Dis-Chem PHARMACIES

GROUP AND COMPANY AUDITED ANNUAL FINANCIAL STATEMENTS

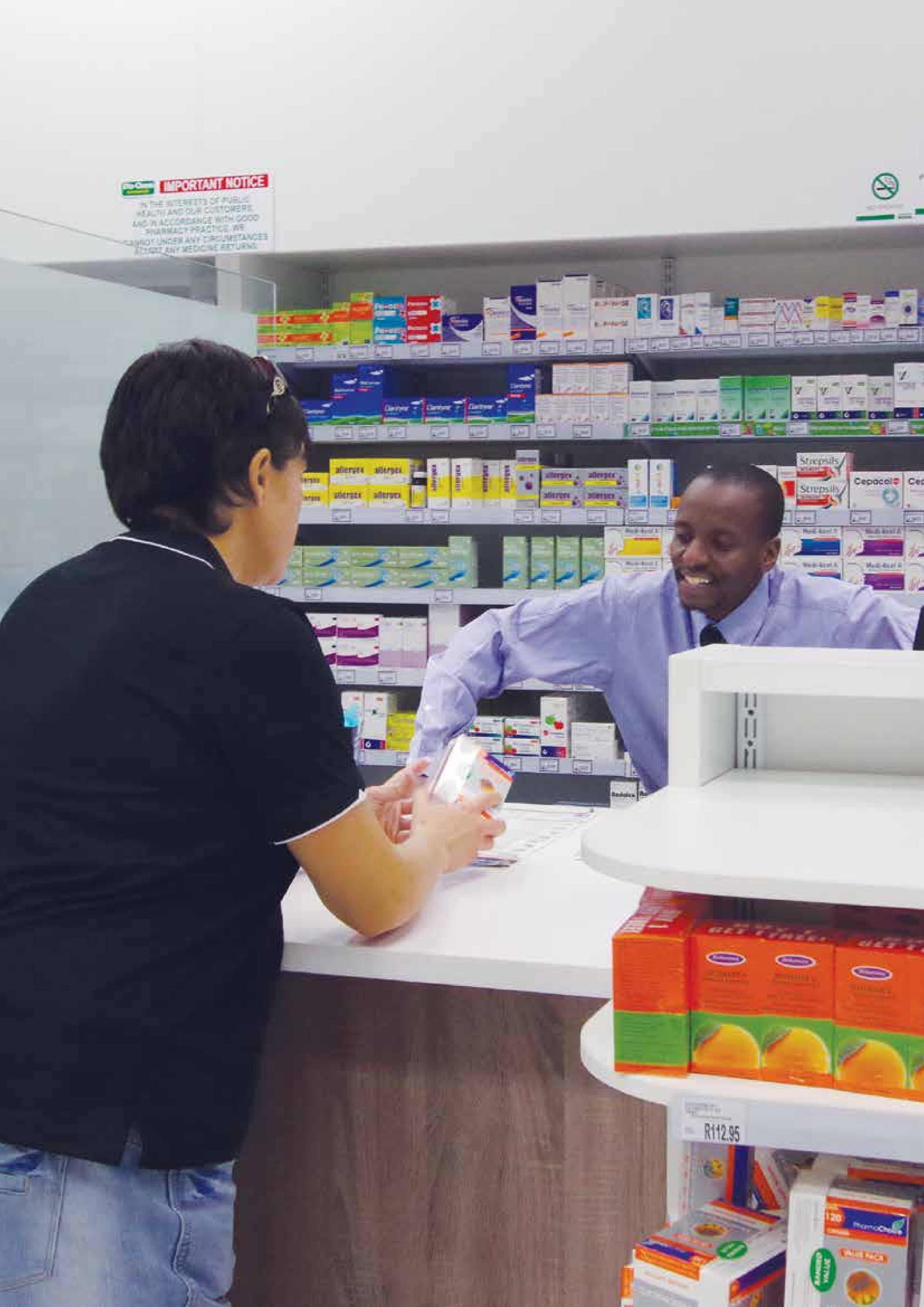
for the twelve months ended 28 February

2017

Dis-Chem Pharmacies Limited
(Registration number: 2005/009766/06)

AUDITED ANNUAL FINANCIAL STATEMENTS

The annual financial statements have been prepared under the supervision of Mr Rui Manuel Morais CA(SA), the Chief Financial Officer of the Group and company.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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 2017, and the statements of comprehensive income, changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations issued by the IFRS Interpretations Committee (IFRIC), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council (FRSC), the JSE Listings Requirements and the Companies Act of South Africa. The annual financial statements are therefore based upon appropriate accounting policies that present fairly the financial position, financial performance and cash flows of the company and the Group, 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 2018 and beyond, and other appropriate information. The directors have also considered forecasts and budgets for a 12-month period from the approval of these financial statements. In the light of this review and the current financial position, they are satisfied that the Group and company have access to adequate resources to continue in operational existence for the foreseeable future, and are thus considered it to be a going-concern.

The external auditors are responsible for independently auditing and reporting on the Group and company annual financial statements. The Group and company annual financial statements have been audited by the company's external auditors and their report is presented on pages 8 to 10.

The annual financial statements set out on pages 11 to 61, were approved by the board of directors on 23 June 2017 and were signed on its behalf by:

Ivan Leon Saltzman
Chief Executive Officer

Rui Manuel Morais
Chief Financial Officer

COMPANY SECRETARY CERTIFICATION

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

Whitney Green
Company Secretary

23 June 2017

REPORT OF THE DIRECTORS

for the year ended 28 February 2017

Review of activities

Main business and operations

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

On 18 November 2016, the Group listed on the Johannesburg Stock Exchange.

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

Going concern

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

Authorised and issued share capital

On 30 September 2016, a 150-for-1 share split took place and therefore increased the number of shares in issue to 794 446 200.

In addition, during the current year 261 135 336 shares were issued for R4.8 billion and 196 307 863 shares were repurchased for R3.6 billion.

During the prior year, 4 084 187 (before the 150-for-1 split) shares were issued for R1.2 billion to the current shareholders in proportion to their existing shareholding prior to the issue through a recapitalisation of shares.

Refer to note 18 for the share capital analysis.

Dividends

In preparation for listing, as part of a capital restructure, dividends amounting to R870 million were declared and paid by the company to shareholders on 30 March 2016.

A final dividend of 7.3 cents per share or R63 million was approved by the directors on 17 May 2017. The dividend was paid on 5 June 2017 to shareholders registered on 2 June 2017.

In the prior year, dividends amounting to a total of R777 million were declared and paid by the company to shareholders in three separate declarations on 29 May 2015, 26 June 2015 and 29 February 2016 amounting to R59 million, R88 million and R630 million respectively.

Dividends amounting to a total of R910 million (2016: R1 038 million) were declared and paid by the Group to shareholders during the year. The difference between the company and Group dividend, represent dividends paid by the subsidiaries to shareholders.

Refer to note 25 for the dividend per share analysis.

Events after reporting period

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

Special resolutions

Special resolutions passed during the year:

Special resolution 1: Authorisation of the public company conversion from a private company

Special resolution 2: Authorisation of the share capital conversion (1-to-150 split)

Special resolution 3: Authorisation of the adoption of the new Memorandum of Incorporation

Special resolution 4: Authorisation to allot and issue up to 42 963 684 ordinary no par value shares in terms of long term incentive plan (this plan has not been implemented at year end).

Borrowing limitations

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

Subsidiary companies/Group structure

Refer to note 4 in the annual financial statements.

Directors

Independent non-executive directors

LM Nestadt	(South African)	(Appointed 13 October 2016)
MJ Bowman	(South African)	(Appointed 13 October 2016)
A Coovadia	(South African)	(Appointed 13 October 2016)
JS Mthimunye	(South African)	(Appointed 13 October 2016)
MSI Gani	(South African)	(Appointed 3 May 2017)

Executive directors

IL Saltzman	(South African)	
LF Saltzman	(South African)	
RM Morais	(South African)	
SE Saltzman	(South African)	(Alternate for LF Saltzman)
BI Epstein	(South African)	(Resigned 13 October 2016)
SRN Goetsch	(South African)	(Resigned 13 October 2016)
NM Hegarty	(South African)	(Resigned 13 October 2016)
KS Sterling	(South African)	(Resigned 13 October 2016)
LLS van der Watt	(South African)	(Resigned 13 October 2016)

Directors' interest in shares and contracts

There are no material contracts involving directors' interests except for the lease contract between Dis-Chem Distribution Proprietary Limited and Columbia Falls 7 Proprietary Limited (refer to notes 24 and 29).

Direct and indirect shares held by the directors as at 28 February 2017 are as follows:

	Direct interest	Indirect interest
• LM Nestadt	–	2 702 703
• MJ Bowman	81 081	–
• A Coovadia	–	162 162
• JS Mthimunye	–	162 162
• IL Saltzman and LF Saltzman	–	457 041 396
• RM Morais	–	6 672 192
• SE Saltzman	–	6 672 192

On listing LM Nestadt, MJ Bowman, A Coovadia and JS Mthimunye acquired their shares. IL Saltzman and LF Saltzman sold 87 million shares while RM Morais and SE Saltzman each sold 1.3 million shares on listing.

There have been no changes to the directors' interests between the end of the 2017 financial year and the date of approval of the annual financial statements.

Secretary

WT Green

Registered office

23 Stag Road
Midrand
1685

AUDIT AND RISK COMMITTEE REPORT

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

Composition

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

- JS Mthimunye (Chairman)
- MJ Bowman
- A Coovadia
- Mr MSI Gani (appointed on 3 May 2017)

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.

Combined assurance

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

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

Finance function and financial director

The committee:

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

External audit

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

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

Internal audit

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

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

Risk management

The committee is an integral component of the risk management process and specifically the committee must oversee financial reporting risks; internal financial controls; fraud risks as it relates to financial reporting; and IT risks as it relates to financial reporting. The committee performs all the functions necessary to fulfil its risk management role and 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, Ernst & Young Inc., for the 2017 financial year.

Policy on non-audit services

Non-audit services provided by the external auditors in the current financial year related to the listing of the company and amounted to R9.8 million. This fee was approved by the Audit Committee. The committee subsequently formulated a policy to manage and approve non-audit services.

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 III.

J Mthimunye
Audit and Risk Committee Chairman

23 June 2017

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Dis-Chem Pharmacies Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate annual financial statements of Dis-Chem Pharmacies Limited (the Group) set out on pages 11 to 61, which comprise the statements of financial position as at 28 February 2017, and the statement of comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, and notes to the consolidated and separate annual financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate annual financial statements present fairly, in all material respects, the consolidated and separate financial position of Dis-Chem Pharmacies Limited as at 28 February 2017, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa and the JSE Listing Requirements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code), the International Federation of Accountants' *Code of Ethics for Professional Accountants* (IFAC code) and other independence requirements applicable to performing the audit of the financial statements of Dis-Chem Pharmacies Limited. We have fulfilled our other ethical responsibilities in accordance with the IRBA code, IFAC code and in accordance with other ethical requirements applicable to performing an audit of Dis-Chem Pharmacies Limited.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate annual financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate annual financial statements as a whole, and in forming our opinion thereon, and our response to each matter below does not represent a separate opinion on each of these matters.

Key audit matter	How our audit addressed the key matter
Supplier rebates (Group)	
As described in notes 16 and 17 to the Financial Statements, the Group recognises a reduction in cost of sales as a result of amounts receivable from suppliers. The reduction primarily comprises contributions received in relation to promotions in the Retail business, strategic volume moves and annual volume-based rebates. The majority of these contributions tend to be small in unit value but high in volume. The agreements include those which span relatively short periods of time but also and to a lesser extent annual agreements whose timing does not coincide with the company's year-end. There are therefore a number of agreements which are in progress at the financial year-end and for which final settlement will only occur at the end of the agreement or at a future point. There are also various types of rebate agreements which differ in their targets, percentages applied and relate to different periods, for each supplier. The calculation of these accruals are managed centrally and calculated manually. Significant time is therefore required to assess the completeness and accuracy of the source data and to obtain the evidence of all agreements in place at year-end.	In respect of the receivable recognised/accrued supplier income for in progress rebate agreements: • on a sample basis we inspected the rebate terms in the agreement and agreed them to inputs used in the calculation; • on a sample basis we vouched the sales volumes to those per the accounting records and considered whether the amounts being used related to the correct period per the agreement; • we tested the arithmetical accuracy of the calculation and agreed the amount calculated to the amount recognised in the financial statements; • on a sample basis we selected invoices and debit notes raised post year-end to test the completeness of accrued supplier income at 28 February 2017; and • in addition we tested the recoverability of the amounts due at the year-end by agreeing the amounts to subsequent settlement from suppliers.

