Dis-Chem PHARMACIES

2022

Group and Company audited annual financial statements

for the financial year ended 28 February 2022

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 28 February 2022, 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) 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 2023 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 have 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 11 to 15 and 89 to 92.

CEO and CFO certification

The directors, whose names are stated below, hereby confirm that:

a. the annual financial statements set out on pages 4 to 143, fairly present in all material respects the financial position, financial performance and cash flows of the issuer in terms of IFRS;

b. no facts have been omitted or untrue statements made that would make the annual financial statements false or misleading;

c. internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries have been provided to effectively prepare the financial statements of the issuer; and

d. the internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function within the combined assurance model pursuant to principle 15 of the King Code. Where we are not satisfied, we have disclosed to the audit committee and the auditors the deficiencies in design and operational effectiveness of the internal financial controls and any fraud that involves directors, and have taken the necessary remedial action.

The annual financial statements set out on pages 4 to 88 and 89 to 143, were approved by the Board of Directors on 23 June 2022 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, Nikki Lumley, 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.

Nikki Lumley
Company Secretary

Date: 23 June 2022

REPORT OF THE DIRECTORS

for the year ended 28 February 2022

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.

The Group is pleased with the performance of its businesses considering the constrained consumer environment, the challenges that were posed by the pandemic as well as the civil unrest that was experienced in July 2021. The successful integration of recent acquisitions as well as the continued focus on Return on Invested Capital (ROIC) has driven cash generated from operations ahead of strong profitability growth and positions the Group well to take advantage of it's longer term strategic initiatives.

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 19.48540 cents per shares or R168 million was declared on 2 November 2021 and paid on 29 November 2021. A final dividend of 20.20418 cents per share or R174 million was approved by the directors on 19 May 2022.

In the prior year, a dividend of 31.10346 cents per shares or R268 million was declared on 20 May 2021 and paid on 14 June 2021.

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 30 (note 27 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

Non-executive directors		
LM Nestadt (Independent)	(South African)	
MJ Bowman (Independent)	(South African)	
A Coovadia (Independent)	(South African)	
JS Mthimunye (Independent)	(South African)	
A Sithebe (Independent)	(South African)	
KDD Kobue	(South African)	(Appointed 23 November 2021)

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

External auditors

Mazars, with Danielle Keeve as the signing partner, was appointed as the external auditors at the Annual General Meeting on 30 July 2021.

for the year ended 28 February 2022

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 28 February 2022 are as follows:

	2022		2021	
	Direct interest	Indirect interest	Direct interest	Indirect interest
LM Nestadt	–	500 000	–	500 000
MJ Bowman	–	–	81 081	–
A Coovadia	–	162 162	–	162 162
JS Mthimunye	–	81 162	–	81 162
A Sithebe	–	–	–	–
KDD Kobue	–	–	–	–
IL Saltzman and LF Saltzman	–	302 066 319	–	453 041 396
RM Morais (1)	–	5 226 738	–	8 490 374
SE Saltzman	–	5 434 781	–	6 734 781
SRN Goetsch (1)	–	39 904 885	–	46 563 995
BI Epstein	–	10 125 063	–	11 890 063
KS Sterling	–	10 624 023	–	10 624 023
CJ Williams	–	14 915 147	–	14 915 147
CR Fairweather	–	–	–	–

(1) 1 818 182 (2021: 4 181 818) of RM Morais shares and nil (2021: 1 818 812) of SRN Goetsch shares are part of an off-market collar hedge

During the current year, SE Saltzman sold 782 689 shares on 15 February 2022 for R28 959 571 and 517 311 shares on 17 February 2022 for R18 184 930. BI Epstein sold 1 550 100 shares on 24 November 2021 for R52 719 676 and 214 900 on 25 November 2021 for R7 306 600. MJ Bowman sold 81 081 shares on 9 June 2021 for R2 505 403. SRN Goetsch sold 2 580 000 shares on 20 January 2022 for R95 295 700; 2 420 000 shares on 21 January 2022 for R88 330 000 and 1 818 182 shares on 23 June 2021 for R58 181 824. IL Saltzman and LF Saltzman sold 64 506 336 shares on 24 August 2021 for R1.96 billion and 86 468 741 shares on 24 August 2021 for R2.25 billion. RM Morais sold 2 363 636 shares on 17 June 2021 for R63 841 808.

During the prior year, MJ Bowman sold 81 081 shares on 9 June 2021 for R2 505 403. RM Morais concluded the off-market collar hedge in regards to 2 363 636 shares on 17 June 2021 for R63 841 808. SRN Goetsch concluded the off-market collar hedge in regards to 1 818 182 shares on 23 June 2021 for R58 181 824.

There have been no other changes to the directors' interests between the end of the 2022 financial year and the date of approval of the annual financial statements.

Secretary
N Lumley

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

- JS Mthimunye (Chairman)
- MJ Bowman
- A Coovadia
- A Sithebe
- KDD Kobue (non-voting member)

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.
- consider the latest JSE proactive monitoring report.

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 chief financial officer 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.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

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, Mazars, for the 2022 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 (Mazars) in the current financial year amounted to Rnil million (2021: Ernst & Young Inc. R0.5 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.

J Mthimunye
Audit and Risk Committee Chairman
23 June 2022

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 16 to 88 , which comprise the consolidated statement of financial position as at 28 February 2022, and the consolidated 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 Dis-Chem Pharmacies Limited and its subsidiaries as at 28 February 2022 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 Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The consolidated financial statements of Dis-Chem Pharmacies Limited for the year ended 28 February 2021 were audited by another auditor who expressed an unmodified opinion on those statements on 30 June 2021.

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.

MATTER	AUDIT RESPONSE
IMPAIRMENT ASSESSMENT OF GOODWILL – VALUATION (notes 3.2 and 13) Goodwill comprises 5.6% of the total assets of the group (note 13). As required by both the applicable accounting standards and the group's accounting policy (note 3.2), goodwill is assessed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating units to which the goodwill relates. The recoverable amount is determined as the value-in-use of each cash-generating unit by estimating the expected future cash flows in each unit and determining a suitable discount rate in order to calculate the present value of those cash flows. There are a number of assumptions made in determining the inputs of the projected cash flow forecast models, which are used in calculating the recoverable amount. Assumptions by their nature are a significant area of judgement. We have determined the above to be a key audit matter, due to the extensive audit effort and use of corporate finance specialists which was required to evaluate the assumptions and judgments applied by management with regards to projected cash flow forecasts which were used in assessing management's impairment assessment of goodwill. The group is required to perform an annual impairment test on the carrying value of goodwill of both new acquisitions and existing goodwill balances.	Our audit approach involved critical assessment, with the assistance of our corporate finance specialists, as to whether the model used by management to calculate the value-in-use of the specified individual cash generating unit (CGU) and the assessment of the recoverable amount comply with the requirements complies with the requirements of IAS 36 - Impairment of Assets. We obtained the value-in-use calculations per CGU from Dis-Chem management and performed the following audit substantive procedures: • With the assistance of our corporate finance specialists we have critically assessed whether the methodology and model used by management to calculate the value-in-use of the individual CGUs complies with the requirements of IAS 36 Impairment of Assets by comparing it to industry best practice. • Evaluated the identification of the cash generating units to which the goodwill was allocated. • Reviewed the reasonability of the discount rates by assessing the assumptions made by management in relation to current market data and surveys and prevailing borrowing rates. • Analysed the future projected cash flows used in the models for attainability against past historical achieved results of the group and taking into account current and forecasted macro-economic trends and climate that may impact historical trends. • Analysed the future projected cash flows used in the models for attainability against actual financial results of the group achieved after year end. • Reviewed the reasonability of the perpetuity growth rate in relation to the projected long-term inflation rate for the South African economy. • Re-calculated the value of the carrying value of each CGU to ensure mathematical accuracy. • Subjecting key assumptions relating to discount rates to sensitivity analysis. • Discussing with management any reasons for material deviations in recalculated recoverable amounts identified and corroborating explanations obtained from management to supporting documentation where appropriate. No such material deviations were identified.

MATTER	AUDIT RESPONSE
REBATES (notes 3.6, 8 and 15)	

As described in Significant accounting estimates, judgements and assumptions in notes 3.6, 8 and note 15, the Group recognises a reduction in cost of sales or separately as other income amounts receivable from suppliers with regards to rebates and advertising agreements.

The Group recognises a reduction in cost of sales or other income as a result of amounts receivable from suppliers in regards to rebates and advertising agreements. The reduction primarily comprises of contributions received in relation to:

- Retail business promotions
- Annual volume-based rebates
- Wholesale logistic rebates
- Other general rebates

Agreements for rebates and advertising differ in targets, percentages applied and relate to different periods for each supplier. These transactions are generally low in value but high in volume.

The majority of the rebates and advertising agreements span relatively short periods of time with limited annual agreements which do not always coincide with the Group's year-end. These are renegotiated on a regular basis.

The calculation of the rebates and advertising agreements related accruals are managed centrally and manually. Due to the large volume and variety of trade term agreements for which the terms vary from period to period, we consider the completeness, occurrence and accuracy of the recognised rebate and advertising amounts to warrant significant audit attention.

Our audit procedures included, but are not limited to the following:

- We obtained a detailed understanding of the cost of sales and other income processes as well as adjustments to the rebates and advertising receivables and how it impacted the gross margin.
- We evaluated the accuracy and occurrence of the rebates and advertising receivables by performing the following procedures:
  - Selected a sample of transactions and traced them through to the source data, including the rebates and advertising agreement invoices and signed supplier trade term contracts, as well as to proof of payment or validated deduction against supplier balances to establish the occurrence of the rebates.
  - We re-performed the calculations obtained from management in terms of the underlying data and trade term contracts to assess whether the value of the rebates and advertising agreements were accurately recorded.
  - We assessed the financial year in to which the data and trade term contracts relate to assess whether the rebates and advertising agreements were accounted for in the correct financial period.
- We obtained a rebates and advertising agreements reconciliation from management and compared this to the general ledger. Relevant reconciling items were agreed to the supporting documentation.
- Through the use of application controls testing we validated that the conditional contracts transactions which are automated into the the conditional contract application are valid, accurate and complete.
- On a sample basis we tested the controls with regards to the review of retail of retail business promotions.
- We tested a sample of transactions recorded after year end to evaluate the completeness and accuracy of accrued supplier income at year end.
- We evaluated the recoverability of the amounts due at the year-end by agreeing the amounts to subsequent settlement.
- We compared the current year rebates and advertising agreements reconciliation to the prior year and to the supplier vendor listing to assess that all suppliers were included in the current year. Missing suppliers were corroborated to supporting documents and for new suppliers we compared the data on a sample basis to the related signed trade agreements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Dis-Chem Pharmacies Limited Group and Company Audited Annual Financial Statements for the year ended 28 February 2022", which includes the Report of the Directors, the Audit and Risk Committee Report and the Company Secretary Certification as required by the Companies Act of South Africa. The other information does not include the consolidated 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, on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated 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.

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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated 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 Mazars has been the auditor of Dis-Chem Pharmacies Limited for one year.

Mazars

Mazars
Registered Auditors
Partner: Danielle Keeve
Registered Auditor
Johannesburg

Date: 23 June 2022

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 28 February 2022

	Notes	2022 R'000	2021 R'000
Revenue from contracts with customers	7	30 406 611	26 278 196
Cost of sales	15	(23 576 145)	(20 441 719)
Gross profit		6 830 466	5 836 477
Other income	8	1 961 443	1 589 453
Total income		8 791 909	7 425 930
Other expenses	8	(7 252 478)	(6 160 258)
Operating profit		1 539 431	1 265 672
Net financing costs	9	(313 389)	(327 727)
– Finance income		12 095	16 853
– Finance costs		(325 484)	(344 580)
Profit from associates and joint ventures		1 186	2 997
Profit before taxation		1 227 228	940 942
Taxation	10	(337 124)	(253 291)
Total profit for the year, net of taxation		890 104	687 651
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
– Exchange differences on translating foreign subsidiaries		324	(322)
Other comprehensive income for the year, net of taxation		324	(322)
Total comprehensive income for the year		890 428	687 329
Total profit attributable to:			
– Equity holders of the parent		853 446	668 687
– Non-controlling interests		36 658	18 964
Total comprehensive income attributable to:			
– Equity holders of the parent		853 770	668 365
– Non-controlling interests		36 658	18 964
Earnings per share (cents)	11		
– Basic		99.2	77.8
– Diluted		99.2	77.8

GROUP STATEMENT OF FINANCIAL POSITION

for the year ended 28 February 2022

	Notes	2022 R'000	2021 R'000
ASSETS			
Non-current assets		**5 221 151**	4 767 580
Property, plant and equipment (including right-of-use assets)	12	3 688 681	3 715 961
Intangible assets	13	1 209 646	897 888
Investment in associates and joint ventures	4	183 202	13 180
Deferred taxation	14	139 622	140 551
Current assets		**8 853 964**	8 420 008
Inventories	15	5 758 858	5 691 382
Trade and other receivables	16	2 159 936	1 905 031
Loans receivable	17	221 887	274 916
Taxation receivable	26.3	7 432	8 947
Cash and cash equivalents	26.4	705 851	539 732
Total assets		**14 075 115**	13 187 588
EQUITY AND LIABILITIES			
Equity and reserves		**3 323 844**	2 908 646
Share capital	18	6 155 554	6 155 554
Retained earnings		1 776 310	1 368 478
Other reserves		(4 608 020)	(4 615 386)
Non-controlling interest		**61 714**	43 018
Total equity		**3 385 558**	2 951 664
Non-current liabilities		**3 175 367**	3 446 642
Lease liability	21	2 682 277	2 823 052
Loans payable	22	479 170	607 210
Deferred taxation	14	13 920	16 380
Current liabilities		**7 514 190**	6 789 282
Trade and other payables	23	5 787 867	5 389 310
Lease liability	21	522 225	482 605
Loans payable	22	398 863	159 010
Employee-related obligations	24	257 437	224 310
Deferred revenue (contract liability)	25	74 445	93 176
Contingent consideration		7 984	15 913
Taxation payable	26.3	40 371	21 042
Bank overdraft	26.4	424 998	403 916
Total equity and liabilities		**14 075 115**	13 187 588

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 28 February 2022

	Notes	Share capital R'000	Retained earnings R'000
Balance at 29 February 2020		6 155 554	717 816
Profit/total comprehensive income for the year		–	668 687
Profit for the year, net of taxation		–	668 687
Other comprehensive income for the year, net of taxation		–	–
Change in ownership interest in subsidiary and acquisitions	4	–	(19 504)
Share-based payment expense	19	–	–
Exercise of share-based payment		–	1 479
Dividends paid	20	–	–
Balance at 28 February 2021		**6 155 554**	**1 368 478**
Profit/total comprehensive income for the year		**–**	**853 446**
Profit for the year, net of taxation		**–**	**853 446**
Other comprehensive income for the year, net of taxation		**–**	**–**
Change in ownership interest in subsidiary and acquisitions	4	**–**	**(9 870)**
Treasury shares acquired	18	**–**	**–**
Share-based payment expense	19	**–**	**–**
Exercise of share-based payment		**–**	**(637)**
Dividends paid	20	**–**	**(435 107)**
Balance at 28 February 2022		**6 155 554**	**1 776 310**
		(Note 18)	

(1) Other reserves consist of common control reserve, share-based payments, shares repurchased and foreign currency translation reserve

	Other reserves		Non-controlling interest R'000	Total R'000
	Treasury shares R'000	Other reserves (1) R'000		
	(13 152)	(4 606 839)	60 814	2 314 193
	–	(322)	18 964	687 329
	–	–	18 964	687 651
	–	(322)	–	(322)
	–	–	2 744	(16 760)
	–	6 406	–	6 406
	6 723	(8 202)	–	–
	–	–	(39 504)	(39 504)
	(6 429)	(4 608 957)	43 018	2 951 664
	–	324	36 658	890 428
	–	–	36 658	890 104
	–	324	–	324
	–	–	5 499	(4 371)
	(12 170)	–		(12 170)
	–	20 127	–	20 127
	6 429	(7 344)	–	(1 552)
	–	–	(23 461)	(458 568)
	(12 170)	(4 595 850)	61 714	3 385 558
	(Note 18)			

GROUP STATEMENT OF CASH FLOWS

for the year ended 28 February 2022

	Notes	2022 R'000	2021 R'000
Cash flow from operating activities		1 377 575	1 124 070
Cash inflow from trading operations	26.1	2 413 472	2 058 895
Movement in working capital	26.2	44 644	(335 180)
Finance income received		10 060	10 582
Finance costs paid		(330 959)	(335 280)
Taxation paid	26.3	(301 074)	(235 443)
Dividends paid	20	(458 568)	(39 504)
Cash flow from investing activities		(795 556)	(779 747)
Additions to property, plant and equipment and intangible assets			
– To maintain operations	12/13	(140 191)	(90 213)
– To expand operations	12/13	(237 074)	(310 974)
Proceeds on disposal of property, plant and equipment and intangible assets		8 307	12 242
Acquisition in business combination and subsidiaries, net of cash acquired	5	(265 746)	(394 322)
Investment in joint ventures and associates		(162 427)	–
Proceeds from joint ventures and associates		1 575	3 520
Cash flow from financing activities		(444 606)	(498 126)
Bank loans repaid	26.6	(431 567)	(159 187)
Receipt of bank loans	26.6	536 533	102 852
Lease liability repayment	26.6	(510 096)	(393 441)
Contingent consideration payment	26.6	(16 455)	(31 590)
Purchase of treasury shares	18	(12 170)	–
Change in ownership interest in subsidiary and proceeds from non-controlling interest	26.4	(10 851)	(16 760)
Net increase/(decrease) in cash and cash equivalents		137 413	(153 803)
Foreign currency implications on cash and cash equivalents		7 624	(10 658)
Cash and cash equivalents at beginning of year		135 816	300 277
Cash and cash equivalents at end of year	26.5	280 853	135 816

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2022

1. Corporate information

Dis-Chem Pharmacies Limited is incorporated in South Africa. The Group annual financial statements as at 28 February 2022 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 4 to 88 and 89 to 143 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) 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. The financial statements are prepared on the going concern basis.

