 R'000	2019 R'000
The maximum exposure to credit risk for trade receivables (excluding intercompany) is as follows:	**134 128**	115 247
The maximum exposure to credit risk for other receivables is as follows:	**599 625**	482 387

Trade receivables primarily relate to amounts recoverable from medical aids. These receivables are deemed to be low credit risk as medical schemes pay within 14 days and all amounts are neither past due nor impaired. The majority of other receivables relates to rebates and advertising receivable from suppliers and are deemed to be low credit risk as the net position with the supplier is a creditor. For other receivables the Company applies the general approach in calculating expected credit losses. All of these receivables are currently measured in stage 1 based on 12-month ECL's.

Cash and cash equivalents

With respect to the credit risk arising from cash resources, the company's exposure to credit risk arises from the default of the counterparty with the maximum exposure equal to the carrying amount of these resources.

The company manages and monitors daily funding requirements and has limited foreign currency exposure. Surplus funds are invested with banking institutions of a high credit standing.

Loans

The company is exposed to credit risk in relation to loans with related and other parties. The risk is managed through formal procedures for granting of these loans. The recoverability of these loans are assessed annually.

The majority of the loans receivable are companies within the Dis-Chem Group and based on budgets prepared and current profitability will be able to repay the loans and therefore deemed to be a low credit risk.

The loan to the Geniob group (consisting of Geniob Proprietary Limited and Origin Brands Proprietary Limited) amounts to R93 million at 29 February 2020. The Geniob group was in an accumulated loss position at 29 February 2020 but has started to make a profit in the 2021 financial year. The probability of default is expected to be low and therefore there is no expected credit loss however management will continue monitoring this loan.

For loans receivables the Company applies the general approach in calculating expected credit losses. The table below shows the credit quality and the maximum exposure to credit risk based on the company's internal credit rating system:

	12 month Stage 1	Lifetime Stage 2	Credit impaired Stage 3
2020			
Opening gross carrying amount of loans	**369 994**	-	-
New loans receivable	**106 612**	-	-
Loans repaid	**(78 772)**	-	-
Interest	**6 463**	-	-
	404 297	-	-

26. Financial risk management objectives and policies continued

	12 month Stage 1	Lifetime Stage 2	Credit impaired Stage 3
2019			
Opening gross carrying amount of loans	245 590	–	–
New loans receivable	192 075	–	–
Loans repaid	(67 671)	–	–
	369 994	–	–

Interest rate risk

The company's exposure to the risk of changes in market interest rates relates primarily to the Absa loan with a floating interest rate linked to JIBAR as well as interest incurred on overdraft facilities (note 6).

As part of the process of managing the company's interest rate risk, interest rate characteristics of new borrowings and refinancing of existing borrowings are positioned according to anticipated movements in interest rates. Funds on call earn interest at prevailing market call rates. Interest payable on bank borrowings fluctuates in accordance with prime bank lending rates while the Absa loan fluctuates with the JIBAR rate.

If the interest rate, with all other variables held constant, increased or decreased by 200 average basis points at year-end (2019: 50), the impact of the company's profit before tax would be approximately R18 million (2019: R4.4 million). The sensitivity analysis presented was based on the average balance of the funds during the period on the bank borrowings and Absa loan.

Liquidity risk

During the current year, Dis-Chem had a general banking facility of R100 million with Nedbank, an Absa loan of R804 million (2019: R496 million), related party loans of R689 million (2019: R227 million) as well as an overdraft prime lending facility of up to R1.2 billion.

Dis-Chem Pharmacies has entered into a guarantee and indemnity agreement in favour of The Standard Bank of South Africa Limited in terms of any obligation or indebtedness arising of Vexall Proprietary Limited to them but limited to R20 million.