INDEPENDENT AUDITOR'S REPORT CONTINUED

To the Shareholders of Dis-Chem Pharmacies Limited

Key audit matter	How our audit addressed the key matter
Acquisition of minority interest in subsidiaries	
Dis-Chem acquired the non-controlling interests in nine of its partner stores on listing on the Johannesburg Stock Exchange (JSE) as disclosed in note 23. We focused on this area due to the material nature of the acquisitions to the Group as well as the judgements and assumptions applied in determining the upfront and deferred consideration paid/to be paid to each of the respective partner stores. The deferred consideration is based on the following key assumptions: • performance targets being reached over a five-year period; and • discount rate applied to the projected cash flows and the interest expense associated with the unwinding of the liability.	Our audit procedures to test the accounting for the transaction included: • inspecting the purchase prices which were paid through the issue of Dis-Chem shares and/or cash and inspecting the contract clauses in the signed sale and purchase agreement; • evaluating the accounting treatment in regards to IFRS 10, "Consolidated Financial Statements"; • evaluating the calculation to determine the deferred consideration payable including considering the reasonability of the discount rate which was used; and • evaluating the consolidation entries in connection with the acquisition to determine whether the accounting was appropriate including the treatment of the non-controlling interest.

Other information

The directors are responsible for the other information. The other information comprises the directors' report, the Audit Committee's report and the Company Secretary's certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the annual report, which is expected to be made available to us after that date.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our 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 directors for the consolidated and separate financial statements

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

In preparing the consolidated and separate annual 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 and separate financial statements

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

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

- identify and assess the risks of material misstatement of the consolidated and separate annual 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 management.;
- conclude on the appropriateness of management's 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 and separate annual 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 and separate annual financial statements, including the disclosures, and whether the consolidated and separate annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate annual 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, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate annual 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

The engagement partner on the audit resulting in this independent auditor's report is Derek Engelbrecht (Director and Registered Auditor).

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

Ernst & Young Inc.

Director: Derek Engelbrecht

102 Rivonia Road
Johannesburg
Gauteng
South Africa
2146

23 June 2017

COMPANY AND GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 28 February 2017

		Company		Group	
		2017 R'000	2016 R'000	2017 R'000	2016 R'000
Revenue	7	**11 700 870**	10 045 549	**17 897 313**	15 508 284
Turnover	7	**11 070 211**	9 624 054	**17 268 475**	15 061 293
Cost of sales		**(8 118 479)**	(7 751 942)	**(13 059 154)**	(11 534 533)
Gross profit		**2 951 732**	1 872 112	**4 209 321**	3 526 760
Other income	7	**611 134**	414 927	**604 861**	439 676
Other expenses	8	**(2 653 689)**	(2 211 076)	**(3 679 386)**	(3 059 758)
Transaction costs for listing		**(8 074)**	–	**(8 074)**	–
Operating profit	8	**901 103**	75 963	**1 126 722**	906 678
Net financing costs		**(129 794)**	(13 878)	**(225 240)**	(89 151)
– Finance income	9	**19 525**	6 568	**23 977**	7 315
– Finance costs	9	**(149 319)**	(20 446)	**(249 217)**	(96 466)
Share of profit from associates		**-**	–	**501**	344
Profit before taxation	8	**771 309**	62 085	**901 983**	817 871
Taxation	10	**(188 456)**	(9 073)	**(246 871)**	(242 116)
Total comprehensive income for the year, net of tax		**582 853**	53 012	**655 112**	575 755
Profit attributable to:					
– Equity holders of the parent				**612 346**	512 775
– Non-controlling interests				**42 766**	62 980
Earning per share (cents)	11				
– Basic				**75.0**	212.0
– Diluted				**75.0**	212.0

COMPANY AND GROUP STATEMENT OF FINANCIAL POSITION

as at 28 February 2017

		Company		Group	
	Notes	2017 R'000	2016 R'000	2017 R'000	2016 R'000
ASSETS					
Non-current assets		**2 224 426**	1 530 437	**1 191 740**	1 064 929
Property, plant and equipment	12	**282 839**	225 980	**995 401**	918 979
Intangible assets	13	**8 752**	13 839	**40 310**	35 253
Deferred taxation	14	**90 789**	67 644	**156 029**	108 762
Investment in subsidiaries	15	**1 842 046**	1 221 508	**-**	-
Investment in associates	15	**-**	1 466	**-**	1 935
Current assets		**2 032 063**	1 891 899	**4 704 921**	4 104 904
Inventories	16	**1 183 997**	1 103 114	**3 233 911**	2 806 572
Trade and other receivables	17	**428 111**	297 383	**1 091 901**	767 807
Loans receivable	20	**153 497**	182 633	**72 270**	198 672
Taxation receivable	28.3	**-**	52 421	**12 141**	58 644
Cash and cash equivalents	28.4	**266 458**	256 348	**294 698**	273 209
Total assets		**4 256 489**	3 422 336	**5 896 661**	5 169 833
EQUITY AND LIABILITIES					
Equity and reserves		**1 370 235**	499 954	**1 106 902**	722 566
Share capital	18	**6 140 554**	1 352 074	**6 140 554**	1 352 074
Common control reserve		**(23 207)**	(23 207)	**(990 991)**	(990 991)
Retained (loss)/earnings		**(4 747 112)**	(828 913)	**(4 042 661)**	361 483
Non-controlling interests		**-**	-	**23 581**	117 117
Total equity		**1 370 235**	499 954	**1 130 483**	839 683
Non-current liabilities		**852 895**	121 594	**1 522 378**	822 551
Finance lease liability	24	**-**	-	**622 907**	651 679
Operating lease obligation	26	**132 586**	121 594	**179 162**	170 872
Contingent consideration	23	**73 309**	-	**73 309**	-
Loans payable/receivable	20	**647 000**	-	**647 000**	-
Current liabilities		**2 033 359**	2 800 788	**3 243 800**	3 507 599
Trade and other payables	19	**1 442 966**	1 115 271	**2 641 215**	1 754 293
Employee-related obligations	21	**99 290**	82 912	**125 391**	102 441
Deferred revenue	22	**102 835**	79 544	**95 364**	77 026
Contingent consideration	23	**24 003**	-	**24 003**	-
Finance lease obligation	24	**-**	-	**2 390**	2 541
Loans payable	20	**355 724**	90 571	**173 659**	27 026
Taxation payable	28.3	**8 541**	-	**14 719**	14 564
Bank overdraft	28.4	**-**	1 432 490	**167 059**	1 529 708
Total equity and liabilities		**4 256 489**	3 422 336	**5 896 661**	5 169 833
Net asset value per share (WANOS)	(cents)			**138.43**	347.22
Net asset value per share (actual shares at year-end)	(cents)			**131.56**	105.69

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 28 February 2017

	Share capital R'000 (Note 18)	Retained earnings/ (loss) R'000	Common control reserve R'000	Total R'000
Balance at 28 February 2015	199 101	(104 867)	(23 207)	71 027
Total comprehensive income for the year	–	53 012	–	53 012
Shares issued during the year	1 152 973	–	–	1 152 973
Dividends paid (note 25)	–	(777 058)	–	(777 058)
Balance at 29 February 2016	1 352 074	(828 913)	(23 207)	499 954
Total comprehensive income for the year	**–**	**582 853**	**–**	**582 853**
Shares issued during the year	**4 830 774**	**–**	**–**	**4 830 774**
Capitalised share costs for listing	**(42 294)**	**–**	**–**	**(42 294)**
Shares repurchased during the year	**–**	**(3 631 052)**	**–**	**(3 631 052)**
Dividends paid (note 25)	**–**	**(870 000)**	**–**	**(870 000)**
Balance at 28 February 2017	**6 140 554**	**(4 747 112)**	**(23 207)**	**1 370 235**

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 28 February 2017

	Share capital R'000 (Note 18)	Retained earnings R'000	Common control reserve R'000	Non-controlling interest R'000	Total R'000
Balance at 28 February 2015	199 101	857 111	161 982	83 346	1 301 540
Total comprehensive income for the year	–	512 775	–	62 980	575 755
Recapitalisation of reserves	1 152 973	–	(1 152 973)	–	–
Dividends paid (note 25)	–	(1 008 403)	–	(29 209)	(1 037 612)
Balance at 29 February 2016	1 352 074	361 483	(990 991)	117 117	839 683
Total comprehensive income for the year	**–**	**612 346**	**–**	**42 766**	**655 112**
Dividends paid (note 25)	**–**	**(870 000)**	**–**	**(39 927)**	**(909 927)**
Acquisition of non-controlling interests (note 4)	**–**	**(515 438)**	**–**	**(100 885)**	**(616 323)**
Acquisition of subsidiary (note 5)	**–**	**–**	**–**	**4 510**	**4 510**
Shares issued during the year	**4 830 774**	**–**	**–**	**–**	**4 830 774**
Capitalised share costs for listing	**(42 294)**	**–**	**–**	**–**	**(42 294)**
Shares repurchased during the year	**–**	**(3 631 052)**	**–**	**–**	**(3 631 052)**
Balance at 28 February 2017	**6 140 554**	**(4 042 661)**	**(990 991)**	**23 581**	**1 130 483**

COMPANY AND GROUP STATEMENT OF CASH FLOWS
for the year ended 28 February 2017

		Company		Group	
	Notes	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Cash flow from operating activities		**152 552**	(595 283)	**159 160**	(668 312)
Cash inflow from trading operations	28.1	**985 155**	153 990	**1 276 127**	991 682
Movement in working capital	28.2	**228 938**	25 162	**218 460**	(326 868)
Finance income received	9	**19 525**	6 568	**23 977**	7 315
Finance costs paid		**(133 968)**	(20 446)	**(201 997)**	(66 327)
Taxation paid	28.3	**(150 638)**	(26 952)	**(247 480)**	(236 502)
Dividends paid	25	**(870 000)**	(777 058)	**(909 927)**	(1 037 612)
Dividends received		**73 540**	43 453	**–**	–
Cash flow from investing activities		**(217 658)**	(159 026)	**(221 539)**	(142 892)
Additions to property, plant and equipment and intangible assets					
– To maintain operations	12/13	**(30 352)**	(31 031)	**(73 234)**	(44 930)
– To expand operations	12/13	**(130 645)**	(131 335)	**(148 225)**	(179 721)
Proceeds on disposal of tangible and intangible assets		**4 177**	3 340	**7 432**	81 759
Increase in investments	15	**(60 838)**	–	**–**	–
Acquisition of subsidiary, net of cash acquired	5	**–**	–	**(7 512)**	–
Cash flow from financing activities		**1 507 706**	–	**1 446 517**	–
Proceeds from issue of share capital		**4 381 052**	–	**4 381 052**	–
Costs capitalised to issue share capital	18	**(42 294)**	–	**(42 294)**	–
Repurchase of shares		**(3 631 052)**	–	**(3 631 052)**	–
Bank loans received	20	**800 000**	–	**800 000**	–
Finance lease repayment		**–**	–	**(351)**	–
Acquisition of non-controlling interests		**–**	–	**(60 838)**	–
Net increase/(decrease) in cash and cash equivalents		**1 442 600**	(754 309)	**1 384 138**	(811 204)
Cash and cash equivalents at beginning of year		**(1 176 142)**	(421 833)	**(1 256 499)**	(445 295)
Cash and cash equivalents at end of year	28.4	**266 458**	(1 176 142)	**127 639**	(1 256 499)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2017

1. Corporate information

Dis-Chem Pharmacies Limited is incorporated in South Africa. The Group annual financial statements as at 28 February 2017 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 11 to 61 are prepared on the historical cost basis as modified by fair value adjustments, and incorporate the following principal accounting policies, which conform with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations issued by the IFRS Interpretations Committee (IFRIC), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the Companies Act of South Africa.

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

3. Summary of significant accounting policies

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

3.1 Basis of consolidation

The Group annual consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 28 February 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

3.1 Basis of consolidation (continued)

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

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

3.2 Business combinations and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised in profit or loss.

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

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

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

3.3 Impairment of non-financial assets

At each reporting date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit (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.