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 notes, 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 in note 3.7.

3.1 Basis of consolidation

The Group annual consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 28 February 2022.

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; and
- the Group's voting rights and potential voting rights.

3. Summary of significant accounting policies continued

3.1 Basis of consolidation continued

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.

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 measures the non-controlling interests in the acquiree 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/ company 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.

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.

3. Summary of significant accounting policies continued

3.2 Business combinations and goodwill continued

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.

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/ company'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.

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.

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.

3. Summary of significant accounting policies continued

3.3 Impairment of non-financial assets continued

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 of the transferring entity and consideration recognised in a separate reserve in equity. Comparative information is restated where relevant.

3.5 Other reserves

Other reserves relates to equity that is non-operating in nature, for example repurchase of shares, common control reserve, share-based payments and foreign currency translation reserve.

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.

3. Summary of significant accounting policies continued

3.6 Significant accounting estimates, judgements and assumptions continued

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 and do not have an expiry date.

Ownership of Dis-Chem 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.

Deferred tax assets – assessed losses

Deferred tax assets are raised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised. The assessment of future taxable profits is based on forecasted cash flows and the application of existing tax laws. The inputs of forecasted cash flows (such as growth rates, margins and expenditure) align with the Group's annual budgets approved by executive management. To the extent that future cash flows differ significantly from estimates, the ability to realise the deferred tax assets could be impacted.

3. Summary of significant accounting policies continued

3.7 New and amended standards and interpretations effective for the period ended 28 February 2022

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:

- Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16.
- Interest Rate Benchmark reform – Phase 2. When there is a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform then the entity is required to apply the change as if it is a change in a floating rate of interest. This expedient is only available for such changes in basis of determining contractual cash flows. The amendment had no impact on the Group and Company since the actual replacement of LIBOR and JIBAR has not yet occurred.

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
IFRS 17 Insurance Contracts	The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. This amendment is not expected to materially impact the Group or Company but may impact Kaelo which is an associate to the Group.	1 January 2023
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	The amendments clarify – what is meant by a right to defer settlement; that a right to defer must exist at the end of the reporting period; that classification is unaffected by the likelihood that an entity will exercise its deferral right; and that only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification. This amendment is not expected to materially impact the Group or Company as no current deferred rights on liabilities.	1 January 2023

3. Summary of significant accounting policies continued

3.8 International Financial Reporting Standards issued; not yet effective continued

Standard	Scope	Effective Date
Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2	The amendments aim to help entities provide accounting policy disclosures that are more useful by: • Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and • Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures This amendment is not expected to materially impact the Group or Company but relevant disclosure may be updated.	1 January 2023
Reference to the Conceptual Framework – Amendments to IFRS 3	The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising from liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. This amendment is not expected to materially impact the Group or Company.	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. This amendment is not expected to materially impact the Group or Company as no items are produced from PPE while bringing it to the relevant location.	1 January 2022

3. Summary of significant accounting policies continued

3.8 International Financial Reporting Standards issued; not yet effective continued

Standard	Scope	Effective Date
Definition of Accounting Estimates – Amendments to IAS 8	The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. This amendment is not expected to materially impact the Group or Company as principles already applied.	1 January 2023
AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities	The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. This amendment is not expected to materially impact the Group or Company but will be assessed of future recognition.	1 January 2022
IAS 12 Income Taxes Amendment - Deferred Tax related to Assets and Liabilities arising from a Single Transaction	The amendment narrows the scope of the exemption for recognition of taxable/deductible temporary differences that arise on certain transactions. The transaction should not give rise to equal taxable and deductible temporary differences. It also clarifies that deferred tax must be recognised on initial recognition of IFRS 16 leases and similar types of transactions that give rise to the recognition of an asset and a liability, such as decommissioning, restoration and similar liabilities with corresponding amounts recognised as part of the related asset. This amendment is not expected to materially impact the Group or Company as already recognised as such for IFRS 16.	1 January 2023

3. Summary of significant accounting policies continued

3.8 International Financial Reporting Standards issued; not yet effective continued

Standard	Scope	Effective Date
Practice Statement 2 Making Materiality Judgements	The amendment gives further information on disclosure of accounting policies to be disclosed where the information is material, by nature or amount. It also explains when accounting policy information is considered material and provides examples. This amendment is not expected to materially impact the Group or Company but disclosures may be updated if required.	1 January 2023

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 28 February 2022

4. Group information

Majority shareholder

The majority shareholder of the Group is Ivlyn Proprietary Limited that holds 35.1% (2021: 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 and Dis-Chem Gallo Shopping Centre Francistown Proprietary Limited that are incorporated in Botswana).

	% equity interest	
Name	2022	2021
Pharmaceutical retailer		
Dis-Chem Ballito Junction Proprietary Limited	75.0	75.0
Dis-Chem Krugersdorp Proprietary Limited	51.0	51.0
Dis-Chem Three Rivers Proprietary Limited	75.0	75.0
Dis-Chem The Galleria Amanzimtoti Proprietary Limited	85.0	85.0
Dis-Chem Glen Fair Proprietary Limited (3)	100.0	100.0
Dis-Chem Flamwood Value Centre Proprietary Limited	66.7	66.7
Dis-Chem Festival Mall Proprietary Limited	100.0	100.0
Dis-Chem Worcester Proprietary Limited	95.0	95.0
The Local Choice Proprietary Limited	100.0	100.0
Pharma-Logistical Solutions Proprietary Limited	100.0	100.0
Dis-Chem Oncology Proprietary Limited	50.0	50.0
Dis-Chem Rynfield Terrace Pharmacy Proprietary Limited (2)	89.3	60.0
Dis-Chem Swakopmund Proprietary Limited	100.0	100.0
Dis-Chem Walvis Bay Proprietary Limited	100.0	100.0
Dis-Chem Maponya Mall Pharmacy Proprietary Limited	90.0	90.0
Dis-Chem Jubilee Mall Proprietary Limited	90.0	90.0
Dis-Chem Mega City Pharmacy Proprietary Limited (3)	70.0	70.0
Dis-Chem Goodwood Mall Proprietary Limited	85.0	85.0
Dis-Chem Mams Mall Pharmacy Proprietary Limited	100.0	100.0
Dis-Chem TLC De Wiekus Proprietary Limited	70.0	70.0
Dis-Chem York Street Pharmacy Proprietary Limited	100.0	100.0
Dis-Chem Airport Junction Proprietary Limited	85.0	85.0
Dis-Chem Gallo Shopping Centre Francistown Proprietary Limited	85.0	85.0
Dis-Chem Wernhill Proprietary Limited (3)	85.0	85.0
Dis-Chem Ferndale Mall Pharmacy Proprietary Limited	100.0	100.0

4. Group information continued

Name	% equity interest 2022	2021
Mundel Gien Proprietary Limited (trading as Springbok Pharmacy)	65.0	65.0
Differenza Proprietary Limited	51.0	51.0
AT Gouws Proprietary Limited	100.0	100.0
TLC Kungwini Proprietary Limited	100.0	100.0
TLC Scot Street Proprietary Limited	100.0	100.0
Dis-Chem Castle Gate Pharmacy Proprietary Limited	51.0	51.0
Dis-Chem Thavhani Mall Proprietary Limited	65.0	65.0
Somerset Baby Hyper Proprietary Limited	100.0	100.0
Fairy Tales Boutiques Proprietary Limited	100.0	100.0
Healthforce Proprietary Limited	87.5	n/a
Dis-Chem Howick Mall Pharmacy Proprietary Limited	70.0	n/a
Pure Pharmacy Holdings Proprietary Limited	100.0	n/a
Pure Pharmacy Retail Properietary Limited	100.0	n/a
LJ Farrel and Sons Proprietary Limited	100.0	n/a
Kok and Golach Properietary Limited	100.0	n/a
Botha Schneider Proprietary Limited	100.0	n/a
Dis-Chem Northlands 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 204 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 (1)	100.0	100.0
Quenets Proprietary Limited (1)	n/a	100.0
Brandwacht Marketing Proprietary Limited	100.0	100.0
Finamics Accounting Services Proprietary Limited	100.0	100.0

* *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, Quenets was deregistered and the operations of Bemax have been moved into Dis-Chem Distribution.*

(2) *In the current year, the Group acquired 29.33% of Dis-Chem Rynfield Terrace.*

(3) *In the prior year, the Group acquired an additional 24.5% interest in Dis-Chem Glen Fair and sold 30% interest in Dis-Chem Mega City and 15% in Dis-Chem Wernhill.*

4. Group information continued

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

	Retained profit/ (loss) R'000	Non-controlling interest R'000
2022		
Rynfield	(9 870)	(980)
	(9 870)	(980)
2021		
Mega Mall	479	(479)
Glen Fair	(23 350)	(6 531)
Wernhill	3 367	(720)
	(19 504)	(7 730)

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% (2021: 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)

	% equity interest	
	2022	2021
Associates		
Bothomed Dis-Chem Pharmacies Joint Venture Proprietary Limited	20.00	20.00
Vexall Proprietary Limited	25.00	35.00
BEESECDCP Proprietary Limited	48.00	n/a
Kaelo Holdings Proprietary Limited	25.00	n/a
Kena Health Proprietary Limited	30.00	n/a
Joint ventures		
Geniob Group (which owns 100% of Origin Brands Proprietary Limited)	50.00	50.00
Health Window Proprietary Limited	50.00	50.00
Servco Distribution Proprietary Limited	50.00	n/a

	2022 R'000	2021 R'000
Kaelo Holdings Proprietary Limited	176 572	–
Other	6 630	13 180
	183 202	13 180

On 1 November 2021 Dis-Chem acquired 25% of the issued share capital and shareholder claims of Kaelo Holdings ("Kaelo"). Kaelo houses a complementary portfolio of health assets,

4. Group information continued

including benefit-rich gap and primary health insurance products, occupational health clinics, and is the owner of the AskNelson psychological wellbeing platform. Kaelo's principle place of business is in South Africa.

	2022 R'000
Summarised financial information of Kaelo Holdings:	
Non-current assets	122 101
Current assets	97 031
Non-current liabilities	39 979
Current liabilities	44 319
Revenue (since acquisition)	193 922
Profit/Total comprehensive income (since acquisition)	24 644
Group's share of profit for the year	6 161
Dividend received	–

The Group's share of loss/ total comprehensive loss of associates (excluding Kaelo) is Rnil million and of joint ventures is R5 million.

5. Acquisitions

Acquisitions in 2022	Principal activity	Date of acquisition
Ferngate	Retail pharmacy	1 July 2021
Northlands	Retail pharmacy	1 May 2021
Healthforce	Clinic management software	1 March 2021
Howick	Retail pharmacy	1 December 2021
Pure Pharmacy	Retail pharmacy group	1 October 2021

During the year the Group acquired the following companies in order to further increase store footprint and clinic management:

- The acquisition of assets and liabilities of Ferngate, an independent pharmacy, on 1 July 2021.
- The acquisition of assets and liabilities of Northlands, an independent pharmacy, on 1 May 2021.
- The acquisition of 87.5% of Healthforce, which offers clinic management software that, amongst other system capabilities, sets up clinic nurses as the low-cost entry point into the healthcare system, on 1 March 2021.
- The acquisition of assets and liabilities of Howick, an independent pharmacy, on 1 December 2021.
- The acquisition of 100% of the shares of Pure Pharmacy, a group of independent pharmacies, on 1 October 2021.

Acquisition related costs were expensed in the period.

5. Acquisitions continued

Assets acquired and liabilities assumed

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

	Ferngate R'000	Northlands R'000	Healthforce R'000	Howick R'000	Pure Pharmacy R'000	Total R'000
ASSETS						
Property, plant and equipment	29	–	709	10	161 291	162 039
Intangible assets (computer software)	–	–	52 619	–	2 340	54 959
Trade and other receivables (1)	63	651	1 693	327	70 134	72 868
Inventories	3 010	505	–	1 686	128 702	133 903
Cash and cash equivalents	6 290	–	1 035	370	48 529	56 224
Loan receivable	–	–	1 201	–	–	1 201
Deferred tax	–	–	–	–	26 537	26 537
LIABILITIES						
Trade and other payables	(5 776)	–	(2 277)	(3 802)	(274 638)	(286 493)
Lease liability	–	–	–	–	(145 051)	(145 051)
Loan payable	–	–	(4 171)	–	(9 900)	(14 071)
Employee related obligations	(57)	–	(968)	–	(15 911)	(16 936)
Taxation	–	–	–	–	(2 199)	(2 199)
Deferred tax	–	–	(7 601)	–	–	(7 601)
Total identifiable net assets at fair value	3 559	1 156	42 240	(1 409)	(10 166)	35 380
Non-controlling interest at proportionate interest	–	–	(5 280)	–	–	(5 280)
Goodwill arising on acquisition	20 355	856	10 960	5 009	255 890	293 070
Purchase consideration transferred	23 914	2 012	47 920	3 600	245 724	323 170

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

The goodwill comprises the value of expected synergies arising from the acquisition which is not separately recognised. These synergies include expansion of product and clinic offerings, trade term agreements and overall availability of resources.

5. Acquisitions continued

	Ferngate R'000	Northlands R'000	Healthforce R'000	Howick R'000	Pure Pharmacy R'000	Total R'000
Net cash acquired with the subsidiary	6 290	–	1 035	370	48 529	56 224
Cash paid	(23 914)	(2 012)	(47 920)	(2 400)	(245 724)	(321 970)
Net cash flow on acquisition	(17 624)	(2 012)	(46 885)	(2 030)	(197 195)	(265 746)

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

	Ferngate R'000	Northlands R'000	Healthforce R'000	Howick R'000	Pure Pharmacy R'000	Total R'000
Revenue	39 645	44 294	7 415	6 014	448 598	545 966
Profit/ (Loss) before tax	(1 392)	(794)	(14 812)	536	(12 874)	(29 336)

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:

	Ferngate R'000	Northlands R'000	Healthforce R'000	Howick R'000	Pure Pharmacy R'000	Total R'000
Revenue	60 661	53 899	7 415	23 405	1 126 105	1 271 485
Profit/ (Loss) before tax	(1 587)	(607)	(14 812)	830	(51 940)	(68 116)

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 (gross margins), products and services, type of customer and distribution methods.

Wholesale

Wholesale consists of the CJ Wholesale 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 (gross margins), 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 two stores in Botswana, the Group operates in one principal geographical area, that being South Africa. The revenue, assets and liabilities recognised in non-South African countries are not significant to form a separate segment.

6. Segmental information continued

	Retail R'000	Wholesale R'000	Intergroup/ consolidation R'000	Total R'000
2022				
External customers	27 108 334	3 298 277	–	30 406 611
Inter-segment	–	18 612 741	(18 612 741)	–
Revenue from contracts with customers	27 108 334	21 911 018	(18 612 741)	30 406 611
Cost of sales	(21 297 796)	(20 430 751)	18 152 402	(23 576 145)
Gross profit	5 810 538	1 480 267	(460 339)	6 830 466
Other income	1 830 941	159 076	(28 574)	1 961 443
Total income	7 641 479	1 639 343	(488 913)	8 791 909
Other expenses (excluding depreciation and amortisation)	(5 476 541)	(1 410 628)	495 735	(6 391 434)
Impairment of property, plant and equipment	(6 457)	–	–	(6 457)
Depreciation and amortisation	(741 058)	(113 529)	–	(854 587)
Operating profit	1 417 423	115 186	6 822	1 539 431
Net finance costs	(297 099)	(16 290)	–	(313 389)
Share of profit from associate and joint ventures	1 186	–	–	1 186
Profit before taxation	1 121 510	98 896	6 822	1 227 228
Earnings before interest, tax, depreciation and amortisation (EBITDA)	2 159 667	228 715	6 822	2 395 204
Capital expenditure	(325 746)	(51 519)	–	(377 265)
Total assets	10 301 293	7 277 885	(3 504 063)	14 075 115
Total liabilities	7 103 613	5 616 171	(2 030 227)	10 689 557
Total income margin	28.2%	7.5%		28.9%
EBITDA margin	8.0%	1.0%		7.9%
Operating margin	5.2%	0.5%		5.1%

6. Segmental information continued

	Retail R'000	Wholesale R'000	Intergroup/ consolidation R'000	Total R'000
2021				
External customers	23 446 200	2 831 996	–	26 278 196
Inter-segment	–	16 443 986	(16 443 986)	–
Revenue from contracts with customers	23 446 200	19 275 982	(16 443 986)	26 278 196
Cost of sales	(18 508 185)	(17 947 863)	16 014 329	(20 441 719)
Gross profit	4 938 015	1 328 119	(429 657)	5 836 477
Other income	1 502 517	143 403	(56 467)	1 589 453
Total income	6 440 532	1 471 522	(486 124)	7 425 930
Other expenses (excluding depreciation and amortisation)	(4 648 982)	(1 297 393)	491 068	(5 455 307)
Depreciation and amortisation	(595 331)	(109 620)	–	(704 951)
Operating profit	1 196 219	64 509	4 944	1 265 672
Net finance costs	(265 562)	(62 165)	–	(327 727)
Share of profit from associate and joint ventures	2 997	–	–	2 997
Profit before taxation	933 654	2 344	4 944	940 942
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1 794 547	174 129	4 944	1 973 620
Capital expenditure	(362 459)	(38 728)	–	(401 187)
Total assets	9 516 805	6 784 665	(3 113 882)	13 187 588
Total liabilities	6 262 369	5 464 361	(1 490 806)	10 235 924
Total income margin	27.5%	7.6%		28.3%
EBITDA margin	7.7%	0.9%		7.5%
Operating margin	5.1%	0.3%		4.8%

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. Legally returns on dispensary items are prohibited. 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 taking into account breakage, if any (refer to note 25).