The table below summarises the maturity profile of the company's financial liabilities at year-end, based on contractual and undiscounted payments:

	On demand R'000	Less than 12 months R'000	Greater than 12 months R'000	Total R'000
2020				
Trade and other payables	**–**	**1 705 979**	**–**	**1 705 979**
Loans payable excluding Absa loan	**688 947**	**–**	**–**	**688 947**
Bank overdraft	**–**	**9 740**	**–**	**9 740**
Contingent consideration	**–**	**26 219**	**22 371**	**48 590**
Absa loan linked to JIBAR	**–**	**177 071**	**772 643**	**949 714**
Undiscounted payments	**688 947**	**1 919 009**	**795 014**	**3 402 970**
Less: future finance charges	**–**	**(52 663)**	**(96 070)**	**(148 733)**
	688 947	**1 866 346**	**698 944**	**3 254 237**
2019				
Trade and other payables	–	1 739 712	–	1 739 712
Loans payable excluding Absa loan	226 704	–	–	226 704
Bank overdraft	–	602 913	–	602 913
Contingent consideration	–	24 765	51 044	75 809
Absa loan linked to JIBAR	–	191 964	378 137	570 101
Undiscounted payments	226 704	2 559 354	429 181	3 215 239
Less: future finance charges	–	(43 181)	(42 384)	(85 565)
	226 704	2 516 173	386 797	3 129 674

Refer to note 18 for the liquidity analysis for the lease liability.

Fair value

The information below analyses financial assets and liabilities that are carried at fair value or financial assets and liabilities that have carrying amounts that differ from their fair values:

	Level 1 R'000	Level 2 R'000	Level 3 R'000
2020			
Financial liabilities at fair value through profit and loss			
– Contingent consideration	**–**	**–**	**45 121**
2019			
Financial liabilities at fair value through profit and loss			
– Contingent consideration	–	–	64 345

26. Financial risk management objectives and policies continued

The fair value of the contingent consideration payable is measured with reference to the performance forecasts which can be used to estimate future cash flows. The key inputs into this valuation are the estimated future cash flows and the average discount rate of 10.1% (2019: 11.4%) used to determine the present value of the future cash flows.

	2020 R'000	2019 R'000
Reconciliation of recurring Level 3 fair value movements:		
Opening balance	**64 345**	76 249
Payment	**(29 672)**	(23 133)
Interest	**7 075**	7 588
Fair value adjustment	**3 373**	3 641
Closing balance	**45 121**	64 345

A reasonable movement in the unobservable inputs would not significantly impact the fair value of the contingent consideration as at the end of the reporting period and therefore not significantly impact profit after tax or equity.

There were no transfers of financial instruments between Level 1, Level 2 and Level 3 fair value measurements during the year ended February 2020 and 2019.

27. Capital management

The primary objective of the company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The company considers share capital and retained income as capital. The board of directors considers capital requirements from time to time and makes adjustments accordingly.

No changes were made in the objectives, policies and processes for managing capital during the years ended 29 February 2020 and 28 February 2019.

28. Restatement of comparative figures due to IFRS 16

The company adopted IFRS 16, "Leases" in the current financial period and elected to apply the standard on the full retrospective approach whereby the cumulative effect of the retrospective application is recognised by adjusting the opening retained profits for the earliest comparative period presented (which for the company is the comparative period beginning on 1 March 2018). The company has used the expendient where it is not required to reassess whether a contract is, or contains a lease.

The impact of adopting IFRS 16 resulted in most of our leases being brought onto the statement of financial position as a lease liability with a corresponding ROU (reflected in property, plant and equipment). The current operating lease costs in the Statement of Comprehensive Income have been replaced by depreciation of the ROU asset and finance costs in relation to the lease liability. The operating lease obligation in the Statement of Financial Position was reduced to Rnil.

The impact of the standard is shown below:

	IFRS 16 R'000	February 2020 R'000
Statement of Financial Position		
Non-current assets		
Property, plant and equipment	1 200 330	1 856 357
Deferred taxation	46 485	74 516
Equity and reserves		
Retained earnings	(119 533)	(18 602)
Non-current liabilities		
Lease liability	1 335 659	1 341 460
Operating lease obligation	(199 014)	–
Current liabilities		
Lease liability	259 295	263 424
Trade and other payables (current portion of operating lease obligation)	(29 592)	1 789 917
Statement of Comprehensive Income		
Other expenses	134 554	(4 093 839)
– Occupancy costs	385 887	
– Depreciation	(251 333)	
Net financing costs	(134 451)	(286 204)
– Finance income	–	
– Finance costs	(134 451)	
Taxation	(29)	(203 554)
	74	(4 583 597)
Statement of Cash Flows		
Cash flow from operating activities		
Cash inflow from trading operations	372 304	1 442 580
Finance costs paid	(134 451)	(280 621)
Cash flow from financing activities		
Lease liability repayment	(237 853)	(240 582)