3. Summary of significant accounting policies (continued)

3.3 Impairment of non-financial assets (continued)

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.

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

Where an impairment loss subsequently reverses, the carrying amount of an asset (or CGU) is increased to the revised estimate of its recoverable amount. This is done so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

For goodwill and intangible assets that have an indefinite useful life, the recoverable amount is estimated at each reporting date. Whenever the carrying amount of an asset or its CGU exceeds its recoverable amount, an impairment loss is recognised in profit or loss. As goodwill is not capable of generating cash flows independently of other assets, in assessing the recoverable amount of goodwill, it is allocated to CGUs on a reasonable and consistent basis. The recoverable amount of the CGU (including an allocation of goodwill) is assessed with reference to the future cash flows of the CGU. Where an impairment is identified for a CGU, the impairment is applied first to the goodwill allocated to the CGU and then to other assets on a *pro rata* basis comprising the CGU, provided that each identifiable asset is not reduced to below its recoverable amount.

3.4 Common control reserve

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

3.5 Significant accounting estimates, judgements and assumptions

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

Advertising agreements

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

The Group accounts for the reimbursement as part of "other income" (note 7) 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.

3. Summary of significant accounting policies (continued)

3.5 Significant accounting estimates, judgements and assumptions (continued)

Loyalty benefit point scheme

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.

As mentioned above, the Group experiences low levels of unredeemed loyalty points due to the ease with which customers can redeem them at point of sale. The points are derecognised upon redemption by the customers.

3.6 New and amended standards and interpretations effective for the period ended 28 February 2017

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:

- IFRS 14 *Regulatory Deferral Accounts*
- Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests*
- Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*
- Amendments to IAS 27: *Equity Method in Separate Financial Statements*
- Annual Improvements 2012 – 2014 Cycle
- Amendments to IAS 1 *Disclosure Initiative*
- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*

3. Summary of significant accounting policies (continued)

3.7 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. These are as follows:

Standard	Pronouncement	Scope	Effective date
IFRS 9 ***Financial Instruments***	New standard	The IASB has issued the final version of IFRS 9, which combines classification and measurement of financial assets and liabilities, the expected credit loss impairment model for financial assets measured at amortised cost and fair value through other comprehensive income and hedge accounting. Management has put together a project team to assess the impact the new standard will have on the classification of financial assets as well as calculation of impairment losses. Based on the company's and Group's current portfolio of financial instruments (note 30), management does not expect the standard to have a significant impact on performance, except for a possible increase in the allowance for impairment losses.	1 January 2018
IFRS 15 ***Revenue from Contracts from Customers***	New standard	IFRS 15 establishes a single, comprehensive framework for determining when to recognise revenue and the amount of revenue to be recognised. IFRS 15 replaces the previous revenue standards that are currently in place. The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. Application guidance is provided in the standard to assist entities in applying its requirements to determining the consideration paid to a customer (particularly with regard to slotting fee arrangements and co-operative advertising arrangements), variable consideration, common arrangements, including licences, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services, and breakage. These could be relevant to the Group. The new standard is more prescriptive than current IFRS and the disclosure requirements are more extensive. Management has put together a project team to assess the impact the new standard will have on the Group's and company's recognition of revenue, and the additional disclosure that it will need to provide.	1 January 2018

3. Summary of significant accounting policies (continued)

3.7 International Financial Reporting Standards issued; not yet effective (continued)

Standard	Pronouncement	Scope	Effective date
IFRS 16 ***Leases***	New standard	IFRS 16 will require lessees to recognise most leases, subject to certain policy elections and exemptions, "on balance sheet" as lease liabilities with corresponding right-of-use assets, similar to what is currently done for finance leases. The accounting by lessors under the new standard is substantially unchanged from current accounting. Management has put together a project team to assess the impact the new standard will have on the Group's and company's results.	1 January 2019
IAS 7 ***Disclosure Initiative***	Amendments to IAS 7	The amendments to IAS 7 Statement of Cash Flows require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). Management is still assessing the impact of the new standard.	1 January 2017
IAS 12 ***Recognition of Deferred Tax Assets for Unrealised Losses***	Amendments to IAS 12	The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. This amendment is not expected to impact the company or Group results.	1 January 2017
IFRS 2 ***Classification and Measurement of Share-based Payment Transactions***	Amendments to IFRS 2	The IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas: • The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction. • The classification of a share-based payment transaction with net settlement features for withholding tax obligations. • The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity settled. Management is still assessing the impact of the new standard.	1 January 2018

4. Group information

Majority shareholder

The majority shareholder of the Group is Ivlyn Proprietary Limited that holds 53.2% (2016: 69.8%) 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 that is incorporated in Namibia)

	% equity interest	
Name	**2017**	**2016**
Pharmaceutical retailer		
Dis-Chem Riverside Lifestyle Mall Proprietary Limited#	**100.0**	83.3
Dis-Chem Hemmingways Proprietary Limited#	**100.0**	51.0
Dis-Chem Cape Road Proprietary Limited#	**100.0**	83.3
Dis-Chem Garden Route Mall Proprietary Limited#	**100.0**	51.0
Dis-Chem Mooi River Mall Proprietary Limited#	**100.0**	56.7
Dis-Chem Ballito Junction Proprietary Limited	**70.0**	70.0
Dis-Chem Krugersdorp Proprietary Limited	**51.0**	51.0
Dis-Chem Brooklyn Mall Proprietary Limited#	**100.0**	51.0
Dis-Chem Woodlands Boulevard Proprietary Limited#	**100.0**	86.7
Dis-Chem Savannah Mall Proprietary Limited	**100.0**	100.0
Dis-Chem Three Rivers Proprietary Limited	**75.0**	75.0
Dis-Chem Bay-side Proprietary Limited	**100.0**	100.0
Dis-Chem The Galleria Amanzimtoti Proprietary Limited	**80.0**	80.0
Dis-Chem Glen Fair Proprietary Limited	**51.0**	51.0
Dis-Chem Jeffrey's Bay Proprietary Limited#	**100.0**	51.0
Dis-Chem Flamewood Value Centre Proprietary Limited	**66.7**	66.7
Dis-Chem Nicolway Proprietary Limited#	**100.0**	51.0
Dis-Chem Glenacres Proprietary Limited#	**100.0**	50.0
Dis-Chem Festival Mall Proprietary Limited	**100.0**	100.0
Dis-Chem Secunda Proprietary Limited#	**100.0**	51.0
Dis-Chem Park Station Proprietary Limited	**89.6**	89.6
Dis-Chem Worcestor Proprietary Limited	**95.0**	95.0
Dis-Chem North Cape Mall Proprietary Limited	**100.0**	100.0
Dis-Chem Highveld Mall Proprietary Limited	**100.0**	100.0
The Local Choice Proprietary Limited#	**100.0**	50.1
Pharma-Logistical Solutions Proprietary Limited	**100.0**	100.0
Dis-Chem Distribution Proprietary Limited	**100.0**	100.0
Oncology Proprietary Limited	**100.0**	100.0
Platinum Park Proprietary Limited*	**100.0**	–
Rynfield Terrace Proprietary Limited*	**80.0**	–
Dis-Chem Swakopmund Proprietary Limited*	**100.0**	–
Wholesaler of pharmaceutical products and supporting services		
CJ Pharmaceutical Enterprises Limited#	**100.0**	50.1
Evening Star Trading Proprietary Limited (t/a Nelspruit Pharmaceutical Wholesaler)	**51.3**	26.0
CJ Marketing Proprietary Limited#	**100.0**	50.1
The Pharmacy Development Academy Proprietary Limited	**70.0**	35.1

** 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*

4. Group information (continued)

Information about subsidiaries (continued)

The company acquired the non-controlling interest of 14 entities (as indicated in the table above with #) for an amount of R461 million in Dis-Chem shares, R60.8 million in cash and R94 million in contingent consideration (note 23) based on the future performance of the stores.

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 than 10% (2016: 10%) of consolidated profit after tax.

Associates

The Group has a 40% interest in Dis-Chem Bothamed Proprietary Limited.

5. Acquisitions

Acquisitions in 2017	Principal activity	Date of acquisition	Control acquired (%)
Evening Star Trading Proprietary Limited	Pharmaceutical wholesaler	1 September 2016	51.3
The Pharmacy Development Academy Proprietary Limited	Training	1 September 2016	70.0
Dis-Chem Platinum Park Proprietary Limited	Retailer	1 September 2016	100.0

On 1 September 2016, the Group acquired an additional interest in the voting shares of Evening Star Trading Proprietary Limited and The Pharmacy Development Academy Proprietary Limited, unlisted companies based in South Africa and specialising in the wholesale of pharmaceutical products and training activities. Prior to 1 September the Group held 26% and 35% respectively in these companies.

On 1 August 2016, the Group acquired the assets and liabilities of Platinum Park Proprietary Limited, an unlisted pharmaceutical company based in South Africa.

Assets acquired and liabilities assumed

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

	Evening Star R'000	Pharmacy Development R'000	Platinum Park R'000	Total R'000
Assets				
Property, plant and equipment	109	11	1 722	1 842
Inventory	5 869	–	2 599	8 468
Trade receivables*	12 511	337	714	13 562
Cash and cash equivalents	886	1 013	19	1 918
Other	156	–	–	156
	19 531	1 361	5 054	25 946
Liabilities				
Trade payables	(8 392)	(586)	(3 294)	(12 272)
Loans	(844)	(1 523)	–	(2 367)
Other	(531)	(59)	–	(590)
	(9 767)	(2 168)	(3 294)	(15 229)
Total identifiable net assets/(liabilities) at fair value	9 764	(807)	1 760	10 717
Non-controlling interest at proportionate share	(4 752)	242	–	(4 510)
Derecognition of equity accounted investments	(2 436)	–	–	(2 436)
Goodwill arising on acquisition	274	565	7 670	8 509
Purchase consideration transferred	2 850	–	9 430	12 280

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

5. Acquisitions (continued)

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

	Evening Star R'000	Pharmacy Development R'000	Platinum Park R'000	Total R'000
Net cash acquired with the subsidiary	886	1 013	19	1 918
Cash paid	–	–	(9 430)	(9 430)
Net cash flow on acquisition	886	1 013	(9 411)	(7 512)

No cash payment occurred for the acquisition of the Evening Star and Pharmacy Development companies as the consideration was made through the issue of 126 498 (before the 1-for-150 share split) Dis-Chem Pharmacies shares measured at the listing price.

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

	Evening Star R'000	Pharmacy Development R'000	Platinum Park R'000	Total R'000
Revenue	21 260	1 200	19 883	42 343
Loss before tax	(575)	(39)	(1 486)	(2 100)

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:

	Evening Star R'000	Pharmacy Development R'000	Platinum Park R'000	Total R'000
Revenue	57 134	3 020	40 314	100 468
Profit/(loss) before tax	1 261	209	(1 150)	320

6. Segmental information

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

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

Retail

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

Wholesale

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

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

6. Segmental information (continued)

Geographic information

With the exception of 1 store in Namibia, the Group operates in one principal geographical area, that being South Africa.