	2022 R'000	2021 R'000
Revenue from contracts with customers	**30 406 611**	26 278 196

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

	2022 %	2021 %
Dispensary	**36**	37
Personal care and beauty	**26**	28
Healthcare and nutrition	**24**	20
Baby care	**8**	6
Other	**6**	9
	100	100

7. Revenue from contracts with customers continued

Wholesale revenue is not further disaggregated as revenue from contracts with customers is earned in a similar nature and timing.

8. Profit before taxation

Advertising and marketing income as well as data and administration fees are recognised when the service is provided to the vendor.

The cost of employee benefits is recognised as an expense during the period in which the employee renders the service.

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

	Notes	2022 R'000	2021 R'000
Other income			
Advertising and marketing income		746 698	625 666
Commission income		83 732	52 921
Franchisee income		32 364	28 753
Data and administration fees		949 307	668 333
Payroll-related recovery		23 552	19 044
Other expenses			
Depreciation of tangible assets	12	772 830	648 987
Amortisation of intangible assets	13	81 758	55 964
Computer expenses		285 599	266 903
Advertising expenses		394 216	319 032
Commission		156 327	136 178
Bank charges		93 534	76 066
Security		148 557	145 808
Motor vehicle expenses		93 466	76 464
Courier		178 172	155 810
Occupancy costs		409 755	351 340
– Lease payments (1)		41 905	32 449
– Other (including electricity and rates)		367 850	318 891

(1) Lease payments relate to variable lease payments of R3.4 million (2021: R2 million) not included in the measurement of lease liabilities (for example, turnover based rental) and R38.5 million (2021: R31 million) relating to short-term leases. There was no expense in the current or prior period relating to low-value assets.

8. Profit before taxation continued

	Notes	2022 R'000	2021 R'000
Employee benefits		4 113 130	3 518 538
– Salaries and wages		3 425 679	2 934 824
– Pension costs		168 929	132 190
– Medical aid		99 330	91 597
– Leave pay		17 430	28 969
– Share-based payment		20 127	6 406
– Bonuses		236 373	205 330
– Other (including UIF and SDL)		145 262	119 222

For details on directors' emoluments and key management personnel refer to note 27.

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 as there are no qualifying assets.

	2022 R'000	2021 R'000
– Bank accounts	4 168	7 491
– Loans	7 815	8 179
– SARS	112	768
– Other	–	415
Finance income	12 095	16 853
– Bank overdraft	27 872	43 261
– Bank loan	36 603	43 938
– Lease liability	260 012	251 827
– SARS	367	315
– Other	–	2 401
Interest expense	324 854	341 742
– Contingent consideration	630	2 838
Finance costs	325 484	344 580
Net financing costs	313 389	327 727

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 or other comprehensive income 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:

- 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 and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised:

- in respect of deductible temporary differences associated with investments in subsidiaries and interests in associates and 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.

10. Taxation continued

	2022 R'000	2021 R'000
South African normal tax		
Current income tax		
– Current year	322 085	248 925
– Prior year (over)/under provision	(2 366)	(4 883)
Deferred tax		
– Attributable to temporary differences	20 337	11 316
– Prior year (over)/under provision	(2 932)	(2 067)
	337 124	253 291
Reconciliation of tax rate	%	%
Standard tax rate	28.00	28.00
Prior year net (over)/under provision	(0.43)	(0.74)
Adjusted for permanent differences:		
Non-taxable:		
ETI and leadership	(0.66)	(1.07)
Tenant allowance	–	(0.36)
Contingent consideration	–	(0.01)
Non-deductible:		
Legal fees	0.29	0.09
SARS interest and penalties	0.01	0.01
Unwinding of contingent consideration	–	0.08
Share-based payments	0.01	0.07
Other	0.25	0.85
Effective tax rate	27.47	26.92

With regards to IFRIC 23 Uncertain tax positions 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 for the years presented.

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.

11. Earnings per share continued

The calculation is reconciled as follows:

	2022 R'000	2021 R'000
Profit attributable to equity holders of the parent	853 446	668 687
Net profit on disposal of property, plant and equipment and intangible assets	364	143
Impairment on disposal of property, plant and equipment and intangible assets	6 457	–
Compensation from third parties for items of property, plant and equipment and intangible assets	(6 681)	–
Taxation	(176)	(40)
Headline earnings	853 410	668 790
Earnings per share (cents)		
– Basic	99.2	77.8
– Diluted	99.2	77.8
Headline earnings per share (cents)		
– Basic	99.2	77.8
– Diluted	99.2	77.8

	2022	2021
Reconciliation of shares in issues to weighted average number of shares in issue		
Total number of shares in issue at beginning of the period	860 084 483	860 084 483
Total number of treasury shares in issue at the beginning of the period	(255 587)	(531 856)
Total number of shares outstanding at the beginning of the period	859 828 896	859 552 627
Treasury shares exercised and issued under the share scheme	149 151	207 391
Treasury shares acquired	(37 151)	–
Total weighted number of shares in issue at the end of the period	859 940 896	859 760 018
Share options	472 395	–
Total diluted weighted number of shares in issue at the end of the period	860 413 291	859 760 018

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	1 to 9 years
– Office equipment	1 to 10 years
– Improvements to leased premises	4 to 12 years
– Motor vehicles (owned)	1 to 10 years
– Furniture and fittings	2 to 12 years
– Land and buildings	Lease term
– Motor vehicles (right-of-use)	Lease term
– Equipment (right-of-use)	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.

12. Property, plant and equipment continued

	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	Equipment R'000	Total R'000
2022									
Cost	554 194	258 226	394 894	871 828	23 848	5 161 198	70 971	3 921	7 339 080
Opening balance	437 241	233 341	366 338	728 311	33 266	4 766 000	82 309	–	6 646 806
Additions	129 538	27 491	21 586	149 290	3 854	254 429	16 382	3 921	606 491
Disposals and impairments	(13 978)	(5 055)	(2 712)	(10 252)	(13 429)	–	(27 720)	–	(73 146)
Acquisitions (note 5)	1 453	2 462	9 355	3 553	165	145 051	–	–	162 039
Modification to lease terms	–	–	–	–	–	(3 744)	–	–	(3 744)
Foreign exchange	(60)	(13)	327	926	(8)	(538)	–	–	634
Accumulated depreciation	(279 291)	(135 792)	(200 405)	(380 312)	(15 984)	(2 604 593)	(33 826)	(196)	(3 650 399)
Opening balance	(223 305)	(104 862)	(169 595)	(287 167)	(25 722)	(2 090 821)	(29 373)	–	(2 930 845)
Current charge	(68 168)	(31 521)	(31 219)	(96 641)	(3 353)	(513 867)	(27 865)	(196)	(772 830)
Disposals and impairments	12 310	649	476	3 760	13 103	–	23 412	–	53 710
Foreign exchange	(128)	(58)	(67)	(264)	(12)	95	–	–	(434)
Net carrying amount	274 903	122 434	194 489	491 516	7 864	2 556 605	37 145	3 725	3 688 681

The civil unrest and looting in July 2022 resulted in an impairment of property, plant and equipment of R6.5 million.

	OWNED					RIGHT-OF-USE		
	Computer hardware R'000	Office equipment* R'000	Leasehold improvements R'000	Furniture and fixtures# R'000	Motor vehicles R'000	Land and buildings R'000	Motor vehicles R'000	Total R'000
2021								
Cost	437 241	233 341	366 338	728 311	33 266	4 766 000	82 309	6 646 806
Opening balance	417 300	222 883	458 714	613 607	35 700	3 817 433	70 335	5 635 972
Additions	107 524	33 468	21 455	132 458	2 776	677 181	20 278	995 140
Disposals	(89 121)	(24 431)	(114 563)	(29 678)	(5 424)	(11 949)	(8 304)	(283 470)
Acquisitions	–	853	–	10 252	–	277 807	–	288 912
Modification to lease terms	–	–	–	–	–	2 360	–	2 360
Foreign exchange	1 538	568	732	1 672	214	3 168	–	7 892
Accumulated depreciation	(223 305)	(104 862)	(169 595)	(287 167)	(25 722)	(2 090 821)	(29 373)	(2 930 845)
Opening balance	(231 653)	(98 905)	(254 586)	(225 002)	(27 558)	(1 682 817)	(20 099)	(2 540 620)
Current charge	(73 308)	(30 315)	(29 460)	(86 080)	(3 587)	(412 403)	(13 834)	(648 987)
Disposals	82 110	24 431	114 563	24 267	5 424	4 989	4 560	260 344
Foreign exchange	(454)	(73)	(112)	(352)	(1)	(590)	–	(1 582)
Net carrying amount	213 936	128 479	196 743	441 144	7 544	2 675 179	52 936	3 715 961

* *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.*

All motor vehicles and equipment 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 (goodwill) 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	2 to 10 years
– Brand value	10 to 30 years
– Distribution right	10 to 15 years
– Customer list	7 years
– Licences	10 years

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 R'000	Goodwill R'000	Customer list R'000	Distribution right R'000	Brand value R'000	Total R'000
2022							
Cost	327 596	4 332	790 629	46 340	120 759	136 235	1 425 891
Opening balance	248 351	4 332	497 559	46 340	120 759	123 844	1 041 185
Additions	33 101	–	–	–	–	12 391	45 492
Acquisitions (note 5)	54 959	–	293 070	–	–	–	348 029
Disposals	(8 813)	–	–	–	–	–	(8 813)
Foreign exchange	(2)	–	–	–	–	–	(2)
Accumulated amortisation	(143 814)	(299)	–	(26 552)	(40 756)	(4 824)	(216 245)
Opening balance	(90 462)	–	–	(20 232)	(31 915)	(688)	(143 297)
Current charge	(62 162)	(299)	–	(6 320)	(8 841)	(4 136)	(81 758)
Disposals	8 813	–	–	–	–	–	8 813
Foreign exchange	(3)	–	–	–	–	–	(3)
Net carrying amount	183 782	4 033	790 629	19 788	80 003	131 411	1 209 646

13. Intangible assets continued

	Computer software R'000	Licences R'000	Goodwill R'000	Customer list R'000	Distribution right R'000	Brand value R'000	Total R'000
2021							
Cost	248 351	4 332	497 559	46 340	120 759	123 844	1 041 185
Opening balance	161 801	3 181	227 330	46 340	120 759	–	559 411
Additions	102 355	1 151	–	–	–	–	103 506
Acquisitions	–	–	270 229	–	–	123 844	394 073
Disposals	(15 825)	–	–	–	–	–	(15 825)
Foreign exchange	20	–	–	–	–	–	20
Accumulated amortisation	(90 462)	–	–	(20 232)	(31 915)	(688)	(143 297)
Opening balance	(66 592)	–	–	(13 612)	(22 944)	–	(103 148)
Current charge	(39 685)	–	–	(6 620)	(8 971)	(688)	(55 964)
Disposals	15 825	–	–	–	–	–	15 825
Foreign exchange	(10)	–	–	–	–	–	(10)
Net carrying amount	157 889	4 332	497 559	26 108	88 844	123 156	897 888

13. Intangible assets continued

Carrying amount of goodwill:

	2022 R'000	2021 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	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
Dis-Chem York Street Pharmacy Proprietary Limited	21 500	21 500
Dis-Chem TLC De Wiekus Proprietary Limited	1 023	1 023
Mundel Gien Proprietary Limited	17 491	17 491
Differenza Proprietary Limited	1 267	1 267
Culemborg Pharmacy Proprietary Limited	968	968
TLC Medipark Proprietary Limited	4 201	4 201
Fairy Tales Boutiques and Somerset Baby Hyper Proprietary Limited	260 443	260 443
TLC Kungwini Proprietary Limited	3 719	3 719
TLC Scot Street Proprietary Limited	6 067	6 067
Dis-Chem Ferndale Mall Pharmacy Proprietary Limited	20 355	–
Dis-Chem Northlands Pharmacy Proprietary Limited	856	–
Healthforce Proprietary Limited	10 960	–
Dis-Chem Howick Mall Pharmacy Proprietary Limited	5 009	–
Pure Pharmacy Holdings Proprietary Limited	255 890	–
	790 629	497 559

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 a range of 10.6% to 11.8% (2021: 9% to 10.2%) for wholesale companies, range of 10.9% to 13.5% (2021: 7% to 10.2%) for the retail companies and 13.92% (2021: 10.2%) for Pharma Logistical Services. Cash flows beyond the five-year period are extrapolated using a 4% (2021: 4%) growth rate. As a result of the analysis, management did not identify an impairment in the current or prior financial period. Key assumption are determined by management in regards to past experience.

Management has assessed the calculation and have determined that no reasonable change to a key assumption would result in the carrying amount of a CGU exceeding its recoverable amount.

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.

Also refer to accounting policy under note 10.

	2022 R'000	2021 R'000
Deferred taxation		
Balance at the beginning of the year	124 171	153 978
Movements during the year		
– Charge to profit or loss (note 10)	(17 405)	(9 249)
– Acquisition (note 5)	18 936	(20 558)
Balance at end of the year	125 702	124 171
Representing:		
– Deferred tax asset	139 622	140 551
– Deferred tax liability	(13 920)	(16 380)
	125 702	124 171
The deferred tax balance is made up as follows:		
Employee-related obligations	55 029	47 575
Deferred revenue and S24C allowance	16 650	24 040
Lease liability	201 739	184 181
Prepayment	(4 175)	(465)
Tax losses	87 408	76 493
Inventory	241	(953)
Property, plant and equipment	(127 403)	(117 233)
Intangible assets	(109 367)	(96 381)
Share-based payment	2 228	300
Other	3 352	6 614
	125 702	124 171

It was announced that the corporate income tax rate will be reduced from 28% to 27% with effect from years of assessment ending on or after 31 March 2023. This rate change will only have an impact on the Group's current income tax rate for the year of assessment ending February 2024. Thus the rate for current income tax purposes will remain at 28% for the reporting period February 2022 and 2023.

14. Deferred tax continued

In terms of paragraphs 46 and 47 of IAS 12, both current and deferred tax assets and liabilities are to be measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. All deferred tax assets and liabilities, which will realise during and after the financial period February 2023 has been raised at 28%. The tax rate differential impact of deferred tax assets and liabilities, which will realise after February 2023 at 27% was considered immaterial for the Group.

As at 28 February 2022, deferred tax assets raised for the Group's estimated tax losses were R87 million (2021: R76 million). The tax losses are available to be offset against future taxable income. For tax years ending on or after 31 March 2023, companies with assessed losses will be entitled to set off a maximum of 80% of the their assessed losses (subject to a R1 million minimum) against taxable income in a specific year. The directors consider that sufficient future taxable income will be generated by the relevant companies to utilise the deferred tax asset recognised.

As at 28 February 2022, the rand value of assessed losses amounted to R410 million (2021: R288 million) of which R97 million (2021: R13 million) has not been recognised.

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 rebates 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.

	2022 R'000	2021 R'000
Finished goods	**5 758 858**	5 691 382
Cost of inventories recognised as cost of sales	**23 576 145**	20 441 719

Provision for obsolete inventory amounts to R7 million (2021: R3 million).

The civil unrest and looting in July resulted in an impairment of inventory of R28 million. Additional write off's during the year amounted to R55 million (2021: R31 million). There were no reversals of write off's in the current or prior year.

16. Trade and other receivables

Trade receivables are amounts due from medical aids and wholesale customers for merchandise sold or services rendered in the ordinary course of business and are accounted for as financial assets at amortised cost in accordance with the accounting policy disclosed in note 28. Prepayments and other receivables are stated at their nominal values.

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.

	2022 R'000	2021 R'000
Trade receivables	889 373	710 296
Allowance for expected credit loss	(14 827)	(8 283)
Net trade receivables	874 546	702 013
Other receivables	1 010 290	931 907
Accrued income	101 522	75 603
Right of return asset	8 307	7 097
Related parties (note 27)	41 167	46 293
Prepayments	124 104	142 118
	2 159 936	1 905 031
Allowance for expected credit loss		
Opening balance	(8 283)	(7 471)
Allowance utilised	14 533	–
Allowance raised	(21 077)	(812)
Closing balance	(14 827)	(8 283)

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

Other receivables and accrued income are non-interest-bearing and generally on terms of 30 to 60 days. Other receivables and accrued income consist of rebates, advertising and logistic fee receivables as well as other sundry receivables. Prepayments consist of bonus advances and prepayment of IT licences.