28. Restatement of comparative figures due to IFRS 16 continued

	February 2019 (previously stated) R'000	IFRS 16 impact R'000	Adjusted total R'000
Statement of Financial Position			
Non-current assets			
Property, plant and equipment	505 261	1 189 044	1 694 305
Deferred taxation	98 542	46 514	145 056
Equity and reserves			
Retained earnings	(232 677)	(119 607)	(352 284)
Non-current liabilities			
Lease liability	5 344	1 339 771	1 345 115
Operating lease obligation	190 750	(190 750)	–
Current liabilities			
Lease liability	2 707	234 218	236 925
Trade and other payables (current portion of operating lease obligation)	1 846 738	(28 074)	1 818 664
Statement of Comprehensive Income			
Other expenses	(3 774 727)	124 913	(3 649 814)
– Occupancy costs		362 078	
– Depreciation		(237 165)	
Net financing costs	(125 272)	(135 159)	(260 431)
– Finance income		–	
– Finance costs		(135 159)	
Taxation	(225 958)	2 869	(223 089)
	(4 125 957)	(7 377)	(4 133 334)
Statement of Cash Flows			
Cash flow from operating activities			
Cash inflow from trading operations	1 043 493	346 441	1 389 934
Finance costs paid	(114 210)	(135 159)	(249 369)
Cash flow from financing activities			
Finance lease repayment	(2 082)	(211 282)	(213 364)

	February 2018 (previously stated) R'000	IFRS 16 impact R'000	Adjusted total R'000
Statement of Financial Position			
Non-current assets			
Property, plant and equipment	421 370	1 214 298	1 635 668
Deferred taxation	111 550	43 645	155 195
Equity and reserves			
Retained earnings	(551 782)	(112 230)	(664 012)
Non-current liabilities			
Lease liability	3 901	1 363 333	1 367 234
Operating lease obligation	181 260	(181 260)	–
Current liabilities			
Lease liability	1 006	210 027	211 033
Trade and other payables (current portion of operating lease obligation)	1 434 493	(21 927)	1 412 566
Statement of Comprehensive Income			
Other expenses	(3 519 409)	116 710	(3 402 699)
– Occupancy costs		329 088	
– Depreciation		(212 378)	
Net financing costs	(114 702)	(128 986)	(243 688)
– Finance income		–	
– Finance costs		(128 986)	
Taxation	(294 678)	3 437	(291 241)
	(3 928 789)	(8 839)	(3 937 628)
Statement of Cash Flows			
Cash flow from operating activities			
Cash inflow from trading operations	1 312 898	300 466	1 613 364
Finance costs paid	(102 498)	(128 986)	(231 484)
Cash flow from financing activities			
Finance lease repayment	(1 227)	(171 480)	(172 707)

29. Events after the reporting period

Baby City acquisition

The Company is pleased to announce that on 11 May 2020 it entered into inter-conditional agreements in terms of which it will acquire 100% of the issued share capital in and shareholder claims of the well-known baby care products retailer Baby City ("Baby City"), from the Baby City's founder shareholders, the Aronoff family ("the Transaction"). Michel Aronoff, who conceptualised and strategised Baby City's direction, will continue to serve as managing director of Baby City following closure of the Transaction and current staff will be retained. The Company will pay a purchase consideration of R430 million upon closure. The Transaction contains both a shareholder loan and a net working capital guarantee which ensures that Baby City's position upon closure resembles the pre-COVID-19 level, while incremental earnings accrue to Dis-Chem. The Transaction remains subject to suspensive conditions, including approval from competition authorities.