	Retail R'000	Wholesale R'000	Intergroup/ consolidation R'000	Total R'000
2017				
External customers	15 646 131	1 622 344	–	17 268 475
Inter-segment	–	9 295 733	(9 295 733)	–
Total turnover	15 646 131	10 918 077	(9 295 733)	17 268 475
Cost of sales	(11 853 918)	(9 995 286)	8 790 050	(13 059 154)
Gross profit	3 792 213	922 791	(505 683)	4 209 321
Other income	611 091	90 469	(96 699)	604 861
Other expenses (excluding depreciation and amortisation)	(3 176 755)	(884 352)	535 675	(3 525 432)
Depreciation and amortisation	(126 036)	(35 992)	–	(162 028)
Net finance costs	(125 639)	(99 601)	–	(225 240)
Share of profit from associates	–	–	501	501
Profit/(loss) before tax	974 874	(6 685)	(66 206)	901 983
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1 226 549	128 908	(66 707)	1 288 750
Capital expenditure	(191 249)	(30 210)	–	(221 459)
Total assets	4 711 001	4 329 291	(3 143 630)	5 896 662
Total liabilities	3 123 181	2 955 555	(1 312 557)	4 766 179

	%	%		%
Gross profit margin	24.2	8.5		24.4
EBITDA margin	7.8	1.2		7.5
Operating margin	7.0	0.9		6.5

	Retail R'000	Wholesale R'000	Intergroup/ consolidation R'000	Total R'000
2016 (restated – refer to next page)				
External customers	13 573 393	1 487 900	–	15 061 293
Inter-segment	–	7 444 913	(7 444 913)	–
Total turnover	13 573 393	8 932 813	(7 444 913)	15 061 293
Cost of sales	(10 329 480)	(8 169 741)	6 964 688	(11 534 533)
Gross profit	3 243 913	763 072	(480 225)	3 526 760
Other income	430 134	96 783	(87 241)	439 676
Other expenses (excluding depreciation and amortisation)	(2 660 048)	(751 492)	502 556	(2 908 984)
Depreciation and amortisation	(113 585)	(37 189)	–	(150 774)
Net finance costs	(14 109)	(75 042)	–	(89 151)
Share of profit from associates	–	–	344	344
Profit/(loss) before tax	886 305	(3 868)	(64 566)	817 871

6. Segmental information (continued)

2016	Retail R'000	Wholesale R'000	Intergroup/ consolidation R'000	Total R'000
EBITDA	1 013 999	108 363	(64 910)	1 057 452
Capital expenditure	(155 156)	(69 495)	–	(224 651)
Total assets	3 812 444	3 312 618	(1 955 229)	5 169 833
Total liabilities	3 131 629	1 938 148	(739 627)	4 330 150
	%	%		%
Gross profit margin	23.9	8.5		23.4
EBITDA margin	7.5	1.2		7.0
Operating margin	6.6	0.8		6.0

During the 2017 financial year the composition of the financial information reviewed by the chief operating decision-maker was amended to incorporate the performance of its operating segments through a change in the allocation of rebates and fees earned by the wholesale segment between the two operating segments. This has resulted in the revenue line item previously reported in the segments being restated in order to show the effect of this change. The following table shows the impact of this restatement:

	Retail R'000	Wholesale R'000	Intergroup/ consolidation R'000	Total R'000
12 months to 29 February 2016				
Turnover – previously reported	13 573 393	9 237 646	(7 749 746)	15 061 293
Change in fees charged	–	(304 833)	304 833	–
Turnover	13 573 393	8 932 813	(7 444 913)	15 061 293
EBITDA – if previously reported	374 144	748 218	(64 910)	1 057 452
Change in fees charged	639 855	(639 855)	–	–
EBITDA	1 013 999	108 363	(64 910)	1 057 452

7. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Turnover comprises sales of fast-moving consumer goods, net of returns, discounts, and is stated exclusive of value-added tax. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount can be reliably measured. Significant risk and rewards of ownership are transferred when the customer takes ownership of the goods and the Group has no continued management involvement. For retail sales this generally occurs when the customer takes delivery at the point of sale. For wholesale transactions this generally occurs when the goods are delivered to the customer.

Finance income is recognised utilising the effective interest rate 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.

Unless specifically stated otherwise, other income is recognised with reference to the stage of completion of the transaction at the end of the reporting period if the outcome of a transaction can be estimated reliably. However, when a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

Dividend income is recognised when the right to receive payment is established.

Please refer to note 3.5 for the discussion of the advertising income and the significant judgements and estimates.

	Company		Group	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Turnover	**11 070 211**	9 624 054	**17 268 475**	15 061 293
Finance income	**19 525**	6 568	**23 977**	7 315
Other income	**611 134**	414 927	**604 861**	439 676
– Advertising income	**229 807**	165 645	**234 053**	163 801
– Commission income	**48 936**	18 286	**54 825**	23 115
– Dividend received	**68 440**	48 553	**–**	–
– Franchisee income	**35 335**	24 829	**6 693**	3 116
– Marketing	**56 223**	37 593	**57 550**	39 873
– Data fees	**53 532**	38 918	**71 868**	58 579
– Gain from renegotiated lease terms	**29 208**	–	**109 344**	91 602
– Insurance refund received	**9 347**	1 413	**10 871**	1 978
– Payroll-related recovery	**7 025**	9 077	**13 494**	14 888
– Profit on sale of assets	**6**	808	**6**	19 244
– Rental related recovery	**9 665**	9 543	**11 601**	16 069
– Other*	**63 610**	60 262	**34 556**	7 411
	11 700 870	10 045 549	**17 897 313**	15 508 284

** Other consists of conference income and other sundry income*

8. Profit before taxation

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

	Company		Group	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Expenses				
Depreciation of tangible assets (note 12)	**96 420**	81 982	**152 205**	143 761
Amortisation of intangible assets (note 13)	**8 211**	6 681	**9 823**	7 013
Computer expenses	**118 763**	90 520	**137 796**	107 312
Advertising expenses	**251 534**	211 909	**253 995**	222 008
Commission	**89 237**	97 138	**116 012**	127 577
Donations	**28 523**	30 412	**28 559**	30 441
Security	**38 328**	35 008	**60 718**	55 200
Foreign exchange loss	**–**	–	**35 812**	22
Occupancy costs	**365 581**	307 438	**504 417**	434 633
– Lease payments	**242 388**	211 882	**338 937**	301 729
– Other (including electricity and rates)	**123 193**	95 556	**165 480**	132 904
Employee benefits	**1 449 575**	1 210 329	**2 038 179**	1 675 961
– Salaries and benefits	**1 326 067**	1 095 884	**1 858 254**	1 518 716
– Pension costs	**45 738**	34 857	**60 478**	46 286
– Medical aid	**25 892**	21 611	**34 120**	28 028
– Leave pay	**12 336**	7 564	**17 840**	10 683
– Other	**39 542**	50 413	**67 487**	72 248
For details on directors' emoluments and key management personnel refer to note 29.				
Write-off and loss on sale of assets	**429**	–	**429**	–

The write-off mainly relates to the fixture and fittings in the Bloemfontein store that were written off due to the flooding that occurred. Included in other income is insurance recovery of R3.4 million.

9. Net financing costs

Finance income

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

Finance costs

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

9. Net financing costs (continued)

	Company		Group	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Finance income	**19 525**	6 568	**23 977**	7 315
– Bank accounts	**19 395**	6 331	**22 099**	6 506
– Other	**130**	237	**1 878**	809
Finance costs	**(149 319)**	(20 446)	**(249 217)**	(96 466)
– Bank overdraft	**(133 696)**	(20 226)	**(142 556)**	(25 651)
– Bank loan	**(15 573)**	–	**(15 573)**	–
– Finance lease	**–**	–	**(89 099)**	(69 758)
– SARS	**(12)**	(206)	**(1 923)**	(610)
– Other	**(38)**	(14)	**(66)**	(447)
Net financing costs	**(129 794)**	(13 878)	**(225 240)**	(89 151)

10. Taxation

Current tax

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

Deferred tax

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

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

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

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

10. Taxation (continued)

	Company 2017 R'000	Company 2016 R'000	Group 2017 R'000	Group 2016 R'000
South African normal tax				
Current income tax				
– Current year	**200 271**	12 017	**279 352**	220 426
– Prior year under/(over) provision	**11 329**	(15 899)	**14 786**	(8 100)
Deferred tax				
– Attributable to temporary differences	**(11 396)**	(7 067)	**(36 383)**	4 201
– Prior year (over)/under provision	**(11 748)**	20 022	**(10 884)**	25 589
	188 456	9 073	**246 871**	242 116

Reconciliation of tax rate	%	%	%	%
Standard tax rate	**28.00**	28.00	**28.00**	28.00
Prior year net (over)/under provision	**(0.05)**	6.64	**0.43**	2.14
Adjusted for permanent differences:				
Non-taxable:				
Dividends received	**(2.48)**	(21.90)	**–**	–
ETI and learnerships	**(0.82)**	(7.80)	**(0.77)**	(0.71)
Tenant allowance	**(0.13)**	(2.10)	**(0.13)**	(0.16)
Non-deductible:				
Legal fees	**0.01**	0.36	**0.01**	0.03
SARS interest and penalties	**–**	–	**0.07**	0.02
S18A donations carried forward	**–**	11.52	**–**	0.87
Listing costs	**0.29**	–	**0.25**	–
Unwinding of contingent liability	**0.12**	–	**0.10**	–
S18A donations brought forward	**(0.50)**	–	**(0.43)**	–
Other*	**(0.01)**	(0.11)	**(0.16)**	(0.59)
Effective tax rate	**24.43**	14.61	**27.37**	29.60

** Other consists mainly of fines and consulting fees*

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 (HEPS) 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.

11. Earnings per share (continued)

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

	Group 2017 R'000	Group 2016 R'000
Profit attributable to equity holders of the parent	**612 346**	512 775
Net loss/(profit) on disposal of property, plant and equipment and intangible assets	**423**	(20 249)
Insurance recovery from third parties	**(3 245)**	–
Taxation	**790**	5 706
Headline earnings	**610 314**	498 232
Items deemed to relate to capital structure of the Group		
Finance lease obligation renegotiation	**(80 136)**	(91 602)
Operating lease renegotiation	**(29 208)**	–
Items related to neither Retail nor Wholesale general operations		
Fair value loss relating to non-hedging derivatives	**35 812**	–
Items not expected to reoccur		
Transaction costs on listing	**8 074**	–
Taxation	**20 589**	25 649
Adjusted headline earnings	**565 445**	432 279
Earnings per share (cents)		
– Basic	**75.0**	212.0
– Diluted	**75.0**	212.0
Headline earnings per share (cents)		
– Basic	**74.7**	206.0
– Diluted	**74.7**	206.0
Adjusted headline earnings per share (cents)		
– Basic	**69.2**	178.8
– Diluted	**69.2**	178.8
Reconciliation of shares in issues to weighted average number of shares in issue		
Total number of shares in issue at beginning of the year	**5 296 308**	1 212 121
Shares issued during the year before the share split weighted for the period outstanding	**62 383**	400 084
Share in issue before the share split	**5 358 691**	1 612 205
Share split	**798 444 959**	240 218 545
Shares repurchased after the share split during the year weighted for the period outstanding	**(54 858 637)**	–
Shares issued after the share split during the year weighted for the period outstanding	**67 672 225**	–
Total weighted number of shares in issue at the end of the year	**816 617 238**	241 830 750

On 30 September 2016, a 150-for-1 share split took place and therefore increased the number of shares in issue. This has been taken into account in the above calculation of the weighted average number of shares as if the shares were in issue for the whole year and all earlier years presented.

The total weighted average number of shares in issue for the year equals the total weighted average diluted number of shares in issue for the year as the Group has no share options or other instruments that would result in a dilutive impact.

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 estimated useful lives are as follows:

– Computer hardware	Three years
– Office equipment	Five to six years
– Improvements to leased premises	Six years, or if shorter, the remaining lease term
– Motor vehicles	Four to five years
– Furniture and fittings	Five to six years

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.