16. Trade and other receivables continued

As at 28 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
2022							
Expected credit loss rate	1.7%	0.0%	0.0%	0.0%	16.0%	6.0%	32.0%
Estimated gross carrying amount at default	889 373	647 677	123 722	58 257	18 943	4 887	35 887
Expected credit loss	14 827	–	–	–	3 034	294	11 499
2021							
Expected credit loss rate	1.2%	0.0%	0.0%	0.0%	2.8%	0.5%	19.8%
Estimated gross carrying amount at default	710 296	514 849	121 298	22 984	5 988	4 228	40 949
Expected credit loss	8 283	–	–	–	165	21	8 097

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 28 February, the age analysis of other receivables and accrued income 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
2022	1 111 812	614 132	169 535	156 062	108 188	13 178	50 717
2021	1 007 510	809 920	104 937	55 906	7 893	7 792	21 062

Refer to note 28 on credit risk management of trade and other receivables.

Trade and other receivables relating to CJ Pharmaceutical Enterprises Limited amounting to R400 million (2021: R617 million) were pledged as security for the revolving overdraft facilities with Standard Bank (2021: Nedbank). Under the pledge the bank can claim debtors' receipts of CJ defaults on the bank overdraft. There are no other special terms relating to the pledge.

17. Loans receivable

Loans are accounted for as financial assets in accordance with the accounting policy disclosed in note 28.

	2022 R'000	2021 R'000
NCI shareholders loans	10 031	33 860
Related parties (note 27)	92 514	133 859
Other loans	119 342	107 197
	221 887	274 916

Other loans mainly relate to loans given to ASU, USN, Tony Ferguson, Stemm Cell and Gamma Knife which are companies within the pharmaceutical and health industry and have no fixed terms of repayment.

The USN loan earns interest at prime less 0.5% and the Tony Ferguson loan earns interest at prime less 2%. No security is held in regards to these loans. The ASU, Stemm Cell and Gamma Knife loans are unsecured and interest free.

Refer to note 28 on credit risk management of loans receivable.

18. Share capital

Ordinary share capital represents the no par value of ordinary shares issued.

	2022 R'000	2021 R'000
Authorised		
1 500 000 000 (2021: 1 500 000 000) ordinary no par value shares		
Issued and fully paid		
860 084 483 (2021: 860 084 483) ordinary no par value shares	6 155 554	6 155 554
Reconciliation of shares issued		
Opening and closing balance	6 155 554	6 155 554

Treasury shares

Treasury shares are held for the forfeitable share plan.

	2022 R'000	2021 R'000
Opening balance	6 429	13 152
Treasury shares acquired	12 170	–
Treasury shares issued under share scheme	(6 429)	(6 723)
Closing balance	12 170	6 429

339 001 treasury shares were bought in January 2022 for R12 million at an average price of R35.90 per share.

At 28 February 2022, the Group held 339 001 treasury shares (2021: 255 587).

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 profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service 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.

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.

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.

19. Other reserves continued

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 28 February 2022

FSP

Offer date	Expiry date	Number of shares Feb 2021	Number of shares forfeited	Number of shares granted	Number of shares exercised	Number of shares Feb 2022
1 February 2019	31 July 2021	255 588	–	–	255 588	–
1 March 2021	30 June 2022	–	–	454 183	–	454 183
1 March 2021	30 June 2023	–	–	783 091	–	783 091
1 September 2021	30 June 2024	–	–	500 724	–	500 724

SAR

Offer date	Expiry date	Number of options Feb 2021	Number of options forfeited	Number of shares granted	Number of options exercised	Number of options 2022
1 June 2018	31 May 2023	505 624	–	–	239 046	266 578
1 February 2019	31 July 2024	622 762	–	–	150 073	472 689

19. Other reserves continued

Options/shares not yet exercised by 28 February 2021

FSP

Offer date	Expiry date	Number of shares Feb 2020	Number of shares forfeited	Number of shares exercised	Number of shares Feb 2021
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 2020	Number of options forfeited	Number of options exercised	Number of options Feb 2021
1 June 2018	31 May 2023	505 624	–	–	505 624
1 February 2019	31 July 2024	622 762	–	–	622 762

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

	2022 R'000	2021 R'000
Expense arising from FSP	18 845	4 124
Expense arising from SAR	1 282	2 282
	20 127	6 406

There were no modifications to the grants in 2022 or 2021.

Movements during the year

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

FSP	2022 Number	2022 WAEP	2021 Number	2021 WAEP
Outstanding at 1 March	255 587	22.7	531 856	24.8
Granted during the year	1 737 998	20.4	–	–
Forfeited during the year	–	–	–	–
Exercised during the year	(255 588)	31.5	(276 269)	18.5
Expired during the year	–	–	–	–
Outstanding at 28 February	1 737 997	20.4	255 587	22.7
Exercisable at 28 February	–		–	

The weighted average remaining contractual life for the shares outstanding as at 28 February 2022 was 1.4 years (2021: 0.2 years). The weighted average fair value of shares granted during the year was R24.9 (2021: Rnil).

19. Other reserves continued

SAR	2022 Number	2022 WAEP	2021 Number	2021 WAEP
Outstanding at 1 March	**1 128 386**	**8.0**	1 128 386	8.0
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**–**	**–**	–	–
Exercised during the year	**(389 119)**	**3.2**	–	–
Expired during the year	**–**	**–**	–	–
Outstanding at 28 February	**739 267**	**7.8**	1 128 386	8.0
Exercisable at 28 February	**739 267**	**7.8**	505 624	9.2

The weighted average remaining contractual life for the shares outstanding as at 28 February 2022 was nil years (2021: 0.2 years). The weighted average fair value of shares granted during the year was Rnil (2021: Rnil).

The following table lists the inputs to the models used:

	2018 FSP June	2019 FSP February	2018 SAR June	2019 SAR February	2021 FSP March	2021 FSP March	2021 FSP September
Spot price	29.69	25.70	29.69	25.70	22.49	22.49	30.82
Strike price	N/A	N/A	28.48	28.96	N/A	N/A	N/A
Volatility	N/A	N/A	27.0%	30.0%	N/A	N/A	N/A
Dividend yield	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Risk-free rate	N/A	N/A	7.27%	7.48%	N/A	N/A	N/A
Attrition rate	5.0%	5.0%	5.0%	5.0%	0%	0%	0%
Vesting date	31 May 2020	31 July 2021	31 May 2020	31 July 2021	30 June 2022	30 June 2023	30 June 2024
Maturity date	31 May 2020	31 July 2021	31 May 2023	31 July 2024	30 June 2022	30 June 2023	30 June 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

	2022 R'000	2021 R'000
June 2021	267 516	–
November 2021	167 591	–
	435 107	–
Minority interest dividend	23 461	39 504
	458 568	39 504

Dividends per share	Cents	Cents
Interim paid	19.5	–
Final declared/paid (1)	20.2	31.1

(1) Declared subsequent to year-end on 19 May 2022 (2021: 20 May 2021).

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 reporting date. Lease payments are apportioned between the finance charges and reduction of the lease liability using the incremental borrowing rate to achieve a constant rate of interest on the remaining balance of the liability. Lease payments for buildings exclude service fees and other costs.

	2022 R'000	2021 R'000
Minimum payments due		
– Within one year	742 885	729 285
– Within five years	2 208 383	2 268 137
– Over five years	1 511 242	1 755 465
	4 462 510	4 752 887
Less: future finance charges	(1 258 008)	(1 447 230)
Present value of minimum payments	3 204 502	3 305 657
Present value of minimum payment due:		
– Within one year	522 225	482 605
– Within five years	1 653 235	1 626 427
– Over five years	1 029 042	1 196 625
	3 204 502	3 305 657
Non-current liabilities	2 682 277	2 823 052
Current liabilities	522 225	482 605
	3 204 502	3 305 657

The lease liability relates to land and buildings, motor vehicles and equipment. 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 2023 financial year relating to variable lease payments is expected to be approximately R3.6 million (2021: R3.3 million).

21. Lease liability continued

The Group adopted the Covid-19 Related Rent Concessions, IFRS 16 amendment in the prior year. The negotiated rental relief was accounted for by reducing the lease liability and recognising a negative variable lease payment credit in occupancy costs under other expenses. The impact of rental concessions amounted to R3.9 million in the prior year. No such concessions were received in the current financial period.

22. Loans payable

Loans payable are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 28.

	2022 R'000	2021 R'000
Non-current loans		
Absa Bank	436 975	554 450
Investec Bank	42 195	52 760
	479 170	607 210
Current loans		
Absa Bank	125 000	125 000
Investec Bank	15 221	20 295
Supply Chain Finance	247 397	–
NCI shareholders loans	11 161	12 837
Related parties (note 27)	84	878
	398 863	159 010

The Absa loan consists of two parts:

- The first part of the term loan is for R500 million repayable over four years in quarterly payments at a variable interest rate linked to JIBAR until 31 March 2023.
- The second part of the term loan is for R400 million repayable at the end of four years (31 March 2023) at a variable interest rate linked to JIBAR.

The Investec loan is repayable over three and a half years (2021: four and a half years) at a 3 month JIBAR rate.

The import supply chain finance programme supported by Addendum allows Dis-Chem to make payments to foreign suppliers through a funding institution using a cloud-based system. Dis-Chem then receives extended terms of up to 150 days in which to make payment to said financial institution. Dis-Chem is charged an interest rate in line with SONIA or a similar reference rate.

Related party and NCI shareholders loans are considered to be short-term in nature as they are payable on demand and do not earn interest. These loans unsecured.

23. 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 28.

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.

	2022 R'000	2021 R'000
Trade payables	5 377 294	5 183 579
Other payables	222 234	33 244
Related parties (note 27)	36 720	47 813
VAT	140 874	115 564
Right of return liability	10 745	9 110
	5 787 867	5 389 310

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.

Trade payables includes R641 million (2021: R503 million) due to suppliers that have signed up to a supply chain financing programme, under which the suppliers can elect on an invoice-by-invoice basis to receive a discounted early payment from the partner bank rather than being paid in line with the agreed payment terms. If the option is taken the Group's liability is assigned to be due to the partner bank rather than the supplier. The value and terms of the liability payable by the Group remains unchanged. The Group assesses the arrangement against indicators to assess if debts which vendors have sold to the funder under the supplier financing scheme continues to meet the definition of trade payables or should be classified as borrowings. At 28 February, the payables met the criteria of trade payables as the value and terms of the liability payable has not changed and the Group has not given any security or incurred any additional costs.

Refer to note 28 on liquidity risk management.

24. 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 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.

	2022 R'000	2021 R'000
Leave pay	192 934	166 411
Bonus	64 503	57 899
	257 437	224 310

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

25. 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% (2021: 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.

	2022 R'000	2021 R'000
Loyalty benefit points scheme	55 691	71 306
Gift vouchers	18 754	21 870
	74 445	93 176
Loyalty points		
Opening balance	71 306	24 681
Points issued	182 479	281 409
Revenue recognised*	(198 094)	(234 784)
Closing balance	55 691	71 306
Gift vouchers		
Opening balance	21 870	11 642
Vouchers issued	144 809	126 904
Revenue recognised*	(147 925)	(116 676)
Closing balance	18 754	21 870

* *Approximately 100% (2021: 90%) of the opening balance has been recognised as revenue in the current year.*

26. 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 28.

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

	2022 R'000	2021 R'000
26.1 Cash generated by operations		
Profit before tax	1 227 228	940 942
Adjustments for:		
– Depreciation and amortisation	854 588	704 951
– Finance costs	325 484	344 580
– Finance income	(12 095)	(16 853)
– Increase in employee obligations	16 191	22 503
– (Decrease)/ Increase in deferred revenue	(18 731)	48 382
– Increase/ (Decrease) in net returns provision	425	(62)
– Loss on sale and impairment of tangible and intangible assets	6 821	180
– Increase in allowance for expected credit loss	6 544	812
– Contingent consideration fair value adjustment	(88)	(456)
– Share scheme expense	18 575	6 406
– Unrealised foreign exchange loss	(8 792)	10 507
– Gain on lease liability	(1 492)	–
– Profit from associates and joint ventures	(1 186)	(2 997)
	2 413 472	2 058 895
26.2 Movement in working capital		
Movement in loans receivable	56 265	(55 306)
Movement in loans payable	(7 220)	(9 958)
Movement in inventories	66 427	(1 017 922)
Movement in trade and other receivables	(186 765)	(248 243)
Movement in trade and other payables	115 937	996 249
	44 644	(335 180)
26.3 Taxation paid		
Net amount payable at beginning of the year	(12 095)	(3 578)
Amount charged excluding deferred tax	(319 719)	(244 042)
Amount on acquisition of entities	(2 199)	82
Net amount payable at end of the year	32 939	12 095
	(301 074)	(235 443)

26. Notes to the statement of cash flows continued

	2022 R'000	2021 R'000
26.4 Change in ownership interest in subsidiary and proceeds from non-controlling interest		
Change in ownership interest in subsidiary		
– Amount paid for Glen Fair	–	(29 882)
– Amount received for Wernhill	–	2 648
– Amount paid for Rynfield	(10 851)	–
Proceeds from non-controlling interest		
– Amount received for Castle Gate	–	10 474
	(10 851)	(16 760)
Cash and cash equivalents comprise the following:		
26.5 Cash and cash equivalents		
Cash on hand and balances with banks	705 851	539 732
Bank overdrafts	(424 998)	(403 916)
	280 853	135 816

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

26.6 Changes in financing activities

			Non-cash changes				
	2021	Cash flows	New leases/ transaction	Acquisitions	Release/ fair value changes	Present value interest unwinding	2022
Long-term loans	752 505	104 966	–	9 318	–	–	866 789
Contingent consideration	15 913	(16 455)	7 984	–	(88)	630	7 984
Lease liability (1)	3 305 657	(510 096)	273 059	145 051	(9 169)	–	3 204 502

			Non-cash changes				
	2020	Cash flows	New leases/ transaction	Acquisitions	Release/ fair value changes	Present value interest unwinding	2021
Long-term loans	808 840	(56 335)	–	–	–	–	752 505
Contingent consideration	45 121	(31 590)	–	–	(456)	2 838	15 913
Lease liability (1)	2 725 682	(393 441)	690 501	277 807	5 108	–	3 305 657

(1) The interest repaid on the lease liability is R260 million (2021: R252 million) and is reflected in finance costs under operating activities.

27. 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 Proprietary Limited that holds 35.1% (2021: 52.7%) of the shares.

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

27. Related party transactions continued

2022

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 R'000	Loan payable R'000	Lease liability R'000	Accounts receivable R'000	Accounts payable R'000	Interest income/ (expense) R'000	Sales R'000	Purchases R'000	Services received R'000
Columbia Falls Property 7 (Pty) Ltd	–	–	558 632	–	–	(54 681)	–	–	–
CT Distribution Centre (Pty) Ltd	–	–	120 603	–	–	(11 732)	–	–	–
Eleador (Pty) Ltd	–	–	–	–	–	(281)	–	–	–
KZN Distribution Centre (Pty) Ltd	–	–	72 673	–	–	(6 123)	–	–	–
Minlou (Pty) Ltd	–	–	–	–	–	–	–	–	–
Mathimba (Pty) Ltd	24 425	–	7 244	–	–	879/ (688)	–	–	–
Dis-Chem Bothomed (Pty) Ltd	7	–	–	–	3 088	–	–	–	–
Dis-Chem Namibia (Pty) Ltd	340	–	–	39 492	–	–	94 201	–	–
Wernhill Pharmacy (Pty) Ltd	2 765	–	–	677	–	–	3 204	–	–
Origin Brands (Pty) Ltd	12 721	–	–	–	–	819	–	28 724	–
Geniob (Pty) Ltd	17 888	–	–	–	26 388	5 722	–	290 012	–
Vexell (Pty) Ltd	–	84	–	–	3 904	–	–	23 808	49 154
Health Window (Pty) Ltd	768	–	–	998	–	–	–	–	22 473
Bene (Pty) Ltd	–	–	–	–	3 340	–	–	23 204	–
ServeCo (Pty) Ltd	10 200	–	–	–	–	–	–	–	–
BEESECDCP (Pty) Ltd	23 400	–	–	–	–	–	–	–	–
Global Toys CC	–	–	–	–	–	–	2 238	–	–
Various property companies (1)	–	–	137 112	–	–	(12 927)	–	–	–
	92 514	84	896 264	41 167	36 720	(79 012)	99 643	365 748	71 627

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

27. Related party transactions continued

2021

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 R'000	Loan payable R'000	Lease liability R'000	Accounts receivable R'000	Accounts payable R'000	Interest income/ (expense) R'000	Sales R'000	Purchases R'000	Services received R'000
Columbia Falls Property 7 (Pty) Ltd	–	–	(584 734)	–	–	(56 744)	–	–	–
Josneo (Pty) Ltd	–	–	(81 002)	–	–	(6 722)	–	–	–
Eleador (Pty) Ltd	–	794	(8 509)	–	–	(937)	–	–	–
MSDS No 3 (Pty) Ltd	–	–	(131 886)	–	–	(12 675)	–	–	–
Minlou (Pty) Ltd	8	–	–	–	–	–	–	–	–
Mathimba (Pty) Ltd	24 425	–	(9 781)	–	–	949/(888)	–	–	–
Dis-Chem Bothomed (Pty) Ltd	506	–	–	–	3 212	–	–	–	–
Dis-Chem Namibia (Pty) Ltd	–	–	–	43 679	–	–	91 451	126	–
Platz Am Meer Pharmacy (Pty) Ltd	1 294	–	–	1 893	–	–	3 438	630	–
Walvis Bay Pharmacy (Pty) Ltd	16 673	–	–	310	–	–	1 895	322	–
Wernhill Pharmacy (Pty) Ltd	6 467	–	–	411	–	–	2 330	322	–
Origin Brands (Pty) Ltd	11 902	–	–	–	1 096	844	–	19 320	–
Geniob (Pty) Ltd	66 931	–	–	–	35 684	5 034	2 741	271 603	–
Vexell (Pty) Ltd	–	84	–	–	4 210	–	–	15 583	35 582
Health Window (Pty) Ltd	661	–	–	–	998	–	–	–	12 425
Bene (Pty) Ltd	–	–	–	–	2 613	–	–	17 694	–
Healthforce (Pty) Ltd (2)	4 468	–	–	–		–	–	–	–
Finamics (Pty) Ltd	524	–	–	–		–	–	–	–
Various property companies (1)	–	–	(164 184)	–	–	(15 105)	–	–	–
	133 859	878	(980 096)	46 293	47 813	(86 244)	101 855	325 600	48 007

(1) *Relates to retail space that is owned/partially owned by the directors.*
(2) *Acquired 1 March 2021.*

27. Related party transactions continued

For further information in regards to loans receivable, loans payable, trade receivables, trade payables and lease liability refer to note 17, 22, 16, 23, 21 and 28 respectively.