For the 12-month period to February 2020, Baby City generated revenue of R855 million. It has continued to trade well relative to the COVID-19 lockdown environment demonstrating both the resilient nature of the industry and the inherent brand equity of the retailer.

The Group's current offering is very focused on the FMCG and basic essentials categories which are extremely sensitive to price and promotion. In order to both deliver a destination baby experience to the first-time parent and allow growth into the more specialised baby categories such as Baby Gear (prams, car seats, swings, bouncers and other nursery equipment), clothing, developmental toys, amongst other categories, the Group requires a stand-alone baby destination store network whose brand positioning aligns with its own brand.

The transaction is subject to the fulfilment of the suspensive conditions by 31 October 2020.

COVID-19

During the lockdown and as required by the state to ensure that all South African corporate citizens assist in flattening the curve, the Company has taken and continues to take every possible step to safeguard the well-being of its employees, customers and patients. The Company has put a number of very strict protocols in place and will continue to update these as any new risk is identified or in accordance to regulatory changes. The number of staff and employees in store have been limited in line with social distancing requirements, all employees in stores have been issued with masks which are compulsory to wear and daily screening of all employees is facilitated on their arrival to work. As a result of being in the front line of the pandemic and assisting the sickly – there have been and will continue to be employees who test positive in our stores. In these instances Department of Health protocol is followed prior to the reopening of the store.

The Company recognises the part its employees are playing to continue to provide an essential service to South Africans. The Company is making every effort to avoid retrenchments and has given every Dis-Chem staff member a R1 500 food and healthcare voucher, at a total value of R28 million, to demonstrate its gratitude to their commitment to the front-line fight against the virus. In addition the Company accepts its corporate responsibility to contribute to the Solidarity fund so as to help South Africans in need. The Company has contributed R2 million to date and it is encouraging its Benefit Card members to convert their points to grow the contribution, where it will furthermore match consumer donations rand for rand.

After health and safety, business continuity is of utmost importance and ensuring the Company retains a healthy statement of financial position to continue as a going concern.

The Company has seen disruption in trading conditions with its retail store revenue. During March, before the lockdown came into effect on 27 March 2020, retail stores experienced a substantial increase in revenue compared to the corresponding period of 45.6% as customers stocked up on products. Increased revenue was seen across all categories but especially in the pharmacy, healthcare and nutrition category. This trading pattern was then reversed during the lockdown (27 March to 30 April 2020), when only essential products could be sold, and retail revenue decreased by 20.9% compared to the corresponding period.

Since level 4 and then level 3 came into effect the Company has started to see a recovery in revenue with retail revenue increasing slightly when compared to the corresponding period.

The Company has taken several steps to strengthen its financial position and maintain financial liquidity, which include: operating cost reductions driven by a focus on reducing unnecessary variable cost spend, suspending direct marketing expenditure, reducing capital expenditure and deferring the final dividend. The Company's financial position has also been assisted by the lowering of interest rates thus reducing interest payable on its long-term loan. The Company has engaged with financial institutions to ensure the availability of additional liquidity to the value of R850 million (currently unutilised) should this be needed for working capital management as it understands the trading cycles over this pandemic period, the Company believes the adaptation of the business to a focussed Return on Invested Capital ("ROIC") approach positions it well to fast changing trading patterns.

No significant impairments of the Company's assets are expected to arise and there has been no significant impact on the net realisable value of inventory as a result of the crisis. To date, the Company has not had to seek relief from the government or other suppliers in the face of COVID-19. The Company has continued to pay its creditors with no extension on payment terms being required. The Company has paid 83% of April rentals, representing the essential portion of the rental amount, and full payments continued from May.

The ultimate impact on trade in the 2021 financial year is currently unknown, as it will depend heavily on the duration of the lockdown levels and the normalisation of retail trade. The Company is continuing to adapt quickly to the current environment, with a focus on mitigating the near-term impact whilst positioning itself for success in the future.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 29 February 2020

29. Events after the reporting period continued

Competition Commission

The Competition Commission ("Commission") alleged on 24 April 2020 that during February and March 2020 the Group engaged in excessive pricing of surgical masks under and in terms of the Competition Act, read with the Consumer and Customer Protection and National Disaster Management Regulations and Directions (the "Regulations").