Company	Computer hardware R'000	Office equipment* R'000	Leasehold improvements R'000	Furniture and fixtures# R'000	Motor vehicles R'000	Total R'000
2017						
Cost	128 433	62 172	298 756	302 123	16 557	808 041
Opening balance	105 054	54 592	280 507	204 468	16 444	661 065
Additions	24 456	8 094	20 830	104 278	215	157 873
Disposals	(1 077)	(514)	(2 581)	(6 623)	(102)	(10 897)
Accumulated depreciation	(93 418)	(43 883)	(225 905)	(149 049)	(12 947)	(525 202)
Opening balance	(77 246)	(38 512)	(203 233)	(104 962)	(11 132)	(435 085)
Current charge	(17 180)	(5 854)	(25 251)	(46 219)	(1 916)	(96 420)
Disposals	1 008	483	2 579	2 132	101	6 303
Net carrying value	35 015	18 289	72 851	153 074	3 610	282 839

12. Property, plant and equipment (continued)

Company	Computer hardware R'000	Office equipment* R'000	Leasehold improvements R'000	Furniture and fixtures# R'000	Motor vehicles R'000	Total R'000
2016						
Cost	105 054	54 592	280 507	204 468	16 444	661 065
Opening balance	82 918	46 281	244 512	124 386	13 964	512 061
Additions	22 516	8 733	36 211	82 216	2 480	152 156
Disposals	(380)	(422)	(216)	(2 134)	–	(3 152)
Accumulated depreciation	(77 246)	(38 512)	(203 233)	(104 962)	(11 132)	(435 085)
Opening balance	(65 653)	(33 179)	(176 245)	(69 654)	(9 206)	(353 937)
Current charge	(11 610)	(5 773)	(26 994)	(35 679)	(1 926)	(81 982)
Disposals	17	440	6	371	–	834
Net carrying value	27 808	16 080	77 274	99 506	5 312	225 980

Group	Computer hardware R'000	Leased land and buildings R'000	Office equipment* R'000	Leasehold improvements R'000	Furniture and fixtures# R'000	Motor vehicles R'000	Total R'000
2017							
Cost	**187 897**	**619 000**	**103 853**	**407 383**	**379 655**	**41 049**	**1 738 837**
Opening balance	**153 825**	**619 000**	**83 962**	**385 607**	**264 719**	**40 244**	**1 547 357**
Additions	**35 948**	**–**	**30 811**	**25 764**	**121 555**	**1 010**	**215 088**
Disposals	**(1 876)**	**–**	**(10 920)**	**(3 988)**	**(8 461)**	**(205)**	**(25 450)**
Acquisition	**–**	**–**	**–**	**–**	**1 842**	**–**	**1 842**
Accumulated depreciation	**(135 881)**	**(3 650)**	**(68 807)**	**(319 166)**	**(191 613)**	**(24 319)**	**(743 436)**
Opening balance	**(107 987)**	**(9 857)**	**(58 154)**	**(289 661)**	**(142 840)**	**(19 879)**	**(628 378)**
Current charge	**(28 543)**	**(13 506)**	**(15 166)**	**(32 756)**	**(56 275)**	**(5 959)**	**(152 205)**
Disposals	**649**	**–**	**4 513**	**3 251**	**7 502**	**1 519**	**17 434**
Adjustment to lease	**–**	**19 713**	**–**	**–**	**–**	**–**	**19 713**
Net carrying value	**52 016**	**615 350**	**35 046**	**88 217**	**188 042**	**16 730**	**995 401**
2016							
Cost	153 825	619 000	83 962	385 607	264 719	40 244	1 547 357
Opening balance	126 427	–	95 243	359 762	213 515	56 112	851 059
Additions	33 703	619 000	26 703	42 957	98 367	9 679	830 409
Disposals	(6 305)	–	(37 984)	(17 112)	(47 163)	(25 547)	(134 111)
Accumulated depreciation	(107 987)	(9 857)	(58 154)	(289 661)	(142 840)	(19 879)	(628 378)
Opening balance	(93 496)	–	(67 991)	(256 634)	(115 728)	(25 809)	(559 658)
Current charge	(20 045)	(9 857)	(13 101)	(41 660)	(50 882)	(8 216)	(143 761)
Disposals	5 554	–	22 938	8 633	23 770	14 146	75 041
Net carrying value	45 838	609 143	25 808	95 946	121 879	20 365	918 979

* *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.*

12. Property, plant and equipment (continued)

Motor vehicles held under finance leases amounts to R5.3 million (2016: R5.6 million). These motor vehicles are held as security for the finance leases (refer to note 24).

In the current year the Absa loan was secured by the cession of the book debts in and general notarial bond over movable assets of Dis-Chem Pharmacies Limited.

13. Intangible assets

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

The useful lives of intangible assets are assessed as either finite or indefinite.

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

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

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

The estimated useful lives are as follows:

– Computer software	Two years
– Licences	Indefinite

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

Company	Computer software R'000	Licences with indefinite useful life R'000	Total R'000
2017			
Cost	28 686	2 781	31 467
Opening balance	25 714	2 781	28 495
Additions	3 124	–	3 124
Disposals	(152)	–	(152)
Accumulated amortisation	(22 715)	–	(22 715)
Opening balance	(14 656)	–	(14 656)
Current charge	(8 211)	–	(8 211)
Disposals	152	–	152
Net carrying value	5 971	2 781	8 752

13. Intangible assets (continued)

Company	Computer software R'000	Licences with indefinite useful life R'000	Total R'000
2016			
Cost	25 714	2 781	28 495
Opening balance	15 726	2 781	18 507
Additions	10 210	–	10 210
Disposals	(222)	–	(222)
Accumulated amortisation	(14 656)	–	(14 656)
Opening balance	(7 983)	–	(7 983)
Current charge	(6 681)	–	(6 681)
Disposals	8	–	8
Net carrying value	11 058	2 781	13 839

Group	Computer software R'000	Licences with indefinite useful life R'000	Goodwill R'000	Total R'000
2017				
Cost	**35 754**	**3 181**	**28 923**	**67 858**
Opening balance	**29 535**	**3 181**	**20 414**	**53 130**
Additions	**6 371**	**–**	**8 509**	**14 880**
Disposals	**(152)**	**–**	**–**	**(152)**
Accumulated amortisation	**(27 548)**	**–**	**–**	**(27 548)**
Opening balance	**(17 877)**	**–**	**–**	**(17 877)**
Current charge	**(9 823)**	**–**	**–**	**(9 823)**
Disposals	**152**	**–**	**–**	**152**
Net carrying value	**8 206**	**3 181**	**28 923**	**40 310**
2016				
Cost	29 535	3 181	20 414	53 130
Opening balance	19 045	3 181	20 414	42 640
Additions	13 242	–	–	13 242
Disposals	(2 752)	–	–	(2 752)
Accumulated amortisation	(17 877)	–	–	(17 877)
Opening balance	(11 234)	–	–	(11 234)
Current charge	(7 013)	–	–	(7 013)
Disposals	370	–	–	370
Net carrying value	11 658	3 181	20 414	35 253

13. Intangible assets (continued)

Carrying amount of goodwill and licences allocated to each of the Cash Generating Units (CGUs):

	Group 2017 R'000	Group 2016 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**	–
The Pharmacy Development Academy Proprietary Limited	**565**	–
Retail		
Dis-Chem Platinum Park Proprietary Limited	**7 670**	–
	28 923	20 414
Licences		
Retail		
Dis-Chem Pharmacies Limited	**2 781**	2 781
Dis-Chem Cape Road Proprietary Limited	**400**	400
	3 181	3 181

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

The CGUs are based on the relevant statutory entity. 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 13.6% for wholesale companies and 13.4% for the retail company (2016: 12.11%) and cash flows beyond the five-year period are extrapolated using a 3% (2016: 3%) growth rate. As a result of the analysis, management did not identify an impairment in the current and prior financial period.

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

14. Deferred taxation

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

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

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

Also refer to accounting policy under note 10.

14. Deferred taxation (continued)

	Company		Group	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Deferred taxation asset				
Balance at the beginning of the year	**67 644**	80 599	**108 762**	138 552
Movements during the year				
– Charge to income statement	**23 145**	(12 955)	**47 267**	(29 790)
Balance at end of year	**90 789**	67 644	**156 029**	108 762
The deferred tax asset balance is made up as follows:				
Employee-related obligations	**27 801**	23 214	**35 082**	28 816
Straight-lining of leases	**40 515**	38 447	**54 614**	52 897
Deferred revenue and S24C allowance	**28 794**	5 202	**29 225**	4 496
Finance lease	**–**	–	**1 314**	11 053
Prepayment	**(580)**	(97)	**(748)**	(265)
Tax losses	**–**	–	**38 289**	4 158
Inventory	**–**	–	**5 547**	6 296
Property, plant and equipment	**(5 741)**	–	**(7 771)**	–
Other*	**–**	878	**477**	1 311
	90 789	67 644	**156 029**	108 762

** Other consists of income received in advance and provision for bad debts*

15. Investments

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The company's investments in its associate are accounted for at cost in the separates. The Group's investments in its associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually. Any excess of the Group's share of the net fair value of the associate's identifiable assets and liabilities over the cost of the associate is included as income in the Group's share of profit or loss from associate in the period in which the associate is acquired.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

15. Investments (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within 'Share of profit of an associate' in the statement of profit or loss.

The company holds the investment in subsidiaries at cost.

Investment in associates

(Proprietary Limited unless stated otherwise)

	Company		Group	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Evening Star Trading	–	1 366	–	1 935
Limpopo Pharmaceutical Wholesale and Distribution	–	100	–	–
Dis-Chem Bothamed	–	–	–	–
	–	1 466	–	1 935

The associates are not considered to be material to the Group. Dis-Chem Bothamed Proprietary Limited has made an accumulated loss of R2.4 million.

Investment in subsidiaries

(Proprietary Limited unless stated otherwise)

	Company		Group	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
CJ Pharmaceutical Enterprises Limited	**411 611**	65 413	–	–
CJ Marketing	**5 104**	3 121	–	–
Dis-Chem Distribution	**1 152 973**	1 152 973	–	–
Evening Star	**4 216**	–	–	–
Dis-Chem Riverside Lifestyle Mall	**7 576**	–	–	–
Dis-Chem Hemmingways	**21 550**	–	–	–
Dis-Chem Cape Road	**5 646**	–	–	–
Dis-Chem Garden Route Mall	**36 557**	–	–	–
Dis-Chem Mooi River Mall	**16 812**	–	–	–
Dis-Chem Brooklyn Mall	**60 812**	–	–	–
Dis-Chem Woodlands Boulevard	**10 290**	–	–	–
Dis-Chem Jefferey's Bay	**10 894**	–	–	–
Dis-Chem Nicolway	**44 717**	–	–	–
Dis-Chem Glenacres	**32 871**	–	–	–
Dis-Chem Secunda	**20 416**	–	–	–
Other	**1**	1	–	–
	1 842 046	1 221 508	–	–

Evening Star Trading Proprietary Limited became a subsidiary in the current year and is disclosed in note 4 and 5.

Refer to note 4 for more information on the Group structure and percentage holdings of associates and subsidiaries.

All other subsidiaries measured at cost in the separate financial statements and associates in note 4 are immaterial and therefore not shown above.

16. 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.

	Company		Group	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Finished goods	**1 183 997**	1 103 114	**3 233 911**	2 806 572
Cost of inventories recognised as cost of sales	**8 118 479**	7 751 942	**13 059 154**	11 534 533

During the current year, R8 million of inventory was written off due to the flooding in the Bloemfontein store.

17. 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 30. Prepayments and other receivables are stated at their nominal values.

	Company		Group	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Trade receivables	**81 160**	99 375	**541 964**	452 675
Provision for bad debts	**(290)**	–	**(2 958)**	(588)
Net trade receivables	**80 870**	99 375	**539 006**	452 087
Other receivables	**273 295**	183 950	**510 998**	284 567
Related parties (note 29)	**57 234**	6 244	**–**	–
VAT	**–**	–	**–**	27 743
Prepayment	**16 712**	2 714	**41 897**	3 410
Shareholders for dividends	**–**	5 100	**–**	–
	428 111	297 383	**1 091 901**	767 807
Provision for bad debt				
Opening balance	**–**	–	**(588)**	–
Provision raised	**(290)**	–	**(2 370)**	(588)
Closing balance	**(290)**	–	**(2 958)**	(588)

Trade receivables are non-interest bearing and are generally on terms of 7 to 30 days.

Other receivables are non-interest bearing and generally on terms of 30 days. Other receivables consist of rebates and logistic fee receivables as well as credit card debtors and other sundry receivables.

17. Trade and other receivables (continued)

As at 28 February 2017, the age analysis of trade receivables is as follows:

Group	Total R'000	Neither past due nor impaired R'000	Past due but not impaired <30 days R'000	30 - 60 days R'000	60 - 90 days R'000	90 - 120 days R'000	>120 days R'000
2017	**541 964**	**387 305**	**54 874**	**21 320**	**21 532**	**42 676**	**14 257**
2016	452 087	396 424	33 010	11 539	1 186	845	9 083

As at 28 February 2017, the age analysis of other receivables is as follows:

	Total R'000	Neither past due nor impaired R'000	Past due but not impaired <30 days R'000	30 - 60 days R'000	60 - 90 days R'000	90 - 120 days R'000	>120 days R'000
2017	**510 998**	**386 919**	**23 307**	**18 552**	**21 196**	**14 637**	**46 387**
2016	284 567	245 571	256	12 788	14 778	890	10 284

Related party receivables are neither past due not impaired.

Trade debtors over 120 days in the current and prior year are mainly on payment plans and have been meeting the payment requirements and therefore not provided for at year-end. An amount of R106 million, that is past due but not impaired, relates to Optipharm that has been acquired by the Group after year end (refer note 32).

Refer to note 30 on credit risk management of trade and other receivables.