	2022 R'000	2021 R'000
Compensation of key management		
Short-term employee benefits	88 348	58 225
Post-employment benefits	747	576
Non-executive directors' fees	5 841	5 391
	94 936	64 192

Executive and non-executive emoluments to directors

2022	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	3 165	–	–	–	–	3 165
MJ Bowman	669	–	–	–	–	669
A Coovadia	589	–	–	–	–	589
JS Mthimunye	713	–	–	–	–	713
A Sithebe	556	–	–	–	–	556
KDD Kobue	149	–	–	–	–	149
	5 841	–	–	–	–	5 841
Executive directors						
IL Saltzman	–	13 707	3 972	72	457	18 208
LF Saltzman	–	11 234	3 223	72	253	14 782
RM Morais	–	10 533	2 995	72	536	14 136
SE Saltzman (alternate)	–	5 521	1 242	72	510	7 345
	–	40 995	11 432	288	1 756	54 471
Prescribed officers						
SRN Goetsch	–	5 728	1 225	72	222	7 247
BI Epstein	–	5 730	1 231	72	253	7 286
KS Sterling	–	5 728	1 221	72	204	7 225
CJ Williams	–	5 728	1 255	72	223	7 278
CR Fairweather	–	2 855	2 442	171	120	5 588
	–	25 769	7 374	459	1 022	34 624

27. Related party transactions continued

2021	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	3 123	–	–	–	–	3 123
MJ Bowman	638	–	–	–	–	638
A Coovadia	562	–	–	–	–	562
JS Mthimunye	682	–	–	–	–	682
MSI Gani	301	–	–	–	–	301
A Sithebe	85	–	–	–	–	85
	5 391	–	–	–	–	5 391
Executive directors						
IL Saltzman	–	13 242	–	72	180	13 494
LF Saltzman	–	10 870	–	72	18	10 960
RM Morais	–	6 075	–	72	177	6 324
SE Saltzman (alternate)	–	5 723	–	72	231	6 026
	–	35 910	–	288	606	36 804
Prescribed officers						
SRN Goetsch	–	5 602	–	72	59	5 733
BI Epstein	–	5 527	–	72	161	5 760
KS Sterling	–	5 602	–	72	40	5 714
CJ Williams	–	4 569	–	72	149	4 790
	–	21 300	–	288	409	21 997

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

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

27. Related party transactions continued

Executive and non-executive emoluments to directors continued

Options granted to prescribed officers on the share appreciation rights scheme at 28 February 2022:

	S Goetsch	B Epstein	K Sterling	C Williams	Total options
Offer date: 1 June 2018					
Opening balance	**58 936**	**58 999**	**58 921**	**41 459**	**218 315**
Forfeited	**–**	**–**	**–**	**–**	**–**
Exercised	**–**	**–**	**–**	**–**	**–**
Closing balance	**58 936**	**58 999**	**58 921**	**41 459**	**218 315**
Offer date: 1 February 2019					
Opening balance	**65 741**	**65 893**	**65 596**	**49 048**	**246 278**
Forfeited	**–**	**–**	**–**	**–**	**–**
Exercised	**–**	**–**	**–**	**–**	**–**
Closing balance	**65 741**	**65 893**	**65 596**	**49 048**	**246 278**

Options granted to prescribed officers on the share appreciation rights scheme at 28 February 2021:

	S Goetsch	B Epstein	K Sterling	C Williams	Total options
Offer date: 1 June 2018					
Opening balance	58 936	58 999	58 921	41 459	218 315
Forfeited	–	–	–	–	–
Exercised	–	–	–	–	–
Closing balance	58 936	58 999	58 921	41 459	218 315
Offer date: 1 February 2019					
Opening balance	65 741	65 893	65 596	49 048	246 278
Forfeited	–	–	–	–	–
Exercised	–	–	–	–	–
Closing balance	65 741	65 893	65 596	49 048	246 278

The employment contracts of executive directors differ from that of other employees in that they do not accrue leave and have a longer notice period.

28. 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.

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.

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 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.

28. Financial risk management objectives and policies continued

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. 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.

28. Financial risk management objectives and policies continued

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 also does not applied the presumption that a default has occurred when a financial asset is 90 days past due as payments are still received on a regular basis from customers past 90 days.

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 bankruptcy 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 profit or loss.

28. 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

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 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 Group.

28. Financial risk management objectives and policies continued

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.

28. Financial risk management objectives and policies continued

The main risks arising from the Group'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:

2022	Financial instrument R'000	Fair value through profit or loss R'000	Financial liability at amortised cost R'000	Financial asset at amortised cost R'000	Non-financial instruments, leases and investments R'000
Assets					
Property, plant and equipment	–	–	–	–	3 688 681
Intangible assets	–	–	–	–	1 209 646
Investment in associates and joint ventures					183 202
Deferred taxation	–	–	–	–	139 622
Inventories	–	–	–	–	5 758 858
Trade and other receivables	2 027 525	–	–	2 027 525	132 411
Loans receivable	221 887	–	–	221 887	–
Taxation receivable	–	–	–	–	7 432
Cash and cash equivalents	705 851	–	–	705 851	–
Liabilities					
Lease liability	–	–	–	–	3 204 502
Contingent consideration	7 984	7 984	–	–	–
Loans payable	878 033	–	878 033	–	–
Deferred taxation	–	–	–	–	13 920
Trade and other payables	5 636 248	–	5 636 248	–	151 619
Employee-related obligations	–	–	–	–	257 437
Deferred revenue	–	–	–	–	74 445
Taxation payable	–	–	–	–	40 371
Bank overdraft	424 998	–	424 998	–	–

28. Financial risk management objectives and policies continued

2021	Financial instrument R'000	Fair value through profit or loss R'000	Financial liability at amortised cost R'000	Financial asset – loans and receivables R'000	Non-financial instruments, leases and investments R'000
Assets					
Property, plant and equipment	–	–	–	–	3 715 961
Intangible assets	–	–	–	–	897 888
Investment in associates and joint ventures					13 180
Deferred taxation	–	–	–	–	140 551
Inventories	–	–	–	–	5 691 382
Trade and other receivables	1 755 816	–	–	1 755 816	149 215
Loans receivable	274 916	–	–	274 916	–
Taxation receivable	–	–	–	–	8 947
Cash and cash equivalents	539 732	–	–	539 732	–
Liabilities					
Lease liability	–	–	–	–	3 305 657
Contingent consideration	15 913	15 913	–	–	–
Loans payable	766 220	–	766 220	–	–
Deferred taxation	–	–	–	–	16 380
Trade and other payables	5 264 636	–	5 264 636	–	124 674
Employee-related obligations	–	–	–	–	224 310
Deferred revenue	–	–	–	–	93 176
Taxation payable	–	–	–	–	21 042
Bank overdraft	403 916	–	403 916	–	–

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 is exposed to credit risk in relation to trade and other receivables from its retail and wholesale business.

28. Financial risk management objectives and policies continued

	2022 R'000	2021 R'000
The maximum exposure to credit risk for trade receivables is as follows:		
Retail	379 627	210 626
Wholesale	494 919	491 387
The maximum exposure to credit risk for other receivables and accrued income is as follows:		
Retail	675 804	681 988
Wholesale	436 008	325 522

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 mainly within 14 days and 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 allowance for expected credit loss 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.

28. Financial risk management objectives and policies continued

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. These loans are unsecured and non-interest bearing.

Related party loans

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

Mathimba Proprietary Limited, BEESECDP 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. The Mathimba and Namibian franchise store loans bear interest at the Group's current money market rate. No security is held for these loans.

The loan to the Geniob group (consisting of Geniob Proprietary Limited and Origin Brands Proprietary Limited) amounts to R31 million at 28 February 2022 (2021: R79 million). Dis-Chem has R26 million (2021: R37 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 but has started to make a profit since 2021 financial year and paid back R48 million on the loan in the current year. Therefore no expected credit loss was raised for this loan. The loan is unsecured and earns interest at prime less 0.5%.

Other loans

Other loans have no fixed terms of repayment and mainly relate to loans given to companies within the pharmaceutical and health 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.

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
2022			
Opening gross carrying amount of loans	274 916	–	–
New loans receivable	54 866	–	–
Loans repaid	(115 710)	–	–
Interest	7 815	–	–
	221 887	–	–

28. Financial risk management objectives and policies continued

	12-month Stage 1	Lifetime Stage 2	Credit impaired Stage 3
2021			
Opening gross carrying amount of loans	213 338	–	–
New loans receivable	117 699	–	–
Loans repaid	(64 300)	–	–
Interest	8 179	–	–
	274 916	–	–

Currency risk

The Group is not exposed to significant currency risk.

Interest rate risk

The Group'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 and Investec loans fluctuate with the JIBAR rate. The South African Reserve Bank confirmed that JIBAR would cease at some future point and that South Africa would transition to alternative reference rates. The new system will be a variety of alternative risk-free and near-risk-free rates, mostly administered by central banks.

If the interest rate, with all other variables held constant, increased or decreased by 200 average basis points (2021: 200) at year-end, the impact of the Group’s profit before tax would be approximately R24.2 million (2021: R19.4 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, Investec loan and other loans.

Liquidity risk

Dis-Chem has a general banking facility of R50 million with Nedbank, bank loans of R867 million (2021: R753 million), NCI shareholders and related party loans of R11 million (2021: R14 million) as well as an overdraft prime lending facility of up to R1.8 billion (2021: R1.9 billion) and a supply chain finance facility of R500 million. CJ Pharmaceutical Enterprises has a general banking facility of R200 million with Nedbank. Baby City (Fairy Tales Boutique and Somerset Baby Hyper) have an overdraft facility of R5.5 million with Nedbank, as well as a R3 million credit facility and a NetBank Business credit payment facility with a daily limit of R25 million and monthly limit of R160 million.

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 (2021: R20 million).

28. Financial risk management objectives and policies continued

Dis-Chem Pharmacies has entered into a guarantee agreement in favour of The Standard Bank of South Africa Limited in terms of SuperStrike Investments 56 Proprietary Limited (trading as Baby Boom) to the value of R20 million (2021: 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
2022				
Trade and other payables	–	5 636 248	–	5 636 248
Loans payable excluding bank loans	11 245	–	–	11 245
Bank overdraft	–	424 998	–	424 998
Contingent consideration	–	8 242	–	8 242
Financial guarantee contract	20 000	–	–	20 000
Bank loans	–	440 839	478 293	919 132
Undiscounted payments	31 245	6 510 327	478 293	7 019 865
Less: future finance charges	–	(40 472)	(12 130)	(52 602)
	31 245	6 469 855	466 163	6 967 263
2021				
Trade and other payables	–	5 264 636	–	5 264 636
Loans payable excluding bank loans	13 715	–	–	13 715
Bank overdraft	–	403 916	–	403 916
Contingent consideration	–	16 543	–	16 543
Bank loans	–	182 201	650 981	833 182
Undiscounted payments	13 715	5 867 296	650 981	6 531 992
Less: future finance charges	–	(37 536)	(43 771)	(81 307)
	13 715	5 829 760	607 210	6 450 685

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

28. Financial risk management objectives and policies continued

Fair value

The information below analyses financial assets and liabilities that are carried at fair value:

	Level 1 R'000	Level 2 R'000	Level 3 R'000
2022			
Financial liabilities at fair value through profit or loss			
– Contingent consideration	–	–	7 984
2021			
Financial liabilities at fair value through profit or loss			
– Contingent consideration	–	–	15 913

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 7.9% (2021: 7.9%) used to determine the present value of the future cash flows. The contingent consideration relating to acquisition of the non-controlling shareholders was settled in the current year.

The additional contingent consideration was raised with the acquisition of 25% of Kaelo in November in the current year. The contingent consideration is based on performance targets being made to June 2022.

	2022 R'000	2021 R'000
Reconciliation of recurring Level 3 fair value movements:		
Opening balance	15 913	45 121
Payment	(16 455)	(31 590)
Interest	630	2 838
Additional contingent consideration	7 984	–
Unrealised fair value adjustment (1)	–	(309)
Realised fair value adjustment (1)	(88)	(147)
Closing balance	7 984	15 913

(1) Amount reflected in other income in Statement of Comprehensive Income.

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 2022 and 2021.

The fair value of all other financial instruments approximates their carrying amounts.

29. Capital management

The primary objective of the Group'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. This was met in the current and prior year.

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 28 February 2022 and 29 February 2021.

30. Events after the reporting period

On 1 March 2022, Dis-Chem acquired 100% of the issued share capital of Superstrike Proprietary Limited (trading as Baby Boom) for R23 million.

The provisional fair values of the identifiable assets and liabilities of the company as at the date of acquisition of the transaction has not been disclosed due to the initial accounting and finalisation not yet being complete.

As disclosed in the SENS on 25 January 2022, Dis-Chem acquired 100% of the share capital of CT Distribution Centre Proprietary Limited, KZN Warehouse Proprietary Limited and Eleadora Proprietary Limited for R217 million. This is a related party transaction due to the companies acquired being wholly-owned by directors, previous directors and prescribed officers of Dis-Chem, who collectively are also material shareholders of Dis-Chem.

This transaction became effective on 1 April 2022, once approval was received by the Competition Commission and the Competition Tribunal.

To date the Group has not seen a significant impact to its operations from the war in Ukraine but has been impacted by higher fuel costs and limited product shortages as a results of supply chain disruptions. The floods in KZN also did not significantly impact the operations of the Group.

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 93 to 143, which comprise the separate statement of financial position as at 28 February 2022, 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 financial statements, including a summary of significant accounting policies.

In our opinion, separate the financial statements present fairly, in all material respects, the separate financial position of Dis-Chem Pharmacies Limited as at 28 February 2022, 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 group in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The separate financial statements of Dis-Chem Pharmacies Limited for the year ended 28 February 2021 were audited by another auditor who expressed an unmodified opinion on those statements on 30 June 2021.

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.

MATTER	AUDIT RESPONSE
REBATES (notes 3.6 in consolidated financial statements and notes 5 and 12 in the separate financial statements)	

As described in Significant accounting estimates, judgements and assumptions in note 3.6 in consolidated financial statements and notes 5 and 12 in the separate financial statements , the Company recognises a reduction in cost of sales or separately as other income amounts receivable from suppliers with regards to rebates and advertising agreements.
 	
The company recognises a reduction in cost of sales or other income as a result of amounts receivable from suppliers in regards to rebates and advertising agreements. The reduction primarily comprises of contributions received in relation to:
• Retail business promotions
• Annual volume-based rebates
• Wholesale logistic rebates
• Other general rebates
 	
Agreements for rebates and advertising differ in targets, percentages applied and relate to different periods for each supplier. These transactions are generally low in value but high in volume.
 	
The majority of the rebates and advertising agreements span relatively short periods of time with limited annual agreements which do not always coincide with the Company's year-end. These are renegotiated on a regular basis.
 	
The calculation of the rebates and advertising agreements related accruals are managed centrally and manually. Due to the large volume and variety of trade term agreements for which the terms vary from period to period, we consider the completeness, occurrence adn accuracy of the recognised rebate and advertising amounts to warrant significant audit attention.
	Our audit procedures included, but are not limited to the following:
	• We obtained a detailed understanding of the cost of sales and other income processes as well as adjustments to the rebates and advertising receivables and how it impacted the gross margin.
	• We evaluated the accuracy and occurrence of the rebates and advertising receivables by performing the following procedures:
	  • Selected a sample of transactions and traced them through to the rebates and advertising agreement invoices and signed supplier trade term contracts as well as to proof of payment or validated deduction against supplier balances to establish the occurrence of the rebates.
	  • We re-performed the calculations obtained from management in terms of the underlying data and trade term contracts to assess whether the value of the rebates and advertising agreements were accurately recorded.
	  • We assessed the financial year in to which the data and trade term contracts relate to assess whether the rebates and advertising agreements were accounted for in the correct financial period.
	• We obtained a rebates and advertising agreements reconciliation from management and compared this to the general ledger. Relevant reconciling items were agreed to the supporting documentation.
	• Through the use of application controls testing we validated that the conditional contracts transactions which are automated into the conditional contract application are valid, accurate and complete.
	• On a sample basis we tested the controls with regards to the review of retail business promotions.
	• We tested a sample of transactions recorded after year end to evaluate the completeness and accuracy of accrued supplier income at year end.
	• We evaluated the recoverability of the amounts due at the year-end by agreeing the amounts to subsequent settlement.
	• We compared the current year rebates and advertising agreements reconciliation to the prior year and to the supplier vendor listing to assess that all suppliers were included in the current year. Missing suppliers were corroborated to supporting documents and for new suppliers we compared the data on a sample basis to the related signed trade agreements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Dis-Chem Pharmacies Limited Group and Company Audited Annual Financial Statements for the year ended 28 February 2022", which includes the Report of the Directors, the Audit and Risk Committee Report and the Company Secretary Certification as required by the Companies Act of South Africa. The other information does not include the separate 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, on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the 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 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 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.