The Group presented a legal response within the two-week period imposed by the Commission and tabled arguments on 4 and 6 May 2020. We presented three major arguments that our pricing behaviour for surgical masks does not comprise excessive pricing, under either the Competition Act or the Competition Act read with the Regulations.

The Commission indicated that it has no additional queries in terms of the original submission but has not yet communicated a ruling to the Tribunal. As this matter is still under review, the cost of the legal proceedings as well as the outcome cannot yet be determined.

ANALYSIS OF ORDINARY SHAREHOLDERS

as at 29 February 2020

	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Shareholder spread				
1 – 1 000	9 891	62.55%	2 742 511	0.32%
1 001 – 10 000	4 784	30.25%	15 117 310	1.76%
10 001 – 100 000	854	5.40%	25 331 527	2.95%
100 001 – 1 000 000	229	1.45%	69 359 636	8.06%
Over 1 000 000	56	0.35%	747 533 499	86.91%
Total	15 814	100%	860 084 483	100%

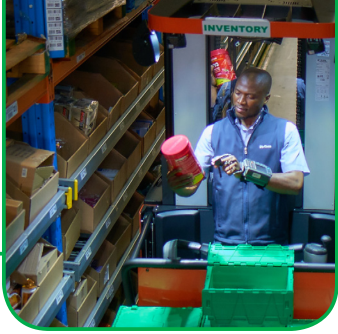
	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Distribution of shareholders				
Assurance Companies	110	0.70%	18 011 850	2.10%
Close Corporations	77	0.49%	263 191	0.03%
Collective Investment Schemes	253	1.60%	93 533 952	10.87%
Custodians	16	0.10%	517 709	0.06%
Foundations & Charitable Funds	53	0.34%	2 211 152	0.26%
Hedge Funds	13	0.08%	534 934	0.06%
Insurance Companies	11	0.07%	1 950 724	0.23%
Investment Partnerships	41	0.26%	349 948	0.04%
Managed Funds	43	0.27%	8 981 704	1.04%
Medical Aid Funds	19	0.12%	959 472	0.11%
Organs of State	10	0.06%	73 697 381	8.57%
Private Companies	296	1.87%	576 398 529	67.02%
Public Companies	8	0.05%	1 328 853	0.15%
Public Entities	4	0.03%	76 565	0.01%
Retail Shareholders	13 332	84.31%	25 349 091	2.95%
Retirement Benefit Funds	219	1.38%	42 850 096	4.98%
Scrip Lending	8	0.05%	901 034	0.10%
Sovereign Funds	2	0.01%	586 345	0.07%
Stockbrokers & Nominees	109	0.69%	3 403 209	0.40%
Trusts	1 190	7.52%	8 178 744	0.95%
Total	15 814	100%	860 084 483	100%

ANALYSIS OF ORDINARY SHAREHOLDERS CONTINUED

as at 29 February 2020

	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Shareholder type				
Non-public shareholders	12	0.08%	513 411 570	59.69%
Directors and associates	12	0.08%	513 411 570	59.69%
Public shareholders	15 802	99.92%	346 672 913	40.31%
Total	15 814	100%	860 084 483	100%

	Number of Shares	% of issued capital
Fund managers with a holding greater than 3% of the issued shares		
Coronation Fund Managers	54 568 775	6.34%
Public Investment Corporation	37 683 832	4.38%
Mazi Capital	26 482 415	3.08%
Total	118 735 022	13.80%
Beneficial shareholders with a holding greater than 3% of the issued shares		
Ivlyn (Pty) Ltd	453 041 396	52.67%
Government Employees Pension Fund	68 072 614	7.91%
Stansh (Pty) Ltd	47 090 995	5.48%
Total	568 205 005	66.06%


INVENTORY


Gluten
Sugar
25%
Stress, Anxiety & Sleeplessness
Male Health Libido
ENERGY
Coconut
Grape Seed
Olive
Hemp Seed
Flaxseed
Sesame