In the current year the Absa loan was secured by the cession of the book debts in and general notarial bond over movable assets of Dis-Chem Pharmacies Limited.

Trade and other receivables relating to CJ Pharmaceutical Enterprises Limited amounting to R422 million (2016: R369 million) were pledged as security for the overdraft facilities with Nedbank.

18. Share capital

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

	Company 2017 R'000	Company 2016 R'000	Group 2017 R'000	Group 2016 R'000
Authorised – Group and company				
1 500 000 000 (2016:10 000 000) ordinary no par value shares				
Issued and fully paid				
859 273 673 (2016: 5 296 308*) ordinary no par value shares	**6 140 554**	1 352 074	**6 140 554**	1 352 074
Reconciliation of shares issued				
Opening balance	**1 352 074**	199 101	**1 352 074**	199 101
Shares issued during the period (note 4 and 5)	**4 830 774**	1 152 973	**4 830 774**	1 152 973
Capitalisation of costs	**(42 294)**	–	**(42 294)**	–
Closing balance	**6 140 554**	1 352 074	**6 140 554**	1 352 074

** Before share split.*

19. 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 30.

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.

	Company		Group	
	2017 R'000	**2016 R'000**	**2017 R'000**	**2016 R'000**
Trade payables	**447 070**	401 312	**2 368 618**	1 681 241
Lease straight-lining accrual	**12 109**	15 716	**17 632**	18 434
Related parties (note 29)	**794 263**	598 918	**–**	–
Other payables	**169 213**	81 983	**235 998**	54 618
VAT	**20 311**	17 342	**3 184**	–
Derivative liability – FEC (note 30)	**–**	–	**15 783**	–
	1 442 966	1 115 271	**2 641 215**	1 754 293

Trade and other payables are non-interest bearing and are generally on terms of 7 to 90 days.

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

Refer to note 30 on liquidity risk management. Refer to notes 24 and 26 for further information on the leases.

20. Loans receivable/payable

Loans are accounted for as financial assets/liabilities in accordance with the accounting policy disclosed in note 30.

Loans receivable	Company		Group	
	2017 R'000	**2016 R'000**	**2017 R'000**	**2016 R'000**
Current loans				
Directors' loans	**–**	26 353	**–**	26 363
NCI shareholders loans	**–**	2 025	**4 703**	8 762
Related parties (note 29)	**132 791**	130 244	**38 715**	99 309
Other loans	**20 706**	24 011	**28 852**	64 238
	153 497	182 633	**72 270**	198 672

Other loans mainly relate to loans given to Optipharm and ASU (2016: Optipharm, Eurolab and ASU) which are companies within the pharmaceutical industry and payable on demand.

20. Loans receivable/payable (continued)

Loans payable

	Company		Group	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Non-current loans				
Absa Bank	647 000	–	647 000	–
	647 000	–	647 000	–
Current loans				
NCI shareholders loans	–	–	4 899	13 192
Related parties (note 29)	206 526	90 571	19 691	13 737
Absa Bank	149 000	–	149 000	–
Nedbank	–	–	–	97
Other	198	–	69	–
	355 724	90 571	173 659	27 026

The Absa loan consists of two parts and was obtained in December 2016:

- The first part of the term loan is for R600 million repayable quarterly over four years at a variable interest rate linked to JIBAR. The first instalment payment was due on 31 March 2017.
- The second part of the term loan is for R200 million repayable at the end of four years at a variable interest rate linked to JIBAR.
- The loan is secured by the cession of the book debts in and general notarial bond over movable assets of Dis-Chem Pharmacies Limited.

Related party loans are considered to be short-term in nature as they are payable on demand and do not bear interest.

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 profit-sharing and bonus payments are recognised when, and only when:

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

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

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

	Company		Group	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Leave pay	68 632	56 296	91 807	73 286
Bonus	30 658	26 616	33 584	29 155
	99 290	82 912	125 391	102 441

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

22. Deferred revenue

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 fair value which includes the expected redemption rate attributed to the points awarded, 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.

	Company		Group	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Loyalty benefit points scheme	**57 277**	37 919	**49 806**	35 401
Gift vouchers	**45 558**	41 625	**45 558**	41 625
	102 835	79 544	**95 364**	77 026

Deferred revenue liability is recognised for expected loyalty benefit points and gift vouchers redeemed by customers for purchases made by participating customers for the loyalty points and gift vouchers purchased for cash during the last three years, based on past experience of the level of redemptions. It is expected that a majority of these will be redeemed in the next financial year and all will have been redeemed within two years of the reporting date. Assumptions used to calculate the liability are based on current redemption rates at existing stores which are between 80% and 90% (2016: 80% and 90%).

23. Contingent consideration

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

	Company		Group	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Non-current liabilities	**73 309**	–	**73 309**	–
Current liabilities	**24 003**	–	**24 003**	–
	97 312	–	**97 312**	–

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

It is currently assumed that the partner stores will meet the performance targets in all five years and that the selling non-controlling shareholders will therefore be entitled to the deferred consideration. The present value of estimated deferred consideration is recognised as a liability which will be unwound over the five-year period. The current period interest amounted to R3.3 million at a discount rate of 12.9%. Refer to note 30 for fair value disclosure.

24. Finance lease liability

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the inception date and depends on whether the fulfillment of the arrangement is dependent on the use of a specific asset, and whether the arrangement conveys the right to use the asset.

A lease is classified at the inception date as a finance lease or an operating lease.

Finance leases, which transfer to the lessee substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against profit or loss. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if it is not reasonably certain that ownership will transfer at the end of the lease.

Leases where the lessor does not retain substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease rentals with fixed escalation clauses are charged to profit or loss on a straight-line basis over the term of the leases.

Gains from renegotiated lease terms arise where the terms and conditions of lease agreements are substantially modified. In this case the original lease contract is derecognised and a new lease agreement recognised.

	Group	
	2017 R'000	**2016 R'000**
Minimum payments due		
– Within one year	**64 040**	59 676
– Within five years	**301 292**	279 611
– Over five years	**1 303 571**	4 066 935
	1 668 903	4 406 222
Less: future finance charges	**(1 043 606)**	(3 752 002)
Present value of minimum payments	**625 297**	654 220
Present value of minimum payment due:		
– Within one year	**2 390**	–
– Within five years	**59 055**	–
– Over five years	**563 852**	654 220
	625 297	654 220
Non-current liabilities	**622 907**	651 679
Current liabilities	**2 390**	2 541
	625 297	654 220

Capitalised finance leases relate to motor vehicles and land and buildings and the interest rates are linked to prime at the contract date. The capitalised finance leases relating to motor vehicles are secured by the motor vehicles (refer to note 12).

In the current year, Dis-Chem Distribution's lease was renegotiated resulting in the effective interest rate reducing to 10%. The new lease contract results in the lease being benchmarked to comparable industry rental payments every seven years.

In the 2016 financial year, Dis-Chem Distribution's lease was renegotiated and classified as a finance lease instead of an operating lease due to the renewed terms. The lease term for the land and buildings is 30 years with an escalation of 8%. The leased land and buildings were recognised at its fair value of R619 million at the date of modification. The effective interest rate of the finance lease liability amounts to 14.7%. This lease was entered into with a related party, Columbia Falls Property 7 Proprietary Limited (refer to note 29).

25. Dividends to shareholders

	2017 R'000	2016 R'000
Dis-Chem Pharmacies		
30 March 2016	**870 000**	–
29 May 2015	–	58 823
26 June 2015	–	88 235
29 February 2016	–	630 000
	870 000	777 058
Dis-Chem Distribution		
1 September 2015	–	170 589
28 September 2015	–	60 756
	870 000	1 008 403

Dividends per share	Cents	Cents
Interim paid	**109.5**	208.1
Final declared/paid	**7.3**	79.3

26. Operating lease liability

Refer to accounting policy in note 24.

	Company		Group	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Operating lease liability				
– Current portion in trade and other payables	**12 109**	15 716	**17 632**	18 434
– Non-current portion	**132 586**	121 594	**179 162**	170 872
	144 695	137 310	**196 794**	189 306

The Group and company have entered into commercial property leases in respect of its retail stores. These non-cancellable leases have remaining terms of between 1 and 11 years (2016: 1 and 12 years). The leases include an escalation clause of 7% to 8% which has been straight-lined over the remaining period of the initial lease in terms IAS 17 – Leases. No material contingent rentals are paid.

27. Commitments

	Company		Group	
Commitments under non-cancellable operating leases, payable as follows:	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Within one year	**249 385**	194 874	**340 170**	266 920
Within five years	**959 219**	747 318	**1 274 970**	757 897
Over five years	**648 032**	427 141	**828 567**	609 461
	1 856 636	1 369 333	**2 443 707**	1 634 278

28. Notes to the statement of cash flows

Cash and cash equivalents are accounted for as loans and receivables and bank overdrafts are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 30.

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

		Company		Group	
		2017 R'000	2016 R'000	2017 R'000	2016 R'000
28.1	**Cash generated by operations**				
	Profit before tax	**771 309**	62 085	**901 983**	817 871
	Adjustments for:				
	– Depreciation and amortisation	**104 631**	88 663	**162 028**	150 774
	– Finance costs	**149 319**	20 446	**249 217**	96 466
	– Finance income	**(19 525)**	(6 568)	**(23 977)**	(7 315)
	– Increase in employee obligations	**16 378**	11 227	**22 950**	15 022
	– Increase in deferred revenue	**23 291**	18 153	**18 338**	11 684
	– Dividend income	**(68 440)**	(48 553)	**–**	–
	– Loss/(profit) on sale of tangible and intangible assets	**417**	(808)	**584**	(20 307)
	– Increase/(decrease) from lease liability straight-lining and changes in lease terms	**7 385**	9 345	**(72 648)**	(72 757)
	– Share of profit in associates	**–**	–	**(501)**	(344)
	– Increase in provision for bad debt	**290**	–	**2 370**	588
	– Fair value loss relating to non-hedging derivatives	**–**	–	**15 783**	–
	– Impairment of investment in associate	**100**	–	**–**	–
		985 155	153 990	**1 276 127**	991 682
28.2	**Movement in working capital**				
	Increase/(decrease) in loans receivable	**29 136**	(16 843)	**126 402**	(135 714)
	Decrease/(increase) in loans payable	**112 153**	(46 479)	**(8 734)**	(5 124)
	Increase in inventories	**(80 883)**	(203 214)	**(418 871)**	(472 537)
	Increase in trade and other receivables	**(136 118)**	(19 883)	**(312 746)**	(160 712)
	Increase in trade and other payables	**304 650**	311 581	**832 409**	447 219
		228 938	25 162	**218 460**	(326 868)
28.3	**Taxation paid**				
	Net amount receivable at beginning of the year	**52 421**	21 587	**44 080**	19 904
	Amount charged excluding deferred tax	**(211 600)**	3 882	**(294 138)**	(212 326)
	Net amount payable/(receivable) at end of the year	**8 541**	(52 421)	**2 578**	(44 080)
		(150 638)	(26 952)	**(247 480)**	(236 502)

28. Notes to the statement of cash flows (continued)

	Company		Group	
Cash and cash equivalents comprise the following:	2017 R'000	2016 R'000	2017 R'000	2016 R'000
28.4 Cash and cash equivalents				
Cash on hand and balances with banks	**266 458**	256 348	**294 698**	273 209
Bank overdrafts	**-**	(1 432 490)	**(167 059)**	(1 529 708)
	266 458	(1 176 142)	**127 639**	(1 256 499)

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

Group

In the current year the Absa loan was secured by the cession of the book debts in and general notarial bond over movable assets of Dis-Chem Pharmacies Limited. Trade and other receivables relating to CJ Pharmaceutical Enterprises Limited amounting to R422 million (2016: R369 million) were pledged as security for the overdraft facility with Nedbank.

Company

In the prior year suretyship had been given to CJ Pharmaceutical Enterprises Limited in the amount of R80 million and cross suretyship exists between the company and Dis-Chem Distributions Proprietary Limited in the amount of R120 million.

	Group	
The following material non-cash items occurred during the period:	2017 R'000	2016 R'000
28.5 Material non-cash items		
Additions of land and buildings under finance lease included in property, plant and equipment (note 12)	**-**	619 000
Recapitalisation of shares (note 18)	**-**	1 152 973
Shares issued for acquisition of non-controlling interest (note 4)	**461 458**	-

29. 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.