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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the 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 Mazars has been the auditor of Dis-Chem Pharmacies Limited for one year.

Mazars

Mazars
Registered Auditors
Partner: Danielle Keeve
Registered Auditor
Johannesburg

Date: 23 June 2022

COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 28 February 2022

	Notes	2022 R'000	2021 R'000
Revenue from contracts with customers	4	**21 157 955**	19 034 834
Cost of sales	12	**(16 690 690)**	(15 097 174)
Gross profit		**4 467 265**	3 937 660
Other income	5	**1 835 454**	1 499 883
Total income		**6 302 719**	5 437 543
Other expenses	5	**(5 044 807)**	(4 477 035)
Operating profit		**1 257 912**	960 508
Net financing costs	6	**(277 685)**	(255 800)
– Finance income		**8 233**	10 904
– Finance costs		**(285 918)**	(266 704)
Profit before taxation		**980 227**	704 708
Taxation	7	**(249 056)**	(175 856)
Total profit/ comprehensive income for the year, net of taxation		**731 171**	528 852

COMPANY STATEMENT OF FINANCIAL POSITION

for the year ended 28 February 2022

	Notes	2022 R'000	2021 R'000
ASSETS			
Non-current assets		**4 884 999**	4 620 432
Property, plant and equipment (including right-of-use asset)	8	**2 146 315**	2 200 502
Intangible assets	9	**127 701**	160 621
Deferred taxation	10	**69 204**	79 838
Investments	11	**2 541 779**	2 179 471
Current assets		**4 385 854**	3 824 122
Inventories	12	**2 119 215**	2 051 976
Trade and other receivables	13	**1 177 100**	1 011 573
Loans receivable	14	**537 669**	438 988
Cash and cash equivalents	23.4	**551 870**	321 585
Total assets		**9 270 853**	8 444 554
EQUITY AND LIABILITIES			
Equity and reserves		**3 083 060**	2 780 591
Share capital	15	**6 155 554**	6 155 554
Other reserves	17	**(3 879 650)**	(3 886 692)
Retained earnings		**807 156**	511 729
Non-current liabilities		**1 934 633**	2 194 462
Lease liability	18	**1 462 988**	1 587 252
Loans payable	19	**471 645**	607 210
Current liabilities		**4 253 160**	3 469 501
Trade and other payables	20	**2 605 824**	1 704 866
Lease liability	18	**324 394**	308 269
Loans payable	19	**713 979**	835 277
Employee-related obligations	21	**205 954**	180 213
Deferred revenue (contract liability)	22	**70 232**	97 175
Contingent consideration		**7 984**	15 913
Taxation payable	23.3	**27 863**	16 367
Bank overdraft	23.4	**296 930**	311 421
Total equity and liabilities		**9 270 853**	8 444 554

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 28 February 2022

				Other reserves		
	Notes	Share capital R'000	Retained earnings R'000	Treasury shares R'000	Other reserves[1] R'000	Total R'000
Balance at 29 February 2020		6 155 554	(18 602)	(13 152)	(3 878 467)	2 245 333
Total profit/comprehensive income for the year		–	528 852	–	–	528 852
Share-based payment expense	17	–	–	–	6 406	6 406
Exercise of share-based payment			1 479	6 723	(8 202)	–
Dividends paid	16	–	–	–	–	–
Balance at 28 February 2021		**6 155 554**	**511 729**	**(6 429)**	**(3 880 263)**	**2 780 591**
Total profit/comprehensive income for the year		–	731 171	–	–	731 171
Treasury shares acquired		–	–	(12 170)	–	(12 170)
Share-based payment expense	17	–	–	–	20 127	20 127
Exercise of share-based payment		–	(637)	6 429	(7 344)	(1 552)
Dividends paid	16	–	(435 107)	–	–	(435 107)
Balance at 28 February 2022		**6 155 554**	**807 156**	**(12 170)**	**(3 867 480)**	**3 083 060**
		(note 15)		(note 15)		

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

COMPANY STATEMENT OF CASH FLOWS

for the year ended 28 February 2022

	Notes	2022 R'000	2021 R'000
Cash flow from operating activities		**1 319 900**	723 803
Cash inflow from trading operations	23.1	1 734 988	1 478 545
Movement in working capital	23.2	461 360	(379 661)
Finance income received		6 198	4 632
Finance costs paid		(291 393)	(257 404)
Taxation paid	23.3	(226 926)	(164 606)
Dividends paid	16	(435 107)	–
Dividends received	5	70 780	42 297
Cash flow from investing activities		**(588 093)**	(689 792)
Additions to property, plant and equipment and intangible assets			
– To maintain operations	8/9	(74 393)	(62 948)
– To expand operations	8/9	(167 470)	(271 404)
Proceeds on disposal of property, plant and equipment and intangible assets		8 094	14 483
Increase in investments	11	(354 324)	(369 923)
Cash flow from financing activities		**(487 031)**	(368 544)
Long term loans repaid	23.5	(144 053)	(154 797)
Receipt of long term loans	23.5	3 414	102 852
Contingent consideration paid	23.5	(16 455)	(31 590)
Purchase of treasury shares	15	(12 170)	–
Lease liability repaid	23.5	(317 767)	(285 009)
Net increase/ (decrease) in cash and cash equivalents		**244 776**	(334 533)
Cash and cash equivalents at beginning of year		**10 164**	344 697
Cash and cash equivalents at end of year	23.4	**254 940**	10 164

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2022

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 taking into account breakage, if any (refer note 22).

	2022 R'000	2021 R'000
Revenue from contracts with customers	**21 157 955**	19 034 834

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

	2022 %	2021 %
Dispensary	**36**	37
Personal care and beauty	**26**	28
Healthcare and nutrition	**24**	20
Baby care	**8**	6
Other	**6**	9
	100	100

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 28 February 2022

5. Profit before taxation

Advertising and marketing income as well as data and administration fees are recognised when the service is provided to the vendor.

The cost of employee benefits is recognised as an expense during the period in which the employee renders the service.

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

	Notes	2022 R'000	2021 R'000
Other income			
Advertising and marketing income		709 251	620 636
Commission income		75 491	50 771
Dividend income		70 780	42 297
Franchisee income		46 135	43 099
Data and administration fees		820 321	612 121
Payroll-related recovery		19 271	13 500
Other expenses			
Depreciation of tangible assets	8	485 723	450 698
Amortisation of intangible assets	9	44 509	36 037
Computer expenses		243 569	233 360
Advertising expenses		344 959	284 324
Commission		129 254	118 638
Bank charges		74 376	64 796
Donations		17 149	26 762
Security		94 885	108 557
Occupancy costs		290 806	252 657
– Lease payments (1)		54 763	41 854
– Other (including electricity and rates)		236 043	210 803

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

		2022 R'000	2021 R'000
Employee benefits		2 954 166	2 585 070
– Salaries and wages		2 507 315	2 163 541
– Pension costs		110 936	104 401
– Medical aid		79 653	73 474
– Leave pay		18 456	15 818
– Share-based payment		20 127	6 406
– Bonus		193 043	167 264
– Other (including UIF and SDL)		24 636	54 166

For details on directors' emoluments and key management personnel refer to note 24.

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 as there are no qualifying assets.

	2022 R'000	2021 R'000
– Bank accounts	1 551	2 777
– Loans	6 682	7 116
– SARS	–	731
– Other	–	280
Finance income	8 233	10 904
– Bank overdraft	23 417	37 546
– Bank loan	36 603	43 938
– Related parties	82 422	34 527
– SARS	238	–
– Lease liability	142 531	145 695
– Other	77	2 160
Interest expense	285 288	263 866
– Contingent consideration	630	2 838
Finance costs	285 918	266 704
Net financing costs	277 685	255 800

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.

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.

	2022 R'000	2021 R'000
South African normal tax		
Current income tax		
– Current year	240 826	181 178
– Prior year over provision	(2 404)	–
Deferred tax		
– Attributable to temporary differences	10 634	(5 322)
– Prior year under provision	–	–
	249 056	175 856

7. Taxation continued

	2022 %	2021 %
Reconciliation of tax rate		
Standard tax rate	28.00	28.00
Prior year net under provision	(0.25)	–
Adjusted for permanent differences:		
Non-taxable:		
ETI and leadership	(0.73)	(1.25)
Tenant allowance	–	(0.38)
Dividends income	(2.02)	(1.69)
Contingent consideration	–	(0.02)
Non-deductible:		
Legal fees	0.34	0.12
SARS interest and penalties	0.01	–
Share-based payment	–	0.09
Other	0.06	0.08
Effective tax rate	25.41	24.95

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 for the years presented.

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.

8. Property, plant and equipment continued

The estimated useful lives are as follows:

– Computer hardware	1 to 9 years
– Office equipment	1 to 10 years
– Improvements to leased premises	4 to 12 years
– Motor vehicles	1 to 5 years
– Furniture and fittings	2 to 12 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.

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

8. Property, plant and equipment continued

	OWNED		
	Computer hardware R'000	Office equipment* R'000	Leasehold improvements R'000
2022			
Cost	416 787	120 481	313 840
Opening balance	322 165	106 772	302 501
Additions	108 302	14 028	13 536
Modifications	–	–	–
Disposals and impairments	(13 680)	(319)	(2 197)
Accumulated depreciation	(199 721)	(66 770)	(167 256)
Opening balance	(162 745)	(52 150)	(142 977)
Current charge	(49 209)	(14 718)	(24 682)
Disposals and impairments	12 233	98	403
Net carrying amount	217 066	53 711	146 584

	OWNED		
	Computer hardware R'000	Office equipment* R'000	Leasehold improvements R'000
2021			
Cost	322 165	106 772	302 501
Opening balance	298 282	106 641	373 577
Additions	87 041	21 067	18 140
Modifications	–	–	–
Disposals	(63 158)	(20 936)	(89 216)
Accumulated depreciation	(162 745)	(52 150)	(142 977)
Opening balance	(164 657)	(58 291)	(208 802)
Current charge	(51 017)	(14 144)	(23 391)
Disposals	52 929	20 285	89 216
Net carrying amount	159 420	54 622	159 524

* *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.*

		RIGHT-OF-USE		
Furniture and fixtures# R'000	Motor vehicles R'000	Land and buildings R'000	Motor vehicles R'000	Total R'000
632 443	7 906	3 345 491	29 105	4 866 053
552 104	16 621	3 132 649	26 422	4 459 234
92 787	1 621	216 783	2 683	449 740
–	–	(3 941)	–	(3 941)
(12 448)	(10 336)	–	–	(38 980)
(281 150)	(6 289)	(1 980 115)	(18 437)	(2 719 738)
(215 658)	(14 585)	(1 660 281)	(10 336)	(2 258 732)
(67 185)	(1 994)	(319 834)	(8 101)	(485 723)
1 693	10 290	–	–	24 717
351 293	1 617	1 365 376	10 668	2 146 315

		RIGHT-OF-USE		
Furniture and fixtures# R'000	Motor vehicles R'000	Land and buildings R'000	Motor vehicles R'000	Total R'000
552 104	16 621	3 132 649	26 422	4 459 234
466 722	18 744	2 566 694	16 731	3 847 391
107 424	127	563 595	9 691	807 085
–	–	2 360	–	2 360
(22 042)	(2 250)	–	–	(197 602)
(215 658)	(14 585)	(1 660 281)	(10 336)	(2 258 732)
(171 102)	(15 757)	(1 366 364)	(6 061)	(1 991 034)
(62 946)	(1 008)	(293 917)	(4 275)	(450 698)
18 390	2 180	–	–	183 000
336 446	2 036	1 472 368	16 086	2 200 502

The civil unrest and looting in July resulted in an impairment of property, plant and equipment of R6.5 million.

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

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 (goodwill) 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: 2 to 10 years
– Licences: 10 years

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.

9. Intangible assets continued

	Computer software R'000	Licences R'000	Goodwill R'000	Total R'000
2022				
Cost	228 354	4 631	7 670	240 655
Opening balance	225 880	4 331	7 670	237 881
Additions	11 289	300	–	11 589
Disposals	(8 815)	–	–	(8 815)
Accumulated depreciation	(112 506)	(448)	–	(112 954)
Opening balance	(77 260)	–	–	(77 260)
Current charge	(44 061)	(448)	–	(44 509)
Disposals	8 815	–	–	8 815
Net carrying amount	115 848	4 183	7 670	127 701
2021				
Cost	225 880	4 331	7 670	237 881
Opening balance	140 018	3 181	7 670	150 869
Additions	99 403	1 150	–	100 553
Disposals	(13 541)	–	–	(13 541)
Accumulated depreciation	(77 260)	–	–	(77 260)
Opening balance	(54 753)	–	–	(54 753)
Current charge	(36 037)	–	–	(36 037)
Disposals	13 530	–	–	13 530
Net carrying amount	148 620	4 331	7 670	160 621

Carrying amount of goodwill allocated to each CGU:

	2022 R'000	2021 R'000
Dis-Chem Platinum Park	7 670	7 670
	7 670	7 670

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 13.5% (2021: 9.5%). Cash flows beyond the five-year period are extrapolated using a 4% (2020: 4%) growth rate. As a result of the analysis, management did not identify an impairment in the current or prior financial period. Key assumption are determined by management in regards to past experience.

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.

	2022 R'000	2021 R'000
Deferred taxation asset		
Balance at the beginning of the year	**79 838**	74 516
Movements during the year		
– Charge to profit or loss	**(10 634)**	5 322
Balance at end of the year	**69 204**	79 838
The deferred tax asset balance is made up as follows:		
Employee-related obligations	**44 277**	38 265
Lease liability	**116 302**	114 628
Deferred revenue	**15 745**	23 472
Property, plant and equipment	**(106 079)**	(97 130)
Share scheme	**2 228**	300
Other	**(3 269)**	303
	69 204	79 838

It was announced that the corporate income tax rate will be reduced from 28% to 27% with effect from years of assessment ending on or after 31 March 2023. This rate change will only have an impact on the Group's current income tax rate for the year of assessment ending February 2024. Thus the rate for current income tax purposes will remain at 28% for the reporting period February 2022 and 2023.

In terms of paragraphs 46 and 47 of IAS 12, both current and deferred tax assets and liabilities are to be measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. All deferred tax assets and liabilities, which will realise during and after the financial period February 2023 has been raised at 28%. The tax rate differential impact of deferred tax assets and liabilities, which will realise after February 2023 at 27% was considered immaterial for the Company.

11. Investments

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

	2022 R'000	2021 R'000
Investment in associates and joint ventures		
(Proprietary Limited unless stated otherwise)		
Health Window	16 000	16 000
Kaelo Holdings	170 411	–
	186 411	16 000

Refer to Group financial statements note 4 in regards to additional disclosure.

	2022 R'000	2021 R'000
Investment in subsidiaries		
(Proprietary Limited unless stated otherwise)		
CJ Pharmaceutical Enterprises Limited	411 612	411 612
CJ Marketing	5 104	5 104
Dis-Chem Distribution	1 152 972	1 152 972
Evening Star Trading	4 216	4 216
Bemax	69 350	69 350
Dis-Chem York Street Pharmacy	26 778	26 778
Dis-Chem TLC De Wiekus	1 500	1 500
Dis-Chem Ballito Junction	11 540	11 540
Dis-Chem The Galleria Amanzimtoti	2 542	2 542
Mundel Gien (trading as Springbok)	32 500	32 500
Culemborg	1 000	1 000
Differenza	1 530	1 530
AT Gouws	9 500	9 500
Baby City	422 425	422 425
Dis-Chem Castle Gate Pharmacy	11 683	10 902
Dis-Chem Howick Mall Pharmacy	2 400	–
Pure Pharmacy Holdings	177 865	–
Dis-Chem Rynfield Terrace Pharmacy	10 851	
	2 355 368	2 163 471

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

	2022	2021
Total investment in subsidiaries, associates and joint ventures	2 541 779	2 179 471

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 rebates 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.

	2022 R'000	2021 R'000
Finished goods	**2 119 215**	2 051 976
Cost of inventories recognised as cost of sales	**16 690 690**	15 097 174

Provision for obsolete inventory amounts to R3 million (2021: R2 million).

The civil unrest and looting in July resulted in an impairment of inventory of R28 million. Additional write off's during the year amounted to R18 million (2021: Rnil).

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 25. Prepayments and other receivables are stated at their nominal values.

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.

	2022 R'000	2021 R'000
Trade receivables	237 787	162 914
Allowance for expected credit loss	–	–
Net trade receivables	237 787	162 914
Other receivables	520 797	525 812
Accrued income	81 475	54 454
Related parties (note 24)	229 089	139 011
Prepayments	101 014	122 355
Right of return asset	6 938	7 027
	1 177 100	1 011 573
Allowance for expected credit loss		
Opening and closing balance	–	–

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

Other receivables and accrued income 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. Prepayments consist of bonus advances and prepayment of IT licences.