Outstanding balances as at 28 February 2017 and 2016 are unsecured and settlement occurs in cash.

The ultimate controlling party of the Group and company is Ivlyn Proprietary Limited that holds 53.2% (2016: 69.8%) of the shares in Dis-Chem Pharmacies Limited.

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

29. Related party transactions (continued)

Company

2017

Related party transactions with a company within same Group of companies:

Related party	Sales/ (purchases) R'000	Loan receivable/ (payable) R'000	Trade and other receivable R'000	Trade and other payable R'000
Dis-Chem Distribution	21/(6 067 499)	–	–	754 988
Dis-Chem Riverside	45/(82)	(9 006)	–	4
Dis-Chem Hemmingway	37/(67)	(4 939)	1	–
Dis-Chem Cape Road	441/(308)	275/(5 759)	10	–
Dis-Chem Garden Route	86/(177)	(5 607)	–	96
Dis-Chem Highveld Mall	125/(241)	(15 941)	2	–
Dis-Chem Mooirivier	139/(116)	(9 325)	–	–
Dis-Chem Ballito	781/(392)	(4 427)	81	–
Dis-Chem Krugersdorp	333/(345)	(6 079)	47	–
Dis-Chem Brooklyn	452/(483)	4 454	–	5
Dis-Chem Woodlands	278/(431)	(7 821)	–	67
Dis-Chem Savanna	127/(113)	(2 030)	–	10
Dis-Chem North Cape Mall	345/(132)	(27 824)	115	–
Dis-Chem Three Rivers	532/(348)	5 686/(6 304)	20	–
Dis-Chem Bayside	569/(606)	(18 657)	12	–
Dis-Chem Amanzimtoti	637/(391)	(8 480)	15	–
Pharma-Logistical Solutions	633/(1 044)	29 181	6 025	–
Dis-Chem Glen Fair	433/(483)	(5 220)	–	68
Dis-Chem Jeffreys Bay	211/(114)	4 370/(974)	3	–
Dis-Chem Flamewood Mall	163/(96)	50/(8 756)	14	–
Dis-Chem Nicolway	2 029/(1 475)	393/(13 600)	–	–
Dis-Chem Glen Acres	801/(293)	10 485/(10 992)	32	–
Dis-Chem Festival Mall	223/(251)	10 132/(7 296)	12	–
Dis-Chem Secunda	113/(306)	1 874/(7 295)	–	14
Dis-Chem Park Station	382/(475)	7 039	27	–
Dis-Chem Worcester	428/(367)	8 827	6	–
Dis-Chem Oncology	591/(329)	(11 254)	22 559	–
Dis-Chem Namibia	–	5 785	–	421
Dis-Chem Platinum Park	45/(103)	9 837	–	4
Dis-Chem Rynfield	530/(107)	15 000/(1 940)	–	8
Dis-Chem Swakopmund	–	4 270	–	74
CJ Marketing	–	–	28 253	–
CJ Enterprise	–	(7 000)	–	38 504
MSDS No 3 Pty Ltd	–	15 133	–	–

29. Related party transactions (continued)

Company

2016

Related party transactions with a company within same Group of companies:

Related party	Sales/ (purchases) R'000	Loan receivable/ (payable) R'000	Trade and other receivable R'000	Trade and other payable R'000
Dis-Chem Distribution	18/(4 924 736)	–	–	593 694
Dis-Chem Riverside	40/(70)	(2 508)	–	54
Dis-Chem Hemmingway	24/(93)	1 393/(1 686)	–	75
Dis-Chem Cape Road	202/(376)	4 165/(1 876)	–	323
Dis-Chem Garden Route	18/(67)	(1 642)	–	30
Dis-Chem Highveld Mall	250/(197)	(6 339)	–	127
Dis-Chem Mooirivier	96/(196)	(6 315)	–	178
Dis-Chem Ballito	531/(362)	(2 128)	–	226
Dis-Chem Krugersdorp	214/(282)	(4 664)	–	213
Dis-Chem Brooklyn	241/(461)	11 280	–	433
Dis-Chem Woodlands	191/(323)	(1 903)	–	293
Dis-Chem Savanna	254/(299)	3 642	–	293
Dis-Chem North Cape Mall	52/(156)	(21 484)	3 387	–
Dis-Chem Three Rivers	397/(249)	7 453/(1 670)	2 857	–
Dis-Chem Bayside	335/(473)	(6 006)	–	389
Dis-Chem Amanzimtoti	440/(237)	(5 835)	–	156
Pharma-Logistical Solutions	849/(979)	48 403	–	775
Dis-Chem Glen Fair	330/(212)	(783)	–	161
Dis-Chem Jeffreys Bay	106/(157)	5 674/(974)	–	167
Dis-Chem Flamewood Mall	23/(59)	50/(5 913)	–	20
Dis-Chem Nicolway	1 291/(741)	393/(5 000)	–	412
Dis-Chem Glen Acres	520/(205)	14 926/(4 734)	–	68
Dis-Chem Festival Mall	164/(136)	11 221/(4 837)	–	124
Dis-Chem Secunda	161/(75)	4 131/(4 274)	–	149
Dis-Chem Park Station	209/(383)	8 165	–	352
Dis-Chem Worcester	299/(274)	7 645	–	206
Dis-Chem Oncology	–	53	–	–
Dis-Chem Namibia	–	1 650	–	–

Company

The company received dividends of R68.4 million (2016: R43.5 million) from its subsidiaries during the period.

The company paid rentals to various related party property companies amounting to R20.1 million (2016: R20 million).

For further information in regards to loans receivable/payable, trade receivables and trade payables refer to note 20, 17 and 19 respectively.

29. Related party transactions (continued)

Group

2017

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

Related party	Sales/ (purchases) R'000	Loan receivable/ (payable) R'000	Trade and other receivable R'000	Trade and other payable R'000	Leases paid R'000
Columbia Falls Property 7 Pty Ltd	–	–	–	–	56 756
Josneo Pty Ltd	–	(17 096)	–	–	–
Eleador Pty Ltd	–	2 970	–	–	–
Minlou Pty Ltd	–	(2 595)	–	–	–
MSDS No 3 Pty Ltd	–	26 462	–	–	–
Dis-Chem Bothamed Pty Ltd	–	3 444	–	–	–
Dis-Chem Namibia	–	5 839	–	–	–
Various property companies	–	–	–	–	26 271

2016

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

Related party	Sales/ (purchases) R'000	Loan receivable/ (payable) R'000	Trade and other receivable R'000	Trade and other payable R'000	Leases paid R'000
Columbia Falls Property 7 Pty Ltd	–	–	–	–	53 544
Josneo Pty Ltd	–	84 309	–	–	–
Eleador Pty Ltd	–	15 000/ (7 002)	–	–	–
Minlou Pty Ltd	–	(6 735)	–	–	–
Various property companies	–	–	–	–	25 668

For further information in regards to loans receivable/payable, trade receivables and trade payables and finance lease payable refer to note 20, 17, 19 and 24 respectively. The amount owing by the Group to Columbia Falls Property 7 Proprietary Limited on the finance lease at year-end amounted to R620 million (2016: R659 million).

	Company		Group	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Compensation of key management				
Short-term employee benefits	43 058	35 905	43 058	35 905
Post-employment benefits	456	648	456	648
Other long-term benefits	–	–	–	–
Termination benefits	–	–	–	–
Non-executive directors' fees	951	–	951	–
	44 465	36 553	44 465	36 553

29. Related party transactions (continued)

Executive and non-executive emoluments to directors

2017	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#	625	–	–	–	–	625
MJ Bowman#	119	–	–	–	–	119
A Coovadia#	72	–	–	–	–	72
JS Mthimunye#	135	–	–	–	–	135
MSI Gani^	–	–	–	–	–	
Executive directors	–		–			
IL Saltzman	–	11 752	–	72	120	11 944
LF Saltzman	–	9 691	–	72	–	9 763
RM Morais	–	4 995	–	72	37	5 104
SE Saltzman (alternate)	–	4 800	–	72	146	5 018
NM Hegarty*	–	2 849	–	42	15	2 906
SRN Goetsch*	–	2 853	–	42	15	2 910
BI Epstein*	–	2 809	–	42	109	2 960
KS Sterling*	–	2 853	–	42	14	2 909
LLS van der Watt*	–	–	–	–	–	–

** Resigned 13 October 2016*
 # Appointed 13 October 2016
^ Appointed 3 May 2017
(1) Bonuses relates to amount physically paid in the current period

2016	Salary and allowances R'000	Bonuses R'000	Retirement and related benefits R'000	Total R'000
BI Epstein	3 517	–	72	3 589
IL Saltzman	10 679	–	72	10 751
LF Saltzman	4 528	–	72	4 600
NM Hegarty	3 384	–	72	3 456
RM Morais	3 379	–	72	3 451
SE Saltzman	3 493	–	72	3 565
SRN Goetsch	3 542	–	72	3 614
LLS van der Watt	–	–	72	72
KS Sterling	3 383	–	72	3 455

All executive directors have service contracts with Dis-Chem Pharmacies Limited and are paid by the company.

Refer to the Report of Directors in regards to the share capital held by the directors.

30. Financial risk management objectives and policies

Financial assets and liabilities

Initial recognition

Financial instruments, or their component parts, are classified on initial recognition as financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual arrangement.

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.

Financial assets and liabilities recognised on the statement of financial position include cash and cash equivalents, trade and other receivables, trade and other payables and loans and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less, and are measured at amortised cost.

For the purposes of the cash flow statements, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding short-term bank borrowings as overdrafts are an integral part of the Group's cash management policies.

Cash and cash equivalents are recognised initially at fair value plus transaction costs that are attributable to the acquisition of the financial asset.

Trade and other receivables

Trade receivables, which generally have seven to 30-day terms, are recognised and carried at original invoice value less an allowance for uncollectable amounts. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the effect of the time value of money is significant, receivables have been reflected at amortised cost using the effective interest rate method. Bad debts are written off when identified.

Trade and other payables

Trade and other payables are recognised initially at fair value net of directly attributable transaction costs.

Loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing.

Derivative liability – FEC

FECs are initially recognised at the fair value on the contract date.

Subsequent measurement

Loans and receivables (including trade and other receivables and cash and cash equivalents)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. 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 in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in other operating expenses for receivables.

Loans and borrowings (including trade and other payables)

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 profit or loss.

At fair value (including FEC and contingent consideration)

After initial recognition, items are subsequently measured at fair value with any fair value gains and losses recognised in other costs.

30. Financial risk management objectives and policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the rights to receive cash flows from an asset has been transferred but all the risks and rewards of the asset has been substantially transferred or retained nor has control of the asset been transferred, the asset is recognised to the extent of continuing involvement in the asset. 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 could be required to be repaid.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Impairment of financial assets

At each reporting date it is assessed whether a financial asset or group of financial assets are impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (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 will not be collected. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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.

30. Financial risk management objectives and policies (continued)

Financial assets and liabilities (continued)

Fair value measurement (continued)

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

The Group's principal financial instruments comprise loans, cash and short-term deposits. The main purpose of these financial instruments is to provide finance for the company's operations. The company has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

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

30. Financial risk management objectives and policies (continued)

Classification of financial instruments

Company	Financial instrument R'000	At fair value R'000	Financial liability at amortised cost R'000	Financial asset – loans and receivables R'000	Non-financial instruments R'000
February 2017					
Assets					
Property, plant and equipment	–	–	–	–	282 839
Intangible asset	–	–	–	–	8 752
Deferred taxation	–	–	–	–	90 789
Investments at cost	–	–	–	–	1 842 046
Investment in associates at cost	–	–	–	–	–
Inventories	–	–	–	–	1 183 997
Trade and other receivables	428 111	–	–	411 399	16 712
Loans receivable	153 497	–	–	153 497	–
Taxation receivable	–	–	–	–	–
Cash and cash equivalents	266 458	–	–	266 458	–
Liabilities					
Operating lease liability	–	–	–	–	132 586
Trade and other payables	1 410 546	–	1 410 546	–	32 420
Employee obligations	–	–	–	–	99 290
Deferred revenue	–	–	–	–	102 835
Loan payable	1 002 724	–	1 002 724	–	–
Contingent consideration	97 312	97 312	–	–	–
Taxation payable	–	–	–	–	8 541
Bank overdraft	–	–	–	–	–
February 2016					
Assets					
Property, plant and equipment	–	–	–	–	225 980
Intangible asset	–	–	–	–	13 839
Deferred taxation	–	–	–	–	67 644
Investments at cost	–	–	–	–	1 221 508
Investment in associates at cost	–	–	–	–	1 466
Inventories	–	–	–	–	1 103 114
Trade and other receivables	294 669	–	–	294 669	2 714
Loans receivable	182 633	–	–	182 633	–
Taxation receivable	–	–	–	–	52 421
Cash and cash equivalents	256 348	–	–	256 348	–
Liabilities					
Operating lease liability	–	–	–	–	121 594
Trade and other payables	1 082 213	–	1 082 213	–	33 058
Employee obligations	–	–	–	–	82 912
Deferred revenue	–	–	–	–	79 544
Loan payable	90 571	–	90 571	–	–
Bank overdraft	1 432 490	–	1 432 490	–	–

30. Financial risk management objectives and policies (continued)

Classification of financial instruments (continued)

Group	Financial instrument R'000	At fair value R'000	Financial liability at amortised cost R'000	Financial asset - loans and receivables R'000	Non-financial instruments R'000
February 2017					
Assets					
Property, plant and equipment	–	–	–	–	995 401
Intangible assets	–	–	–	–	40 310
Deferred taxation	–	–	–	–	156 029
Investments	–	–	–	–	–
Inventories	–	–	–	–	3 233 911
Trade and other receivables	1 050 004	–	–	1 050 004	41 897
Loans receivable	72 270	–	–	72 270	–
Taxation receivable	–	–	–	–	12 141
Cash and cash equivalents	294 698	–	–	294 698	–
Liabilities					
Finance lease liability	–	–	–	–	625 296
Operating lease liability	–	–	–	–	179 162
Trade and other payables	2 620 399	15 783	2 620 399	–	20 816
Employee obligations	–	–	–	–	125 391
Deferred revenue	–	–	–	–	95 364
Loan payable	820 659	–	820 659	–	–
Tax payable	–	–	–	–	14 719
Contingent consideration	97 312	97 312	–	–	-
Bank overdraft	167 059	–	167 059	–	–
February 2016					
Assets					
Property, plant and equipment	–	–	–	–	918 979
Intangible assets	–	–	–	–	35 253
Deferred taxation	–	–	–	–	108 762
Investments	–	–	–	–	1 935
Inventories	–	–	–	–	2 806 572
Trade and other receivables	740 064	–	–	740 064	27 743
Loans receivable	198 672	–	–	198 672	–
Taxation receivable	–	–	–	–	58 644
Cash and cash equivalents	273 209	–	–	273 209	–
Liabilities					
Finance lease liability	–	–	–	–	654 220
Operating lease liability	–	–	–	–	170 872
Trade and other payables	1 735 859	–	1 735 859	–	18 434
Employee obligations	–	–	–	–	102 441
Deferred revenue	–	–	–	–	77 026
Loan payable	27 026	–	27 026	–	-
Tax payable	–	–	–	–	14 564
Bank overdraft	1 529 708	–	1 529 708	–	–

30. Financial risk management objectives and policies (continued)

Credit risk

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

Trade and other receivables

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

	2017 R'000	2016 R'000
The maximum exposure to credit risk for trade receivables (excluding intercompany) is as follows:		
Retail	**181 960**	153 237
Wholesale	**357 046**	298 850
The maximum exposure to credit risk for other receivables is as follows:		
Retail	**312 396**	208 194
Wholesale	**198 602**	76 373

In relation to the retail business, trade receivables primarily relate to amounts recoverable from medical aids. These receivables are deemed to be low credit risk as medical schemes pay within 14 days and all amounts are neither past due nor impaired. The majority of other receivables relates to rebates receivable from suppliers and are deemed to be low credit risk as the net position with the supplier is a creditor.

In wholesale, customers (excluding intercompany) are primarily independent pharmacists and other pharmaceutical companies. The majority of other receivables relates to rebates receivable from suppliers and are deemed to be low credit risk as the net position with the supplier is a creditor.

The risk is managed through formal procedures for granting of credit to trade debtors. Credit quality of underlying wholesale customers is assessed before credit is granted and re-assessed on a regular basis. The Group determines the provision for doubtful debt by means of applying a percentage that reflects the best estimate of incurred credit losses at the reporting date determined with reference to past history to the relevant age buckets of the trade debtors. The process for managing wholesale credit risk is to allow 10 days after payment is due, for customer 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 company's and 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 and company are 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. Based on past payment history, the credit quality of these loans are considered to be of a high credit standing.

Currency risk

The Group's exposure to currency risk arises from the FEC taken out during the year.

If the USD, with, all other variables held constant, strengthened or weakened by 10% at year end, the impact of the Group's profit before tax would be approximately R4 million.

30. Financial risk management objectives and policies (continued)

Interest rate risk

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

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

If the interest rate, with all other variables held constant, increased or decreased by 50 average basis points (2016: 200) at year-end, the impact of the Group's profit before tax would be approximately R9.4 million (2016: R20 million). The sensitivity analysis for both periods presented was based on the average balance of the funds during the period on the bank borrowings, Absa loan and finance lease liability.

If the interest rate, with all other variables held constant, increased or decreased by 50 average basis points at year-end, the impact of the company's profit before tax would be approximately R5.9 million. The sensitivity analysis presented was based on the average balance of the funds during the period on the bank borrowings and Absa loan.

Liquidity risk

During the current year, Dis-Chem had a general banking facility of R100 million with Nedbank, a corporate call account with Investec as a working capital overdraft facility of R600 million (the 'Investec Facility') and an unsecured facility up to R1 500 000 000 (the 'Bridge Facility') with Absa Bank Limited. The Investec Facility and the Bridge Facility were replaced in December 2016 by the Absa loan of R800 million as well as an overdraft prime lending facility of up to R700 million. CJ Pharmaceutical has a revolving credit facility of R10 million to be used by way of vehicle and asset finance and general banking facility of R200 million with Nedbank.

In the prior year, the company has a general banking facility of R100 million with Nedbank and a corporate call account with Investec as a working capital overdraft facility of R600 million. CJ Pharmaceutical has a revolving credit facility of R10 million to be used by way of vehicle and asset finance and general banking facility of R160 million with Nedbank. An additional seasonal facility of R40 million was available during the first quarter of the year.

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

30. Financial risk management objectives and policies (continued)

	On demand R'000	Less than 12 months R'000	Greater than 12 months R'000	Total R'000
Company				
2017				
Trade and other payables	–	1 410 546	–	1 410 546
Loans payable excluding Absa loan	206 724	–	–	206 724
Contingent consideration	–	25 056	104 257	129 313
Absa loan linked to JIBAR	–	221 550	775 986	997 536
Undiscounted payments	206 724	1 657 152	880 243	2 744 119
Less: future finance charges	–	(73 603)	(159 934)	(233 537)
	206 724	1 583 549	720 309	2 510 582
2016				
Trade and other payables	–	1 082 213	–	1 082 213
Loans payable	90 571	–	–	90 571
Bank overdraft	–	1 432 490	–	1 432 490
	90 571	2 514 703	–	2 605 274
Group				
2017				
Trade and other payables	–	2 636 182	–	2 636 182
Loans payable excluding Absa loan	24 659	–	–	24 659
Bank overdraft	–	167 059	–	167 059
Contingent consideration	–	25 056	104 257	129 313
Absa loan linked to JIBAR	–	221 550	775 986	997 536
Undiscounted payments	24 659	3 049 847	880 243	3 954 749
Less: future finance charges	–	(73 603)	(159 934)	(233 537)
	24 659	2 976 244	720 309	3 721 212
2016				
Trade and other payables	–	1 735 859	–	1 735 859
Loans payable	26 929	97	–	27 026
Bank overdraft	–	1 529 708	–	1 529 708
	26 929	3 265 664	–	3 292 593

30. Financial risk management objectives and policies (continued)

Fair value

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

Group	Level 1 R'000	Level 2 R'000	Level 3 R'000
2017			
Financial liabilities at fair value through profit and loss			
– Derivative liability	–	15 783	–
– Contingent consideration	–	–	97 312
2016			
Financial liabilities at fair value through profit and loss			
– Derivative liability	–	–	–
– Contingent consideration	–	–	–

The disclosure for the company would be as per the above except for derivative liability that relates to the Group and not the company.

The derivatives represent forward exchange contracts (FECs). The fair value of the FEC liability is measured with reference to market data. The key input into this valuation is the forward exchange rate as provided by a reputable bank.

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 12.9% used to determine the present value of the future cash flows.

Reconciliation of recurring Level 3 fair value movements:	2017 R'000
Opening balance	–
Acquisitions	94 027
Payments	–
Interest	3 285
Closing balance	97 312

There has been no change in the range of undiscounted contingent consideration outcomes during the year. 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 2017.

31. Capital management

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

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

No changes were made in the objectives, policies and processes for managing capital during the years ended 28 February 2017 and 29 February 2016.

32. Events after reporting period

The directors are not aware of any 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 for the acquisition of Optipharm Proprietary Limited.

On 1 April 2017, the Group acquired certain assets and liabilities of Optipharm Proprietary Limited, an unlisted wholesale company based in South Africa. The calculation of the fair value of the assets and liabilities are still being finalised.

Assets acquired and liabilities assumed

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

	R'000
Assets	
Property, plant and equipment and software	16 034
Trade receivables	1 913
Intangibles	43 696
	61 643
Liabilities	
Finance lease	(2 252)
Trade and other payables	(113 265)
Deferred tax	(12 235)
	(127 752)
Total identifiable net assets at fair value	(66 109)
Non-controlling interest at fair value	–
Goodwill arising on acquisition	66 109
Purchase consideration transferred	–

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

ANALYSIS OF ORDINARY SHAREHOLDERS

as at 28 February 2017

	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Shareholder spread				
1 – 1 000	4 528	57.19	1 623 795	0.19
1 001 – 10 000	2 635	33.28	8 652 558	1.01
10 001 – 100 000	570	7.20	17 424 063	2.03
100 001 – 1 000 000	137	1.73	46 179 401	5.37
Over 1 000 000	47	0.60	785 393 856	91.40
Total	7 917	100.00	859 273 673	100.00

	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Distribution of shareholders				
Assurance companies	21	0.27	12 550 128	1.46
Close corporations	51	0.64	554 506	0.07
Collective investment schemes	157	1.98	117 237 516	13.64
Custodians	11	0.14	16 043 681	1.87
Foundations and charitable funds	37	0.47	1 148 993	0.13
Hedge funds	26	0.33	10 717 443	1.25
Insurance companies	7	0.09	419 690	0.05
Investment partnerships	28	0.35	202 319	0.02
Managed funds	20	0.25	3 467 456	0.40
Medical aid funds	23	0.29	370 683	0.04
Organs of state	7	0.09	20 749 969	2.41
Private companies	161	2.03	626 647 179	72.93
Public companies	4	0.05	34 621	–
Public entities	4	0.05	81 836	0.01
Retail shareholders	6 439	81.33	16 217 841	1.89
Retirement benefit funds	204	2.58	11 385 253	1.33
Scrip lending	4	0.05	1 226 917	0.14
Sovereign funds	2	0.03	11 173 190	1.30
Stockbrokers and nominees	10	0.13	1 513 997	0.18
Trusts	701	8.85	7 530 455	0.88
Total	7 917	100.00	859 273 673	100.00
Shareholder type				
Non-public shareholders				
Directors and associates	7	0.09	601 176 725	69.96
Public shareholders	7 910	99.91	258 096 948	30.04
Total	7 917	100.00	859 273 673	100.00

ANALYSIS OF ORDINARY SHAREHOLDERS CONTINUED

as at 28 February 2017

	Number of Shares	% of issued capital
Fund managers with a holding greater than 3% of the issued shares		
Capital Research and Management Company	37 736 500	4.39
Fidelity Worldwide Investment	36 728 745	4.27
Total	**74 465 245**	**8.66**
Beneficial shareholders with a holding greater than 3% of the issued shares		
Ivlyn (Pty) Ltd	457 041 396	53.19
Stansh (Pty) Ltd	71 340 504	8.30
SMALLCAP World Fund Inc	37 736 500	4.39
Niajul (Pty) Ltd	35 670 315	4.15
Fidelity Worldwide Investment	34 521 691	4.02
Total	**636 310 406**	**74.05**

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