As at 28 February, the age analysis of trade 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
2022							
Expected credit loss rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Estimated gross carrying amount at default	237 787	230 601	7 186	–	–	–	–
Expected credit loss	–	–	–	–	–	–	–

13. Trade and other receivables continued

			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
2021							
Expected credit loss rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Estimated gross carrying amount at default	162 914	162 914	–	–	–	–	–
Expected credit loss	–	–	–	–	–	–	–

As at 28 February, the age analysis of other receivables and accrued income 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
2022	**602 272**	**429 528**	**37 588**	**52 427**	**57 940**	**9 307**	**15 482**
2021	580 266	489 769	44 133	32 779	3 142	7 307	3 136

Related party receivables are not past due and the expected credit loss, factoring in forward looking factors, has been calculated at an immaterial amount.

Refer to note 25 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 25.

	2022 R'000	2021 R'000
Related parties (note 24)	**483 921**	374 086
Other loans	**53 748**	64 902
	537 669	438 988

Related party loans are payable on demand, unsecured and earn interest at the Group's current money market rate.

Other loans mainly relate to the loan given to USN, a company within the health industry and earns interest at prime less 0.5%. The loan has no fixed terms of repayment and is unsecured.

The expected credit loss, including forward-looking factors, has been calculated at an immaterial amount.

15. Share capital

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

	2022 R'000	2021 R'000
Authorised		
1 500 000 000 (2021:1 500 000 000) ordinary no par value shares		
Issued and fully paid		
860 084 483 (2021: 860 084 483) ordinary no par value shares	6 155 554	6 155 554
Reconciliation of shares issued		
Opening and closing balance	6 155 554	6 155 554

Treasury shares

Treasury shares are held for the forfeitable plan share scheme.

Opening balance	6 429	13 152
Treasury shares acquired	12 170	–
Treasury shares issued for share scheme	(6 429)	(6 723)
Closing balance	12 170	6 429

339 001 treasury shares were bought in January 2022 for R12 million at an average price of R35.90 per share.

At 28 February 2022, the Group held 339 001 treasury shares (2021: 255 587).

16. Dividends to shareholders

	2022 R'000	2021 R'000
June 2021	267 516	–
November 2021	167 591	–
	435 107	–

	2022 Cents	2021 Cents
Dividends per share		
Interim paid	19.5	–
Final declared/paid [1]	20.2	31.1

(1) Declared subsequent to year-end on 19 May 2022 (2021: 20 May 2021).

17. Other reserves

Share-based payments

Employees (including senior executives) of the Company 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 Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service 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 Company'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.

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.

17. Other reserves continued

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 28 February 2022

FSP

Offer date	Expiry date	Number of shares Feb 2021	Number of shares forfeited	Number of shares granted	Number of shares exercised	Number of shares Feb 2022
1 February 2019	31 July 2021	255 588	–	–	255 588	–
1 March 2021	30 June 2022	–	–	454 183	–	454 183
1 March 2021	30 June 2023	–	–	783 091	–	783 091
1 September 2021	30 June 2024	–	–	500 724	–	500 724

SAR

Offer date	Expiry date	Number of options Feb 2021	Number of options forfeited	Number of shares granted	Number of options exercised	Number of options Feb 2022
1 June 2018	31 May 2023	505 624	–	–	239 046	266 578
1 February 2019	31 July 2024	622 762	–	–	150 073	472 689

17. Other reserves continued

Options/shares not yet exercised by 28 February 2021

FSP

Offer date	Expiry date	Number of shares Feb 2020	Number of shares forfeited	Number of shares exercised	Number of shares Feb 2021
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 2020	Number of options forfeited	Number of options exercised	Number of options Feb 2021
1 June 2018	31 May 2023	505 624	–	–	505 624
1 February 2019	31 July 2024	622 762	–	–	622 762

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

	2022 R'000	2021 R'000
Expense arising from FSP	**18 845**	4 124
Expense arising from SAR	**1 282**	2 282
	20 127	6 406

There were no modifications to the grants in 2022 or 2021.

Movements during the year

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

FSP	2022 Number	2022 WAEP	2021 Number	2021 WAEP
Outstanding at 1 March	**255 587**	**22.7**	531 856	24.8
Granted during the year	**1 737 998**	**20.4**	–	–
Forfeited during the year	**–**	**–**	–	–
Exercised during the year	**(255 588)**	**31.5**	(276 269)	18.5
Expired during the year	**–**	**–**	–	–
Outstanding at 28 February	**1 737 997**	**20.4**	255 587	22.7
Exercisable at 28 February	**–**		–	

The weighted average remaining contractual life for the shares outstanding as at 28 February 2022 was 1.4 years (2021: 0.2 years). The weighted average fair value of shares granted during the year was R24.9 (2021: Rnil).

17. Other reserves continued

SAR	2022 Number	2022 WAEP	2021 Number	2021 WAEP
Outstanding at 1 March	**1 128 386**	**8.0**	1 128 386	8.0
Granted during the year	–	–	–	–
Forfeited during the year	–	–	–	–
Exercised during the year	(389 119)	3.2	–	–
Expired during the year	–	–	–	–
Outstanding at 28 February	**739 267**	**7.8**	1 128 386	8.0
Exercisable at 28 February	**739 267**	**7.8**	505 624	9.2

The weighted average remaining contractual life for the shares outstanding as at 28 February 2022 was nil years (2021: 0.2 years). The weighted average fair value of shares granted during the year was Rnil (2021: Rnil).

The following table lists the inputs to the models used:

	2018 FSP June	2019 FSP February	2018 SAR June	2019 SAR February	2021 FSP March	2021 FSP March	2021 FSP September
Spot price	29.69	25.70	29.69	25.70	22.49	22.49	30.82
Strike price	N/A	N/A	28.48	28.96	N/A	N/A	N/A
Volatility	N/A	N/A	27.0%	30.0%	N/A	N/A	N/A
Dividend yield	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Risk-free rate	N/A	N/A	7.27%	7.48%	N/A	N/A	N/A
Attrition rate	5.0%	5.0%	5.0%	5.0%	0%	0%	0%
Vesting date	31 May 2020	31 July 2021	31 May 2020	31 July 2021	30 June 2022	30 June 2023	30 June 2024
Maturity date	31 May 2020	31 July 2021	31 May 2023	31 July 2024	30 June 2022	30 June 2023	30 June 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 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 reporting 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.

	2022 R'000	2021 R'000
Minimum payments due		
– Within one year	445 475	443 828
– Within five years	1 294 463	1 399 921
– Over five years	466 122	555 772
	2 206 060	2 399 521
Less: future finance charges	(418 677)	(504 000)
Present value of minimum payments	1 787 383	1 895 521
Present value of minimum payment due:		
– Within one year	324 394	308 269
– Within five years	1 041 576	1 095 577
– Over five years	421 413	491 675
	1 787 383	1 895 521
Non-current liabilities	1 462 988	1 587 252
Current liabilities	324 394	308 269
	1 787 382	1 895 521

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 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.

The Company adopted the Covid-19 Related Rent Concessions, IFRS 16 amendment in the prior year. The negotiated rental relief was accounted for by reducing the lease liability and recognising a negative variable lease payment credit in occupancy costs under other expenses. The impact of rental concessions amounted to R3.1 million in the prior year. No such concessions were received in the current financial period.

19. Loans payable

Loans payable are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 25.

	2022 R'000	2021 R'000
Non-current loans		
Absa Bank	429 450	554 450
Investec Bank	42 195	52 760
	471 645	607 210
Current loans		
Related parties (note 24)	573 702	689 928
Absa Bank	125 000	125 000
Investec Bank	15 221	20 295
Other	56	54
	713 979	835 277

The Absa loan consists of two parts:

- The first part of the term loan is for R500 million repayable over four years in quarterly payments at a variable interest rate linked to JIBAR until 31 March 2023.
- The second part of the term loan is for R400 million repayable at the end of four years (31 March 2023) at a variable interest rate linked to JIBAR.

The Investec loan was taken out in the current year and is repayable over four and a half years at a 3 month JIBAR rate.

Related party loans are considered to be short-term in nature as they are payable on demand and earn interest at the Group's current money market rate. These loans are unsecured.

20. 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 25.

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.

	2022 R'000	2021 R'000
Trade payables	**951 099**	733 835
Related parties (note 24)	**1 443 306**	847 461
Other payables	**141 319**	49 980
VAT	**61 101**	64 568
Right of return liability	**8 999**	9 022
	2 605 824	1 704 866

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 25 on liquidity risk management.

21. 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 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.

	2022 R'000	2021 R'000
Leave pay	**145 435**	126 254
Bonus	**60 519**	53 959
	205 954	180 213

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

22. 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% (2021: 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.

	2022 R'000	2021 R'000
Loyalty benefit points scheme	56 231	83 827
Gift vouchers	14 001	13 348
	70 232	97 175
Loyalty points		
Opening balance	83 827	35 520
Points issued	143 782	264 096
Revenue recognised*	(171 378)	(215 789)
Closing balance	56 231	83 827
Gift vouchers		
Opening balance	13 348	11 642
Vouchers issued	109 005	107 982
Revenue recognised*	(108 352)	(106 276)
Closing balance	14 001	13 348

* *Approximately 100% of the opening balance has been recognised as revenue in the current and prior year.*

23. Notes to the statement of cash flows

Cash and cash equivalents are accounted for as financial assets at loans and receivables and bank overdrafts are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 25.

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

		2022 R'000	2021 R'000
23.1	**Cash generated by operations**		
	Profit before tax	980 227	704 708
	Adjustments for:		
	– Depreciation and amortisation	530 232	486 735
	– Finance costs	285 918	266 704
	– Finance income	(8 233)	(10 904)
	– Increase in employee obligations	25 741	17 711
	– (Decrease)/Increase in deferred revenue	(26 943)	50 013
	– Increase/(Decrease) in net returns provision	66	(63)
	– Dividend income	(70 780)	(42 297)
	– Loss on sale and impairment of tangible and intangible assets	6 169	130
	– Decrease in provision for expected credit loss	–	(142)
	– Contingent consideration	(88)	(456)
	– Gain on lease liability	(5 896)	–
	– Share scheme expense	18 575	6 406
		1 734 988	1 478 545
23.2	**Movement in working capital**		
	Increase in loans receivable	(96 646)	(28 420)
	(Decrease)/Increase in loans payable	(116 224)	1 035
	Increase in inventories	(67 239)	(138 430)
	Increase in trade and other receivables	(165 617)	(122 615)
	Increase/(Decrease) in trade and other payables	907 086	(91 231)
		461 360	(379 661)
23.3	**Taxation paid**		
	Net amount payable at beginning of the year	(16 367)	205
	Amount charged excluding deferred tax	(238 422)	(181 178)
	Net amount payable at end of the year	27 863	16 367
		(226 926)	(164 606)

23. Notes to the statement of cash flows continued

	2022 R'000	2021 R'000
Cash and cash equivalents comprise the following:		

23.4 Cash and cash equivalents

	2022 R'000	2021 R'000
Cash on hand and balances with banks	**551 870**	321 585
Bank overdrafts	**(296 930)**	(311 421)
	254 940	10 164

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

23.5 Changes in financing activities

			Non-cash changes			
	2021	Cash flows	New leases/ transaction	Release/ fair value changes	Present value interest unwinding	2022
Bank loans	752 505	(140 639)	–	–	–	**611 866**
Contingent consideration	15 913	(16 455)	7 984	(88)	630	**7 984**
Lease liability (1)	1 895 521	(317 767)	219 466	(9 838)	–	**1 787 382**
	2020					2021
Bank loans	804 450	(51 945)	–	–	–	752 505
Contingent consideration	45 121	(31 590)	–	(456)	2 838	15 913
Lease liability (1)	1 604 884	(285 009)	573 286	2 360	–	1 895 521

(1) The interest repaid on the lease liability is R143 million (2021: R146 million) and is reflected in finance costs under operating activities.

24. 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 28 February 2022 and 28 February 2021 are unsecured and settlement occurs in cash.

The ultimate controlling party of the company is Ivlyn Proprietary Limited that holds 35.1% (2021: 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.

24. Related party transactions continued

2022

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 expense R'000	Services received R'000
Dis-Chem Distribution	(12 752 543)	–	–	–	(1 438 077)	–	–	–
Dis-Chem Ballito	2 750/ (1 130)	4 076	(72 514)	6 912	–	–	(14 378)	–
Dis-Chem Flamwood	984/ (1 601)	–	(42 879)	6 515	–	–	(6 494)	–
Dis-Chem Krugersdorp	1 899/ (5 389)	–	(20 258)	–	(1 972)	–	(6 623)	–
Dis-Chem Glen Fair	1 029/ (1 367)	–	(4 108)	9 231	–	–	–	–
Dis-Chem Rynfield	331/ (438)	4 149	(22 696)	6 559	–	–	(3 646)	–
Dis-Chem Three Rivers	1 848/ (996)	–	(24 706)	6 757	–	–	(4 555)	–
Dis-Chem Amanzimtoti	2 489/ (3 854)	5 755	(66 820)	3 213	–	–	(12 633)	–
Dis-Chem Oncology	1 384/ (285)	–	–	4 665	–	–	–	–
Dis-Chem Festival Mall	3 280/ (1 594)	10 132	(12 072)	3 716	–	–	(3 295)	–
Dis-Chem Worcester	626/ (716)	–	(17 082)	2 603	–	–	(5 841)	–
Dis-Chem Park Station	–	18	–	–	–	–	–	–
Dis-Chem Maponya Mall	365/ (498)	11 550	(17 343)	2 145	–	–	(4 590)	–
Dis-Chem Jubilee Mall	568/ (443)	26 649	(19 114)	2 145	–	–	(3 714)	–
Pharma-Logistical Services	16 552/ (59 285)	21 800	(2 671)	–	(1 420)	–	–	–
Dis-Chem Mega City	252/ (480)	–	(2 514)	2 116	–	–	(3 292)	–
Dis-Chem Goodwood	788/ (951)	8 573	(11 518)	1 602	–	–	(3 955)	–
Dis-Chem Mams Mall	1 642/ (738)	–	(9 284)	2 850	–	–	–	–
The Local Choice	930/ (487)	21 510	–	6 943	–	–	–	–
TLC De Wiekus	459/ (633)	5 145	(10 418)	6 767	–	–	(2 255)	–
Dis-Chem Namibia	–	340	–	1 988	–	–	–	–
Dis-Chem Swakopmund	–	5 126	–	–	(84)	–	–	–
Walvis Bay Pharmacy	–	–	–	–	(129)	–	–	–

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 expense R'000	Services received R'000
Dis-Chem Wernhill	–	4 352	–	–	(1 624)	–	–	–
Dis-Chem York Street	860/ (843)	–	(2 023)	2 079	–	–	–	–
Dis-Chem Northlands	497/ (303)	–	(1 765)	936	–	–	–	–
Dis-Chem Airport Junction	–	3 367	–	2 211	–	–	–	–
Dis-Chem Gallo	–	10 516	–	1 085	–	–	–	–
CJ Enterprises	(2 015 539)	–	–	–	–	–	–	–
Bemax International	–	49 492	–	14 789	–	–	–	–
Dis-Chem Ferndale	1 242/ (1 405)	–	(19 336)	7 005	–	–	(1 112)	–
Springbok	1 159/ (317)	–	(10 804)	8 041	–	–	(496)	–
Dis-Chem Erasmuskloof	2 351/ (995)	–	(59 420)	17 636	–	–	(4 517)	–
Dis-Chem Thavhani	555/ (445)	8 485	(20 965)	2 065	–	–	(1 026)	–
Dis-Chem Howick	–	1 195	–	509	–	–	–	–
Baby City	951/ (2 125)	55 783	(61 930)	39 725	–	–	–	–
Geniob	–	17 888	–	1 969	–	–	–	–
TLC Medi-Park	(234)	–	(1 821)	3 110	–	–	–	–
TLC Kungwini	–	19	–	–	–	–	–	–
Origin Brands	–	12 721	–	–	–	–	–	–
Pure Pharmacy Holdings	–	67 865	(39 557)	102	–	–	–	–
Pure Pharmacy Retail	(1 744)	–	–	51 100	–	–	–	–
Vexall	3 421/ (23 808)	–	(84)	–	–	–	–	(49 154)
Health Window	–	–	–	–	–	–	–	(22 473)
Healthforce	–	93 815	–	–	–	–	–	–
Servco	–	10 200	–	–	–	–	–	–
BEESECDCP	–	23 400	–	–	–	–	–	–
Various property companies [(1)]	–	–	–	–	–	(116 220)	(11 167)	–

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

24. Related party transactions continued

2021

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	1 082/(11 389 661)	778	(11 036)	–	(822 177)	–	–	–
Dis-Chem Ballito	1 227/(1 406)	13 248	(106 759)	6 426	–	–	(6 641)	–
Dis-Chem Flamewood	448/(363)	–	(48 626)	8 077	–	–	(2 724)	–
Dis-Chem Krugersdorp	1 956/(1 676)	–	(32 886)	4 062	–	–	(2 685)	–
Dis-Chem Glen Fair	1 043/(1 171)	–	(11 526)	10 565	–	–	(681)	–
Dis-Chem Rynfield	277/(485)	15 000	(25 565)	7 807	–	–	(1 848)	–
Dis-Chem Three Rivers	725/(654)	–	(31 203)	7 384	–	–	(1 861)	–
Dis-Chem Amanzimtoti	1 090/(1 424)	9 872	(89 520)	6 160	–	–	(4 917)	–
Dis-Chem Oncology	902/(885)	–	–	4 276	–	–	–	–
Dis-Chem Festival Mall	429/(590)	10 132	(23 162)	5 615	–	–	(1 306)	–
Dis-Chem Worcester	1078/(989)	–	(24 151)	2 504	–	–	(1 396)	–
Dis-Chem Park Station	91/(3 818)	–	(2)	–	(12)	–	–	–
Dis-Chem Maponya Mall	315/(417)	11 550	(23 404)	2 115	–	–	(1 666)	–
Dis-Chem Jubilee Mall	292/(248)	26 649	(30 743)	2 506	–	–	(1 915)	–
Pharma-Logistical Services	6 055/(2 414)	21 800	(58 625)	3 920	–	–	–	–
Dis-Chem Mega Mall	93/(198)	–	(9 604)	2 367	–	–	(843)	–
Dis-Chem Goodwood	897/(743)	8 573	(19 270)	1 577	–	–	(1 417)	–
Dis-Chem Mams Mall	407/(931)	–	(18 579)	1 865	–	–	–	–
The Local Choice	244/(484)	38 728	–	6 274	–	–	–	–
TLC De Wiekus	458/(307)	5 145	(3 560)	155	–	–	(1 961)	–
Dis-Chem Namibia	–	–	–	2 507	–	–	–	–
Dis-Chem Swakopmund	–	4 498	–	–	(229)	–	–	–
Walvis Bay Pharmacy	–	22	–	–	(454)	–	–	–

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 Wernhill	–	6 781	–	1 283	–	–	–	–
Wernhill Pharmacy	–	164	–	–	(76)	–	–	–
Platz Am Meer	–	–	–	–	(3)	–	–	–
Dis-Chem Airport Junction	–	8 765	–	6 877	–	–	–	–
Dis-Chem Gallo	–	10 516	–	3 348	–	–	–	–
CJ Enterprises	(1 833 540)	87 683	–	–	–	–	–	–
Bemax International	(179 138)	868	–	–	(19 233)	–	–	–
A. Retief	822/(470)	–	(9 302)	1 525	–	–	–	–
Dis-Chem Ferndale	1 748/(2 086)	–	(32 448)	9 663	–	–	(1 901)	–
Springbok	94/(25)	–	(11 494)	7 676	–	–	(316)	–
Dis-Chem Erasmuskloof	–	–	(50 512)	10 362	–	–	(380)	–
Dis-Chem Thavhani	245/(81)	–	(4 230)	4 152	–	–	(69)	–
Baby City	–	14 467	(6 745)	1 702	–	–	–	–
Geniob	–	66 931	–	2 157	–	–	–	–
TLC Medi-Park	81/(130)	–	(6 892)	4 104	–	–	–	–
TLC Kungwini	–	14	–	–	–	–	–	–
Origin Brands	–	11 902	–	–	–	–	–	–
Vexall	(15 583)	–	(84)	–	(4 210)	–	–	(35 582)
Health Window	–	–	–	–	(998)	–	–	(12 425)
Wi-Connect	–	–	–	–	(69)	–	–	–
Various property companies[1]	–	–	–	–	–	(140 392)	(13 138)	–

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

24. Related party transactions continued

For further information in regards to loans receivable/payable, trade receivables and trade payables refer to note 14, 19, 13 and 20 respectively.

The company received dividends of R71 million (2021: R42 million) from its subsidiaries during the period.

	2022 R'000	2021 R'000
Compensation of key management		
Short-term employee benefits	88 348	58 225
Post-employment benefits	747	576
Non-executive directors' fees	5 841	5 391
	94 936	64 192

Executive and non-executive emoluments to directors

2022	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	3 165	–	–	–	–	3 165
MJ Bowman	669	–	–	–	–	669
A Coovadia	589	–	–	–	–	589
JS Mthimunye	713	–	–	–	–	713
A Sithebe	556	–	–	–	–	556
KDD Kobue	149	–	–	–	–	149
	5 841	–	–	–	–	5 841
Executive directors						
IL Saltzman	–	13 707	3 972	72	457	18 208
LF Saltzman	–	11 234	3 223	72	253	14 782
RM Morais	–	10 533	2 995	72	536	14 136
SE Saltzman (alternate)	–	5 521	1 242	72	510	7 345
	–	40 995	11 432	288	1 756	54 471
Prescribed officers						
SRN Goetsch	–	5 728	1 225	72	222	7 247
BI Epstein	–	5 730	1 231	72	253	7 286
KS Sterling	–	5 728	1 221	72	204	7 225
CJ Williams	–	5 728	1 255	72	223	7 278
CR Fairweather	–	2 855	2 442	171	120	5 588
	–	25 769	7 374	459	1 022	34 624

24. Related party transactions continued

2021	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	3 123	–	–	–	–	3 123
MJ Bowman	638	–	–	–	–	638
A Coovadia	562	–	–	–	–	562
JS Mthimunye	682	–	–	–	–	682
MSI Gani	301	–	–	–	–	301
A Sithebe	85	–	–	–	–	85
	5 391	–	–	–	–	5 391
Executive directors						
IL Saltzman	–	13 242	–	72	180	13 494
LF Saltzman	–	10 870	–	72	18	10 960
RM Morais	–	6 075	–	72	177	6 324
SE Saltzman (alternate)	–	5 723	–	72	231	6 026
	–	35 910	–	288	606	36 804
Prescribed officers						
SRN Goetsch	–	5 602	–	72	59	5 733
BI Epstein	–	5 527	–	72	161	5 760
KS Sterling	–	5 602	–	72	40	5 714
CJ Williams	–	4 569	–	72	149	4 790
	–	21 300	–	288	409	21 997

(1) Bonuses relate to amounts actually paid in the period.

24. Related party transactions continued

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

Options granted to prescribed officers on the share appreciation rights scheme at 28 February 2022:

	S Goetsch	B Epstein	K Sterling	C Williams	Total options
Offer date: 1 June 2018					
Opening balance	58 936	58 999	58 921	41 459	218 315
Forfeited	–	–	–	–	–
Exercised	–	–	–	–	–
Closing balance	58 936	58 999	58 921	41 459	218 315
Offer date: 1 February 2019					
Opening balance	65 741	65 893	65 596	49 048	246 278
Forfeited	–	–	–	–	–
Exercised	–	–	–	–	–
Closing balance	65 741	65 893	65 596	49 048	246 278

Options granted to prescribed officers on the share appreciation rights scheme at 28 February 2021:

	S Goetsch	B Epstein	K Sterling	C Williams	Total options
Offer date: 1 June 2018					
Opening balance	58 936	58 999	58 921	41 459	218 315
Forfeited	–	–	–	–	–
Exercised	–	–	–	–	–
Closing balance	58 936	58 999	58 921	41 459	218 315
Offer date: 1 February 2019					
Opening balance	65 741	65 893	65 596	49 048	246 278
Forfeited	–	–	–	–	–
Exercised	–	–	–	–	–
Closing balance	65 741	65 893	65 596	49 048	246 278

The employment contracts of executive directors differ from those of other employees in that they do not accrue leave and have a longer notice period.

25. 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.

25. 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

25. Financial risk management objectives and policies continued

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 Group also does not applied the presumption that a default has occurred when a financial asset is 90 days past due as payments are still received on a regular basis from customers past 90 days.

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 bankruptcy 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

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

25. 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, 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 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.

25. Financial risk management objectives and policies continued

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:

2022	Financial instrument R'000	Fair value through profit or loss R'000	Financial liability at amortised cost R'000	Financial asset at amortised cost R'000	Non-financial instruments, leases and investments R'000
Assets					
Property, plant and equipment	–	–	–	–	2 146 315
Intangible assets	–	–	–	–	127 701
Deferred taxation	–	–	–	–	69 204
Investments	–	–	–	–	2 541 779
Inventories	–	–	–	–	2 119 215
Trade and other receivables	1 069 148	–	–	1 069 148	107 952
Loans receivable	537 669	–	–	537 669	–
Cash and cash equivalents	551 870	–	–	551 870	–
Liabilities					
Lease liability	–	–	–	–	1 787 382
Contingent consideration	7 984	7 984	–	–	–
Loans payable	1 185 624	–	1 185 624	–	–
Trade and other payables	2 535 724	–	2 535 724	–	70 100
Employee-related obligations	–	–	–	–	205 954
Deferred revenue	–	–	–	–	70 232
Taxation payable	–	–	–	–	27 863
Bank overdraft	296 930	–	296 930	–	–

25. Financial risk management objectives and policies continued

2021	Financial instrument R'000	Fair value through profit or loss R'000	Financial liability at amortised cost R'000	Financial asset – loans and receivables R'000	Non-financial instruments, leases and investments R'000
Assets					
Property, plant and equipment	–	–	–	–	2 200 502
Intangible assets	–	–	–	–	160 621
Deferred taxation	–	–	–	–	79 838
Investments	–	–	–	–	2 179 471
Inventories	–	–	–	–	2 051 976
Trade and other receivables	882 191	–	–	882 191	129 382
Loans receivable	438 988	–	–	438 988	–
Cash and cash equivalents	321 585	–	–	321 585	–
Liabilities					
Lease liability	–	–	–	–	1 895 521
Contingent consideration	15 913	15 913	–	–	–
Loans payable	1 442 487	–	1 442 487	–	–
Trade and other payables	1 631 276	–	1 631 276	–	73 590
Employee-related obligations	–	–	–	–	180 213
Deferred revenue	–	–	–	–	97 175
Taxation payable	–	–	–	–	16 367
Bank overdraft	311 421	–	311 421	–	–

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.

	2022 R'000	2021 R'000
The maximum exposure to credit risk for trade receivables (excluding intercompany) is as follows:	**237 787**	162 914
The maximum exposure to credit risk for other receivables and accrued income is as follows:	**602 272**	580 266

25. Financial risk management objectives and policies continued

Trade receivables primarily relate to amounts recoverable from medical aids. These receivables are deemed to be low credit risk as medical schemes pay mainly within 14 days and 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 R31 million at 28 February 2022 (2021: R79 million). The Geniob group was in an accumulated loss position but has started to make a profit since the 2021 financial year and paid back R48 million on the loan in the current year. Therefore no expected credit loss was raised for this loan.

Other loans mainly relate to a loan given to USN, a company in the health industry, which is expected to be repaid within the next 12 months.

For loan 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
2022			
Opening gross carrying amount of loans	438 988	–	–
New loans receivable	307 796	–	–
Loans repaid	(215 797)	–	–
Interest	6 682	–	–
	537 669	–	–

25. Financial risk management objectives and policies continued

	12 month Stage 1	Lifetime Stage 2	Credit impaired Stage 3
2021			
Opening gross carrying amount of loans	404 297	–	–
New loans receivable	129 425	–	–
Loans repaid	(101 850)	–	–
Interest	7 116	–	–
	438 988	–	–

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 and Investec loans fluctuate 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 (2021: 200), the impact of the company's profit before tax would be approximately R31 million (2021: R17 million). The sensitivity analysis presented was based on the average balance of the funds during the period on the bank borrowings, Absa loan and Investec loan.

Liquidity risk

Dis-Chem had a general banking facility of R50 million with Nedbank, bank loans of R612 million (2021: R753 million), related party loans of R574 million (2021: R690 million) as well as an overdraft prime lending facility of up to R1.8 billion (2021: R1.9 billion). Dis-Chem Pharmacies Limited has provided limited suretyship to Nedbank for R15.3 million (2021: R15.3 million) in regards to Baby City and R80 million (2021: R80 million) in regards to CJ Pharmaceuticals overdraft facilities.

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 (2021: R20 million).

Dis-Chem Pharmacies has entered into a guarantee agreement in favour of The Standard Bank of South Africa Limited in terms of SuperStrike Investments 56 Proprietary Limited (trading as Baby Boom) to the value of R20 million (2021: R20 million).

25. Financial risk management objectives and policies continued

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
2022				
Trade and other payables	–	2 535 724	–	2 535 724
Loans payable excluding bank loans	573 758	–	–	573 758
Bank overdraft	–	296 930	–	296 930
Contingent consideration	–	8 242	–	8 242
Financial guarantee contract	20 000	–	–	20 000
Bank loans	–	182 305	478 293	660 598
Undiscounted payments	593 758	3 023 201	478 293	4 095 252
Less: future finance charges	–	(36 860)	(12 130)	(48 990)
	593 758	2 986 341	466 163	4 046 262
2021				
Trade and other payables	–	1 631 276	–	1 631 276
Loans payable excluding bank loans	689 982	–	–	689 982
Bank overdraft	–	311 421	–	311 421
Contingent consideration	–	16 543	–	16 543
Bank loans	–	182 201	650 981	833 182
Undiscounted payments	689 982	2 141 441	650 981	3 482 404
Less: future finance charges	–	(37 536)	(43 771)	(81 307)
	689 982	2 103 905	607 210	3 401 097

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:

	Level 1 R'000	Level 2 R'000	Level 3 R'000
2022			
Financial liabilities at fair value through profit or loss			
– Contingent consideration	–	–	7 984
2021			
Financial liabilities at fair value through profit or loss			
– Contingent consideration	–	–	15 913

25. 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 7.9% (2021: 7.9%) used to determine the present value of the future cash flows. The contingent consideration relating to acquisition of the non-controlling shareholders was settled in the current year.

The additional contingent consideration was raised with the acquisition of 25% of Kaelo in November in the current year. The contingent consideration is based on performance targets being made to June 2022.

	2022 R'000	2021 R'000
Reconciliation of recurring Level 3 fair value movements:		
Opening balance	**15 913**	45 121
Payment	**(16 455)**	(31 590)
Interest	**630**	2 838
Additional contingent liability	**7 984**	–
Unrealised fair value adjustment (1)	**–**	(309)
Realised fair value adjustment (1)	**(88)**	(147)
Closing balance	**7 984**	15 913

(1) Amount reflected in other income in Statement of Comprehensive Income.

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 2022 and 2021.

The fair value of all other financial instruments approximates their carrying amounts.

26. 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. These were met in the current and prior year.

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 28 February 2022 and 28 February 2021.

27. Events after the reporting period

To date the Company has not seen a significant impact to its operations from the war in Ukraine but has been impacted by higher fuel costs and limited product shortages as a result of supply chain disruptions. The floods in KZN also did not significantly impact the operations of the Group.

ANALYSIS OF ORDINARY SHAREHOLDERS

as at 28 February 2022

	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Shareholder spread				
1 – 1 000	36 315	88.70%	2 965 437	0.34%
1 001 – 10 000	3 523	8.60%	11 266 866	1.31%
10 001 – 100 000	752	1.84%	24 355 898	2.83%
100 001 – 1 000 000	295	0.72%	91 569 924	10.65%
Over 1 000 000	58	0.14%	729 926 358	84.87%
Total	40 943	100%	860 084 483	100%

	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Distribution of shareholders				
Assurance Companies	44	0.11%	14 501 063	1.69%
Close Corporations	63	0.15%	239 467	0.03%
Collective Investment Schemes	268	0.65%	132 820 283	15.44%
Custodians	17	0.04%	1 970 451	0.23%
Foundations & Charitable Funds	55	0.13%	4 195 040	0.49%
Hedge Funds	14	0.03%	760 110	0.09%
Insurance Companies	15	0.04%	3 589 804	0.42%
Investment Partnerships	29	0.07%	109 780	0.01%
Managed Funds	40	0.10%	7 368 801	0.86%
Medical Aid Funds	21	0.05%	1 457 730	0.17%
Organs of State	9	0.02%	86 277 315	10.03%
Private Companies	304	0.74%	485 089 082	56.40%
Public Companies	7	0.02%	1 743 490	0.20%
Public Entities	6	0.01%	183 090	0.02%
Retail Shareholders	39 151	95.62%	21 315 976	2.48%
Retirement Benefit Funds	278	0.68%	79 678 423	9.26%
Scrip Lending	10	0.02%	3 132 059	0.36%
Sovereign Funds	6	0.01%	8 404 308	0.98%
Stockbrokers & Nominees	15	0.04%	1 133 185	0.13%
Trusts	591	1.44%	6 115 026	0.71%
Total	40 943	100%	860 084 483	100%

ANALYSIS OF ORDINARY SHAREHOLDERS CONTINUED

as at 28 February 2022

	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Shareholder type				
Non-public shareholders	12	0.03%	387 561 099	45.06%
Directors and associates	11	0.03%	387 222 098	45.02%
Dis-Chem Pharmacies Limited	1	0.00%	339 001	0.04%
Public shareholders	40 931	99.97%	472 523 384	54.94%
Total	40 943	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	147 888 766	17.19%
Public Investment Corporation	51 803 090	6.02%
Total	199 691 856	23.21%
Beneficial shareholders with a holding greater than 3% of the issued shares		
Ivlyn (Pty) Ltd	302 066 319	35.12%
Government Employees Pension Fund	83 850 994	9.75%
Coronation Fund Managers	73 188 270	8.51%
Royal Bafokeng Holdings (Pty) Ltd	56 937 593	6.62%
Stansh (Pty) Ltd	39 904 885	4.64%
Wakanda Security Holdings RF (Pty) Ltd	29 531 148	3.43%
Total	585 479 209	68.07%

dischemgroup.co.za